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FOREWORD

Looking closely on today's economic and social environment one can easily identify some significant drivers such as: population ageing and long active workforce, globalization effects on emerging markets, transparency as necessary approach of any policy making process. Population ageing is one of the greatest trends shaping the 21st century social, economic and political life.

The World Economic Forum's Global Agenda Council on Ageing has produced a white paper titled, ***"How 21st-Century Longevity Can Create Markets and Drive Economic Growth"****, which underpins that business is on the brink of a new, innovative and imperative opportunity that also has the potential to play a central role in transforming global society. The paper describes how this demographic shift can be a driver of economic growth at national, regional and global levels, and also highlights companies who have already begun to strategically position themselves in what they regard as a market growth opportunity.*

As a result of this increased longevity many business leaders, policy-makers, non-governmental organizations, academics, economists and others are recognizing that population ageing can be, given the right strategic framework, a supremely powerful market driver. So, a special attention should be paid at a new strategic orientation of business: become more age-friendly. A set of guidelines were already developed and made available, principles to develop an age-friendly business were recommended: Recognize the value of employees of all ages; Create work environments that will provide access and sustain employees regardless of age; Accept and embrace employees; Keep opportunities available and open for learning and mentoring across all ages; Retirees will be future consumers and drivers of the silver economy; Inform all employees to gain more financial literacy to better serve their increasing needs over time; Encourage and support an active and healthy lifestyle; Support employees as they honour their caregiving responsibilities.

Population ageing will create pressure on the pension systems, therefore a new strategy of ensuring stability of these systems is strongly recommended. The paper "Methodological on pension for old age" examines the demographic evolution and the changes that is generating in Romanian economy and society. The author emphasizes the need of a structural reform of the pension systems as being the key social challenge for policy-makers in EU. Innovations in health care, among others, can be credited for making once unimaginably long lives the norm, but lasting ways to finance them must be found. A healthy financial situation can't be achieved in the absence of *transparency in the public funds allocation. In the past few years, transparency has received considerable attention from both policy-makers and researchers. "Lack of transparency" was cited as a partial contributor to financial crises in Asia and Mexico. In a speech in 1999, the Managing Director of the IMF mentioned transparency as the "golden rule" for the new international financial architecture.*

Are countries that are more fiscally transparent also less corrupt? Although much broader issues such as rule of law, effectiveness of the judiciary, and civil services reform are critical for reducing corruption, there are some obvious channels through which fiscal transparency can affect corruption. Increased accountability and more effective auditing are likely to reduce opportunities for some forms of corruption. If the government publishes planned budgets and budget execution reports for programs, those outside the government such as intended beneficiaries, civil society, and policy analysts can readily hold the executive accountable.

Readers may find, in this issue of Annals of Spiru Haret University – Economic Series, two interesting papers discussing the impact of corruption on economic development and the fiscal transparency as a comparative study on Romania and Turkey. In the last decade, Romania implemented a strong legislation and a comprehensive program of public financial management reform in order to improve the national fiscal transparency and to reduce corruption. Corruption is a growing phenomenon all over the world, affecting economic development and aggravated by the legacy of the global economic crisis. The global risks are different from the past due to notably cyber-attacks, new economic realities and geopolitical risks.

More or less, the future of wellbeing in today's society is linked to healthy public policies supported through advocacy that allows more active civil society participation. Any resource used in advocacy efforts should generate added value and impact and contribute to the progress, development and improved quality of life.

An important segment of our readers – students and yearly stage career researchers are encouraged to discover a very helpful paper that presents the basics of writing a good essay on economic topics in English. We also recommend our readers and interesting book "Geographical Labour Market Imbalances" that was kindly reviewed by one of our editorial board members.

Finally, we hope you will find interesting this Issue 1/2016 and we strongly invite you to address your comments and suggestions at office_analeserieconomie@spiruharet.ro and, of course, to submit your own work via the online submission system.

Broaden your horizons discovering new interesting topics!

Prof. Manuela Epure, Ph.D., MCIM
Editorial Board Member

ACADEMIA PAPERS

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PENSION SYSTEM METHODOLOGY FOR SENIOR CITIZENS

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Abstract

The need to reform pension systems is one of the key social challenges for policy-makers in Europe. The demographic evolutions of the last 26 years, the changes in the Romanian economy and society influenced one particular category – the retired people. As population inactive, retired people represents an important year category, their numbers being rather big in comparison with the population employed, the practical pensions contributors are at the bottom with their funds.

Key words: *social protection; public system; pension; retirement age standard; the minimum contribution; contribution complete period; social security system.*

JEL Classification: D63

Introduction

Like other countries, Romania has a system of social protection and the most important component is the pension system, which represents the largest category of public spending.

The right to social security is guaranteed by the state and is exercised according to law by the public system of pensions and other social insurance rights, generically known as the public system.

In the public system are insured according to the legal provisions individuals generally called insurants.

According to the unitary public pension system [Law no. 263, 2010], *the insured* shall be considered the "individual for whom the employer is required to withhold and pay the individual social insurance contribution as well as the individual who pays, on his own account, social insurance contribution."

Retirement pension is the main category of pension allowed in the state system, and in order to receive it, citizens must meet two conditions. These are reaching the standard retirement age and achieving the minimum contribution period, both calculated based on date of birth.

Basics principles

The public pension system is organized and operates having as basic principles [Law no. 263, 2010]:

a) *uniqueness principle*, according to which the state organizes and guarantees the public pension system based on the same rules of law for all participants in the system;

b) *compulsoriness principle*, according to which natural and legal persons have, according to the law, the obligation to participate in the public pension system, social security rights exercising correlatively with the fulfilment of obligations;

c) *contribution principle*, according to which social security funds are established based on the contributions owed by natural and legal persons participating in the public pension system, social security benefits inhering pursuant to the social security contributions paid;

d) *equality principle*, which ensures all participants in the public pension system, taxpayers and beneficiaries, a non-discriminatory treatment between persons in the same legal situation regarding the rights and obligations provided by law;

e) *distribution principle*, based on which the social security funds are redistributed to pay the obligations which are the duty of the public pension system, according to the law;

f) *social solidarity principle*, whereby participants in the public pension system mutually assume obligations and enjoy rights to prevent, mitigate or eliminate the risks insured provided by law;

g) *autonomy principle*, based on the independent administration of the public pension system, according to law;

h) *indefeasibility principle*, according to which pension entitlement is not prescribed;

i) *non-assignability principle*, according to which the right to pension cannot be transferred, fully or partially.

Conditions imposed by law for retirement pension

Retirement pension is due to those insured who meet cumulatively, at the date of retirement, the conditions regarding the standard retirement age and the minimum contribution period realized in the public system.

Standard retirement age, minimum contribution period and complete contribution period are elements that underlie the opening of the pension rights.

Standard retirement age varies from one EU country to another, and is presented in Table no. 1. [Le Figaro, 15th of February 2010]

According to Law no. 263/2010, in Romania, *the standard retirement age* is 65 for men and 63 for women.

For all categories of pensioners, standard retirement age may be reduced for:

– working in especial conditions;
– working in particular conditions;
– working in conditions of handicapped before becoming insured;
– politically persecuted, beneficiaries of Decree-Law no. 118/1990.

For men, reaching standard retirement age was achieved until December 2014 and for women, will be reached by January 2030 as set out in Appendix 5 of Law 263/2010.

Table no. 1. The retirement age in EU countries

No.	Country	Men (years)	Women (years)	Average (years)
1	Austria	65	60	60,9
2	Belgium	65	65	61,5
3	Bulgaria	63	60	64,1
4	Czech Republic	62	60	60,6
5	Cyprus	65	65	63,5
6	Denmark	65	65	61,3
7	Estonia	63	61	62,1
8	Finland	65	65	61,6
9	France	60	60	59,3
10	Germany	67	67	61,7
11	Greece	65	60	61,4
12	Ireland	65	65	64,1
13	Italy	65	60	60,8
14	Latvia	62	62	62,7
15	Lithuania	62	60	59,9
16	United Kingdom	65	60	63,1
17	Netherlands	65	65	63,2
18	Poland	65	65	59,3
19	Portugal	65	65	62,6
20	Slovakia	62	62	58,7
21	Slovenia	63	61	59,8
22	Spain	65	65	62,6
23	Sweden	67	67	63,8
24	Hungary	62	62	59,8

Source: Le Figaro, 15th of February 2010

For military personnel in activity, soldiers and volunteers, policemen and civil servants with special status from the penitentiary system, national defence system, public order and national security, both for women and men, there are some special regulation, such as:

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– the standard retirement age is 60;
– the minimum contribution period in specialty is 20 years;
– the complete contribution period is 30 years.

According to Law no. 263/2010, the contribution period is "the period of time for which were due social security contributions to the public pension system as well as that for which the insured parties with individual insurance statement or social insurance contract owed and paid social insurance contributions to the public pension system". Thus, the contribution period consists of summing the periods for which the contribution to the public social insurance budget was due by the employer and the insured.

In the public pension system, the periods without subscription, called *assimilated periods*, are as well assimilated to the contribution period, in which the insured:

a) has received a disability pension;

b) has attended the daily classes of university education, on condition of graduating with diploma;

c) has served the military service as conscript or draftee.

The minimum contribution period is 15 years for both women and men.

The complete contribution period is 35 years both for women and men.

The period during which a person works with individual labour contract represents *seniority* and, automatically, contribution period for retirement.

Pensioners with contribution periods in groups I and II of work, equated with especial conditions or particular conditions, receive additional scores.

The contribution periods realized in group I of work, especial conditions and/or other work conditions, lower than two years are capitalized in order to reduce the standard retirement age according to Table no. 2:

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Table no. 2. Contribution periods in group I of work

Contribution periods in group I of work, especial conditions and other work conditions (turned years)	Reducing the standard retirement age with:	
	Years	Months
2	1	-
3	1	6
4	2	-
5	2	6
6	3	-
7	3	6
8	4	-
9	4	6
10	5	-
11	5	6
12	6	-
13	6	6
14	7	-
15	7	6
16	8	-
17	8	6
18	9	-
19	9	6
20	10	-
21	10	6
22	11	-
23	11	6
24	12	-
25	12	6
26 years and over	13	-

Source: Law no. 155 of 18 June 2015 amending Law no. 263/2010 on the unitary system of public pensions, art. 55 paragraph (1) a).

"Periods of seniority achieved in group II of work until 1st of April 2001 represent contribution periods under especial conditions, in order to reduce the standard retirement age, except those realized under particular conditions.

Periods of seniority achieved in group I of work until 1st of April 2001 in the activities that are assigned to particular conditions constitute contribution periods in particular conditions, in order to reduce the standard retirement age." [Law no. 155, 18th of June 2015]

The complete contribution period may be reduced as well in the following situations:

– completion of a period of 20 years in mining, in the underground;

– completion of a period of 20 years in artistic professions listed in Appendix 4 of Law 263/2010;

– completion of a period of 15 years in the radiation area I or 17 years in the radiation area II in research or exploitation of nuclear raw materials;

– completion of a particular contribution period under pre-existing severe disabilities or blindness.

Basis for calculating the pension score

The retirement pension amount depends on the number of years with paid contributions and the incomes obtained throughout the period of contribution.

The pension amount is determined by multiplying the annual average score of the insured with *the value of a pension point* (Vpp).

Annual average score represents the number of points realized by the insured, calculated by dividing the total score achieved throughout the period of activity to the number of years corresponding to the complete contribution period required by law at the time of retirement.

Annual average score (Pma) achieved by the insured is determined by dividing the number of points resulting from summing the annual scores to the number of years corresponding to the complete contribution period.

The annual score of the insured is determined by dividing to 12 the amount of the monthly scores obtained in that calendar year, regardless of the number of contribution months from that year.

The monthly score is the main factor used in determining the annual average score and is determined by dividing the wage rights a person has benefited of and to which was paid or were due social security contributions to the average earnings in that month, announced by the National Institute of Statistics.

The monthly score represents the number of points realized by the insured in a month, calculated by dividing the monthly gross earnings/ monthly gross balance or, if applicable, monthly insured income, which has represented the basis for calculating the social insurance contribution, to the average gross earnings in that month, announced by the National Institute of Statistics.

Basically, the monthly score is achieved by dividing the employee's salary to the gross earnings, which can be found on the official website of the National Institute of Statistics (www.insse.ro) from 1938 to the present day.

The value of the pension point should be increased each year by 100% of the average annual inflation rate, as determined by the Pension Law, plus 50% of the real growth of the realized average gross earnings. In this case, the indicators used to determine the value of the pension point for 2016 are the definitive ones, known in 2015 for 2016 (reported by the National Institute of Statistics).

For the months for which the National Institute of Statistics has not yet communicated the average gross earnings, it is used, for the whole month, the last average gross earnings communicated.

For those people that have realized contribution periods in more situations than one, for which the law provides different complete contribution period, the average annual score is determined by summing the annual average scores calculated according to the complete contribution periods provided by this law for each of those situations.

When calculating the annual average score, the yearly and monthly score, 5 decimals are used.

For example, an insured person has achieved in August 2014 a gross income of 2,120 lei. The gross average earning for August 2014 was 810.1024 lei. The monthly score is 2.61695 points (21,200,000 lei / 8,101,024 lei). If it remains constant throughout the year, without intervening period in which that person had no job or wage increases or decreases occurred, then the employee would accumulate that year a yearly score of 2.61695 points.

According to the law, the pension is calculated by multiplying the pension point value, which is a standard one (is taken into account its value from the moment of submitting the file) and the annual average score.

$$\textbf{\textit{Pension = pension point value}} \times \textbf{\textit{annual average score}}$$

$$P = Vpp \times Pma$$

In 2016, the pension point value is increased by five percentage points, according to Government Emergency Ordinance no. 57/2015. That is an increase from 830.2 lei, as was the point of retirement in 2015, to 871.7 lei and translates into a slight increase in state pensions.

Example:

A man born in 1950 has realized a complete contribution period of 35 years, which according to Appendix no. 5 of the Law no. 263/2010 is considered as being the complete contribution period.

Suppose he gathered a total of 55.47287 points over those 35 years, then the annual average score is 1.58493. This would be multiplied with the pension point value, which currently is 762.8 lei, and will result in a pension of 1,208 lei.

If until 1st of April 2001 are used the data from the labour certificates and/or the certificates issued by former employers, subsequently in determining the monthly score is used the gross earning or, where appropriate, the monthly insured income which formed the basis for calculating the social insurance contribution.

The dynamics of the pension point value is presented in Table no. 3.

Table no. 3. The dynamics of the pension point value

Calendar date	Value (lei)
April 2001	159232
June 2001	1693066
September 2001	1762482
December 2001	1885856
January 2002	1885856
March 2002	1999008
June 2002	2098959
September 2002	2161928
December 2002	2252729
January 2003	2265701
March 2003	2345001
June 2003	2408317
September 2003	2472138
December 2003	2548775
January 2004	2652000
March 2004	2705040
June 2004	2759141
September 2004	2869507
January 2005	2955592
July 2005	295,56
January 2006	323,05
September 2006	339,20
December 2006	396,20
September 2007	416
November 2007	541
January 2008	581,30
October 2008	697,50
April 2009	718,40
October 2009	732,80
January 2013	762,10
January 2014	790,70
January 2015	830.20
January 2016	871,70

Source: My own example

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According to the Fiscal Code provisions by *gross salary earning* is understood "the incomes from salaries or assimilated to salaries which are subject to the income tax."

The following gains are not part of the basis for calculating the pension:

1. Gains in agreement or by piece.
2. Gains for occasional overtime payment.
3. Participation to benefits of the employees from the economic units.
4. The annual awards or during the year for outstanding achievements.
5. Occasional rewards received in some sectors.
6. Travel allowances.
7. Delegation, detachment and transfer allowances.
8. Copyrights.
9. Rights received on termination of employment.
10. The 13th salary.
11. Other bonuses which were not permanent.

Early retirement

To benefit from a pension before reaching the standard retirement age (early retirement or partial early retirement), each person must meet the complete contribution period required by law.

Early retirement can be approved, with up to 5 years before reaching the standard retirement age, for the persons who have made a contribution of at least 8 years bigger than the complete contribution period required by law.

Early pension amount is determined under the same conditions as for establishing the retirement pension.

On the conditions for granting the retirement pension, early retirement becomes retirement pension and is recalculated by adding the assimilated periods and any other contribution periods realized during the period of suspension of the anticipated pension.

Transforming anticipated pension in retirement pension takes place *ex officio*.

In case of partial (diminished) early retirement pensioners, the law provides that transition to retirement pension be done by request at the time these pensioners meet the age conditions for this transformation.

In some cases switching from the disability pension to retirement pension has as a result the reduction of the amount of the pension.

Partial early retirement

Partial early retirement pension can be approved with up to 5 years before reaching the standard retirement age, for the persons who have completed their contribution period, and those who have exceeded the complete contribution period with up to 8 years.

Law no. 263/2010 on the unitary public pension system provides the tightening of the conditions for granting this category of pension, setting the penalty at 0.75% for each month of anticipation.

Anticipation cannot be bigger than 5 years (60 months) compared to standard retirement age prescribed by law, and the maximum penalty is 45% as compared to 30%, as it was required by Law no. 19/2000.

The amount of the partial early retirement pension is determined from the retirement pension amount that would be due by reducing it to 0.75% for each month of anticipation, until meeting the conditions for obtaining the retirement pension.

By *anticipation month* we understand each month by which retirement is requested earlier than the normal retirement age stipulated by law.

State pensions acquired by Romanian citizens abroad

If a Romanian is working in countries within the European Union he can acquire the right to a pension in each of them.

Retirement houses from each EU country that person has worked will analyse the contributions paid to the pension fund from the respective country, but also the duration and amount of the contributions paid in other countries.

Each country calculates the pension the citizen should receive considering all the periods worked in any other country in the European Union.

For this, it sums all the periods worked in all the EU countries and sets up the *theoretical pension*, meaning the pension that state would have supposed to pay if all the contributions would have been paid in its pension fund, during the entire period.

The resulting value is then adjusted in order to reflect the actual duration of the contribution periods from that country ("*pro rata provision*").

If the person in question meets the eligibility criteria to receive a state pension in a particular country, regardless of the periods during which he contributed to the pension funds in other countries, the pension house calculates as well the *national pension*, known as "*autonomous provision*".

The national authority then compares the pro rata provision and the autonomous provision and takes into consideration the provision with the highest value in that country.

Finally, the person will receive a P1 form, which will explain the decision of each country regarding the pension request.

Example:

Margaret worked for 20 years in France and for 10 years in Spain. In both countries, a person becomes entitled to a pension if only has worked at least 15 years on its territory. Thus, each country will calculate Margaret's pension:

The house of pensions in France will make the following calculation:

– Will calculate the value of the national pension for her 20 years of working in France – let us say 800 Euros;

– Will calculate also the theoretical value of the pension Margaret would have received if she had worked in France the entire time (30 years) – let us say 1,500 Euros. Then will establish the pro rata pension – that is the amount she should receive proportionally to the period worked in France: € 1,500 x 20 years in France / 30 years in total = € 1,000.

In conclusion, Margaret will have to receive from France the provision with the highest value: € 1,000 per month.

The house of pensions in Spain will no longer calculate the national pension because Margaret has not worked there for at least 15 years. This will calculate only the amount at European level, based on the theoretical value of the pension Margarita would have received if she would had worked in Spain during this whole time (30 years) – say € 1,200.

Then will establish the pro rata pension– that is the amount she deserves in proportion to the period she worked in Spain: € 1,200 x 10 years in Spain / 30 years in total = € 400.

In total, Margaret will receive a pension of € 1,400.

Regarding *the pension payment,* in general, the countries paying pensions transfer the due amounts in a bank account in the country of residence – if the person lives in one of the EU countries.

If the person in living outside the EU, one may need to open one bank account in each of the countries that pay the pensions.

The applicant cannot receive the state pension from the country he/she is living/the country he/she has last worked only when the legal retirement age in those countries has been reached.

However, if the applicant has acquired pension rights in other countries as well, he may receive the appropriate due parties only when the legal retirement age in those countries is reached.

Example:

Ingrid, from France, has worked in Denmark for 15 years. Towards the end of her career, she returned to France. At the age of 60 years (which is the legal retirement age in France) she requested her retirement.

At the age of 60 years, Ingrid has the right to a French part of the pension. But in case of the Danish pension, she will receive the appropriate amount only when she turns 67, because that is the legal retirement age in Denmark (for the age group Ingrid falls into).

Eligibility periods:

In some EU countries, it is mandatory to have worked a certain period to gain the right to adequate pension.

In such cases, the pension house must apply *the principle of cumulating the periods*, meaning to take into account all periods that have been worked in other EU countries, as one would have been working in the concerned country.

Example:

Edward worked for 4 years in Germany, and 32 years in Portugal.

In Germany, a person cannot acquire pension rights because did not work at least 5 years. Normally, Edward would not benefit from the national pension system in Germany, since he worked there only for a period of 4 years.

But the pension house in Germany had to take into account as well the years he has worked in Portugal. Therefore, the country has recognized his right to pension and pays the amount for the corresponding period of 4 years.

Since some EU countries do not provide pensions for short periods of work, a special rule may apply: the rights corresponding to the respective period are not lost, but are taken into account for establishing pensions in the countries where one has worked longer.

The retirement application must be submitted to the pension house in the country where one lives or the last country one has worked in. If one never worked in the country one lives, one shall submit the application for retirement to the country where one has last worked.

That country will be responsible for processing the request and will gather the evidence proving the contributions one paid in all countries in which one has worked.

Conclusion

Besides the negative political factors, we must take into account the unfavourable demographic trend of the pension system, the continuous decrease of the active population, as, on the one hand, Romania's population is aging, and on the other hand the birth rate is constantly decreasing.

Another factor that negatively affects the pension system is fiscal evasion, because if the salaries of the employees are not fully reported by the employers, the pension fund diminishes.

It is therefore important to adopt effective policies to increase collection and reduce evasion, which are simpler to adopt and implement.

It is also very important that after the significant reduction of CAS no other hasty measures for increasing pensions or for increasing the number of pensioners through early retirement mechanisms should be taken.

In the current conditions, without appropriate employment policies, we are dealing with a fragile equilibrium. The pensions' situation may become critical in the context of budget deficit targets more and more ambitious.

In the current European context regarding the modernization of the pension systems, Romania has adopted a system based on the diversification of the sources for obtaining the pensions, a system that would determine the financial security of the elders, through the implementation of private pensions.

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THE IMPACT OF CORRUPTION ON ECONOMIC DEVELOPMENT: CASE STUDY ROMANIA

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Abstract

In the last decade, Romania implemented a strong legislation and a comprehensive program of public financial management reform in order to improve the national fiscal transparency and to reduce corruption.

Corruption is a growing phenomenon all over the world, affecting economic development and aggravated by the legacy of the global economic crisis. The global risks are different from the past due to notably cyber-attacks, new economic realities and geopolitical risks. Most of the time, corruption is associated with financial crime, fraud and bribery. Corruption is a major factor of reducing economic development and the governments must increase of macroeconomic and fiscal forecasts in order to facilitate access to the public funds.

Key words: *financial crime; corruption; government; fraud.*
JEL Classification: C61, D73, H11, H26

Introduction

This paper seeks to present some aspects of corruption in a changing European environment and how corruption has a significant impact on the economic development. In our opinion, corruption, fraud and crime institutionalize suspicion and create a deep loss of mutual trust and confidence within the public and private organizations all over the world.

Corruption is an international persistent phenomenon and gives some people advantages that others don't have [Uslaner, 2008].

Despite the program of public financial management reform implemented in Romania, there is strong perception on corruption, like many other European countries, with bad consequences over economic development and investment. According to Global Competitiveness Report 2015-2016, WEF Geneva 2016, the most problematic factors for doing business in Romania are: tax rates, inefficient government bureaucracy, access to financing, inadequate supply of infrastructure, corruption, complexity of tax regulations, inadequately educated workforce, restrictive labour regulation, poor work ethic in labour force, policy instability, insufficient capacity to innovate, inflation, poor public health, foreign currency regulations, crime and theft, government instability. In the last years, foreign investors consider corruption one of the problematic factors of doing business in Romania.

Literature Review

The paper has based its conclusions on the researches from the last few years: Măgureanu, A.L. (2014), "*Few Aspects Regarding Bribery as a Social and Economic Threat*", who presented bribe giving as active corruption and bribe taking as passive corruption. He thinks that corruption affects all segments of society, including businesses, as it affects markets and competition. "Concepts such as ethics, integrity and corruption may apply in different contexts. Individuals and organizations alike have standards and moral principles and their behaviour may or may not comply with ethical principles. It has become clear today that the role that a corporation (or any other form of business) cannot be reduced to obtaining a profit." [Măgureanu, 2014]. He is suggesting that any juridical entity (including corporations) must primarily take internal measures of preventing corruption, but it is unlikely that corruption will ever be completely eradicated. Corruption could be reduced, primarily by a proper education, by making peoples realizing the costs and the long term implications of any act of corruption, no matter how small (as none of them are irrelevant).

Frâncu, L.G. and Paicu, C.L. (2008) in "*The Romanian Bureaucratic System of Public Administrations*" explained the connection between bureaucracy and corruption in Romania. They think that the most obvious problem is that bureaucracy encourages corruption especially because of this complicated way of solving simple problems that become complicated when dealing with bureaucrats. In their opinion, the problem is that bureaucrats got used to the idea that they have a certain power, artificially created and for offering free information or services they ask something in return. This is reason to offer some flowers, coffee to the public servants, but of course it depends on the nature of the problem we must solve. They explain how if the problem gets bigger, then the "gift" must be bigger, must have a big value. Finally, it came to the point in which citizens have to give something in order to be taken into consideration or addressed nicely.

Global Risks Report 2015 (World Economic Forum) presented how cross-cutting challenges can threaten social stability, perceived to be the issue most interconnected with other risks in 2015, and additionally aggravated by the legacy of the global economic crisis in the form of strained public finances and persistent unemployment. According to the Report, the interconnections between geopolitics and economics are intensifying because states are making greater use of economic tools, from regional integration and trade treaties to protectionist policies and cross-border investments, to establish relative geopolitical power. This threatens to undermine the logic of global economic cooperation and potentially the entire international rule-based system. [Global Risks Report 2015] Corruption is still one of the problematic factors of doing business in many European countries.

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Fraud and Corruption Risk Assessment

Major fraud or corruption can set off a chain reaction resulting in serious corporate harm or failure. Managing the risk of fraud and corruption requires an on-going commitment to acquiring fresh knowledge. Managing fraud and corruption risks requires a level of commitment from partners and allies. Fraud often accompanies corruption. The true victims of fraud and corruption are usually innocent people. There are accelerating factors involved in the prevalence of fraud and corruption. Fraud and corruption have a corrosive and damaging effect on the competitive spirit. The elements of fraud and corruption risk management are *assessment*, *prevention*, *detection*, and *response*. Measuring the extent of fraud and corruption is inherently difficult. On-going fraud and corruption schemes are a continuing drain on a company's profitability. There is a trend toward more aggressive enforcement of anti-corporate fraud and anti-corruption laws. Fraud and corruption risks are virtually impossible to avoid completely. Companies that implement detailed fraud and corruption risk management processes can experience related benefits. Companies now face as great a risk of fraud and corruption as ever before. Fraud and corruption risk assessment considers the ways that fraud and corruption can occur by and against the company. A fraud and corruption risk assessment is tailored to the company's size, complexity, industry, and goals. Globalization has increased the likelihood of encountering bribery and corruption risks. Fraud risk factors often are present in circumstances where fraud or corruption exists. [Bishop & Hydoski, 2009]

Corruption and money laundering have a devastating impact on national economies, international security, and human development. Corruption produces enormous profits to be laundered. Following the money trail should help to detect and deter corrupt exchanges. Corruption and money laundering are closely interrelated: they are serious problems for most countries all over the world. Grand corruption and money laundering are international phenomena. Corruption is the greatest obstacle to economic development. Offering and soliciting bribes count as corruption, even if the advances are rejected. International grand corruption is the most damaging type (in the sums of money stolen and in the broader societal consequences). The incidence and scale of corruption is difficult to measure. Corruption can facilitate the laundering of the proceeds of crime. [Chaikin & Sharman, 2009]

Corruption is a relatively new challenge for social sciences: we may fail to understand corruption without considering its intrinsic dynamics and logic. Corruption is harmful even to those who have the chance of striking illegal deals. Downsizing the public sector does not help in reducing corruption. Certain cultural determinants drive both decentralization and the absence of corruption. Encouraging competition and reducing corruption can be two sides of the same coin. The causality runs from culture to corruption and not the other way round. Culture explains only a fraction of the variance of levels of corruption. Unpredictability acts as a deterrent to a further spread of corruption. A hierarchical relationship within a firm may help in arranging a corrupt exchange. Corruption is often restricted to well-acquainted business partners, and adversely affects economic development. Corruption constrains the contractual space available to agents and principals. Countries riddled by corruption exhibit poor government institutions. Corruption acts as an inducement to public servants to create artificial bureaucratic bottlenecks. Excessive regulation provides opportunities for future corrupt transactions. The creation of a distortionary decision becomes the actual intention of the corrupt inducement. Corruption can enlarge the set of possible actions to be taken by the parties involved. The possibility to behave in a corrupt manner does not enlarge the contractual possibilities. Corrupt bureaucrats base their decisions on expected corrupt income. Corrupt opportunities constrain the contractual space available to public servants and the government. [Lambsdorff, 2007]

GDP Model and Corruption Perception Index: Case Study Romania

In this section, we present a GDP model for Romania and the correlation with corruption perception index (CPI) for Romania for the period 1997-2011 [Ionescu, 2012].

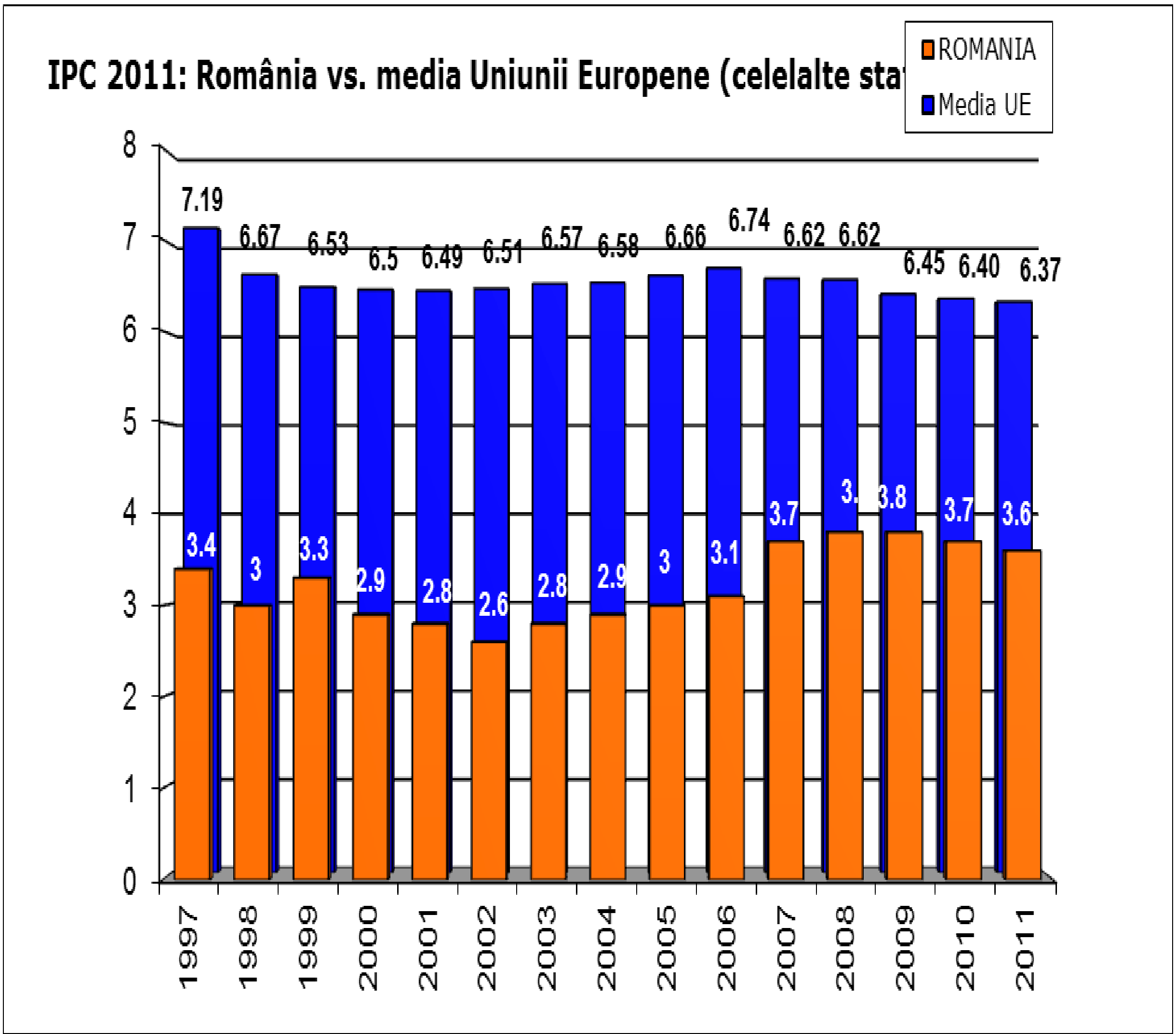

Figure no. 1. Corruption Perception Index (CPI) for Romania for the Period 1997-2011

Source: Own calculations based on Eurostat data

There are differences in GDP per capita convergence in EE countries, but selected data for Romania [Albu, 2012]. Thus, we started from the equation:

PIBL = C(1) + C(2)*ISD + C(3)*EXPN + C(4)*STOCK

where:

– PIBL represents GDP per inhabitant (mil. RON – 2005 current prices);

– ISD represents Foreign Direct Investments (mil. RON – 2005 current prices);

– EXPN represents Net Export (mil. RON – 2005 current prices);

– STOCK represents Capital (mil. RON – 2005 current prices);

For our model, we used data collected from National Institute of Statistics from Romania, and National Bank of Romania, for the following period: 2003-2011. We realize that the period is short, but more data are not available, for the moment [Nica, 2012a]. Despite this shortcoming, the parameters managed to explain quite well the evolution of GDP per inhabitant [Albu *et al.,* 2010].

We estimated the parameters of the model, through Least Square method, as follows:

PIBL = 7014.64930435 + 0.0267615722512*ISD - 0.0406810277116*EXPN + 0.00817997857659*STOCK,

where:

C(1) = 7014.64930435;

C(2) =0.0267615722512

C(3) =0.0406810277116

C(4)= 0.00817997857659

Here we present the output from Eviews 7, for the estimators and the specific tests (in order to verify the efficiency of the model):

Dependent Variable: PIBL
Method: Least Squares
Sample: 2003 2011
Included observations: 9

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7014.649	421.3130	16.64950	0.0000
ISD	0.026762	0.013361	2.002954	0.1016
EXPN	-0.040681	0.005174	-7.863059	0.0005
STOCK	0.008180	0.000567	14.41853	0.0000

R-squared	0.991364	Mean dependent var	14521.33
Adjusted R-squared	0.986182	S.D. dependent var	1560.475
S.E. of regression	183.4343	Akaike info criterion	13.56269
Sum squared resid	168240.7	Schwarz criterion	13.65035
Log likelihood	-57.03212	Hannan-Quinn criter.	13.37353
F-statistic	191.3174	Durbin-Watson stat	2.784741
Prob(F-statistic)	0.000014		

We established a connection between the corruption perception index and the following indicators: GDP/inhabitant, Net exports, Foreign Direct Investments and the Capital, as shown in Figure no. 2.

Thus, the evolution of GDP per inhabitant is determined by the evolution of the FDIs, Net Export and Capital [Nica, 2012b]. We managed to show that the connection between CPI and our indicators is as follows: with FDI – negative correlation, with Net Export – negative correlation (but on the short term we expect that the trend of Net Export will change) and with Capital – positive correlation [Popescu, 2012].

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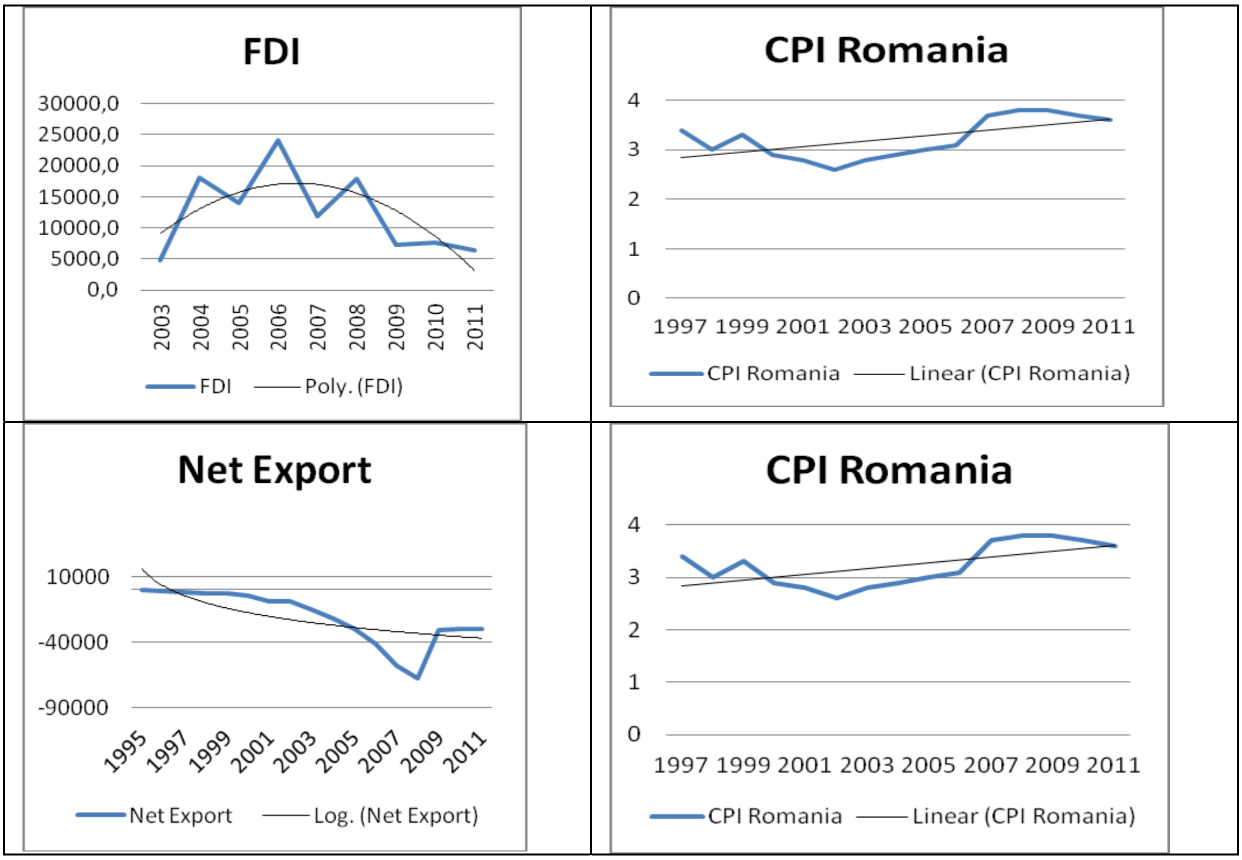

Figure no. 2. Correlation between CPI Romania, FDI and Net Export (mil. RON – current prices, 2005)

Source: Own calculations based on Eurostat data

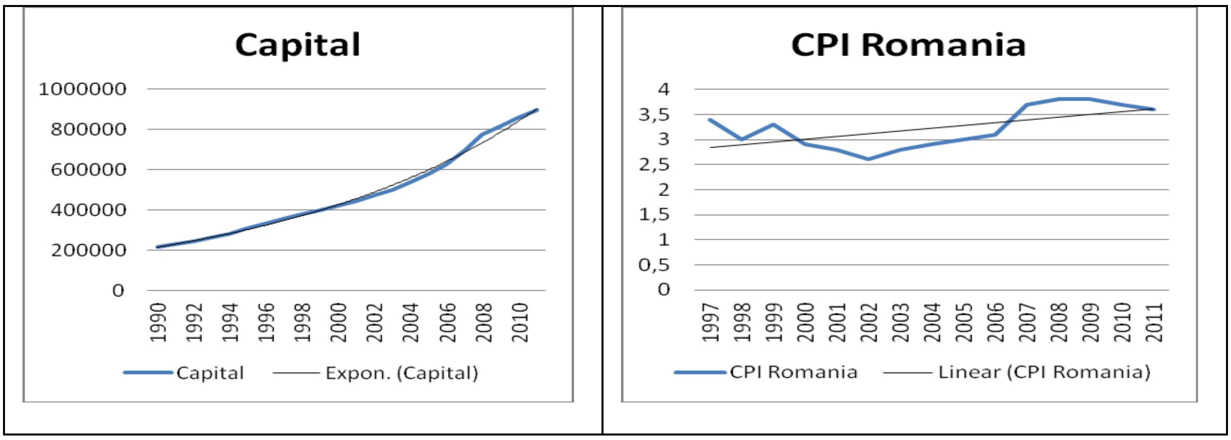

Figure no. 3. Correlation between CPI Romania and Capital (mil. RON – current prices, 2005)

Source: Own calculations based on Eurostat data

So, if we want to explain the evolution of GDP per inhabitant in connection with CPI (Romania), we must take into consideration the correlation between CPI and the components of GDP, namely FDI, Net Export and Capital [Albu & Dinu, 2009]. If we take into consideration the following scenario: CPI will continue to decrease (since 2007), we expect to see a change in trend also for GDP per inhabitant (this will be a subject for further research).

Conclusion

Corruption became an important problem in European countries in the last decades due to global challenges and the legacy of the global economic crisis. We were explaining in our research the influence of corruption on the economic development, we presented the corruption perception index (CPI) for Romania for the period 1997-2011 and the GDP model for Romania with CPI. We observed how corruption determined the suspicion in public administration and create a deep loss of mutual trust and confidence within the public organizations. The interconnections between corruption and economics are intensifying due to fraud, bribery, money laundering and recently to the terrorist attack.

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THE FISCAL TRANSPARENCY IN ROMANIA AND TURKEY: A COMPARATIVE STUDY

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Abstract

The recent financial crisis had a significant impact on global economy and fiscal transparency all over the world. International Monetary Fund and other international institutions are concern about fiscal policy, fiscal reforms and fiscal transparency among its member countries.

The aim of this paper is to present a comparative study of fiscal transparency in Romania and Turkey, the evolution of fiscal and financial reforms, and weaknesses in the public system in Romania and Turkey. Romania and Turkey have a positive evolution in the last decades regarding fiscal, financial reforms and budget structure according to EU regulations.

Key words: *corruption; fiscal transparency; fiscal policy.*
JEL Classification: D72, E60, E62

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Introduction

This paper seeks to present a comparative study of the fiscal transparency and corruption in two different countries, Romania member of EU and Turkey a candidate country and a strategic partner for the European Union, both interested to fight against corruption and bureaucracy, in order to improve the public financial management and tax administration. In our opinion, fiscal transparency is an important indicator for economic development and modernization of the central government, but also for local government and public management in general.

Fiscal transparency became a priority in all EU countries [Adam, 2015] and is crucial for effective public management, accountability and performance in the public sector. Fiscal transparency is related to fiscal policy, public budgets, corruption and fiscal reforms, in order to ensure that governments have an accurate image of their finances when planning budgets and adopting decisions to reduce the public deficit. Fiscal transparency is an efficient instrument to fight against corruption and bureaucracy and EU is encouraging the European co

Financial reporting can provide a reliable basis for tracking cash flows, commitments, payments, liabilities, revenues, arrears and assets. According to IMF, fiscal transparency is important for all governments and requires a transparent, modern and comprehensive accounting system to predict the future cash requirements of the entity. Transparent budget execution provides information for the public management and helps users to evaluate the changes in net equity of an entity. Thus, an effective accounting system will provide accurate information to cover all fiscal transactions and to improve the internal control [IMF, 2007].

Fiscal Transparency Code was adopted by International Monetary Fund (IMF) and became an important set of principles to debate and analyse the public finance reports. Those principles are built around four pillars that became key elements of fiscal transparency among its member countries:

- fiscal reporting;
- fiscal forecasting and budgeting;
- fiscal risk analysis and management;
- resource revenue management.

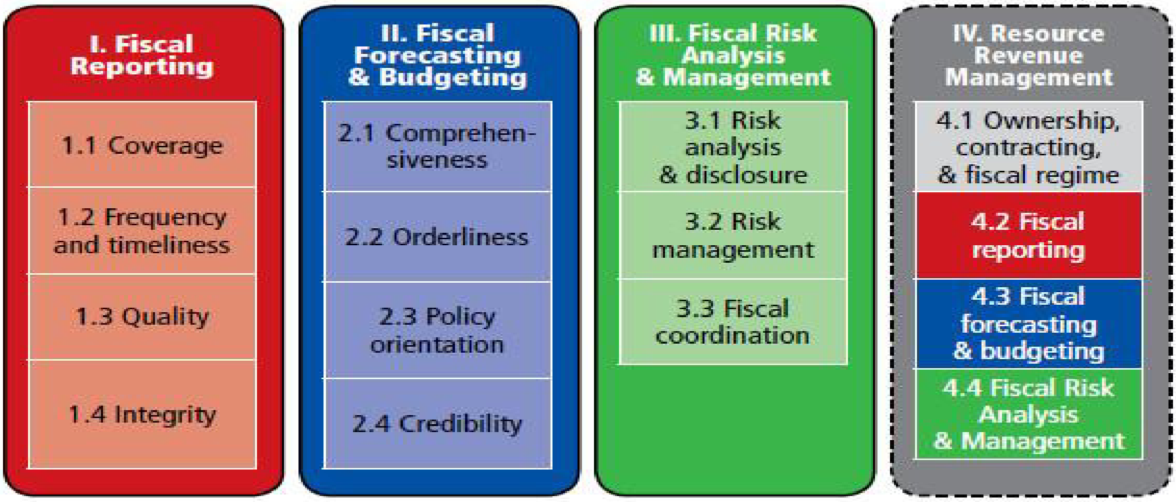

Figure no. 1. The Four Pillars of the Fiscal Transparency Code

Source: http://www.imf.org/external/np/fad/trans/

Literature Review

The paper has based its conclusions on the following papers and researches:

International Monetary Fund (2007) that published the *Manual of Fiscal Transparency*, where is presented the fiscal transparency concepts, the pillars and principles of transparency. The Fiscal Transparency Code developed a set of rules and practices, such as:

- functions and structure of the government;
- roles of the legislative, judicial and executive branches of government;
- important responsibilities for level of the government;
- relationships between public corporations and government;
- role of the government in the private sector.

There is a strong relation between fiscal transparency, accounting system and financial reporting. Thus, the Fiscal Transparency Code includes good practices relating to the accounting system, in-year reporting, supplementary budgets, and the presentation of audited final accounts to parliament. In the Fiscal Transparency Code there are some basic rules such as:

- all financial accounts are the subject of audit;

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- the auditors reports are transparent and will be published within a year in order to allow the public to read and understand;
- all the commitments, revenues, payments, and arrears can be followed effectively and immediately;

The public accounting system is developed based on international regulation, principles and standards, and will facilitated efficient collection of taxes and non-tax revenues. Thus, the accounting system will become a reliable basis for planning financial obligations and multi-annual investment projects. [IMF, 2007]

Adam, A. (2015) explains in her research "*Fiscal Transparency in the European Union*" how the fiscal transparency provides to the policy-makers the ability to accurately analyse the costs and benefits of any changes in the fiscal policy. She thinks that benefits of practicing fiscal transparency are numerous and other research in the field confirms this statement. "The fiscal transparency helps to identify potential risks regarding the fiscal outlook allowing a reaction from fiscal policy to changes in the macroeconomic framework, borrowing cost, minimizing corruption and reducing the accounting creativity" [Adam, 2015]. The fiscal transparency is a key point in the fiscal policy stance and during the economic pressures manifested at a global level, the major initiatives on fiscal transparency assessment are important for the economic development.

Fiscal Transparency in Romania and Turkey

The fiscal and financial reforms from Romania in the last decade led to improvements in fiscal transparency and efficient public management. According to the experts from International Monetary Fund (IMF), in Romania was noticed a very good level of transparency, the fiscal system is flexible and modern like any other EU member state, the collection level of taxes is satisfactory. Romania was recently rated as good or advanced in 8 out of 11 dimensions. It is important to mention the coverage and quality of fiscal reports and the evolution of fiscal statistics [IMF, 2015]. During the last decades it was a good cooperation between Romania and IMF and the last visit from 2014 highlighted the good results at the end of Fiscal Transparency Evaluation (FTE). Evaluating Romania's fiscal reporting, forecasting, and budgeting, and fiscal risks analysis and management

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practices against the revised Fiscal Transparency Code was a challenge for the IMF experts due to the significant progress that the country registered in the last decade. During the evaluation, were highlighted the significant reforms implemented in Romania, such as [IMF, 2015]:

quality, frequency, and coverage of general government fiscal statistics;

modern European legislation and regulation;

adoption of a Fiscal Responsibility Law (FRL) and ensuring fiscal sustainability for medium and long-term economic development;

independent fiscal council from 2010 that provided analysis and suggestions on projecting new fiscal policy;

new budgetary and fiscal strategy, to facilitate the preparation of the annual budget.

The result of fiscal transparency evaluation is that Romania performs well against the Fiscal Transparency Code in many areas and the Fiscal Transparency Code was well implemented. The conclusion of the IMF visit was related to the effectiveness of the public management and the use of public funds and resources. Thus, the most important findings of the fiscal transparency evaluation are [IMF, 2015]:

Fiscal Reporting: Romania has a good level in 8 out of 11 dimensions, including the coverage and classification of fiscal reports and the integrity of fiscal statistics. However, the availability of large volumes of information on general government operations is undermined by the fragmented nature of that data, and the absence of a comprehensive set of consolidated Government financial statements produced according to international regulation. The experts observed how Romanian corporations sector is not included in consolidated fiscal report.

Fiscal Forecasting and Budgeting: there is significant progress in some areas, such as: fiscal legislation and budget regulation, medium-term budget framework, macroeconomic forecasting. All of them, including fiscal council are all rated as good or advanced against the Code, but some other areas must be improved, such as: management of public investments, development of citizens' budgets and the coverage of the budget, despite the fact that many reforms have been implemented.

Fiscal Risk: Fiscal risk is related to revenue collection and a good level of fiscal transparency was observed in Romania. Thus, there is significant progress in identifying and reporting state guarantees and a better evaluation of the public funds risks associated. Recent reforms were combined with a good management in order to reduce the financial sector exposure and environmental risks. At the end of the visit, the IMF experts recommended to improve the level of transparency for [IMF, 2015]:

existing fiscal reporting and expand the information technology to all public sector;

quality and integrity of fiscal and financial reports based on accrual system, ensuring external audits of government accounts according to international standards;

sharing of taxpayer information at macroeconomic level;

accurate forecasts in public budgets, clarity and openness of successive medium-term fiscal forecasts;

multi-annual budgets including costs of public investments for medium-term fiscal objectives.

At the end of the IMF visit in 2014, the experts presented a complex report with fiscal transparency positive indicators, most of them as good or advanced in 15 of the 36 dimensions. Also, the modernization of fiscal administration information system provides relevant, accurate, reliable and timely information to government and public management [Serban *et al*, 2015].

Fiscal transparency in Turkey is a priority for the government and the last visit from IMF was during 2006, when many reforms were implemented. According to IMF, since the 2002 update, Turkey has continued to make progress toward meeting the requirements of the fiscal transparency code, in particular through a substantial overhaul of the legal system [IMF, 2006].

The responsibilities of different levels of government are generally well-defined but a number of provisions introduce an element of risk for municipalities. Also, accounting and reporting of local government operations could be improved with more comprehensive data. Despite the progress achieved in developing the financial management system, some arrears could still be accumulated without the knowledge of central government authorities, because "the Treasury releases cash to the spending agencies accounts rather than the invoices of goods and services, and no controls are exercised to ensure that the spending ministries have ultimately paid their obligations" [IMF, 2006].

After the fiscal transparency evaluation in 2006, Turkey still falls short of the requirements and further reforms are needed to move towards meeting best international standards. The financial and economic crisis from 1990 and 2000 had a significant impact on fiscal transparency and corruption in Turkey [Acar, 2007], and fiscal transparency issue was mentioned in the Stand-by Agreement with the IMF (1999) in order to find new methods to improve fiscal activities of the public sector. Since 2000, the government has introduced inflation accounting and eliminated a number of *ad hoc* inflation compensation mechanisms (including long lags in collection) [IMF, 2006].

One of the most comprehensive efforts to ensure fiscal transparency in Turkey is The Restructuring of Public Financial Management and Fiscal Transparency – Special Expert Commission Report, adopted in 2000. According to this report some measures aimed to ensure the fiscal discipline and fiscal transparency will be implemented, such as: all budget expenditure will be included into the budget and a new classification of public financial management will be adopted. The adoption, in December 2003, of the Public Financial Management and Control Law (PFMCL no. 5018) was designed to provide the necessary framework for further reforms.

In order to improve the fiscal transparency, the Strategy of Increasing Transparency and Strengthening Combating Corruption (2010-2014) was adopted in Turkey. The main aim of this strategy was expressed as "to prevent transparency and eliminate the factors the boosts corruption, development of more equitable, accountable, transparent and a reliable management concept". The main components of this strategy have been identified as the prevention of corruption, the implementation of sanctions and increasing public awareness.

The comparative study of fiscal transparency is presented in the table below:

Table no. 1. The Good Level of Fiscal Transparency Practice in Romania and Turkey

Pillars of Fiscal Transparency	GOOD AND VERY GOOD LEVEL OF PRACTICE	
	Romania	Turkey
1	2	3
1. Fiscal Reporting	- Coverage of Institutions (good) - Coverage of Stocks (good) - Timeliness of Annual - Financial Statements (basic) - External Audit (basic) - Internal Consistency (advanced) - Statistical Integrity (good) - Coverage of Flows (good) - Frequency of In-year - Fiscal Reports (advanced) - Classification (advanced) - Historical Consistency (basic) - Comparability (good)	- Coverage of Institutions (good) - Coverage of Stocks (not enough) - Timeliness of Annual - Financial Statements (not enough) - External Audit (not enough) - Internal Consistency (not enough) - Statistical Integrity (not enough) - Coverage of Flows (not enough) - Frequency of In-year (not enough) - Fiscal Reports (good) - Classification (good) - Historical Consistency (not enough) - Comparability (good)
2. Fiscal Forecasting and Budgeting	- Macroeconomic Forecast (good) - Investment projects (basic) - Timeliness of Budget Documents (basic) - Independent	- Macroeconomic Forecast (good) - Investment projects (not enough) - Timeliness of Budget Documents (good) - Forecast Reconciliation

	Evaluation (advanced) - Forecast Reconciliation (basic) - Budget Unity (basic) - Medium-Term Budget (advanced) - Fiscal Policy Objectives (good) - Performance Information (basic) - Public Participation (basic) - Supplementary Budget (basic) - Fiscal Legislation (advanced)	(not enough) - Budget Unity (not enough) - Medium-Term Budget (good) - Fiscal Policy Objectives (not enough) - Performance Information (not enough) - Public Participation (not enough) - Supplementary Budget (good) - Fiscal Legislation (good)
3. Fiscal Risk Analysis and Management	- Macroeconomic Risks (basic) - Specific Fiscal Risks (basic) - Asset and Liability Management (basic) - Sub-national Governments (good) - Budgetary Contingencies (basic) - Public Corporations (basic) - Guarantees (good)	- Macroeconomic Risks (good) - Specific Fiscal Risks (good) - Asset and Liability Management (not enough) - Sub-national Governments (not enough) - Budgetary Contingencies (not enough) - Public Corporations (not enough) - Guarantees (not enough)

Source: Authors' own work based on IMF reports

The good level of fiscal transparency is reflected in the Corruption Perception Index (CPI), an interesting indicator to measure the level of fraud and corruption in the public sector administration. According to Transparency International Organization, corruption level could be perceived from a scale of 0-100, where 100 mean a very clean country and 0 means a corrupted one. We present our data and estimation in the table below:

Table no. 2. The Corruption Perception Index in Romania, Turkey, Bulgaria and Greece period 2012-2016

Country	**Score**				
	2012	**2013**	**2014**	**2015**	**2016**
Romania	44	43	43	46	48
Turkey	49	50	45	44	46
Bulgaria	41	41	43	41	41
Greece	36	40	43	46	46

Source: http://www.transparency.org and authors' estimation

We observe in Table no. 2 that CPI is much better for Romania and Turkey then Bulgaria and Greece for the period 2012-2015 and our estimation for 2016. Corruption is a big problem for all countries because the world economy became international integrated and the perception of corruption is related to fiscal transparency. In our opinion, Greece is affected by the global financial crises much more than other EU countries.

Conclusion

In this research we presented the analysis of the fiscal transparency in Romania and Turkey. In our opinion the economic crises had a significant impact on fiscal transparency all over the world and more fiscal reforms were implemented in the last decade. Implementation of Fiscal Transparency Code is imperative for all IMF member states in order to insure the effective fiscal management and accountability. In our paper we presented a comparative study between Romania and Turkey, the weaknesses and new reforms aimed at ensuring fiscal sustainability over the medium to long term. We noticed in Romania a good program of public financial management reform and in Turkey efforts to modernize the public sector and manage risks to the public finances.

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STUDIES ON THE MATERIALITY AND AGGREGATION, COMPENSATION AND OFFSETTING IN FINANCIAL STATEMENTS

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Abstract

The accounting principles should be considered an essential element in the preparation and presentation of financial statements, with our analysis focusing especially on the relative principles: materiality and aggregation, compensation and offsetting. We consider necessary to improve the analyzed concepts by bringing additional information, as clear and comprehensive as possible, information used as reference in the preparation of financial statements. Moreover, is crucial to apply a unitary thinking of the accounting referential which is linked to these accounting principles.

The research methods used in analyzing the principles are: documentation of theoretical study of normative acts in the field of accounting, observation, comparative analysis, synthesis, information classification and data interpretation.

Key words: *materiality and aggregation; compensation and offsetting; significant accounting information; professional judgment in assessing materiality; incidence on the accounting processing; incidence on the presentation of financial statements.*

JEL Classification: M40, M41

Introduction

An important topic of the debate which completes the preparation and presentation of financial statements analysis is the analysis of accounting concepts which are the benchmark in financial statements for all countries with market economies, regardless of the accounting system to which they relate.

In the following we want to analyze the relative principles of financial statements as follows: materiality and aggregation, compensation and offsetting. We plan to conduct an objective analysis and critical content of these accounting principles, with the support precision found in IAS 1 Presentation of Financial Statements and IASB Framework, but also to provide a qualitative analysis which will achieve permanent connections with other referential accounting, but also with the specific literature.

Literature Review

The subject of the paper is current for accounting. The paper in based on a rich and current bibliography, for example, Glăvan, E., M., et al., *Contabilitate financiară*, Bucureşti: Editura ASE, 2013, Iacob, P., Gheorghe, B., *Contabilitatea financiară*, Bucureşti: Editura Intelcredo, 2014, Guşe, G.R., *Valoare, preț, cost şi evaluare în contabilitate*, Bucureşti: Editura CECCAR, 2011, ISSB, *Standardele Internaționale de Raportare Financiară,* Bucureşti: Editura CECCAR, 2015, etc. The subject of article is deepened by author in various works that underlie the doctoral thesis.

1. **The Relative Principles of the Financial Statements**

1.1. **The Significance Threshold**

The significance threshold is at the base in building the concept of true and fair view (fair presentation) of British accounting, hence being taken as a general feature of international reference. Please note that the European accounting concept of materiality is not listed explicitly among the principles defined in the **European Accounting Directives** also not among the principles of **national accounting**. At the **conceptual accounting framework** level, either international or the U.S., *the materiality is presented as part of the qualitative characteristics of financial statements, specifically as a component of the relevance of the information.*

It means that the information is considered significant when the person who uses it reacts differently than if they did not have access to it. Here we find assessing the significance of information by omission or inaccuracy of its consequences on the economic decisions that users take based on the financial statements.

When assessing whether an item is material or not, we evaluate both the nature and size of the item. In assessing the significance of an item, depending on the specifics of each situation, it is possible that either nature or its size is the determining factor, or combination of effects generated by the two, as in the following example. After the financial control to an entity, fines of 50.000 lei were given. In terms of share of fines in the total expenditure (0.4% of them) the value of the fines can be considered insignificant. However, such penalties are received for irregularities found in the activity carried by the company, and can be considered significant in nature, making their separate presentation in the income statement.

At the international standard **IAS 1** we find that the concept of materiality is related to the notion of aggregation. In this regard, it is noted that the financial statements result from processing large volumes of transactions that through aggregation are structured on groups according to their function or nature, resulting in a presentation of condensed and classified data, which form line items in the financial statements. It also states that if an item is not individually material, it is aggregated with other items either in the financial statements or in the notes.

If no element is sufficiently significant to be presented separately in the financial statements may be presented separately in the Notes.

The above requirements stipulated by the concept of materiality and aggregation of IAS 1, **we see that this framework provides only disclosure in the financial statements, not the tools and guidance necessary to help the analysis to know whether or not an item is individually significant, or when is not sufficiently significant**. Even if they say that these analyses are based on judgment, training specialists **consider filling that need guiding principle for assessing significance, in as many specific situations.** The fact that international practice has developed several usages (more or less objective) in calling professional judgment in assessing materiality it proves that it takes these levers/directions.

We consider important that such guidance is found in IAS 1. ***These guiding do not restrict freedom of judgment, but provides a foothold for a qualified approach of the problem***. This should be considered in the context of reasoning about materiality depending on the specific circumstances of each case. An amount deemed insignificant in a situation may be significant otherwise. Therefore, the judgment of materiality must take into account the nature of the item, its value and its share in total assets, income, liabilities, costs, size of business entity and other appropriate indicators. Also, **the requirements of materiality and aggregation have an impact both on the presentation of financial statements and the accounting processing targeting relevant information as possible (overlapping or not the values by highlighting aggregate or their value).** *We find that the use of materiality helps to simplify the processing of accounting information, but great care must be taken to the results obtained, and how useful they are for all users in the proposed format.* But in applying the concept of materiality one cannot go solely on **the quantitative aspect**, it implies **a qualitative aspect** as well**.** For example, in terms of quality, materiality should be considered when there are presented the accounting policies in the notes when an incomplete or incorrect presentation can lead to misinterpretation of these policies. Another example is the qualitative approach, and that when a line item includes structures considered important values, its components are detailed in the Notes to the financial statements.

If we extend the notion of significant research and other standards for presentation of financial information, another standard is **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.** Under IAS 8, a significant statement is made about significant errors in previous periods later discovered in the current period to be corrected retrospectively in the first set of financial statements authorized for issue after their discovery. Significant error correction is made retrospectively by restating the comparative amounts for the prior period presented in which the error occurred, or if the error occurred before the earliest prior period presented, by restating the opening balances of assets, liabilities and equity for the earliest prior presented period.

Another standard that focuses on the concept of materiality is **IAS 10 Events after the Reporting Period**. The rule requires that events after the balance sheet date are disclosed if they are of such importance that their failure would affect users' ability to make assessments and take decisions. For such significant events shall be disclosed in the Notes, the nature and an estimate of the financial effect of this significant event. We give some examples of such events: announcing a plan to discontinue an operation, start implementing a major restructuring, significant changes in asset prices or foreign exchange rate, changes in tax rates, tax laws – all these events occurring after the balance sheet date. Setting new rules is part of the standards that make direct reference to materiality, but if you look at all the rules, you can say that whenever the application is free of judgment there is the need to determine a threshold for significance.

The **national accounting regulations** – as evidence of Romanian setters's concern near international accounting referential requirements, have the concept of materiality treatment. This is the argument based on the following findings. Thus, both IASB Framework and *the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements* present the concept of materiality as a component of qualitative characteristics of financial statements, information relevance. The definition of significant information is the same as that seen in the IASB Framework, and IAS1, IAS 8, depending on the consequences of its omission or inaccuracy on the economic decisions that users take based on the financial statements. Also includes the significance of an item taking into account the nature and size of the item.

From the study we find out *that no standard provides a quantitative threshold or limits the approximate appreciation of what is considered significant*. The financial analysts proposed, in assessing the value of information, the use of a significant number of indicators for profitability, solvency, and liquidity. In the usual practice, is more common to report the value of the item to the total group to which it belongs. Based on the assessments of significance offered by different analysts, in the international accounting practices have been developed several usages, adopted by the majority of the literature. Bibliography referred to some of these works. We present these routines used in practice, in assessing the significance of the value of information in Table no. 1.

Table no. 1. Quantitative threshold limits in assessing the significance of an item

Quantitative thresholds limits	Assessing the significance of the item
For element values <5% of a representative indicator	The element generally considered insignificant
For element values ≥ 10% of a representative indicator	The element generally considered significant
For the element values in the range [5%, 10%) of the value of a representative indicator	The element generally considered significant

Source: Author's own work

We find that the usage limits propose quantitative thresholds. However, ***we believe*** that such quantitative limits are to be applied carefully to each case, and not easily generalized.

For a more realistic *believe should be taken into account the qualitative factors*, the degree of risk faced by the entity, the nature, frequency element, possible long-term effects, the cumulative effect if similar elements etc.

1.2. **Compensation and Offsetting Principle**

Compensation and offsetting principle is another principle that should be taken into account in the preparation and presentation of financial statements. We note that no accounting referential explain what these terms mean.

The definition of offsetting principle is universally expressed in all accounting reference except the Fourth Directive, and it is: "*the compensation*

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of assets with liabilities or income with expenditure is not accepted", with some exceptions. Understanding the meaning of the contents principle tends to limit the compensation to deduct debts from assets, net revenue expenditure.

The Fourth Directive among valuation rules (principles of accounting referential other than valuation rules are equivalent to the Directive) provides no reference to offsetting time.

In the accounting literature, there are opinions that the rule of evaluation from the Directive "components of asset and liability items must be valued separately" is very close to the offsetting principle of international reference.

Further information is considered necessary to define the concepts. This separation of concepts is evidenced in the national referential by *1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements* that deals with **two distinct principles**, *the offsetting* and *separate evaluation of assets and liabilities.*

IAS 1 Presentation of Financial Statements allows exceptions to the offsetting principle in cases where an International Accounting Standard permits or requires such compensation. IAS 1 explains *the effects of compensation in cases of comprehensive* income or financial position or profit and loss account if is presented separately, by reducing the ability of users to understand the conditions under which these transactions took place, by decreasing capacity of the entity's future cash flows. IAS 1 specifies that the decrease in the value of assets impairment of inventories, accumulated depreciation, the value adjustments to receivables are *not cases of compensation.*

From the study we find out that netting accounting standards permits exceptions to a set of standards that we want to highlight. Thus, **IAS 18 Revenues** *allows the following exceptions*: presentation of sales revenue at the fair value of the consideration received, net of trade discounts granted by the entity; presentation of gains and losses on disposal of assets by deducting from the proceeds on disposal the carrying amount of the asset and the costs for sale.

Another exception to the offsetting principle found in **IAS 11 Construction Contracts** on reporting payments related to development work on long-term construction contracts. Under this standard, such payments and advances may decrease the value of the construction works being carried out, but can present additional information: values deductions and advances received, the aggregate amount of costs, profits recognized on the balance sheet (*exception to the offsetting principle of payments reporting about the progress of work on long-term construction contracts specified by IAS 11 Construction Contracts*).

Another standard excuse for the offsetting principle is **IAS 20 Accounting for Government Grants and Disclosure of Government Assistance** – allowing deduction of subsidy for active asset's carrying value. The grant is recognized as income over the life cycle of a depreciable asset by reducing the depreciation charge.

The offsetting principle that must be respected by **the Romanian companies** in financial statements is set out on the same core found in international referential, but with some features of the Romanian specialists. If international reference links to certain elements in certain situations (different set of standards) their degree of significance, this is not specified in the content of offsetting principle. **OMFP no. 1802/2014** allows eventual compensations between receivables and payables, but compared to the same entity, which can be made only after proper accounting for revenue and expenses.

We believe that, without further information on situations in which may be allowed such compensation, and the law makes no reference to the significance of the elements of claims and liabilities of their offsetting, **the national reference system provides incomplete data in defining this principle and must take into account preparatory financial statements**. An improvement in principle, but insufficiently, was made by the Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial *statements* by adding specifications such as: the exchange of assets, the mutual provision of related services operations must be recorded separately in accounting, so no compensation is allowed between them.

Conclusions

In conclusion, **the concept of materiality** in financial statements is recognized and improved by all reference of accounting, and it stands best in the Romanian referential which significantly supplemented this concept in order to get near the international referential requirements.

We maintain our point of view, namely that we consider necessary the introduction of guidance for various specific situations for all accounts. Although accounting practices have developed routines to determine the significance value of a financial statement, we believe that it should be approached with caution and not applied in a rigid and generalized manner, but taking into consideration the size, the characteristics of the entity and the specific situation in which that is, the nature of the frequency of the analyzed element. The impact of materiality principle best reflects the content of explanatory notes, as most items in this financial situation entail application of the both quantitative and qualitative sides.

After analyzing all aspects of **the offsetting principle**, from its definition to the features, details presented by reference of analysis on this principle, **we can argue its importance in preparing the financial statements through the following ideas.** The offsetting principle supports the requirement for full and complete accounting information. Following this principle can ensures transparency of information, thus evaluation and separate accounting record of assets, liabilities, equity, income and expenses. The importance of this principle in financial statements preparation is substantiated by the fact that it involves finding a quite optimal ratio between quality of information and level of detail. It also allows presenting the financial statements and the integrity of relationships with the third parties during the exercise to maintain relationships between physical flows and financial flows**. It is therefore necessary to provide a national reference system as full-offsetting principle.**

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14. *The Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements.*

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GENERAL AND SPECIFIC FEATURES IN REALIZING AN ESSAY IN ENGLISH LANGUAGE – A CASE STUDY OF ESSAY ON ECONOMIC TOPICS

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Abstract

The present paper wants to be a systematic and not only a theoretical approach on essays. This type of writing knows several points of view connecting its form, content, specific features and types, rules to be observed in its writing, structures or styles.

As we know, it implies freedom of composition, originality, associations of surprising images and propensity for aphorism.

We try to frame all its specifications within the economic essay, as economics is a field of exact utterance, where the speaker cannot play with the words and their meaning.

Key words: *personal writing; economic essay; types of essay*.
JEL Classification: Z10

Introduction and Literature Review

The essay is a short piece of writing about a certain topic, realized by a student or an author, with the purpose of being published, according to the definition in B.B.C. English Dictionary [BBC English Dictionary , 1993].

L. Avasilichioaie [Avasilichioaie, 1993] defines the literary essay as a type of notation of the personal observations on the most different themes: philosophical, religious, aesthetics, literary and so on. It is a composition on the base of a literary text where there are developed, in a personal manner, different ideas, starting from different aspects or significances of the literary work.

The characteristics of an essay are: digressive development, reflexive character, it does not belong to the fictional literature, but it can use its specific techniques, thematic diversity, freedom of composition, originality, surprising associations of images, propensity towards aphorism [Avasilichioaie, 2002].

N. Ionică considers the essay as being a free composition where the author exposes, in an attractive form, a personal point of view, on a philosophical, literary, scientific issue [Simion *et al*, 2000].

As we can notice, all the above definitions speak about the same specific features of the essay, elements that make it different from other literary species.

The philosophical or literary essay, with its specific open form, has an illustrious tradition during the last three centuries: Fr. Bacon, J. Locke, G. Leibniz, F. von Schiller, W. Goethe, M. de Montaigne, Voltaire and others. It reached its climax in the 20th century, when it is cultivated more than ever by numerous writers bent on philosophical speculation – G. Chesterton, M. de Unamuno – essay interferes with critics, literary history, novel field – M. Proust, Th. Mann, A. Huxley. Within the Romanian literature, the first erudite essay is considered *Pseudokyneghetikos* by Al. Odobescu [Simion *et al*, 2000].

1. **Criteria of Essay Evaluation**

The essay evaluation follows its coherence. Icy Lee presents the coherence in three ways:

– connection between sentences;
– usage of explicit connection means at the level of the paragraph;
– usage of the connection means, such as pronouns or repetitive structures [Icy Lee, 2002].

The coherence includes the following five features:

1) a macrostructure that offers a characteristic and proper pattern for the proposed scope. For example, if the aim of the writer is to narrate, the events are to be arranged in a chronological order. If he proposes a solution to a problem, the structure is the following: a situational model, a problem, a solution, a piece of evaluation. If the purpose is the debate of a controversial topic, one can arrange the ideas so that the both sides of the problem be exemplified, followed by pro and against conclusions for each part [Hoey, 1983].

2) an informational structure that guides the reader how to understand the pieces of information and the development of the topic. Other way, the coherence requires the writer offer the readers first the old and then the new pieces of information [Danes, 1974].

3) the content connection is highlighted by the sentences connections. A sentence is an assertion. The coherence of a text is established through the relations between sentences. For examples, a sentence without support or a sentence that is not explained, developed, becomes a generalisation. In order to reach coherence in writing, it is required that the content of a sentence be explained or the sentence be exemplified. A sentence of the type: *The free of charge transport is good for the commerce of a town* is a sentence without support. A support such as: *The free of charge public transport would be a good thing for the commerce of a town, because people which use it save money they can spend both for needs and luxury* [Kintsch, 1978].

4) the connection at the level of text surface is marked out by the presence of connectors. These means are words and expressions that help establish some relations between sentences and difference parts of sentences: pronouns, conjunctions, lexical connections: repetition, synonyms, antonyms and others [Halliday, 1976].

5) proper characteristics of meta-discourse. The meta-discourse markers help readers organize, interpret and evaluate the information: *so, but, otherwise, without doubt, sure, certainly* and so on [Crismore, 1993].

2. **Types of Essays**

The essay evaluation requires the observing of its specific features and structure. We present the following types of essay: *narrative, descriptive, informative and expository essay*.

The structure of a ***narrative essay*** is the following:

– a short introductory paragraph, general observations;

– suspense: creation of a number of scenes that lead us up to the central incident, each scene sharpening our interest and impatience. Here we meet the description, delicate detail, adjective;

– the central incident: vivid descriptions, short and sharp sentences, striking detail. The reader has to see and hear what is going to happen. It is time for contrast;

– the conclusion: a general observation, like the one at the beginning.

The narrative essay presents us a story or a combination of story and descriptions.

In a ***descriptive essay***, the descriptive elements preponderate over any others. A fact of great importance is the choosing of a central theme around which all the others effects be grouped and subordinated. Once this condition fulfilled, the element of contrast has to be introduced, in order to heighten the interest and avoid monotony. Within this type of essay, detail is an actual element. They enliven the writing. The author also has to pay attention to epithets. They have to analyze all the adjectives they are tempted to use and see if it really enables the object to be more clearly visualized. If the obtained expression was frequently met by the reader, it is common, so it passes through his mind without effect.

The descriptive essay is realized in space, the narrative one in time. In order that the reader not to be lost in endless descriptions and be lacked of suspense, the writer has to skilfully fill in the details so that the big effect not to be lost, but rather reinforced.

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A possible frame for this type of essay might be the following one:

– creation of a general effect. It is a short introduction, expressed through short sentences and simple vocabulary. A unitary effect has to be created in the reader's mind;

– details arrangement: for the beginning a description with definite, concrete details; colours and shapes are to be pointed out, contrast can be used;

– conclusions: the central theme is stressed again and, if possible, presented in a new vision.

The informative essay simply proposes to present a number of actions or deeds. It is considered the less subtle type of essay. They are rare and are generally met within the scientific field.

Its scheme can be the following:

– introduction: the writer brings his personal touch strongly;

– the development of the theme: the main lines of the chosen subject, description of its types, characteristics, what they have in common, the presence of a denominator which will cover all the facts spoken about;

– such an essay has no formal conclusions. A few phrases with personal touch, similar to those in the beginning are recommended.

The globalization of trade – key lines

The keyword in present economics is globalization. The role of the new transport and communication techniques in the circulation of good and services. The market economy spreads its traditional strongholds to the world. Markets become more and more global. Personal opinion about the implications. New entrants like South East Asia countries become major players.

The official rule of the game is free trade that is introduced in regions that used to be under state-run planned economies. The fall of the Berlin Wall and the economic liberalization of China, one of the most spectacular outcomes. Company want to be global, governments are vocal in their advocacy of free trade. Behind the consensus, economic blocks are battling for supremacy. National interests are very much at play. Free and fair competition is to rule worldwide. The role of the states and agencies to

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counteract the interests of multinational corporations and to protect the consumers [Marcheteau *et al*, 2001].

The expository essay. Under this title, all types of essays that describe, narrate, but also try to convince, explain. This piece of prose is very touching; it is more emoting than the others mentioned above; it is the most complex type of essay and the most interesting, of course.

Structure:

– a short introduction, usually a quotation, starting the theme of the whole essay;

– statement of the first attitude: its amplification with concrete details, summing it up;

– considerations of the first attitude: approval or disapproval, reasons, defence of the writer's points of view;

– statement of the second attitude: approval or disapproval, comparison with the first attitude, amplification;

Conclusions: a recapitulation or an unexpected turn.

Are foreign direct investments an instrument of shifting the Moldavian Economy to a superior level of international specialisation? [Dumitru Moldovanu, 2008] – *key lines.*

A country becomes richer or poorer to a large extent depending on the character of the country international specialization. The countries have permanently changed their specialisation type in order to obtain higher incomes. Under the conditions of globalisation the countries may change their type of specialisation under the influence of foreign capital investments. In the vast majority of cases, foreign direct investments pull the host country towards progress. There are cases when they can change a formerly prosperous country into a simple exporter of raw materials. We are still expecting today, but with less enthusiasm, that the foreign direct investments make us richer. Why?

3. **Style of an Essay**

One recommends a simple, clear, direct, vivid style. Rhetoric is not desired, they are to be used with attention, but they may be a progression from the laconic introduction towards the fluent style in the middle section. Exclamation can be used both in the opening and in the middle if the student considers the readers are getting tired. It brings variety. If it is skilfully placed, it offers realism, too. The colloquial note has its great importance in essay writing, as it is the least formal literary species. The reader should have the impression he is engaged in a chat about a subject of interest. The dialogue can be held between the author and a friend or an imaginary stranger. The interjection is an exclamation that consists in a single word, judiciously placed gives the maximum effect. The paradox implies contradiction, it has to be used carefully, otherwise it becomes monotonous. The juxtaposed repetition is also met. The author has to be strict with humour. Every reader has his own ideas referring to what is or is not humorous.

The hand writing has to be neat. An illegible handwriting is to be avoided; it is irritating, but forgivable in a foreign language.

Aristotle said that a piece of work must have a beginning, a middle and an end. Students aiming at writing a good English essay have to bear this in mind [Blackstone, 1965].

Conclusions

It is difficult enough for any people to write correctly in their own language. To realize this, graciously in a foreign language, it is really hard. Why does somebody need for more? could ask a student that writes grammatically correct. It is required more than that. The examiners require a form, a counter theme and its development, a theme for debate and a contrast, elements of surprise and value. The students have to organize their work and make it interesting.

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THE PROCESS OF ADVOCACY IN ROMANIAN PUBLIC POLICY

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Abstract

Influencing public policy in favour of interest groups can be achieved through advocacy associations legally constituted whose mission is to: promote professional excellence in the application of advanced practices of advocacy, strengthen civil society participation in development of public policies and continuously develop policies to private firms. Through advocacy associations can uphold and enforce the values of entrepreneurship and free enterprise. Any resource used in advocacy efforts associations should generate added value and impact, contribute to the progress, development and improved quality of life. Advocacy associations must primarily promote technical and professional skills of advocacy for any civil society interested group with honesty, dignity, mutual respect, transparency and social responsibility in order to strengthen the system of participatory democracy to which they are signatories.

Key words: *public policy; organization; decision making; advocacy associations; lobby.*

JEL Classification: K2

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Introduction

The most popular techniques used in campaigns persuading a public authority by an organization are lobbying and advocacy. Of American origin, the two terms entered in Romanian vocabulary without an adequate correspondent. For this reason, they often face difficulties in definition, especially if they use the comparison.

The ***concept of advocacy*** itself comes from the English verb *to advocate*, which means "to support a cause." In essence, advocacy is an umbrella term that designates organized activism in certain areas. Advocacy means of influencing tracking results – including public policy and resource allocation decisions within political systems and institutions, economic and social.

The ***working definition for advocacy*** is defined as *concrete actions aimed at changing laws and regulations promoted and adopted by public authorities*.

The advocacy campaign is the process of defence of a right which has its counterpart in the Charter of Human Rights and lobbying campaign meant to promote advocacy. The advocacy campaign involves raising awareness and involving them in actions of common interest – taking into account the ability and willingness of citizens to a problem that can be solved in the interests of the community – and is run by activists in advocacy, or organizations such as NGO's.

In other words, **advocacy** represents *a service to the community and is a process that involves citizens in efforts to influence public policy and, hence, to promote social change.* This process has occurred as a result of the fact that citizens have rights that must be defended. Advocacy is a process of information and assistance to decision makers, given that a good decision can be taken only if the correct information is provided.

The *general objectives of the advocacy process* are:

– influencing public policies;

– inform politicians;

– creating links with other organizations involved in this process.

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The *specific objectives of the advocacy process* are:

• focused on legislation and other regulations;

• regulating the unit of measure most relevant to success in an endeavour advocacy;

• if one's actions are not geared towards promoting or removing specific laws or regulations, it is not engaged in an "advocacy campaign".

The ***advocacy community*** gives people a chance to get to know better, to act together and to develop their skills and organizational strategic planning to attract resources and to facilitate networking with different organizations. In practice, advocacy work is carried out by non-governmental organizations whose mission is to represent the community, providing resources that can be used to influence policies that concern the community, and community members understand the process. It is a sensitive area that can create some uncertainty conducting advocacy organizations, which means that these organizations must carry on other activities in parallel as well. There is a tendency for these organizations to not fully engage in the "battle", assuring, thus, credibility, although the advocacy activity provides many opportunities, in addition to risks.

The main purposes of carrying out advocacy organizations are:

• providing services;

• coordinating and holding legislative action;

• supporting professionalism;

• creating opportunities to improve education and professional level.

The main purpose of an advocacy campaign is to create an environment that ensures a continuous quality improvement services, investing in human resources and in developing partnerships.

A successful advocacy activity requires consideration of all the factors leading to the success and experience of the proposed case members in the field. It has provided the number of people who would be affected by that proposal, how many people would suffer and how many could be helped and especially policy makers should be identified that would support the proposed cause. People involved in this process are called advocacy activists. To ensure the success of an advocacy campaign, advocacy activists must meet several requirements:

– to know the law;

– be familiar with legal procedures;
– makers to know whom they are addressed;
– to focus on issues and not on certain persons;
– be opened, realistic, pragmatic, well trained and informed in collaborations;
– assist during the course of the decision making process and during the legislative process;
– be credible.

Associations of advocacy needed to train their members with information and knowledge on the application of the concept of advocacy, stakeholders' analysis, building coalitions, communication in advocacy, media communication, public speaking, formulating position, techniques and sources of documentation, monitoring techniques, developing and implementing advocacy campaigns. Associations of advocacy aim to stimulate the development of public policies in Romania through the intervention of their beneficiaries in order to obtain consensus for change introduced.

1. **About Advocacy by Specialists in the Field**

Associations are those which should lead to a participatory democracy in action, to assist in policy-making, appropriate priorities and level of assimilation of the groups interested in Romania. To this end, the association's advocacy is to put together representatives of Public Policy Units from the ministries with civil society and mass-media in Romania.

Although Romanian law provides the possibility of intervening in the process of public policy-making, non-governmental sector and media representatives remained distance makers. Although **GD no. 775/2005** *on the procedure for policy-making* and **Law no. 281/2013** *a transparency law in public decision* provide legal means of action, the intervention efforts can go beyond formal only if structured civil society adopts rigorous practices in public policy engagement.

Although there are many authors who have discussed this subject in their articles, such as the famous professor **Paul A. Sabatier** in his works:

Policy Change and Learning: An Advocacy Coalition Approach (Theoretical Lenses on Public Policy); *An Advocacy Coalition Framework of Policy Change and the Role of Policy-Oriented Learning Therein*; *Knowledge, Policy-Oriented Learning and Policy Change Advocacy Coalition Framework* or the author **Martin Wachs** in his work: *Ethics and Advocacy for Public Policy Forecasting*, yet there are some drawbacks of the associative environment at the moment.

2. **The Association's Advocacy Role in Adopting Public Policies**

The associative environment in Romania still has the following drawbacks:

• limited knowledge of public policy-making procedures;

• knowledge of ways to involve the poor in public policy;

• limited knowledge of democratic and transparent influence tools;

• distrust of influencing efforts.

At the level of policy and regulatory institutions the following weaknesses are reported:

• lack of rigorous practice of involving civil society in the process of public consultation;

• lack of rigorous public reporting practices;

• lack of know-how in organizing effective public consultation.

And here comes *the role of advocacy associations that have developed mechanisms* that could:

– collect case studies,

– identify impediments,

– finds prejudices,

– assume the role of catalyst for discussions on topics of interest to the community,

– operate at national and local level to create a routine for responsible involvement in the decisional transparency and improve public decision in Romania.

Advantages of involvement in advocacy campaigns by associations of advocacy:

a) *representatives of Public Policy Units*

1. Transparency of public decision directly supports the anticorruption program through the participation of beneficiaries in public policy-making;

2. Policy makers are put in direct contact with segments of voters through their intervention in policy-making that affects them;

3. Policy makers benefit from volunteer expertise and case studies from civil society;

4. Policy makers can directly assess the degree of assimilation and acceptance of civil society on regard of public policies less friendly;

5. The concerned sectors of civil society in policy-making increases public confidence in the legislative act and thus improves image of governmental structures.

6. The citizen shall have the conviction that they participate directly in the legislative process, which will lead to a capital image for policy makers.

b. *For representatives of the civil society*

1. Knowledge of the mechanisms of policy-making gives them an opportunity to intervene, to express support for the amendments and to argue the expert opinions;

2. Civil society will feel part of the legislative process and will more easily accept the compromise;

3. Civil society will not express dissatisfaction with a policy approved if it had the chance to express its views;

4. Civil society will be accountable on the legislative process without the opaque seek for opportunities to influence draft legislation.

c. *For media representatives*

1. Knowledge of the mechanisms of policy-making gives them an opportunity to provide public benefits/disadvantages, pro/cons arguments more accurately and with discernment;

2. Mobilising dialogue through talk-shows, reviews, expert positions supporting public decision in identifying the most suitable solutions for designing and implementing public policy affecting a sector of the civil society.

d. *For the application of the mechanism proposed by the project*

1. Establish a routine of rigorous policy-making by involving stakeholders in the process;

2. Stakeholders' increased confidence on the benefits of dialogue in the initiation of a concept and/or policy design;

3. Generating a rigorous process involving critical mass level by involving other public institutions, think thank sites or civil society;

4. Introduction of best practices in public policy.

3. The Public Policy Process

The public policy process includes all phases which, once completed, lead to final results in solving a problem of public interest. Stages represent different stages of public policies embodied in the asset, through which a public policy issue, from the moment it is detected inside or outside government, is resolved.

The process of creating public policies is complex and involves sizes, mechanisms and various actors in a network of interrelations. Thus, the public policy presents difficulties for analysts who have developed many models of public policy process. The existence of many distinct areas of study in public policy can be confusing for anyone approaching the first. This required an approach for reducing the complexity and one of the most popular means of simplifying the process of public policy is to divide the process into a number of different stages in analogy with practical problem solving logic stages.

Table no. 1. Stages of public policies implementation

Steps of practical problem solving	Steps in public policy process
• Recognizing the problem	• Setting the agenda
• Proposing solutions	• Policy formulation
• Choosing solution	• Decision-making
• Applying the solution	• Policy implementation
• Monitoring results	• Policy monitoring and evaluation

Source: own research

Public Policy Cycle

Public policy cycle is the sequence of steps in the public policy process:

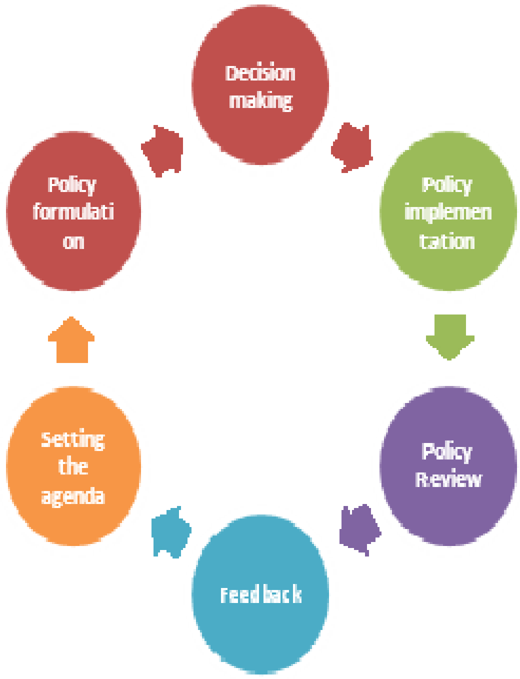

Figure no. 1. Public policy cycle

Source: own research

In this model:

• **Setting the agenda** refers to the process by which problems come to the attention of public administration;

• **Policy formulation** refers to the process by which policy options are formulated in the public administration;

• **Decision-making** refers to the process by which government bodies adopt a particular course of action or non-action;

• **Policy implementation** refers to the process through which the government puts in place policy;

• **Policy review** refers to the processes through which policy outcomes are monitored both by individuals from state structures, as well as those from the civil society.

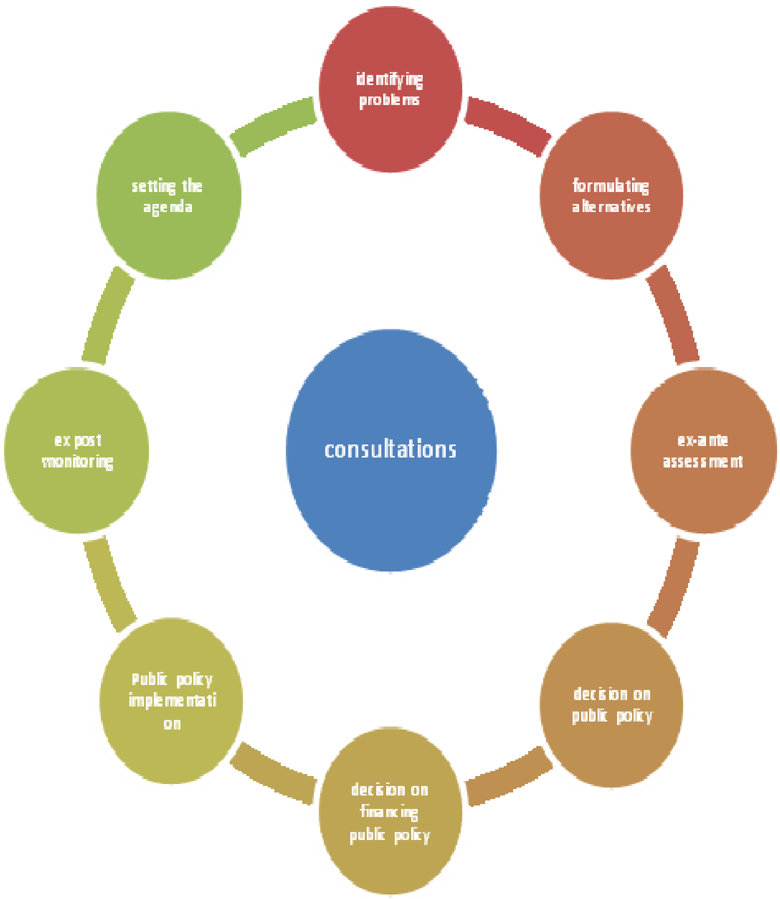

Figure no. 2. The specifics of the policy cycle stages from state structures as well as those from the civil society
Source: own research

Setting the agenda

• Identifying the problem occurs when an event, a person, a group managed to draw attention to a problem, to be solved by the public power intervention;

• Setting the agenda is the phase in which the identified problem is seriously taken into consideration by officials (public and political power). Not all identified problems get on the political agenda;

• Problems that go on the political agenda come from a number of institutions, organizations and NGOs in the field who can take the initiative of formulating new policies or reformulation of existing ones; media is an important source through which problems are reported in a particular area;

• At the same time, ministries and other public institutions have detailed information on issues related to their area of competence, which lead themselves to initiate steps for resolving policy issues that arise.

Policy formulation

• Formulation of the policy environment occurs when a particular issue comes to be considered by officials and someone (a certain authority) develops a program that relates to problem solving;

• They study the causes of the problem and possible ways of settlement. In this stage are identified, defined and selected alternatives that will be subsequently analyzed by comparing the identified problems and possible solutions to concrete targets on the political and institutional agenda;

• The initiators of public policies – either by themselves or with the help of experts – make a preliminary assessment of the impact, so-called ex-ante, which describes both the impact of policy on economic and social processes in the society in general and financial effort burdening the state budget or a number of institutions and organizations involved;

• Practice requires the development of ex-ante impact assessment in at least two stages. The first preliminary assessment is performed to evaluate alternative solutions and concepts should be included in policy documents as evaluating the alternatives. After the policy paper is accepted, the implementation stage often required a second impact assessment when drafting regulations in this field.

Decision-making

• Adopting a policy represents efforts for a program to be adopted as a government program; the persons responsible for making decisions determine which of the proposed solutions is the best and can be implemented in practice;

• The quality of information, the complete array of public policy issues, and structuring clear public policies are crucial to ensure a high standard of decision-making in order to formulate alternatives;

• The role of financing the state budget is very important and should be defined at this stage. Most policies and normative acts adopted by the

Government have a budgetary impact, but when they are adopted, the Government has no information on the resources available for the next budget year, or about the total amount of requests for budget financing from at ministerial level. For this reason, a decision on policy proposals and draft legislation must go through two stages:

- a decision on the new regulatory or public policy,
- a decision concerning the allocation of funding to implement the policy or regulation;

• Normally, the implementation of public policies needs to be planned as a phase of development of public policy document, which defines the important next steps. This first planning does not go into details because that would mean wasting resources if the policy proposal is not accepted. Detailed Implementation Plan should be developed by adopting a policy decision.

Public policy implementation

• It is a critical stage of implementation of public policy. Here the role of government is crucial. Its main tools are: planning, management and coordination, monitoring and evaluating implementation;

• Monitoring is the process of implementing public policy in order to ensure effective implementation and to initiate necessary corrective measures.

Public policy review

• Ex-post evaluation of the impact of public policy is an activity carried out during or at the end of the policy implementation phase. They evaluate the results and identify any deviations from the planned target, exceeding the established limits or costs, etc.;

• The purpose of ex-post evaluation is not only to reveal the errors that were made, but also to recommend the most appropriate solutions for future work.

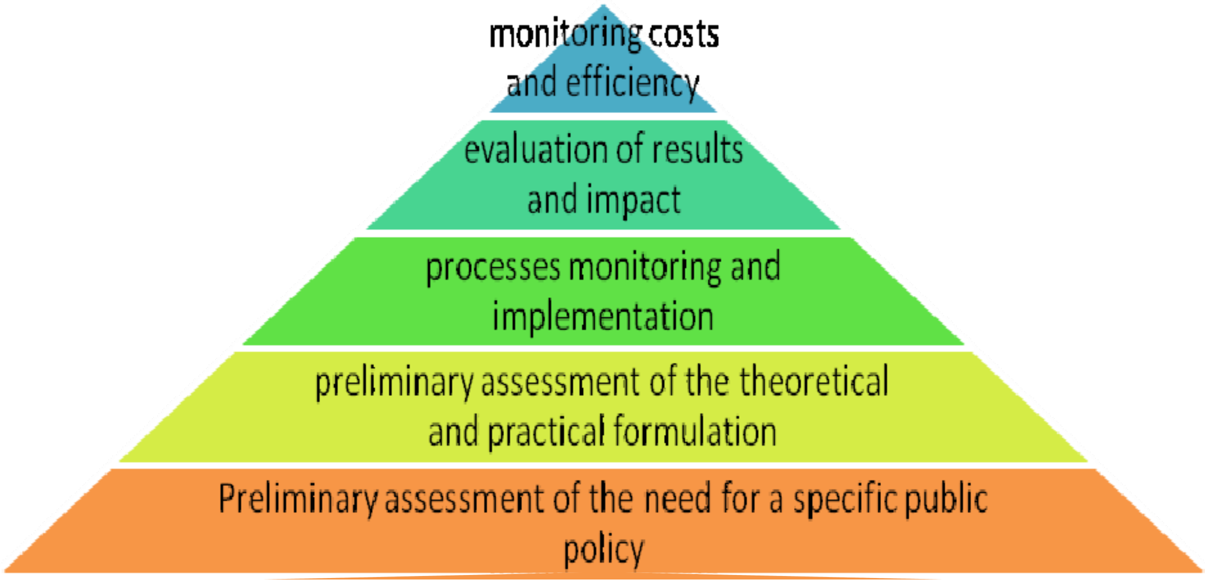

Figure no. 3. Stages of order evaluation
Source: processing after "The hierarchy of assessment'',
Rossi, Lipsey and Freeman, 2004

A breakdown of the policy cycle model is represented by the process model that proposes a division into six stages of the process of achieving public policy, attempting also a group of different activities depending on their relationship with public policy. The result is a sequence of processes in setting specific public policies:

1) ***identify the problem*** – drawing attention to an issue and express request for government action;

2) ***setting the agenda*** (successfully capturing the attention of decision-makers) – decision on issues on the agenda will be found;

3) ***formulation of policy proposals*** – developing proposals to address specific problems;

4) ***registration of policy decisions*** – selecting a proposal; building political support for supporting the proposal; adoption of the proposal by a legislative act;

5) ***implement public policy*** – government organization; an offer of services; establishment of financial resources through taxes or other means;

6) ***the assessment of public policy*** – monitoring the implementation of programs; reporting of results (output); impact assessment (outcome) or suggesting ways to improve the process of public policy adjustments.

These circuits represent theoretical models. Not all policies actually go through all the steps described above. It should also be borne in mind that there is a constant flow of problems. It often happens that during the implementation phase to be identified by monitoring the implementation of new problems which will be subsequently submitted to the entire circuit. Or it happenes that after the evaluation stage some steps to be resumed using other methods to achieve the results initially expected.

Decision-making

Decision-making can be studied from ***several perspectives***, as follows:

• in terms of stakeholders;
• in terms of the criteria used in the decision;
• in terms of administrative procedures used in the decision.

As for the first perspective, individuals are influenced by a variety of factors when making the decision without being able to determine, from a theoretical perspective, the importance of a decision or another.

Public officials often give statements on the decisions taken (speeches, press conferences, testimonies, memoirs, etc.), but the reasons set are either controlled by them or are acceptable by the voters or by the public, the real fundation remaining most of the times unreported.

In the literature are some ***criteria that influence public policy***, such as:

• values;
• affiliation to a political party;
• voter's interests;
• public opinion;
• admiration and decision rules.

a. ***Values.*** Typically, these values are circumscribed to a generic category of public interest and were classified as presented below.

Institutional/organizational values influence bureaucratic makers in particular. Any person working for a long time in an agency/organization invariably becomes convinced of the importance of the agency, its goals and programs. The system of rewards and sanctions prompted its members to promote and act in accordance with predetermined values of agencies/organizations. Accordingly, the decisions taken by officials may be a reflection of their desire for the survival of the Agency, to increase its budget, to extend its programs and preserve its power and prerogatives. Organizational values can give rise to conflicts between agencies with overlapping or competing functions.

The values of professional staff in the agency. The professions tend to shape trends in the way of solving problems that are subsequently "imported" by the organizations. Some organizations end up being dominated by one or two professionals such as economists (followers of efficiency and market participants) or lawyers (advocates of government through legal regulation).

Personal values guide decision-makers as well as the desire to promote their own material or financial interest, their own reputation or position. For example, the politician who accepts to be influenced to decide in favour of pursuing a personal interest. The importance of personal values cannot be denied, but rational decision exaggerates when theorists suggest that the behaviour of public officials is solely determined by personal interests.

Policy values. Policy makers are influenced not only by personal, professional or organizational interests they may as well can act according to their own vision on the public interest, about what constitutes a correct and necessary public policy. Law-makers can vote in favour of legislation on the protection of human rights as they are convinced of the morality of the decision and that equal opportunity is a viable public policy objective, even if such a decision would jeopardize their political career.

Ideological values. Ideologies are a set of beliefs and values related to coherent and logically simplified versions of reality that show and provide action plans. Marxist-Leninist ideology was for the communists, at least in part, a way to rationalize and legitimize official public policy. We identify elements for liberal or social democratic ideology in different types of policies. Their doctrines lay the foundations of attitudes and different policy options in terms of state intervention for disadvantaged people, workers, minorities; protecting civil rights and liberties, the environment and consumer rights.

b. ***Joining a political party.*** Party loyalty is a strong decision criterion for most members of parliament, although this type of influence is difficult to separate from other factors such as pressure coming from the party leadership or ideological beliefs and interests of voters in their constituency. Joining a political party is a good indicator of the voting members of parliament. Areas of interest of the parties ranged as interest and importance. However, in many areas a strict definition based on doctrines of political parties is impossible – public works, medical research, international trade are just a few examples. In addition, members of both parties tend to promote those projects generating benefits for the areas in which they were elected (e.g. official site buildings, construction of dams or highways).

c. ***The interests of voters***. In some cases voters' interests are clearly defined. But in many cases, it is difficult to determine the voter’s preferences. In the last instance of public policy direction is given by the heads of political parties, according to the system of values promoted by the party concerned. Public officials and their appointees may act as a representative. Agencies have developed relationships with interest groups and promote their interests in public policy formulation and administration. Some commentators have even claimed that, in reality, administrative bodies could be better than the particular interests of certain groups than elected officials.

d. ***Public opinion.*** Public opinion is represented by the way of perception or point of views of the public on issues/situations of public policy that officials are considering in making decisions. Public opinion can be expressed in many ways – including open letters between officials or the press, public meetings and demonstrations, editorials, election of results, rallies, referenda etc. Most commonly, however, public opinion is reflected in the results of a survey applied to a representative sample of the population.

4. **Proposals to increase the involvement of civil society in the elaboration of public policies**

Firstly, the legal framework must be ensured in order to increase the efficiency of the public consultation and public policy. Nothing in the current law makes reference to the draft policy documents, but only to draft laws, which are actually tools for implementing public policies.

Proposals for improvement:

1. A first proposal to improve the public consultation process in public policy is *to extend the application area of specific legislation transparent decision-making process and the involvement of civil society and the process of drafting, consultation, approval and adoption of draft policy documents.*

2. A second proposal to improve the public consultation process in public policy is *to facilitate monitoring and evaluation process of policy-making from the perspective of civil society*. Another proposal to improve the public consultation process in public policy aimed at *transparency of the process of drafting, consultation, approval and adoption of the public policy draft* after the model carried out by the sites of Romanian Parliament Chambers.

3. A third proposal to improve the public consultation process in public policy is *to extend the transparency of the process of drafting, consultation, approval and adoption of a document draft of public policy by supplementing the database of public policies.*

Conclusions

The premises of a real, coherent and efficient public consultation require the filling of **public policies database** built and managed by the General Secretariat of Government with ***information and documents*** such as:

- public consultations conducted by the proponent, in the framing of the draft policy document, with features such as on public consultation, participants,

Minutes of the public consultation;

- comments and suggestions gathered from civil society in the framing together with explanatory note regarding their taking or not;
- designated ministries and public authorities to be consulted, the consultation periods involved;
- legislative route map, with timelines;

- legislative route to be travelled with the corresponding deadlines;
- observations and suggestions made in the consultation stage;
- public consultations held during the legislative route, with features such as on public consultation, participants, minutes of public consultation;
- starts public consultations to be held during the legislative route;
- date of the inter-institutional meeting, if any, related minutes;
- date of the permanent ministerial council, if any, related minutes;
- all documents accompanying the public policy draft document, namely:
  - written views collected from designated ministries and public authorities to be consulted;
  - statement of objections;
  - statement of objections updated;
  - written views collected from representatives of the civil society;
  - explanatory note regarding the takeover or not of the proposals and suggestions of civil society;
  - opinions of ministries and public authorities consulted;
  - the final version adopted of the public policy document.

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Book Review

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GEOGRAPHICAL LABOUR MARKET IMBALANCES
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***Chiara Mussida** received her B.A. and Ph.D. in Economics from Università Cattolica del Sacro Cuore (Piacenza and Milan) in 2005 and 2009, respectively. Between 2006 and 2007, she also studied at the University of Sussex (Brighton, UK), where she obtained a Master of Arts in Development Economics (2007). She also collaborated with national and international research centres. She is an Assistant Professor at the Department of Economic and Social Sciences, Università Cattolica del Sacro Cuore (Piacenza), since December 2012. Her research interests include labour economics and microeconometrics.*

***Francesco Pastore** is an Associate Professor at Department of Law, Seconda Università di Napoli and a research fellow of the IZA of Bonn. In 2013, he qualified as full professor of Economic Policy in the national habilitation system. He is a member of the executive board of the Italian Association of Labour Economists (AIEL) and of the Italian Association of Comparative Economic Studies (AISSEC). He earned a Ph.D. in Economics at the University of Sussex, UK. He has acted as a consultant for the International Labour Office, the United Nations Development Programme and the World Bank, among others.*

The book, entitled *Geographical Labour Market Imbalances,* represents a collective volume of outstanding scientific papers concerning regional issues, which were presented at the XXVII National Conference of Labour

Economics organized by AIEL (Italian Association of Labour Economics), the Department of Law of Secunda Università di Napoli and the Departments of Economic and Social Sciences of the Università Cattolica del Sacro Cuore (Piacenza), 27-28 September 2012.

Through the contributions included in the book, the editors focused on debating important and actual topics, such as: the reasons why structural change causes a slump in some regions but not in others; the extent to which agglomeration factors explain regional imbalances; the degree of convergence/divergence across EU countries and regions; the role of labour mobility in reducing/increasing regional labour market imbalances; the impact of EU and country-level regional policy in stimulating convergence and the (unsatisfactory) role of active labour market policies in stimulating labour supply in the weakest economic areas. By objectives, by methodological approach of structural imbalances on the labour market at a regional level and of the factors causing them, in a static and dynamic way, in the context of data analysis in the panel, in order to identify those regional policies that lead to the convergence of the key indicators of the labour market, the study is new, enriching the specialty literature.

The book comprises 16 chapters structured in 4 parts: Determinants of Regional Unemployment; Agglomeration Economies; Differences in Human Capital and R&D and Regional Policy.

The first part of the book includes analyzes concerning: an overview of the existing literature on regional unemployment differentials; the link between unemployment and worker turnover; determinants of regional unemployment differentials in Germany in a spatial panel data context; cross-regional wage differentials in one of the largest countries in the world, Russia and convergence of wages in Kazakhstan using a panel of regions (NUTS3 level). Starting from the ideas of neoclassical models that regions with high unemployment are characterized by supply-side constraints and institutional rigidities and that wage flexibility and the ensuing mobility of production factors as means of adjustment and convergence, the book is looking for answers and solutions to mitigate the deepening/persistent regional differences in labour market.

The second part focuses on the New Economic Geography approach to regional economic development and, indirectly, labour market imbalances.

Analyses included in this part refer to: effects of many factors, i.e., the presence of an industrial district, the level of productive specialization, the degree of sectoral diversification, the population density, the level of local competition, and the average firm size, characterizing the local industry structure on employment growth in Italy; influence of agglomeration externalities and spatial spillovers on the production process of Italian regions and uneven distribution of innovation among geographical areas.

The third part focuses on new determinants of regional unemployment, such as the location of innovative economic activities, sectors with a higher investment level in R&D, and which are likelier to attract direct investment from abroad. Subjects covered by this part: business services as an important component for the country's competitiveness as a result of the direct effect on the economy but also for their impact on manufacturing; empirical study of the patenting propensity at the European regional level, in order to depict the existing territorial differences in productivity levels and the structural changes in some sectors; education as a key factor, directly or indirectly of migrants' integration; the enrolment decisions of Italian secondary school graduates related to the cost of participating in higher education explicitly considering tuition fees and the cost of moving to other locations; globalization and female employment in OECD countries.

Part four focuses on three intervention policies: the EU structural funds, the program for self-employment, and macroeconomic policy. The first two chapters provide a range of methodological tools for policy evaluation, which are important for the development of an evidence-based regional policy. The third chapter contains a suggestion which is useful for policy makers, namely to measure local GDP by using regional PPP deflators in order to catch the impact on wage differentials of local price dynamics.

The second and third parts have a high novelty character through the topics discussed, namely: the role of agglomeration factors, of R&D, of foreign direct investment, and of human capital accumulation. The papers presented have broadened the spectrum analysis of the factors that lead to regional imbalances in the labour market and the methods of analysis using spatial econometric analysis.

The papers included in the book are addressed in connection, in a holistic and logical chain trying to cover as many regions and issues. The

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chapter's authors, with skill and understanding, succeed in clarifying relevant and actual issues of the regional labour market and present them in a clear and accessible way without charging or overwhelming the reader with specialist terms. The value of the knowledge from the book is enhanced by the balanced presentation, through a multidisciplinary and multidimensional screening, which combines economic analysis, with the social as well as politic sides by utilizing the relevant statistic, econometrics instruments when presenting a certain event.

The spectrum of readers to whom the book is addressed is large, due to valuable scientific contribution that open the interest in broadening the horizon, making decisions in the labour market, thus, making it possible to realize them on a higher level in future research.