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## **THEORETICAL APPROACHES OF BIO-ECONOMIC PERSPECTIVES FOR ROMANIAN ENTERPRISES**

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**Abstract:** *Some scenarios show that in the near future competition will increase regarding the use of land, water and biological resources as the effects of climate change, population growth, migration, economic and policy trends. The mature and sustainable Bio-economy, under development worldwide, must offer global food security, improved nutrition and health, to create smart bio-based products and biofuels, to help agriculture, forestry, aquaculture and other ecosystems to adapt to climate change. The bio-economy concept represents „a vision for the future society” to become less dependent on fossil resources and to provide energy and added-value products. For Romania’s economy this new approach can be a path to economic development for many sectors. Therefore, the objectives of this study are to identify the main bio-economic sectors for development of new or existing enterprises in Romania. This paper provides an overview of the bio-economy in Europe, and the benefits of it, and, we try to identify how the bio-economy can contribute to a sustainable development of enterprises in Romania. The method used was to identify and analyze the best practices used by countries that have a national strategy for the bio-economy sector and started the development in this field.*

**Keywords:** *bio-economy, bio-economy in Europe, best practices in bio-economy*

## Introduction

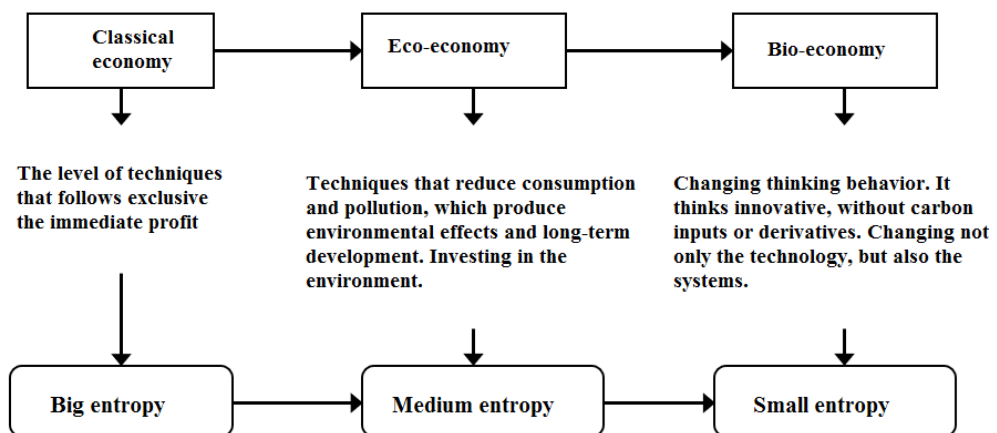
Academic, bio-economy is an economic theory developed by Nicholas Georgescu-Roegen in the early 1970s. In his view, is underlined the biological or “natural” basis of all the economic processes and hence of the human processes that led to the exhaustion natural resources of the planet.

It should be borne in mind that bio-economy should not be confused with the ecological economy, a separate discipline, and it is in full development to. Bio economy is an ancestor of it and it is necessary to be sought in earlier times than eco economy (Elodie G.T., 2013).

The Explanatory Dictionary (DEX) of the Romanian language offers a shorter definition and, in our opinion, incomplete. We quote: “*Bio-economy is the science that studies the economy of nature, of the biosphere. A science that studies the economy of society, as well as its effects on the biosphere.*” The same DEX does not provide any definition for the green economy or the eco-economy. In the view of the European Commission and the OECD, bio-economy is presented as “*a set of economic activities related to innovation, to production development and the use of biochemical products and processes.*” The new strategy, developed inside the *Bio-economy project*, proposes, in the view of these institutions, the use of research and innovation to achieve the transition of our current carbon-based and other fossil-based economy towards a green, carbon-free and sustainable economy.

In our opinion, the shift from the classical economy to the bio-economy is done through eco-economy (Figure 1).

Figure 1: Model of bio-economy appearance



Source: authors



In the European Union vision, the term or concept of bio-economy implies an economy that uses biological resources from the soil and sea as well as waste as raw materials for food, animal feed and for industrial and energy production. It also includes the use of ecological processes for sustainable industrial sectors. For example, bio-waste has considerable potential as an alternative to chemical fertilizers or for conversion to bioenergy and can contribute to 2% of the EU's renewable energy target (Jennings, M. and Wcislo, M., 2012).

This statement cannot be accepted as a definition because he does not actually say what bio-economy is. On the other hand, the author commenting on the term confuses bio-economy with eco-economics, as dynamic processes such as those presented above, whereby from the left to the right there are strong transfers of knowledge of information, as a result of the research and innovations required on the whole process of transformation.

From a biophysical and economic point of view, the dynamic movement towards the bio-economy is carried out in accordance with the principle II of thermodynamics and entropy law. No other laws need to be invented, as is the case of many authors, probably mistranslated in Romanian - see the law of optimality, inappropriately formulated and incoherent, in which context many words are not found in Romanian dictionaries (Ghereș et al., 2010).

Based on these findings, we thought to provide the following definition: bio-economy is a particularly important science, which involves the theoretical reformulation of the concept about the human good, through the educational change of thought behavior on research and innovation, the implementation and development of an economies in which both material and energy resources do not involve fossil carbon and where all processes related to human life (economy, culture, health, consumption) are integrated with the environment.

The bio-economy requires a new way of life, in which the order of nature is found in the economy, the two functioning as a unitary one, in favor of man and nature. Respect for life will become an equally important phenomenon, both for man and for the rest of non-anthropoc living creatures.

Solar energy is the only form of energy that makes life possible on Earth. In contact with the inorganic medium, solar energy induces a large amount of entropy, according to principle II of thermodynamics.

The bio-economics has the task of researching the relationship between solar energy and the living environment, especially the green living environment (plants), the only one that reduces entropy and stabilizes the sustainable order for the continuation of life on Earth and human good.

## 2. Good practices regarding bio-economy in the developed countries of Europe – Germany

In 2014, the German Federal Ministry for Food and Agriculture managed for the first time to develop an own view of the bio-economy transformation of own economy. The term used was a bio-based economy (BMEL, 2014).

The concept of bio-economy is defined as a natural substance circuit, covering all economic areas, renewable resources (such as plants, animals and micro-organisms), as well as their products, manufactured, processed and used, ie brought to the commercial field. In the category of inputs enters:

- raw materials extracted from agriculture, forestry, aquaculture and fisheries economy;
- productions obtained with help of microorganisms;
- substances from the residues and residues of biological origin (food, fermentation drugs, etc.).

In addition to the use of these natural substances - raw materials, some biomass obtained sustainably, with a renewable energy source, are used in a cascade of uses to close their natural circuit.

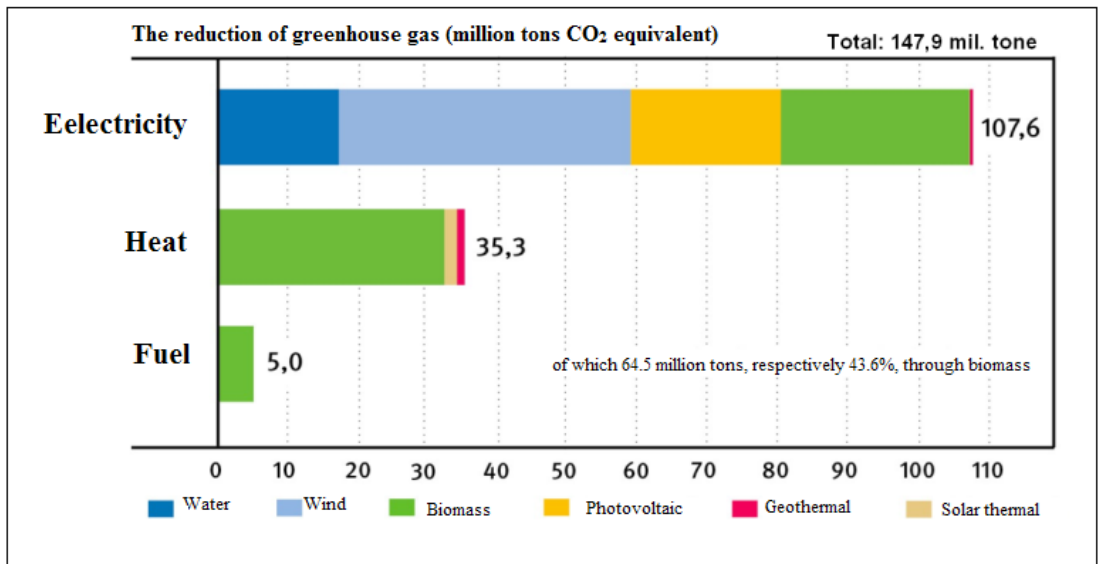
Renewable substances, by definition, are products obtained from the trophic chain, starting from photosynthesis but not interfering with the production of food. The substances, the renewable raw materials, are produced on an area of 2.3 million hectares in Germany, ie 20% of the German agricultural land. In addition, another 11 million hectares, or 33% of Germany's surface, are occupied by forests that produce wood for both of the industry and energy production too.

Today and in the future, from these renewable photosynthetic substances can be obtained:

→ <b>Bioenergy</b>	- electrical current; - hot water; - steam; - fuels; - biogas.	Today, 30% of Germany's energy needs (Fig.2 and Fig.3)
→ <b>Chemical industry</b> (Total: 21,619 million tonnes, of which 2,719 million tonnes renewable, 18,900 million non- renewable)	- fats and oils; - starch; - sugars; - cellulose; - drugs; - other industrial uses.	2.719 mil. Tonnes, is about 13% of the total (Fig. 4)

<p>→ <b>Wood industry</b> Forests area = 11.4 million ha = 31.4%</p>	<ul style="list-style-type: none"> <li>- construction timber;</li> <li>- shell;</li> <li>- by-products from the saw;</li> <li>- wood for industry;</li> <li>- old wood;</li> <li>- other wood-based substances.</li> </ul>	<p>The balance of wood at the level of 2010 is shown in Fig. 5.</p>
<p>→ <b>Industry of:</b></p> <ul style="list-style-type: none"> <li>- plastics biomass;</li> <li>- bio advertising;</li> <li>-traditional,</li> </ul> <p>(woodworking workshops)</p>	<ul style="list-style-type: none"> <li>- natural fibers obtained from different plants - hemp, linen, jute, kenaf, sisal, abaca.</li> </ul>	<p>45.000 tonnes in the automotive industry</p>

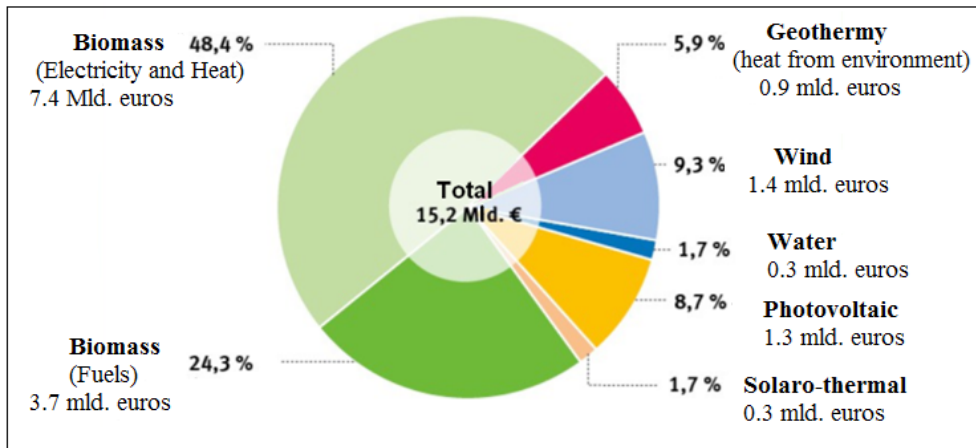
Figure 2: Reduction of greenhouse gas by using energy from renewable raw materials



Source: FNR, 2014

The total turnover of the companies producing bioenergy amounts to € 15.2 billion in 2013. The largest amount of money was obtained by using biomass (Figure 3).

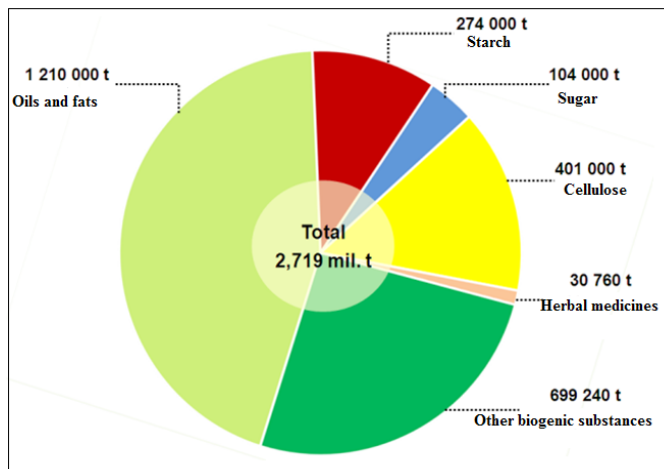
Figure 3: Turnover achieved by renewable energy companies in Germany, 2013



Source: FNR, 2014

Fossil substances continue to play an important role in the German chemical industry, with 18,900 million tones out of a total of 21,619 million tones, meaning 87.4%. Renewable products have won ground, being used in the chemical industry at 12.6%, meaning 2.719 million tones (Fig.4). Importantly is the fact that the food and medicine industries use large amounts of renewable substances and energy.

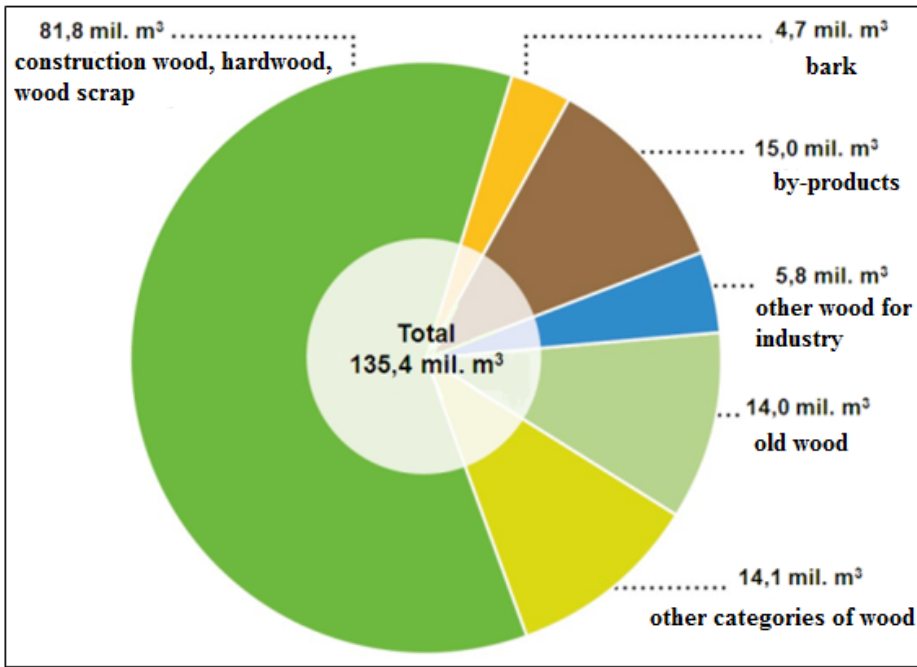
Figure 4: Quantities of renewable substances used in the chemical industry in Germany, 2011



Source: FNR, 2014

The wood industry is present in construction, energy, chemical industry (ethanol, methanol), furniture and others (Fig.5). Germany has an impressive force to restore forest resources, with very strict rules on cutting and rebuilding forests following these actions.

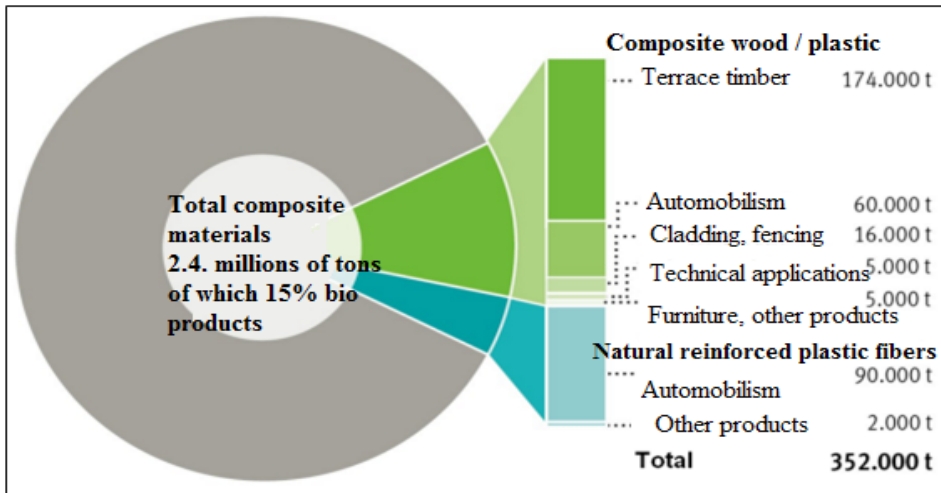
Figure 5: Wood Balance in Germany, 2010



Source: FNR, 2014

Substances which play the role of substitutes of the specialty plastics represent 2.4 million tones at European level, of which 15% are realized using bio-based procedure, means 352,000 tones. It is the automobile industry that has taken over the use of these new bio-economy products (Figure 6).

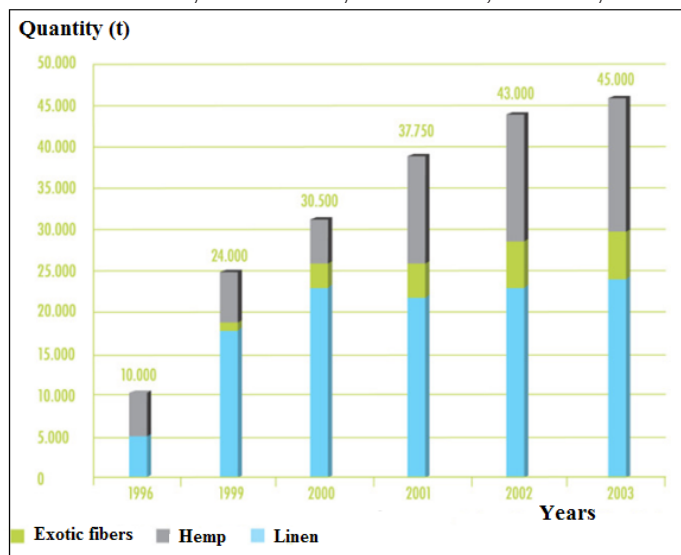
Figure 6: European production of bio plastics, 2012



Source: FNR, 2014

The total of natural fibers used in German industry amount to 88,000 tons only for cars and trucks. Total of natural substances as a substitutes of plastics, 160,000 Tons. It is also an intense concern of Germany for the replacement of fossil hydrocarbon fibers (Figure 7). The total amount of binders in Europe in 2014 was 2.4 million tones, of which 15%, means 352,000 tones, on a biological basis.

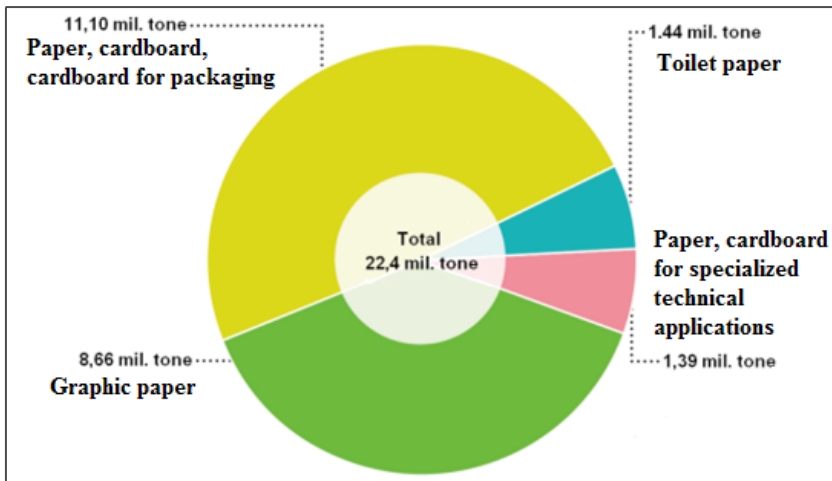
Figure 7: Quantities of natural fibers replacing those result from the chemical synthesis of hydrocarbons, Germany 1996-2003



Source: FNR, 2014

Paper can only come from the biological environment. Raw material doesn't requires only better utilization, that means the increasing the value index of utilization, in order to achieve the same benefits for people, with less inputs. The transformation of the paper industry, its migration to bio-economic space, refers to other inputs, especially to energy and biomass and pulp processing aids. In this area and Germany has much to do (Fig. 8).

Figure 8: Products of the paper and cardboard industry in Germany

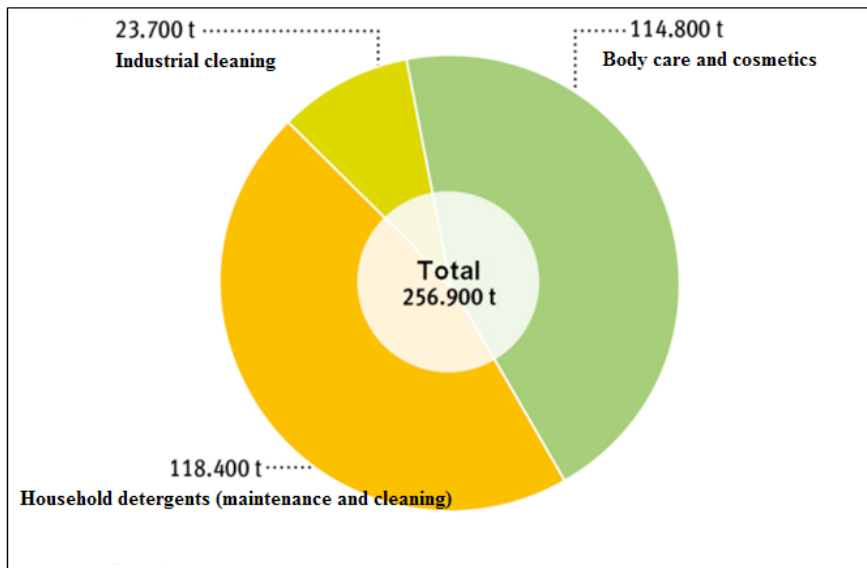


Source: FNR, 2016

The diversity of using vegetable fats in the lubricant industry is much higher than other types of oils, and advancing to the bio-economic category (of biological origin) is much faster. In 2011, the total oil market in Germany was 58,000 t, of which 30,000 t were easily degradable, meaning 52%, while the remaining 48% was NawaRo provenience (*Nachwachsende Rohstoffe*) exclusively - from renewable materials, which received a 25-50% bonus from the German government.

The total amount of surface active agents (tensides) is much higher today (around 600,000 tons). In the German economy, there is a good practice to reduce the tensides of petroleum origin and replace them with biological strains, especially from plants. In 2011, they amounted to about 256,900 tons (Figure 9), and are in a fast growing trend.

Figure 9: Use of active surface agents with biological bases in Germany, 2011



Source: FNR, 2014

We presented some of the Germany programs and strategies, which through an applied education at all levels has already succeeded in imposing bio-economic technologies at the level of obtaining goods and services, after highly elaborate researches, studies and innovations. Germany invested a lot of money and resources (€ 2.4 billion in 2011-2016) in the formation and orientation of the local human population towards the creation of bio-economic skills.

Growth, together with stability and human-nature sustainability, offers the current form of bio-economy that has begun to take shape and which, at least in Germany and in many other European countries and not only (Denmark, Finland, Sweden, partly Austria and France, Australia, Canada, Japan) have begun to get a good shape. The most sensitive branch, which sustains all the bio-economic activities, is energy, although the Sun is with us and provides for thousands of years more energy than human society needs until its disappearance. Extremely of many scientists warn about the use of bio-economy as a very possible system of human reintegration, into nature and of restoration of old flows (Wagner, H.G., 1997).



## **Conclusions**

Bio-economy is creating growth and diversification for economy, especially in rural areas. Growth will only be achieved through research and innovation. It should, however, attach the utmost importance to education as a key factor in changing the mentality of the population, and the level and quality of research should be clearly defined.

Bio-economy can help society to find sustainable solutions to resolve the current turmoil of mankind, namely: food security; deficit of natural resources; dependence on fossil resources; climate change; the sustainability of system growth.

Bio-economics is based on life sciences - biology, agronomy, ecology, nutrition, social sciences, biotechnology, nanotechnologies, info-technology, communications and engineering.

Bio-economic production can only be achieved in a healthy environment consisting of robust, diversified and solid ecosystems. Agro-ecosystems are required to be smart and sustainable. Europe will produce the same consumer products with fewer natural biological resources. Natural resources will be exploited below the limit of their regeneration.

It is also necessary to draw up projects, respectively consumption programs, based on a new mentality, namely bio-economic education. In the same direction, transport, distribution, marketing and management programs will be developed. Throughout research and innovation, all vulnerabilities in supply, as well as market volatility imposed by current consumption, based on carbon sources and fossil energy, will be eliminated.

The production of bio-economic energy will take place through the use of natural resources, and a particular emphasis will be placed on reducing CO<sub>2</sub> and other gas emissions, and the scientific development of a system of incorporation into the soil of excess carbon dioxide in the form of humus, to reduce the effects of greenhouse gases and climate change, but also to increase soil fertility and restore natural balance in agro-ecosystems.

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## DISCUSSIONS ON THE REGULATION OF THE LOCK-OUT IN THE ROMANIAN LEGISLATION

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**Abstract:** *The lock-out, which represents the employer's right to react in the event of an illegal strike by employees by the closure of the unit, is not regulated by Romanian labor law. This problem it is not regulated at the level of the European Union, and at the I. L. O. given the sensitive of the subject. It is desirable to analyze the usefulness of this labor law institution under the internal law. In the legal doctrine, a series of proposals were made for the introduction of lock-out within the Romanian law system, but this did not happen, the lock-out not being included in the draft of the law on social dialogue initiated by the Ministry of Labor and Social Justice together with the trade union and employers' confederations in January 2018. In this study, we will refer to the usefulness of introducing the lock-out into the Romanian legal system.*

**Keywords:** *labour legislation, lock-out, employers' rights*

**JEL Classification:** K31, K35, K30

### 1. Introductory aspects

Lock-out was defined as a temporary measure adopted by the employer correlative to the strike or the intention to trigger a strike known as “employer strike” and which consists in the total or partial closure of a unit in order to force the employees to accept certain conditions, such as giving up the strike, claiming salary increases, limiting trade union rights, etc<sup>1</sup>. Lock-out represents a reaction of the employers to a strike of employees, which causes damage to the employer.

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<sup>1</sup> I. Sorica, *Lock-out*, in *Dicționar de drept al muncii*, Ion Traian Ștefănescu – coordonator - Universul Juridic Publishing House, Bucharest, 2014, p. 241.

It is obvious that lock-out has a preventive character, but when it is used by the employer to intimidate employees by stopping the legal strike they have started, lock - out is illegal.

This is why the applicability of the lock-out is a controversial aspect, accepted in some countries and completely banned in others, precisely because of the major implications it implies.

Lock-out has a preventive character meaning employer's possibility to answer an imminent strike, or a defensive character meaning.

In the doctrine it was stated that the lock- out can be *offensive* when the employer prevent a strike of the employees by establishing the lock-out, *defensive* when the lock-out occurs as a reaction to a strike of the employees, *totally* when it has the effect of interrupting the whole activity at the level of the employer, *partly* when the interruption of activity does not concern the entire unit, and, *solidarity lock-out*, when it is the result of solidarity with another employer's strike triggered by another employer<sup>2</sup>.

## 2. Lock-out from the U. E. and I. L. O. perspective

The European Union does not regulate in certain aspects of social policy. We refer to lock-out, remuneration, the right to association and the right to strike, these aspects being totally left at member states' discretion.

It has been appreciated that the non-intervention of the European Union in these important areas is a consequence of the applicability of the principle of subsidiarity<sup>3</sup>. It would be very difficult for the European Union to regulate in those areas, which are intimately linked to the internal policy of the Member States. Moreover, we can appreciate that the strike, is a social phenomenon, which varies from state to state, for example in Greece strikes are particularly energetic social movements, while in countries such as Finland or Sweden social movements like strikes are much more temperate.

Similarly, in the matter of lock-out, the E. U. legislator did not want to intervene, allowing states to individually translate this issue.

Similarly, the International Labour Organization does not consecrate any convention or recommendation for lock-out.

It is noteworthy that both international organizations are similarly dealing with this problem, so the ILO does not intervene in major social policy issues, so between those two organizations the provisions in the field of non –

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2 B. Vartolomei, *Dreptul muncii. Curs universitar*. Universul Juridic Publishing House, Bucharest, 2016, p. 282.

3 Andrei Popescu, *Dreptul internațional și european al muncii*, CH Beck Publishing House, Bucharest, 2008, p. 369.

intervention in major aspects of social policy are correlated.

Finally, we emphasize, that the option of E. U. and I. L. O. of not intervening in these issues is based on the economical social and political reasons regarding the consequences in this areas.

### **3. Lock-out in the legislation of different states.**

On the escape of regulation in domestic law, there are states in which lock-out is forbidden.

In other states it is allowed, however, under strict conditions, and in other states the legislation is more permissive.

In the Russian Federation, Portugal or Greece, the legislator has expressly forbidden the institution of lock-out.

In Germany, consecrated both legally and jurisdictionally, lock-out is possible as an answer to an illegal strike.

In the Czech Republic, lock-out is also possible being expressly regulated with an juridical regime similarly to strike.

Finland and Croatia are other states where lock-out is concretely regulated under the law.

In Japan the lock-out is consecrated exclusively by jurisdictional way.

In Italy, lock-out is not legally consecrated, but is possible as an answer of employer to a strike which creates big problems for the employer, like stopping the activity.

In France, lock-out is not regulated, but is possible in the case of force majeure, like the employer's impossibility to pay wages, or as an answer to an illegal strike.

The United States of America recognize the right to lock-out, as an answer to the illegal strikes initiated by workers being forbidden to violate workers' right to strike through the initiation of lock-out.

### **4. Lock-out in Romanian legislation**

In Romania, lock-out was regulated in the interwar period but after that, this institution was no longer regulated in the internal law.

In the Law on collective labour disputes of 1920 in chapter II entitled "Collective stoppage of work", in art. 4 it is stipulated that "no collective work stoppage for reasons regarding the work conditions, either from employer's initiative or employees' initiative shall occur in any of the industrial or commercial establishments specified below before the pacification procedure has been carried out".

It was the first time when the Romanian legislation permitted the employer to stop the work. The law on employment contracts of 1929 regulated the lock-

out in art. 84 stipulating that “the strike or lock-out does not represent a fair reason for the cancelation of the individual labour contract; yet it is suspended in all its effects throughout the strike or lock-out, except for the advantages in kind that the employee currently has”.

In the socialist period, lock-out was not regulated and permitted taking in consideration the specificity of this political regime.

Currently, labor law does not explicitly regulate the lock-out, so the question is whether the lock-out is tacitly admissible in view of the legislator’s silence. In the doctrine, previous to the current Labour Code, there is an isolated opinion which consider lock-out possible even if it is not expressly regulated<sup>4</sup>.

In our opinion, although in a legal system characteristic of the market economy it can be stated that everything that is not prohibited by law is allowed, in this context, given that the legislator did not expressly regulate this institution it cannot be applied .

We held this opinion considering the importance of this institution, which is a correspondent of the employee strike, so should be exhaustively regulated, and on the other hand, we support our point of view through the analysis of the current legislation.

Law no. 40/2011 introduced a new paragraph in art. 52, namely paragraph (3) stipulating that “In case of temporary reduction of work for economic, technological, structural reasons or others similar for periods that exceed 30 working days, the employer shall have the possibility to reduce the working hours from 5 days to 4 days per week, with the adequate diminution of the wages, until the situation which caused the reduction of working hours has been remedied, after the prior consultation of the representative trade union at unit level or the employees’ representatives, as the case may be”.

Even if they seem similar, there is a fundamental difference between the above-mentioned situation and the institution of lock-out.

The labor code establishes in art. 40 par. (2) lit. b) employers’ obligation to continuously provide employees with working conditions.

This provision appears to be contrary to the lock-out because it does not provide for exceptional situations in which this employer’s obligation would no longer be valid, such as for example the force majeure or the response to an unlawful strike.

The employment stability also results from other legal texts like art. 223 letter c) from the Labour Code where employees’ representatives must promote employment stability.

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<sup>4</sup> Ioana Vasii, *Discuții despre necesitatea reglementării Lock-out-ului*, Dreptul Magazine no. 9/1993, pages 41-42.

We emphasize that the strike is expressly regulated by the legislator in art. 233 - 236 of the Labor Code and art. 181-207 of Law no 62/2011 on Social Dialogue.

As a matter of fact, the legislature's tendency to permanently regulate the strike while the lock-out was not regulated at all after 1990 reveals other arguments against the applicability of this institution at present.

## 5. Conclusions

Law no. 62/2011 on social dialogue has brought many novelty issues into collective labor law.

Under this law, important labor law institutions have stagnated and more have entered in a clear regression, and here we refer to collective bargaining and to collective labor contract, and naturally at this moment is in discussion the amending of the Law no 62/2011 – on Social Dialogue.

In this context, the draft of the New Law on Social Dialogue is being submitted to the Government of Romania, meant to significantly improve the current regulation<sup>5</sup>.

In the above-mentioned draft law there are no issues regarding the lock-out.

In these circumstances, we consider that a *de lege ferenda* proposal on the inclusion of the lock-out on the agenda of the legislator, would be a necessary decision.

The regulation of lock-out is in line with the most important international documents in the field, such as, Charter Of Fundamental Rights Of The European Union, which provide in art. 28 following: “workers and employers, or their respective organisations, have, in accordance with Union law and national laws and practices, the right to negotiate and conclude collective agreements at the appropriate levels and, in cases of conflicts of interest, to take collective action to defend their interests, including strike action”<sup>6</sup>.

The term collective action does not refer only to the workers, but also to the employers, and if a member state will regulate this in the labor law system, for instance both strike and lock-out, does not infringe the E. U. legislation or tradition of not intervening in the social politic big issues.

Regulating the lock-out would be a fair exercise by the legislator that would also allow the employer to respond to an unlawful action of the employees.

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5 For the draft of the New law of Social Dialogue, see <http://sm.prefectura.mai.gov.ro/wp-content/uploads/sites/32/2018/01/Proiect-NOUA-Lege-a-dialogului-social-15-dec.-2017-FINAL-orele-13.pdf>, verified in 15 May 2018.

6 <https://eur-lex.europa.eu/legal-content/EN-LT/TXT/?uri=CELEX:12012P/TXT&from=RO>.

However, we must emphasize that the lock - out regulation must not pose a threat to the right to strike of employees, but should be of a purely defensive character - a response to an illegal strike of employees.

As stated in the doctrine, we agree that the lock-out should be expressly regulated and possible under the following conditions<sup>7</sup>:

- lock-out should be only defensive as a response of an illegal strike of the employees
- lock-out should be totally, because if we are accepting a partially lock-out will appear a discrimination between the employees.

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### **Legislation**

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2. Labour Code (law. No. 53/2003).
3. Law no. 62/2011 (on Social Dialogue).

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<sup>7</sup> B. Vartolomei, *Dreptul muncii...op. cit.* p. 285..



## REGIONAL LABOR MARKET– EVOLUTION, STRUCTURE, PARTICULARITIES

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**Abstract:** *The major concerns of all the countries of the European Union, found both in the Lisbon Strategy and in the Europe 2020 Strategy, are sustainable economic development, research, innovation and education, increasing the share of people employed and developing a inclusive work, creating jobs for inactive, hard-working or socially vulnerable people. As all European countries face a declining birth rate, the aging of the population, with increasing imbalances between the employed population and the one benefiting from the support of the social systems, they raise the question of integrating into the labor market the largest percentage of the population capable of securing an income by providing a useful work for society by creating all the conditions for achieving this goal. Although Romania does not currently face a serious unemployment problem (the unemployment rate in 2016 at national level was 5.9% compared to the European average of 8.6%), the rate of activity and the employment rate of the working age population registered in our country continues to be among the lowest in Europe and almost 4 percentage points of the national target set for the achievement of the Europe 2020 targets. This paper analyzes the main indicators of the labor market (active population, occupied population, unemployment) in Bucharest-Ilfov Region level.*

**Keywords:** labor market, employed population, regional gaps

**JEL Classification:** J01, J43, J80

### Introduction

The Bucharest - Ilfov Region is composed of Ilfov County and Bucharest Municipality. According to the results of the last Population Census, the population of the region is 2272.2 thousand people. The population is distributed inversely in proportion to the size of the two administrative entities. Bucharest is the largest urban agglomeration in Romania, with a population of 1.9 million inhabitants. Ilfov County is one of the small counties of the country, with a density of 289.6 inhabitants / km<sup>2</sup>.

The most important labor market in the country is concentrated in Bucharest. All the industrial branches are present in the region, Bucharest-Ilfov being the main industrial agglomeration in the country, but the labor force has massively reorientated over the past years to services that currently contribute most to the economy of the region. This is also the slowest pace of growth in some sectors, such as construction and real estate, as well as retail, distribution and management.

The region's economic environment is attractive for direct investments, for the existing institutional structure, for the skilled labor force and for the more developed communications system than in other regions of the country.

According to ANOFM's statistical data, the most important employers in the region as a number of employees were: CN Posta Romana SA, RCS, SC OMV Petrom SA, RCS, CNCF CFR SA, Kaufland Romania, SC Auchan Romania SA, SNTFC CFR Călători SA, SC Mega Image SRL, Adecco Resurse Umane SRL.

The Bucharest-Ilfov Development Region is the first region of Romania according to the number of employees, with over 1,302 thousand work contracts, representing 26.35% of Romania's workforce. The main employers in the Bucharest - Ilfov Region belong to the services sector: trade, protection and security activities, financial intermediation, construction and business and management consultancy. At the level of the 9 major groups of employees of the national economy, the Bucharest - Ilfov Region contributes to the consolidation of Romania's labor force with weights ranging from 11.78% to 37.28%, which expresses a polarization of the labor force, especially at the level of 5 categories of employees in the administrative and service spheres, together with a much lower share of the major groups related to production and agriculture.

A number of peculiarities can be observed:

- Bucharest - Ilfov region covers more than one third of the administrative staff (32.74%), but especially the members of the legislative body and of the executive (37.28%) in Romania;
- At the same time, Bucharest - Ilfov Region has the highest contribution to the structure of service personnel (29.02%), as well as specialists in different fields of activity (32.03%), as well as technicians and other specialists from technical field (36.70%);
- The Bucharest - Ilfov Region is also the first place in terms of contribution to the labor force structure in the field of production, but in this field the weight of the personnel categories is much lower than in the case

of services, being comparable to those recorded at the level of other development regions;

- The only group of employees where the Bucharest-Ilfov Region does not have the largest contribution to the structure of the labor force in Romania is agriculture, where by 11.78%, the Bucharest-Ilfov Region is ranked 4, according to the North-East Development Regions , South-Muntenia, Center and Northwest.

There is a tendency to increase the share of services and constructions, while maintaining the share in agriculture in VAB training at the Bucharest-Ilfov region. It is appreciated that the areas of initial priority training are: mechanical, economic, construction, facilities and public works. There is an increasing trend in the economy due to gross investments, foreign investments and high values recorded in gross domestic product.

Regarding the main economic indicators, the Romanian Capital has experienced a much faster pace of economic growth than the other regions of the country, has adapted most rapidly to the economic and social changes of transition and attracted most foreign direct investments. All the industrial branches are present in the region, Bucharest-Ilfov being the main industrial agglomeration in the country, but the labor force has massively reorientated over the past years to services that currently contribute most to the economy of the region. This is also the slowest pace of growth in some sectors, such as construction and real estate, as well as retail, distribution and management.

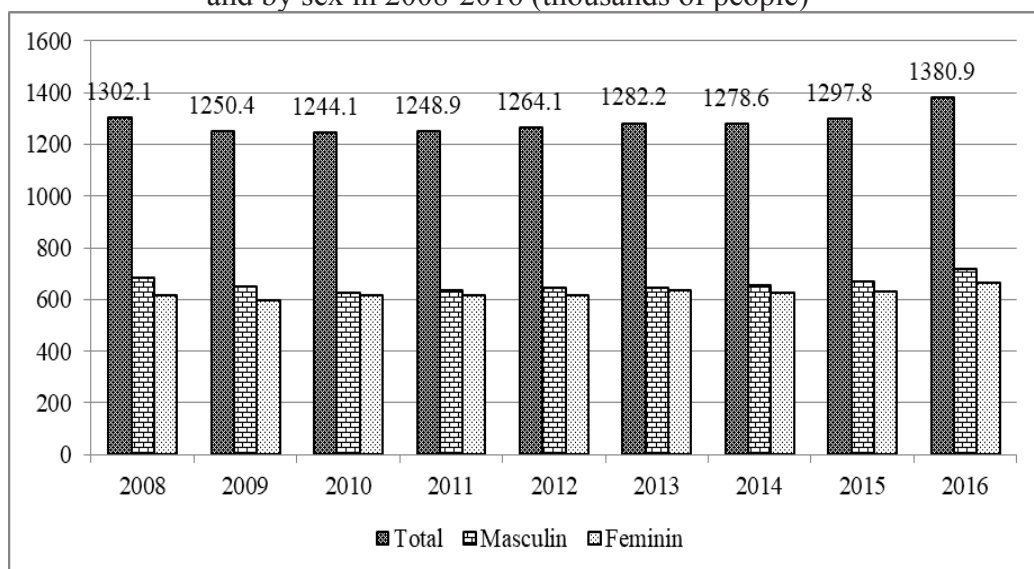
### **1. Structure of the population after participation in the economic activity**

Evolution of labor resources shows a variation in the number of persons during the period 2008-2016, reaching 1545,4 thousand persons in 2016, increasing from 1510,6 thousand persons in 2008 and from 1,542,4 thousand persons in 2014. At the national level, the labor resources register 12562 thousand persons. The active population is increasing reaching 1380.9 thousand persons in 2016 compared to 1308.1 thousand persons registered in 2008. The civilian employment is increasing reaching 1360.3 thousand people in 2016 compared to 1281.6 thousand persons in 2008. Unemployed persons registered at employment agencies decrease from 23021 persons registered in 2015 to 20581 persons registered in 2016, but they are increasing compared to 2008 when 20372 persons were registered. This indicator shows a decrease of 2,440 unemployed persons as compared to 2015 and an increase of 209 persons.

## 2. Structure of the active population

The total active population (over 15 years) continues the rising trend in 2015, reaching 1380.9 thousand persons in 2016, which represents 12.5% of the total active population at national level. Compared to 2008, the number of active persons in the Bucharest Ilfov region increased by 78.8 thousand persons (Figure 1). In 2016, the active male population is 55.1% of the region's population, slightly increasing from the previous year, both percentage - from 53.3% in 2015, to absolute values - from 668,9 thousand people in 2015 to 716 thousand persons in 2016. The location of the capital in Bucharest Ilfov region determines a very high percentage of the urban active population of 90.7%.

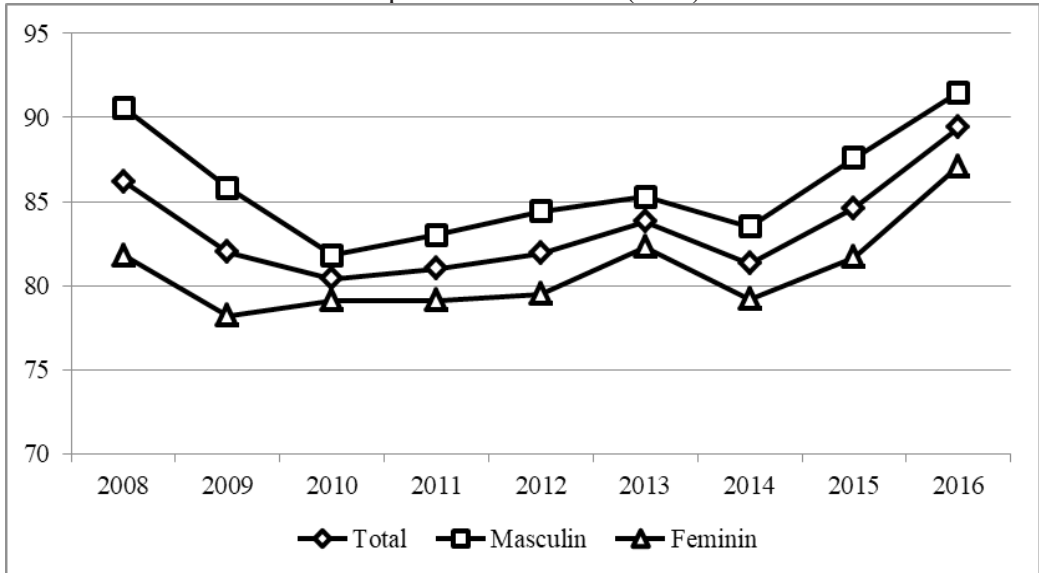
Figure 1 Evolution of the active population in Bucharest Ilfov region by total and by sex in 2008-2016 (thousands of people)



Source: National Institute of Statistics, TEMPO Online Database

The activity rate for the Bucharest-Ilfov region has a rising trend in the previous years, reaching 89.4%, being higher for male (91.5%) than for female (87.1%) (Figure 2).

Figure 2 Evolution of the activity rate by gender in the Bucharest Ilfov region in the period 2008-2016 (-% -)



Source: National Institute of Statistics, TEMPO Online Database

The activity rate at the level of the counties of Bucharest Ilfov region shows significant differences both on total and on sex. Bucharest is clearly detached from the leader of the counties in Romania (Table 1).

Table 1 Activity rate in the Ilfov region by sex and counties, in the period 2008-2016 (-% -)

	2008	2009	2010	2013	2014	2015	2016
Bucarest – Ilfov Region	86,2	82	80,4	83,8	81,3	84,6	89,4
Ilfov	79	75,3	72	67,3	59,8	59,2	59,4
Bucarest	87,3	83,1	81,9	87	88,2	90,8	97,1
Bucarest – Ilfov Region	90,6	85,8	81,8	85,3	83,5	87,6	91,5
Ilfov	86,3	78,9	75,8	72,7	65,2	64,4	65,7
Bucarest	91,3	87	82,8	87,9	89,8	93,5	98,3
Bucarest – Ilfov Region	81,8	78,2	79,1	82,3	79,2	81,7	87,1
Ilfov	71,2	71,6	67,9	61,7	54	53,6	52,8
Bucarest	83,4	79,3	81	86,2	86,7	88,2	95,8

Source: National Institute of Statistics, TEMPO Online Database

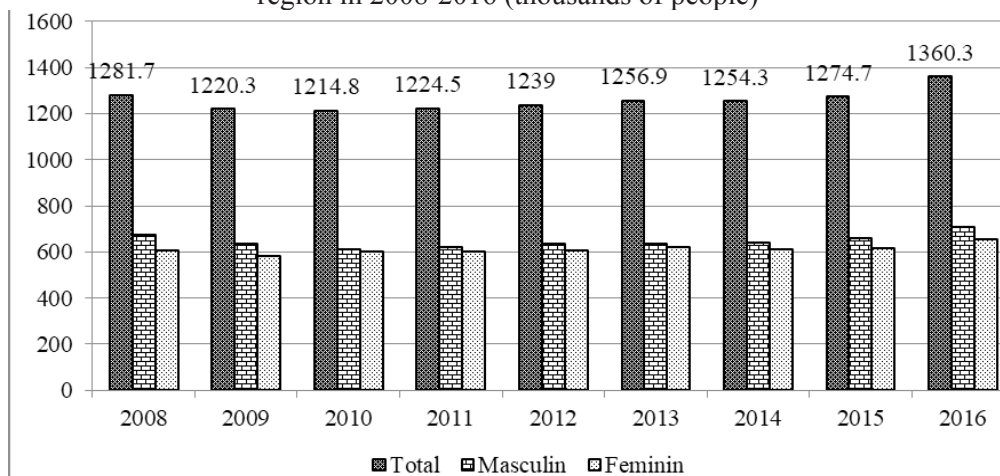
The activity rate increased from 2008, from 86.2% to 89.4% in 2016, being higher for the male (91.5%) than the female ones (87.1%).

### 3. Structure of the employed population

On 1 January 2016, according to the Labor Force Balance, the labor resources of the region amounted to 1533.7 thousand people, of which 83.1% represented the civilian employed population. The evolution of the employed population shows fluctuations in the period 2008 - 2016, increasing trend starting with 2014, reaching 1360,3 thousand persons in 2016. However, compared to 2008, the employment growth in the region is quite significant, approximately 78.6 thousand persons (Figure 3). The male population is 51.9% in the region, and 90.6% is in the urban area.

In terms of participation in the main economic activities, the share of the employed civil service population is predominant (71.3%), while the share of the occupied population in industry and construction is 26.2% and in agriculture only 2.4%. Services generate most of the jobs.

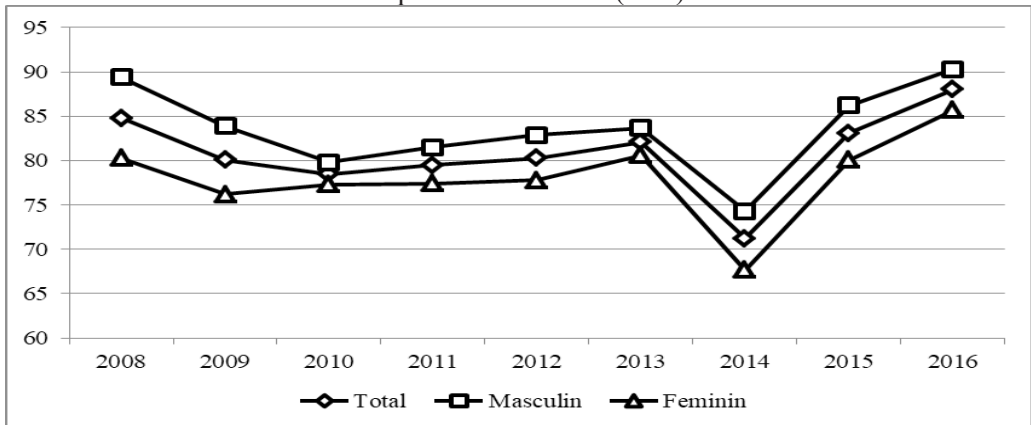
Figure 3 Evolution of the employed population by sex in the Bucharest Ilfov region in 2008-2016 (thousands of people)



Source: National Institute of Statistics, TEMPO Online Database

The employment rate is the share of the active population in the age group x in the total population of the same age group x. The employment rate for the 15-24 age group registered a slight increase between 2008 and 2016, slightly increasing in the year 2016 to 23.2%, compared to the 23.1% national level. Increased growth is for females, from 16% in 2014 to 21.9% in 2015 (Figure 4).

Figure 4 Evolution of employment rate by sex in Bucharest Ilfov region in the period 2008-2016 (-% -)



Source: National Institute of Statistics, TEMPO Online Database

Employment rate of labor resources is decreasing by 10.9% in 2016 as compared to 2008, at regional level, decreasing by 7.1% in Ilfov county and increasing by 1.2% in the municipality of Bucharest. The labor resource activity rate is decreasing by 0.9% at regional level compared to 2008, decreasing by 7.5% in Ilfov County and by 1.2% in Bucharest.

Population, by level of education, at the level of Bucharest Ilfov region grew for people with higher education level, from 33.1% in 2008 to 40.3% in 2016, to the detriment of those with a level of education which dropped from 15.5% in 2008 to 8.9% in 2016. The breakdown for the structure of the employed population with a professional level of education by sex shows us an 11.5% for the male and 6.0% for females. The breakdown by residence area shows us 8.7% for those in the urban area, compared to 11.1% for those in rural areas. Population employed with specialized or technical post-secondary education dropped from 5.4% in 2008 to 3.3% in 2016, being lower for males (2.1%) compared to those (4.6%), higher for the urban (4.6%) than for the rural ones (3.6%). Population with high-school education records the same percentage in 2016 (37.8%) as compared to 2008, the lowest value being registered in 2014 (35.6%).

Structure of the civilian population by main activities of the national economy The number of civilian employed population increased in the Ilfov region from 1281.7 thousand people in 2008 to 1360.3 thousand persons in 2016, reaching a relative minimum in 2010 (1214, 8 thousand people. At the level of the region, the share of the civilian population in the main activities of the national economy is divided as follows:

- Agriculture, forestry and fishing - in 2016 the share is 2.9%, remaining almost constant since 2008, with small variations over the years; the share registered at the Bucharest Ilfov region is insignificant compared to that recorded at national level of 27.3% in 2016;
- Industry - in 2016, the weight is 14.5%, decreasing compared to 2008, when the highest value of the analyzed period was of 16.2%; this share is 6% lower than that recorded at national level in 2016;
- Construction - in 2016 the share is 12.1%, decreasing compared to the years 2008 and 2010, where the highest weights of 12.8% were registered; the weight is 4.1% higher than the share registered at national level in 2016;
- Services - in 2016 the share is 71.8%, the share is considerably higher than the national one, of 44.8% in 2016.

#### **4. Unemployment**

The unemployment rate registered on 31 December 2016 was 1.6%, the lowest at national level, with 20.6 thousand unemployed.

Demand for skilled labor is higher for this region, with most of the registered unemployed having a low level of education. The opportunities offered by the capital make the employed population a high level of training and qualification.

In 2016, the number of registered unemployed, according to data provided by the National Institute of Statistics (TEMPO database), was 20581 persons at Bucharest Ilfov. The number of unemployed in the region represents 5.28% of the number of registered unemployed nationwide, of 436242 persons. The lowest weights of the registered unemployed compared to the number of registered unemployed at national level are recorded in the following regions: Bucharest Ilfov (5.28%), West (5.88%), North West (9.41%). The highest weights of the registered unemployed compared to the number of registered unemployed are recorded in the regions: South Muntenia (18,17%), North East (17,83%), South West Oltenia (16,13%).

Analyzing the evolution of the unemployment rate by age group there is a high share among young people aged 15-24. The evolution of this age group recorded a peak in 2014 when it was 26.4%, then decreasing significantly in 2015 to 14.6%, the lowest share at national level (Table 2).



Table 2 Evolution of the unemployment rate by age group in Bucharest Ilfov Region in the period 2008-2015 (-% -)

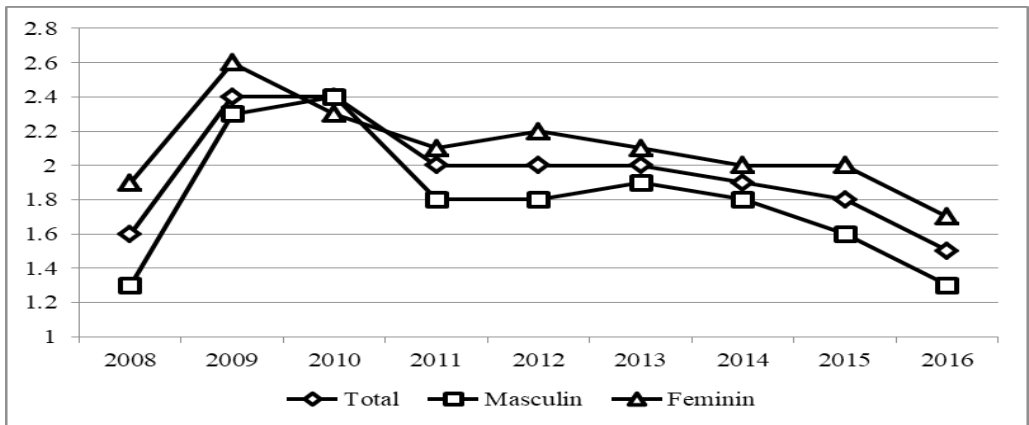
	2008	2009	2010	2013	2014	2015
15-24 years	16,5	16,3	20,1	25,9	26,4	14,6
35-54 years	3,1	3,1	4,8	7,8	6,8	6,1
55-64 years	1,6	1,9	2,8	7,6	6,3	7,2

Source: National Institute of Statistics, TEMPO Online Database

The ILO unemployment rate is the proportion of ILO unemployed (according to the International Labor Office criteria) in the age group x in the active population in the age group x. It is worth noting that this rate is very low for the Bucharest Ilfov region in 2015 (14.6%), the only region that has a lower rate (9.3%), being the North East. This rate is considerably lower than the national rate of 21.7%.

The unemployment rate registered and recorded the lowest values at national level in 2016, registering a value of 1.5%, decreasing compared to 2008 when it was 1.6%. Women’s unemployment rate was higher than that among men, 2010 being the only year in which this report was reversed (Figure 5).

Figure 5 Evolution of the unemployment rate by gender in the Bucharest Ilfov region in the period 2008-2016 (-% -)



Source: National Institute of Statistics, TEMPO Online Database

Territorial distribution shows a decreasing trend compared to 2014 in the ILO unemployment rate for the 15-24 age group, higher in the urban area (15.1%) than in the rural area (11.0%).

Territorial distribution shows a decreasing trend compared to 2014 in the ILO unemployment rate for the 15-24 age group, higher in the urban area (15.1%) than in the rural area (11.0%).

Regarding the evolution of the unemployed registered on education levels, one can notice the significant increase of those with university education, from 9.0% in 2008 to 21.0% in 2016. The highest value registered during the analyzed period this category is in 2013, when it was 23.6%. However, a slight decrease of 0,7% is observed in 2016 compared to 2015 when it was 22,7%. The share registered at regional level is 16.7% higher than at national level, being very different between the components of the region: in Ilfov County the share is 6.6% and in Bucharest the share is 23.3 %. Regarding the unemployed with high school and post-secondary education, their share of the total registered unemployed at regional level registered fluctuations in the studied period, increasing by 8.5% compared to 2008, reaching 34.3% in 2016. Share from the regional level is almost double the national level (18%), higher in the capital (35.9%) and lower in the county of Ilfov (19.5%).

What is noteworthy, however, is the 22.2% drop in the share of registered unemployed with primary, secondary and vocational education, reaching 44% in 2015 compared to 66.2% in 2007. At the level Ilfov region, the share of these unemployed is 32.9% lower than the national one (76.9%), being close to the one at national level in Ilfov County (73.9%) and much lower in capital (40.8%) (Table 3).

Table 3 Distribution of the unemployed by categories in Bucharest Ilfov region in the period 2008-2016 (-% -)

	2008	2009	2010	2013	2014	2015	2016
<b>Total</b>	100,0	100,0	100,0	100,0	100,0	100,0	100,0
<b>- Primary, gymnasium and professional</b>	66,2	52,6	47,0	41,8	41,7	44,0	45,6
<b>- High school and post-high school</b>	24,8	32,1	33,7	34,6	35,9	34,3	33,4
<b>- University</b>	9,0	15,3	19,3	23,6	22,4	21,7	21,0

Source: National Institute of Statistics, TEMPO Online Database

Long-term unemployment refers to the unemployed registered by employment agencies that have exceeded 12 months of unemployment and 6 months for young people under 25 years of age. In Bucharest Ilfov region, the number of registered unemployed, according to EUROSTAT records, fell consistently from 13.1 thousand persons in 2012 to 8.4 thousand persons in 2015, compared to 274 thousand persons registered at national level and 11.054, 4 thousand people in the European Union. For the Bucharest Ilfov region in 2015 the lowest percentage of the long-term unemployed (13.9%) of the total

registered unemployed and the lowest percentage of the active population (0.7%) is registered. The long-term unemployment rate among young people is one of the lowest values in Bucharest Ilfov region compared to the other regions of the country, with lower values registered in 2014 only in the North West (8.9%) and North East (7.9%). The highest long-term unemployment rate among young people is recorded in the South Muntenia region (21.9%). The long-term unemployment rate is declining in 2014 to 1.1% compared to the one recorded in 2014, 2%. Worrying is the long-term unemployment rate for young people, 10.2% in 2014, slightly decreasing compared to 2013, when the highest value of this indicator (10.5%) was registered in 2009-2014. This indicator is higher for women (12.7%) than for men (8.3%), higher for rural areas (13.8%) than for urban areas (9.8%). The incidence of long-term unemployment for young people shows the lowest value in Bucharest Ilfov region compared to the rest of the regions in the country, namely 38.7% in 2014, decreasing from 40.7% in 2013, lower for men (35.7%) compared to women (41.8%), higher in rural areas (85.2%), compared to urban (35.7%).

### **Conclusions**

In the light of the results obtained, this paper contributes to the analysis and knowledge of the labor market situation in the development regions of Romania and at national level in Romania during 2008-2016.

To some extent, Europe's national and imminent economies have managed to recover losses and reach the pre-crisis levels of economic growth, yet the number of new jobs created is not yet sufficient to reduce the pressures on the labor market. This is due to the increased complexity of the economic environment that underwent profound transformations, including during the crisis period, with the choices of many businesses and companies making savings and cost savings, especially by introducing new technologies on a large scale, by implicitly reducing jobs and, in particular, by reducing the opportunities for creating new jobs.

Regarding Bucharest - Ilfov Region it can be concluded that this:

- it covers over one third of the administrative staff (32.74%), but especially the members of the legislative body and the executive (37.28%) from Romania;

- has the highest contribution to the structure of the service personnel (29.02%), as well as of the specialists from different fields of activity (32.03%), as well as of the technicians and other specialists in the technical field (36.70% %);

- is in the first place also in the contribution to the structure of the labor force in the field of production, but in this field the weight of the personnel

categories is much lower than in the case of services, being comparable to those recorded in the other development regions;

- this region haven't the largest contribution to the structure of the labor force in Romania through agriculture, where by 11.78%, Bucharest-Ilfov Region ranks 4th, according to the North-East Development Regions, South-Muntenia, Center and North- West.

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## CURRENT CHALLENGES OF OUR SOCIETY

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**Abstract:** *Human society is now directly linked to digitized technologies, creating a “robotic effect” for the future of society. People and technology are connected directly and permanently. Scientific discoveries have influenced society and progress over the years, and examples include the discovery of fire, the invention and development of vaccines and antibiotics that have allowed people to reduce their mortality rates significantly in the eighteenth century. Another example of scientific progress is the use of fossil fuels, electricity, fertilizers, etc. These discoveries / researches / inventions have changed the way people live. More at this moment, we are witnessing technological breakthroughs (blockchain technology) in the virtual space with implications for everything that exists, from education, industry, services, finance, research and continuing at the societal level.*

**Keywords:** *digitized technologies, block chain, innovation, sustainability*

**JEL Classification:** F15, F41, F62

Romania through its integration into the European Union has had and hopes for progress and prosperity. As in every state, our country also reflected the European path of Romania „in GDP growth per capita compared to the European Union average from 39.3% in 2006 to 58.2% in 2016, which justifies us considering that the process the real convergence of the Romanian economy within the Union has been and still is a success story.” (BNR, 2018)

It is a fact that today we are confronted with the extraordinary impact that digitization plays in global economic development. We have to point out that social inclusion and technological - financial progress are the results of the digitization trend of the economy with a major impact on the activity of financial institutions. The creation of new business models, the emergence of new opportunities for customer access and the management of cloud-based projects and documents are just a few of the challenges that the current economy has undergone through a continuous process of innovation and adaptation. The phenomenon of „digitization” has created new opportunities for customers: easy management of business activities at company level, revenue collection, payment of bills and fees, etc.

The use of this tool should become more concrete and consistent in Romania, and customers should be educated to master new digital tools. There is no doubt that there is a revolution! In the context of the financial crisis, the digitization of the economic sector continues to grow, providing new digital opportunities for new generation customers.

We must take advantage of rapid technological change to make the world more prosperous and inclusive and to support social inclusion through innovative solutions. Blockchain technology is thus a tool adapted to the current digital revolution. For many of us, the current increase in access to digital technologies brings more choices and convenience. Through the process of social, economic and financial inclusion, the blockchain is a real mechanism of today's digital technology to reach economic, financial services for the poor and disadvantaged. New mobile technologies allow vulnerable groups (women, people with disabilities, etc.) to participate more easily in the labor market as entrepreneurs in on-line or outsourcing (Manta O, 2017).

In a world that changes almost overnight powered by the latest communication technologies, the financial sector has no chances to avoid this true digital tsunami. A very interesting report in 2014 says that "in many emerging markets, most people live outside urban centers without easy access to infrastructure such as banking, transport, electricity and roads. This is a base of potential customers in communities where mobile money are the only real cash competitor. "Large-scale market research in other industries suggests that rural customers tend to have stronger loyalty to their big brands, making them a valuable market segment. and the loyalty of the rural market, the evidence suggests that most mobile mobile service providers have not yet expanded their services beyond urban centers. The provision of sustainable business services in rural areas presents more or more challenges, less acute in different markets: more dispersed populations, low levels of literacy, lower access to basic infrastructure, and lower and often sporadic incomes of households (Manta, O. 2017).

Understanding the scope and breadth of challenges will help suppliers be more strategic in expanding the scope of mobile telephony services and adapting their approach to the specific market context. The expansion of mobile / mobile money / non-urban money has so far tended to be a gradual delivery of services beyond urban centers rather than strategic suppliers' efforts to adapt services to meet the needs of rural customers. A more strategic approach could help providers expand both on advanced mobile money markets, where stagnation in saturated urban areas and in markets with limited urban market potential, where commercial success depends on expansion in rural areas. (Jennifer Frydrych and Hege Aschim, October 2014).

Here is another concept that we are confronted with in the new digital world: “Big Data, Small Credit”! The Digital Revolution Report and its impact on emerging market consumers! stresses that “technological advancements in credit assessment are about to produce a huge impact by bringing an official, accessible and affordable credit to hundreds of millions of middle-class consumers aspiring to emerging markets.” A foreground of this change is a field new growth, which we call generic “Big Data, Small Loans” (BDSC). Throughout the world, many consumers in emerging markets remain extremely limited in access to formal financial services, especially unsecured loans. In India, more than 400 million people borrowed money in 2014 - but less than one in seven were approved for an official loan. Indeed, this experience of being “invisible” to formal lenders is widespread among billions of “no-file” consumers living in almost all emerging markets today. But these consumers cannot remain “invisible” to formal creditors for a long time, partly because of the use of rising new technology “(Arjuna Costa, Anamitra Deb and Michael Kubzansky, 2014.) Each time these individuals make a phone call, they send text, browse the Internet, hire social media networks, or fill in pre-paid cards, deepen the fingerprints that they leave behind. fast and innovative developers began using highly predictive technologies and algorithms to query and generate perspectives from these prints (Manta O, 2017).

These BDSC companies use varied forms of non-traditional data - from mobile call records and billing payments to Internet browsing and social media behaviors - to create a new way to assess consumer risk, determine consumer credit ratings “invisible”, then offers convenient, faster, and often cheaper loans to the previously disadvantaged. Their main offer: unsecured consumer credit, in the short run, the small ticket served at a dramatically lower cost than traditional loans. The social impact also promises to be profound. BDSC offers can boost the entry of millions of middle class consumers into the official credit system. Transforming an “invisible” former consumer into a “visible” and formal consumer not only gives dignity and respect but also opens the door to formal savings and insurance services as well as financial management tools. It also allows small and medium-sized households to better capture opportunities and manage economic shocks. Indeed, the emergence and growth of BDSC services leads to the consolidation of the story of the continuous growth of emerging markets in the world - a great economic trend in the 21st century. To comply with BDSC’s promise, financial service providers, data collectors, innovative entrepreneurs and regulators will have to work together. And BDSC firms must continue to create attractive offers to consumers, both in terms of their financial attributes and their trust and transparency. Both the lender and the consumer must have benefits. Waiting is great, the economy makes sense, and the potential gain in empowering consumers to improve their lives is significant.“

GAFA is an acronym for Google, Apple, Facebook and Amazon - the strongest 4 US technology companies. The use of the term "GAFA" is becoming more and more common in Europe. The acronym, originally launched in France, is used to identify the four companies as a group. We are already talking about the GAFA generation as being composed of those who use almost exclusively the services of the four companies mentioned. The truth is that we are witnessing a change in how consumers see financial services, customer service and shopping. With almost nothing to do with the banking industry (as an object of activity), these giants of technology are now directing the pace of innovation across the industry and redefining expectations, putting banking institutions in battle with the rapid pace of their transformation. While a regular consumer does not really notice the transition, professionals have to face the reality and take the challenge that these followers of tech news have suddenly imposed on financial professionals. In this situation, it was natural for financial institutions to find out how this new environment - and its successors - is acting in the opposite direction to the services it offers. Just because changing consumer trends creates new opportunities for financial providers. Consumers' behaviors and expectations change in ways that will challenge financial service providers to rethink their customer service - and even turn their distribution patterns (Manta O, 2017).

*Accenture Financial Services Global Distribution & Marketing Consumer* has conducted a study that has gathered the views of nearly 33,000 financial services consumers - including bank, insurance, and investment advice clients - from 18 markets. The research has identified valuable information about how customers want to interact with financial providers in the future and where digital innovation should play a role. But it also suggests that providers who can offer both a new, compelling digital services model and maintain traditional values of trust and service will be best placed for the competitive battlefield. (Accenture, 2017). Many consumers, collectively called GAFA, are attractive alternatives for traditional financial providers. This is even greater in markets like the United States, where 50% would like to make this exchange. 36% of respondents would consider acquiring insurance from an online service provider such as Google or Amazon. 46% of respondents would consider buying investment advisory services from an online service provider. Also, three types of distinct personalities of consumers have emerged in the research findings, each having specific characteristics of what they value most from their financial providers, which determines their loyalty and how they would like suppliers to accept innovation digital. The main loyalty factors are costs; customer service (defined by high quality and reaction); trust (especially in



customer interest and data protection) and appetite or willingness to consider new digital models. The different needs and priorities of these groups provide insight into how financial providers may need to reconsider their proposal both to ensure loyalty to existing customers and to reach new consumers.

So they are nomads - a highly active digital group ready for a new delivery model; hunters - those who are looking for the best price offer and quality seekers - looking for high quality, responsive and data protection services. Certainly, it is also good to know the sector's response to these market trends.

Changes in consumer behavior that the study identifies send messages to the financial services sector:

1. Clients have control - financial providers were accustomed to controlling the relationship with customers, but now consumers have this control.
2. Retail financial services are no longer “business-to-consumer” (B2C) - the relationship has now become “consumer-to-business” (C2B). In a world where the customer is in control, suppliers must show every day that they are dedicated to customers and are mindful of providing excellent quality services. However, they need to do so effectively, given the margin pressures and the desire of shareholders to achieve optimal returns.
3. Look for new opportunities from a data point of view - Financial providers need to tap the trend of consumers who want to share more personal data, for example by capturing new money generation opportunities.
4. Consider your platform approach - Customers spend more and more time on digital platforms such as those offered by GAFA (Google, Amazon, Facebook, Apple). To remain relevant to customers, financial service providers need to reach customers on these platforms with personalized products at the right time. This is especially true for Nomads customers who are the most open to digital innovation.
5. Simplify customer navigation through channels - Providing trouble-free navigation has become vital to attract potential customers and prevent existing customers from switching suppliers. Processes that previously required physical interaction will have to be resumed with their transition to online, while providers will need the ability to collect and share real-time data on customer interactions to allow for perfect transfer between channels (Manta O, 2017).

GAFA's banking approach is “to remain the center of attention in the lives of consumers, developing new revenue streams, banks need to develop their business models by focusing on their own business portfolio as well as on future business opportunities. is to rapidly develop a viable response to emerging digital disruptors, while managing strategic risk to avoid losing

revenue for those disruptors. The key here is the interaction between the “GO Digital” and “BE Digital” agendas, where the first refers to the focus business, and the second relates to activation “(Accenture, 2016).

The realities of the rural areas facing small farmers, including the low level of education (according to the statistics provided by the National Institute of Statistics) and the lack of access to modern financial instruments according to size and their requirements are very important. These conditions mean that people involved in developing models for microfinance institutions need to create new and innovative solutions to finance farmers’ needs. Existing communication technologies give us new opportunities for rural microfinance by reducing business costs. New microfinance facilities have great potential for addressing the risks faced by small farmers. In addition, combining financial services with non-financial services, such as technical support, marketing, and financial consulting offer new opportunities for small farmers to increase productivity and revenue and integrate their production into full value chains.

Finally, from micro level to macro level, it is necessary to create a favorable environment for policy making and a legal framework for the implementation of rules and regulations. The progress of financial inclusion is the result of the digitalisation trend of the financial sector with a major impact on financial institutions. Creating new distribution models (external agent networks, banks without a branch network, etc.), new customer access opportunities and back office management are just some of the challenges the microfinance sector can only pass through -It continues innovation and adaptation. The “microfinance” phenomenon has created new customer opportunities: easy management of household savings, revenue collection, payment of bills and taxes. Its use must become more concrete and consistent in Romania. Customers should be educated to master these new digitized tools. There is no doubt that a revolution takes place! Rural areas, as shown by the Rural EU Review report, are estimated to generate 48% of the gross EU economy and 56% of total employment.

A typical feature of the rural economy is the presence of small and medium-sized enterprises (SMEs), many of which are micro-enterprises with a high percentage of independent jobs. Innovations in rural and agricultural microfinance have a significant potential to improve the subsistence and food security of the poor. Although microfinance has been widely studied, there is a large gap in knowledge, especially as regards the possibility of widening access to rural and agricultural microfinance. To get a complete picture of how microfinance works in rural Romania, we need to find some information about the technical infrastructure of data communications. Three out of four

Romanian households have access to the Internet after a 30% increase over the last six years, according to a Eurostat study, given that in 2016 the European average was 85% of households with Internet access. “Between 2010 and 2016, Romania and Bulgaria recorded the largest increases in the number of households with Internet access, but they are still among the countries with the smallest share in Europe,” says the Eurostat study. A comparable level of Internet access in Romania is recorded in Bulgaria, Greece and Lithuania, all of which are below 75%. The opposite is Luxembourg, the Netherlands and Denmark, where nine out of ten households have access to the internet and where growth rates vary between 6% and 7% in 2010-2016. The rate of those who have never used the Internet has fallen by about 20% between 2010 and 2016, shows the results for Europe. However, in Romania and Bulgaria, a quarter of the population does not use the Internet. In Europe, more than a quarter of users use the Internet daily, and many users belong to the category of people with medium or higher education aged 16-54. The Internet is most often used to send emails, search for information, or read various publications.

According to a report by the European Commission, Romanians used the Internet for banking services less in 2016 compared to 2015, and online companies sold a little less. The figures are at least surprising given that banks have reported an increase in distance trading and e-commerce subscribers in 2016 by half a billion dollars (without taking account of bills and insurance).

The European Commission publishes an annual report on Member States’ progress in digital integration. The report is based on an index called DESI (Index of Digital Economy and Society), a composite index that measures digital progress by five elements:

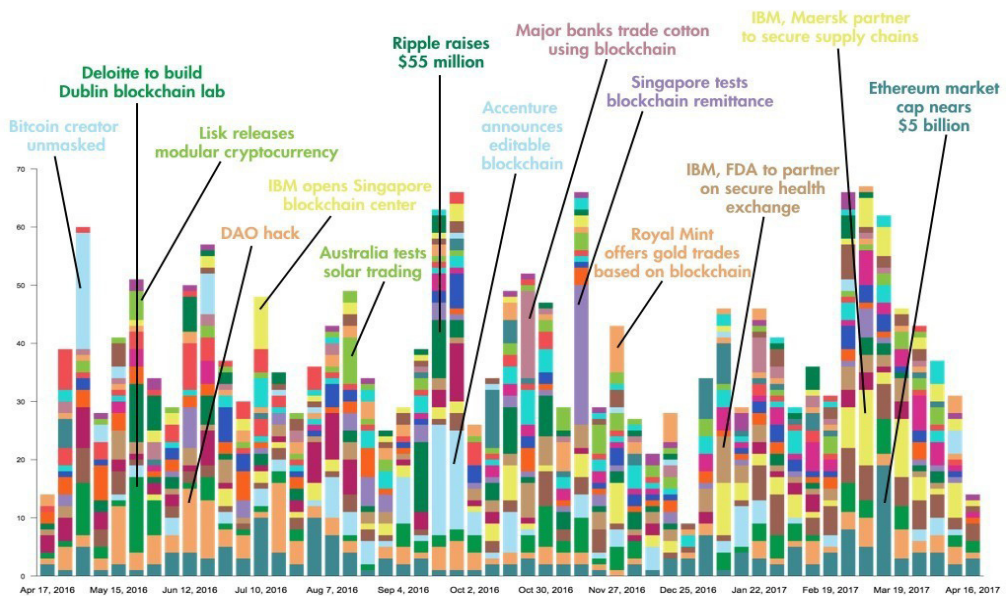
1. Connectivity - fixed band, mobile broadband, speed and price;
2. Human capital - Internet use, basic and advanced computer skills;
3. Internet usage - use of content by citizens, communication and online transactions;
4. Integration of digital technology - business and trade digitization;
5. Digital public services - e-government.

Romania currently has one of the highest proportions of high-speed broadband subscriptions in the EU, and more and more users are using broadband mobile services. Although the available spectrum is growing, covering fixed and mobile networks (4G), broadband remains one of the lowest in the EU. Internet users in Romania have done much less online than the EU average, especially for e-commerce and e-banking. Social networks and online video calls are, however, widely used. Romania is the largest country in Southeastern Europe with regard to the online audience, the number of Internet users is

8.8 million in December 2013, according to Gemius's "Online Landscape in Southeast Europe" report. Traffic from mobile devices is growing rapidly on the Romanian market. Thus, if in January 2013 only 3% of Internet traffic is achieved through mobile phones and tablets, in March 2014 this percentage increased to 7%. Very interesting is that, while the rural population is almost non-banking, the only institution that offers financial and banking services in the Romanian villages is CEC Bank and Romanian Post, while 33% of people living in rural areas access the Internet. In other words, there is great service potential in the "remote banking" regime. The question is - will microfinance institutions know how to exploit this potential? (Natalia Plominska, Patrick Waledziack, 2013)

Another digital finance technology in the field of finance is blockchain technology. This technology based on news and information goes beyond the financial field in 2017, this large amount of data will have an impact on industries in all areas. The year 2016 was the year when Craig Wright launched the crypto currency bitcoin, although in the financial world skepticism largely involved, the volume of news and information in the public virtual space was all year round, which generated the desire of some to block this media fact.

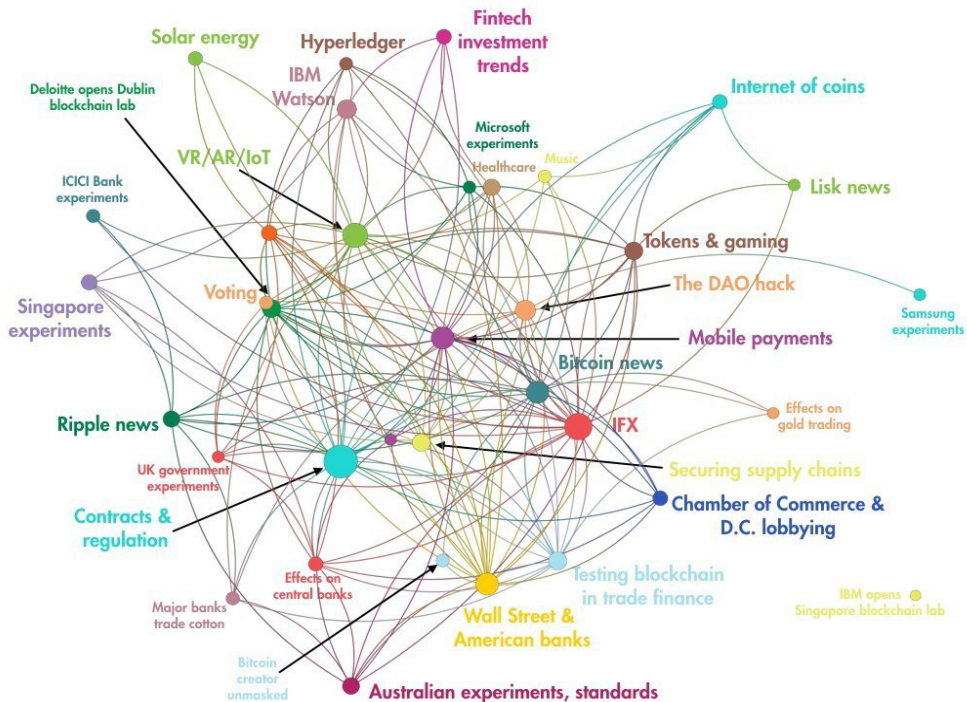
Chart no.1. Blockchain technology in the financial space between 2016 and 2017



Source : <https://www.weforum.org/agenda/2017/04/5-infographics-that-explain-one-year-of-blockchain-news/> (date of access 28/04/2017)

According to the above chart, between 20 April 2016-20 April 2017, there were over 3,409 articles of cluster-colored blockchain technology news. This technology, based on structured “block-type” information in the network, which stimulates confidence in new concepts and financial products, implicitly microfinance models, creates opinion streams and guides regulatory bodies to prevent money laundering and prevent terrorist financing. In addition to the financial world, blockchain technology expands at extraordinary speed in all areas, including politics, and it is justified to prevent electoral fraud (such as Australia).

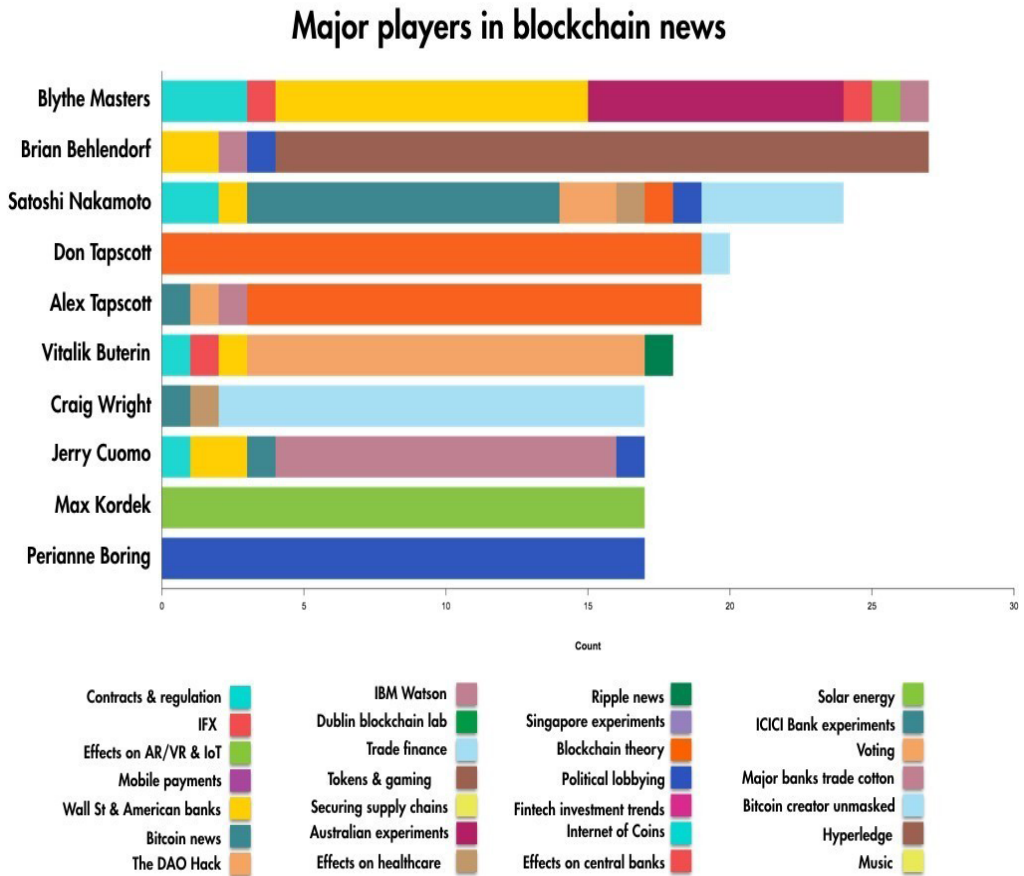
Chart no.2. The impact of the blockchain network in the financial field



Source : <https://www.weforum.org/agenda/2017/04/5-infographics-that-explain-one-year-of-blockchain-news/> (date of access 28/04/2017)

In the digitized world in which we live, the emergence of new microfinance technologies in virtual space, we can say that their predictability is directly influenced by the big players' implication in blockchain technology. Currently, the biggest players of the moment in generating blockchain news are: Blythe Masters (Digital Asset Holdings), Bryan Behlendorf (open-source Hyperledger), Satoshi Nakamoto, Craig Wright and others mentioned in the chart below:

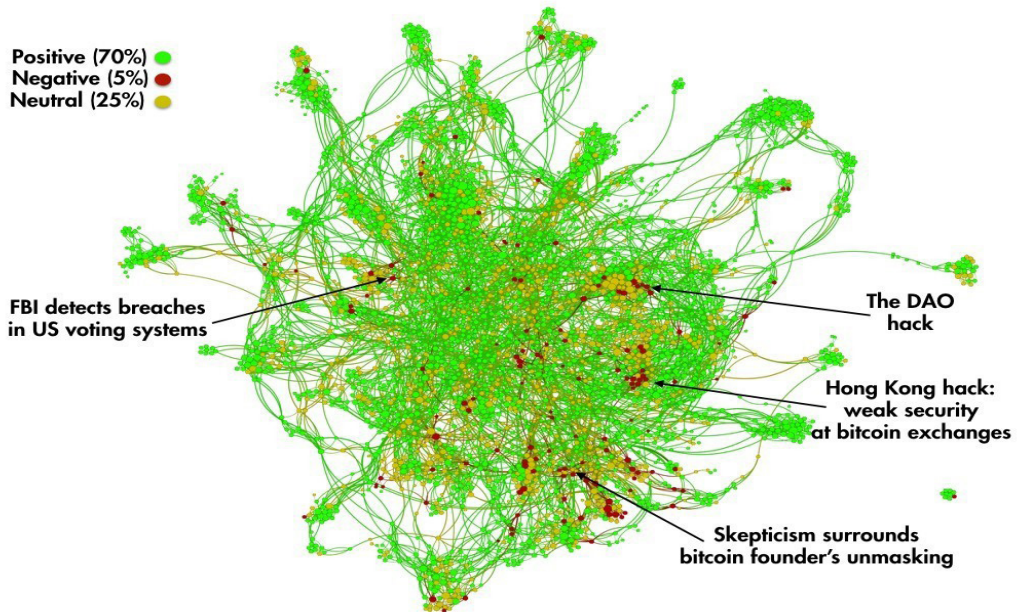
Chart no.3. Big blockchain news players in the world in 2017



Sursa : <https://www.weforum.org/agenda/2017/04/5-infographics-that-explain-one-year-of-blockchain-news/> (date of access 28/04/2017)

In the digitized era, information transmitted over the network creates direct effects at the level of the psyche, more precisely on our feelings, which can be positive, neutral or negative to a news story at a time. The responses of microfinance service users (as an example Mobile Money & M-Pensa) can be positive, market-accepted or negative, respectively rejected by the market, with their launch in the virtual space. This blockchain technology can be used to test certain financial research results (as well as a service prototype) before these results pass the stage of the transfer of results to the applicative area of microfinance institutions.

Chart no.4. Graphic representation of the reaction to various news through blockchain technology



Source: <https://www.weforum.org/agenda/2017/04/5-infographics-that-explain-one-year-of-blockchain-news/> ( data of access 28/04/2017)

Digital technologies are experiencing a tremendous speed of innovation in the financial realm, so Blockchain technology is said to be in line with the specifications of experts at the World Central Economic Forum for the Next Generation Infrastructure, which could lead us to a first conclusion , that instead of several independent financial applications, a blockchain application and a single global financial group could be built. In April 2017, a global digital finance plan was debated in the World Economic Forum. Today, at the level of the financial institutions, there is a digital “registration card” with information about (the volume of assets, transactions, etc.), but this book is personalized to the identity of each institution. Blockchain technology can simplify and harmonize information at the level of each financial institution by creating a single “registration card” on network nodes and in real time. This could make real-time information about each institution present on the same page at a given time and based on real-time real-time information. Blockchain technology can be considered the new paradigm of financial services, as well as a new technology to avoid financial crises The above findings were based on the conclusions of the Deloitte Report presented in April 2017 within the “World Economic Forum on Disturbing Innovation in Financial Services and Analysis of the Impact of Deploying Registered Distributed Registry Technology in nine Financial Services Sectors”.

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## LEGAL RESPONSIBILITY OF THE PRESIDENT OF ROMANIA

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**Abstract:** *The juridical responsibility of the Chief of State is an important institution in the democratic state governed by the Constitution. Therefore, its effective application is full of particular cases and procedural specificities that are developed in this paper.*

**Keywords:** *Chief of State, Constitution, juridical responsibility*

**JEL Classification:** K14, K42, K49

The headquarters of the matter, regarding the regulation of this kind of liability, is found in art. 96 of the Constitution of Romania, which stipulates that “ The Chamber of Deputies and the Senate, in a joint sitting, with the vote of at least two thirds of the deputies and senators, may decide that the President of Romania shall be charged with high treason.

The motion of indictment may be initiated by the majority of the deputies and senators and shall be immediately brought to the attention of the President of Romania in order to explain the facts imputed to him. until the date of dismissal, the President is suspended by law. The jurisdiction of the High Court of Cassation and Justice belongs to the court. The President is lawfully dismissed at the date of the final judgment of the conviction “. The current form of constitutional provisions was introduced with the revision of the Constitution by Law no. 429 of 23 October 2003 on the revision of the Constitution of Romania, the previous form of these provisions being provided by art. 85, called “Incompatibilities and Immunities”, of the Romanian Constitution of 1991, stating that “ The Chamber of Deputies and the Senate, in a joint sitting, may decide to indict the President of Romania for high treason, with the vote of at least two thirds of the deputies and senators. Judicial jurisdiction belongs to the Supreme Court of Justice, according to the law. The President is lawfully dismissed from the date of the final judgment of the conviction“.

The doctrine<sup>8</sup> emphasizes that the legal regulation of the suspension of the President of Romania was not properly positioned from a structural point of view and of the logical succession of the provisions, within the Constitution of 1991, being emphasized in the economy of the fundamental law, firstly, the prosecution of the Head of State in the article on Immunities and Incompatibilities, and then his duties.

Also, the 2003 amendment to the Romanian Constitution also clarified some aspects of the procedure to be followed in the case of the indictment of the President for high treason, with previously gaps in who has the indictment<sup>9</sup>. In this context, anyone had the right to make a referral to the Parliament for the prosecution of the head of state, and then to be debated. As a novelty, the measure of the right of the President of Romania to be suspended by the Parliament from the date of the prosecution until the final conviction and dismissal of the law has been introduced. The parliamentary debates that preceded the adoption of the 1991 Constitution also criticized the constitutional text regarding the direct election of the President by the people and the fact that it was accused by Parliament of high treason.

Thus, arguments were put forward to promote the parliamentary republic as a form of government, the representatives of the opposition parliamentary parties arguing with examples of state presidents who were forced to resign: “there are three cases of presidents who were forced to interrupt their career presidential, not death or disease, but the political will of their country. The first case, no one knows him, in 1868, President Abraham Lincoln’s successor President, Andrew Jackson, was subjected to the terrible Bill of Impeachment that equated with the high treason accusation, what he did to punish the South as you can read in Margaret Mitchell’s novel ~ On the Wings of the Wind ~; but as it was in the last year of operation, an elegant solution was resolved and it was not forced to resign. General Ulysses Grant was then elected. The second case, many of us remember: after the Watergate scandal, President Nixon was forced to resign after the former Vice President, who was also involved, had been forced to resign ... Finally, gentlemen, a very curious case. General De Gaulle, a great state man, resigned in 1969 after the negative result of the referendum on the establishment of the regions in France, regions that were founded after General De Gaulle’s dismissal and which today is one of the most important elements of the administrative life French. So three cases that

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8 PhD Professor Univ. dr. Stefan Deaconu, Some Constitutional Issues on the Responsibility of the President of Romania, *Law Revista*, 18th Year, 3rd Series, no. 12/2007., Pag. 38

9 Constanta Calonoiu, Victor Duculescu, *Constitutional Law and Political Institutions*, 4th edition, ed. Light Lex, Bucharest, 2008, p. 197

must give us a thought. All these historical inconveniences could be mitigated or canceled if the historical parties' suggestion to accept the principle of the parliamentary republic were accepted instead of the presidential republic"<sup>10</sup>

### **The causes for which the President of Romania may be indicted**

At the beginning of this paper, I have specified the two types of responsibilities whose active subject is the President of Romania, namely the political one regulated by art. 95 of the Constitution of Romania and the criminal one regulated in art. 96 of the fundamental law, which will be dealt with in detail in the continuation of this work. The latter occurs when the head of state carries out a qualified act of high treason. The semantics of "high betrayal" deeds or deeds is not detailed in order to explain the constitutional text, but in doctrine it has been described as any act involving the betrayal of a country with particularly serious consequences in terms of state elements, so as these are described in the fundamental law. It is also considered that the constitutional text governing high treason contains both political and legal elements.

From the economics of the constitutional text, we can conclude that the constitutional text regulates only an action, namely the "indictment"<sup>11</sup>, according to the provisions of art. 96 par. (1). This action may be exercised by a lawful subject, namely deputies and senators, assembled in a joint sitting. We also identify another conditionality required for this action, namely that of a minimum quorum of votes. In this situation, we reiterate the provisions of art. 96 par. (1) of the Constitution of Romania in order to find that it is necessary to vote at least two-thirds of the number of deputies and senators in order to decide on the indictment of the President of Romania for high treason.

Returning to the analysis of the legal liability of the President of Romania, we reiterate that the text of art. 96 of the fundamental law contains both political elements and legal elements. The doctrine<sup>12</sup> concluded that the offense of high treason is much more complex than the offense provided and sanctioned by the Romanian Criminal Code at art.155. Thus, any act punished by the Criminal Code in Title I - State Safe Traffic Offenses (Article 155-173) of the Special Party, which has the purpose of producing particularly serious consequences for the state, can be included in the content of the high treason. It was therefore considered, in view of the facts, that the act of high treason is a special offense, with a qualitatively active subject, in this case the President of Romania. The

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10 Dan Amedeo Lazarescu, *The Genesis of the Constitution of Romania 1991. The Works of the Constituent Assembly*, Autonomous Registry Official Gazette, Bucharest, 1998, p. 497

11 PhD Professor Stefan Deaconu, *op. cit.*, p. 40

12 PhD Professor Stefan Deaconu, *op. cit.*, p. 40

special character of this fact also includes the aspect according to which it has a dual valence, namely it contains political elements and legal elements.

The lack of definition of high betrayal in the text of the fundamental law, and the lack of clarification about it in the text of the Criminal Code, required the need for interpretation through other laws. This necessity was necessitated by the identification of the necessary framework for the practical application of the constitutional provision in the event of its being committed. The basis for this reasoning lies also in the Latin adage that: „actus interpretandus est potius iure ut valeat quam ut pereat”<sup>13</sup>. In fact, no person can be held accountable for an act that the law does not prescribe and does not sanction it, conditions that need to be cumulatively met.

In another opinion, the act of high treason belongs to both the branch of criminal law, the administrative and the constitutional law<sup>14</sup>.

Therefore, according to the doctrine<sup>15</sup>, the legal basis for the accountability of the President of Romania is represented primarily by the text of the fundamental law, and secondly by the offenses of treason in the Criminal Code, as prescribed and sanctioned by the latter, respectively: art. 155 - The betrayal<sup>16</sup>, art. 156 - The betrayal by helping the enemy<sup>17</sup> and art. 158 - Secret

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13 Translation: The law must be interpreted in the sense of its application and not in the sense of not applying it

14 Ion Corbeanu, Maria Corbeanu, Constitutional Law and Political Institutions, ed. Light Lex, Bucharest, 2004, p. 155

15 PhD Professor Stefan Deaconu, op. cit., p. 40

16 According to art. 155 of the Criminal Code, as subsequently amended and supplemented, constitutes the offense of betraying the deed of a Romanian citizen or of a person without citizenship domiciled in the territory of the Romanian State to come into contact with a foreign power or organization or their agents, to suppress or spoil the unity and indivisibility, sovereignty and independence of the state, through actions of provocation of war against the country or the facilitation of the foreign military occupation or of economic or political undermining of the state, or of servitude to foreign power, or helping a foreign power to carry out hostile activities against state security is punished by life imprisonment or by imprisonment from 15 to 25 years and the banning of rights.

17 According to art. 156 of the Criminal Code, as subsequently amended and supplemented, constitutes the offense of betrayal by assisting the enemy of the deed of a Romanian citizen or of a person without citizenship domiciled on the territory of the Romanian state who, in time of war:

a) hand over territories, cities, defense positions, warehouses or installations of the Romanian armed forces or serving the defense;

(b) hand over ships, aircraft, machinery, apparatus, weapons or any other material capable of serving the war;

c) procures the enemy people, values and materials of any kind;d) passes on to the enemy side or performs other actions that are likely to favor the activity of the enemy or weaken the fighting power of the Romanian armed forces or allied armies; shall be punished by life imprisonment or by imprisonment from 15 to 25 years and the forbidding of certain rights.

Forwarding<sup>18</sup>. However, it is also necessary to consider the Latin adage governed by the criminal law, according to which the sanctioning of an action / inaction can only take place if it is prescribed and sanctioned by law, namely: *nullum crimen / poena sine lege*. So, in order to be held accountable and legally sanctioned by an individual, the act imputed to it must be prescribed by the law and at the same time a punishment in that sense be sanctioned. Nor does the high-ranking act of betrayal in the French Constitutional Law qualify for the Criminal Code, the competent court, in this case the High Court of Justice of France, will proceed to the analysis of the act in question to qualify as a high treason<sup>19</sup>. It is thus distinguished in the constitutional text of art. 96, two sanctions:

a) a political one, namely the indictment of the President of Romania with the suspension from office and

b) a legal one, the jurisdiction being established for being judged and sanctioned by a final and irrevocable judgment of conviction, the High Court of Cassation and Justice.

Therefore, and given the bivalent constitution of the betrayal, it has been concluded that it has complex, variable content and eloquent political character. The political character is given by the fact that the Parliament, as a legislative power, has the power to charge the head of state for high betrayal, motivating its decision and defining the constitutive elements of the alleged facts deducted from the judgment. I mentioned the term supposed because, regardless of the acts committed by the head of state, he will benefit, under art. 23 par. (11) of the Constitution of Romania, by the constitutional presumption of innocence until the final and irrevocable stay of a conviction. However, the question of legal classification of the deed by the High Court of Cassation and Justice and the application of the related punishment is raised. We reiterate

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The same punishment is sanctioned by the Romanian citizen who, in wartime, is fighting or is part of combat groups against the Romanian state or its allies

18 According to art. 157 of the Criminal Code, as subsequently amended and supplemented, constitutes the offense of betrayal by the transmission of secret acts by the transmission of state secrets to a foreign power or organization or their agents, as well as the procurement of documents or data constituting state secrets or possession of such documents by those who do not have the capacity to know them for the purpose of transmitting them to a foreign power or organization or their agents committed by a Romanian citizen or a person without citizenship domiciled in the territory of the Romanian State shall be punished with life imprisonment or imprisonment from 15 to 25 years and the banning of certain rights.

The same facts, if they look at other documents or data that by their character and importance make the act committed to jeopardize the security of the state, are punished by imprisonment from 5 to 20 years and the forbidding of certain rights.

19 Charles Bebbasch, Jean Bourdon, Jean-Marie Pontre, Jean-Christophe Ricci, *Droit constitutionnel et institutions politiques*, ed. Economique, Paris, 2001, p. 687

that the Parliament does not fulfill the role of the court, the prosecution of a purely political nature, sanctioned by the right of suspension from office. Given that no specific sanction is provided in the Constitution or any other law, it is considered that the legal sanction that could be enforced by the supreme court will be that provided by the Criminal Code<sup>20</sup> for one of the offenses provided in art. 155 to 157 on betrayal. It should also be borne in mind that “legal liability” means the reality of the duty of a lawful subject to bear the consequences of his own illicit deeds, provided by the law in force, which resulted in the attainment of a subjective right of another<sup>21</sup>.

Thus, regardless of who is the subject of the law, including the head of state, he is responsible for his deeds, assuming the consequences, whether licit or illicit, but if they are unlawful in violation of the law, he will be guilty or will be guilty according to the legal provisions in force, regardless of the form of guilt (intention or fault). Therefore, he is obliged to bear the consequences on the basis that he has suffered a subjective right of another by exceeding the limits of his / her liberty or even the objective right<sup>22</sup>, by influencing it under the conditions stipulated in art. 155 to 157 on betrayal. Hence, in order to be the subject of legal liability, a natural or legal person must have a certain essential attribute, that is, a capacity that allows the law enforcement authorities to establish liability. It is the ability to respond - the ability of a person to assess the consequences of his deed and to understand his obligations in order to enforce the sanctions provided by the law applied by law enforcement bodies, which is presumed since it was elected at the helm of the state.

Other authors of constitutional law<sup>23</sup> have appreciated that high betrayal does not only consist of the constitutive elements of the treason crime, which is stipulated in most criminal codes but also goes to the political field, but not the criminal field. Thus, the act of high treason was considered as a crime with a political character and a variable content<sup>24</sup>, art. 60 of the Rules of Procedure of the Parliament’s Joint Sessions, thus qualifying the act of high treason not as a distinct offense, but as a phrase that would encompass several crimes, precisely because of the “facts” and their “legal violation”. In other words, the act of high treason is considered to be the most serious violation of the oath and

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20 PhD Univ. Lecturer. Stefan Deaconu, op. cit., p. 40

21 Gheorghe Mihai, *Fundamentals of Law - Theory of Legal Liability*, Vol. V, Ed. C.H. Beck, Bucharest, 2006, p. 83

22 Ibidem, p. 84

23 Claude Leclercq, *Droit constitutionnel et institutions politiques*, 6ème édition, ed. Litec, Paris, 1989, pag. 591

24 Ibidem, p. 648

interests of the people and the country in the exercise of the presidential duties, and it is the Parliament's duty to decide the prosecution and the prosecution of the head of state.

Concluding, it is stated that high treason "lies at the border between politics and law; it is a political crime, consisting in abuses in office for an action contrary to the Constitution and the country's superior interests. "

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## CORPORATE GOVERNANCE: A GENERAL REVIEW

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**Abstract:** *Corporate governance has an important position in the financial and business agenda and that is due to its benefits to corporations and communities. Its importance was highlighted during the global financial crisis in developed countries and others as well and it was addressed in business and management journals. Even though, corporate governance as a term is still confusing researchers and businessmen. We need as communities and corporations to understand what corporate governance does mean to be implemented in public and private sectors generating benefits to all parties. This article represents main concepts of corporate governance dealing with its definitions, objectives, and justifications for its existence in order to simplify corporate governance as a topic.*

**Keywords:** *Corporate Governance, Stakeholders, Monitoring, Governance philosophy*

**JEL Classification:** M4, M2, M1

### 1. Corporate governance

There is no consensus in the literature on a uniform definition of the term “governance”, as defined by the International Finance Corporation (IFC) as “a system of relationships between OECD and company management, the board of directors, the shareholders and other stakeholders.” Another definition of governance is the manner in which the company is managed and the mechanism of dealing with all its stakeholders, starting with the company’s clients, shareholders and employees (including executive management, and members of the Board of Directors). In general, governance means the existence of a system that governs relations between the parties and the members of the Board of Directors, management, executive and shareholders. That is important to achieving transparency, fairness, combating corruption and granting the right of accountability to the management of the company to protect shareholders and ensure that the company is working towards achieving its long term goals and strategies.



## **2. Emergence of governance**

The need for governance has emerged in many developed and emerging economies over the past few decades, especially in the aftermath of economic collapses and financial crises experienced by a number of East Asian, Latin American and Russian countries in the 1990s. The global economy has recently witnessed a financial crisis, especially in the United States and Europe. The first of these crises was the one that hit South East Asia, including Malaysia, Korea, and Japan in 1997 and this crisis resulted in many giant companies that necessitated the establishment of rules of governance to control the work of all stakeholders in the company.

The importance of governance has increased as a result of the tendency of many countries of the world to shift to capitalist economic systems, which have relied heavily on private companies to achieve high and sustained rates of economic growth. The expansion of these projects has led to the separation of ownership from management, and these projects have begun to seek sources of funding that are less expensive than debt, and have gone to the financial markets. This was supported by the liberalization of financial markets, unprecedented cross-border capital transfers, the expansion of the corporate size and the separation of ownership from management into weak supervisory mechanisms for managers' actions, and many companies in financial crises. In the light of that corporations have compromised the external auditors with the Board of Directors; and the inaccuracy of the financial reports issued by the company. The result of the collapse of Enron, the regulators of 2002 in the United States of America and accordingly, Oxley rules were set to protect stakeholders' rights and monitor the activities of executives.

## **3. Justifications for governance**

What will re-assure the investor (contributor) that the company in which he invested his savings is working according to the higher interest of the company? What return will this investor receive a return on his investments? What does confirm to him that the financial reports published by the company show the real financial situation of the company? What guarantees the lender that he will recover the value of his loan? What does ensure that the employee will continue to work and secure his or her livelihood for the near future? What guarantees the society that this company will continue to employ, produce services and goods, and generate value-added that supports and strengthens the economic situation in the country? How do all stakeholders get their rights in the company? Answering these questions for an investor (contributor) is

governance. Without governance, all concerned parties in the company will bet on their investments as gambling in the casino.

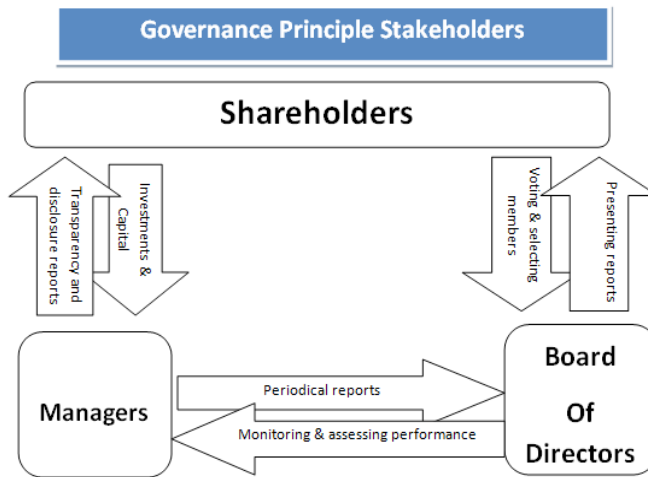
#### **4. Governance philosophy**

There are two advantages of contemporary companies, which necessitate the existence of governance controls: First advantage is separating between ownership and management of the company and that allows managers and executives to protect stakeholders in the light of the shareholders' interests. The second advantage: the influence of large shareholders at the expense of small shareholders is monitored. These two advantages have led to the development of a regulatory system that ensures that the interests of the company ensure that management is doing its best while protecting small shareholders from the domination of major shareholders.

Therefore, corporate governance has introduced a system that governs the work of all stakeholders in the company from shareholders, executive management, and board of directors. Through the so-called dilemma of the main party can explain this problem also and the agent. The main party in this equation is the owner of the company (shareholder) and the executive management (agent) based on the agency theory. In this bilateral equation,, the shareholder's interest at the expense of the principal party and other individuals interests are due to the general interest of the company assuring long term relationship among stakeholders and sustainability. Because of the apparent disparity of information in favor of the agent who runs the business on a daily basis, the chief party has to be appointed to the board of directors. Supervisory body to follow up the representative agent.

The interdependence between the above-mentioned stakeholders is closely related and important. The shareholders are the actual owners of the company and have rights and entitle them. The shareholders shall appoint the board of directors to be mentioned later and to supervise the performance of the executive management, which in turn appoints the executive management of the affairs of the company on their behalf. Besides that, the shareholders also elect the members of the board of directors, and the executive management. Therefore, shareholders are interested in the application of their rights on the one hand, and to reduce the level of corporate governance rules to ensure uncertainty regarding their investments in the company on the other hand.

These include government, society, banks, suppliers, employees, etc. In the end of all of these parties have an interest in the success of the company, providing it with continuity, and having rights to the company assigned to them.



Governance relationship between principle stakeholders

Source: created by author

## 5. Governance objectives

Governance aims to achieve a number of objectives, the most important ones are: Transparency, Accountability, the responsibility and Equality.

**Transparency:** is a modern and advanced concept of governance, which should be consciously informed by the conscious management because of its importance to the company and the parties concerned. Transparency means opening up and giving up the ambiguity of verification and sound vision. Confidentiality and deception is making everything possible.

**Accountability:** Shareholders are entitled to hold executive management accountable for their performance and this is a right guaranteed by law and corporate governance. Accountability also includes the responsibility of executive management to the Board of Directors and the Board's responsibility to shareholders.

**Responsibility:** Governance systems aim to raise the sense of responsibility in the other departments (Board of Directors and Executive Management) and each member of the board of directors acts with a high degree of professionalism. It also recognizes responsibility for the legal rights of shareholders and encourages cooperation between the Company and shareholders including profit, job creation, and economic sustainability.

**Equality:** means equality between small and large investors alike. It means equality between domestic and foreign investors. For example, a shareholder owns the same rights as the owner of a million shares, such as voting and participation in the General Assembly, accountability of the Board of Directors, a share of the distribution of profits, etc.

## **6. Governance benefits**

- Governance helps the company to achieve sustainable growth and promote productivity.
- Governance decreases the cost of capital on the company as banks give lower interest rates to companies that apply corporate governance than non-corporate governance.
- Governance facilitates monitoring and supervision of the company's performance by identifying internal control frameworks, forming specialized committees, and applying transparency and disclosure.
- Governance contributes to attracting foreign investment and encourages investment in foreign markets. Foreign investors are attracted to the shares of the company that implement corporate governance as an investment in the company.
- Committed and transparent, and therefore the element of uncertainty is less compared to other companies. Governance serves to stabilize financial markets.

## **7. Governance controls**

There is a consensus that the proper application of corporate governance depends on the availability and level of access to two sets of controls: external and internal controls.

- a. State is the external controls refer to the overall climate of investment in the country, which includes, for example, laws governing economic activity (e.g. capital market laws, corporate law, competition regulation laws, monopolistic practices and bankruptcy). In the provision of financing for projects; the competitiveness of commodity markets and production elements, and the efficiency of regulatory bodies (CMA and the Stock Exchange) in the control of companies, in addition to private institutions such as law firms, auditing, credit rating and consulting and Financial and investment. The importance of external controls is that their presence ensures the implementation of laws and rules that ensure good corporate governance, which reduces the conflict between social return and shareholders' return.
- b. Internal controls refer to the rules and rules that determine how decisions are taken and the distribution of powers within the company between the General committee, the Board of Directors, and the executive officers. On the one hand, their availability and application reduce the conflict between the interests of these three parties.

In addition, we can add the International Finance Corporation (IFC): Corporate Governance Standards for the principles of public shareholding governance; they are almost very close to the Organization for Economic Co-operation and Development (OECD). The Foundation is also implementing a number of initiatives to consolidate the rules of governance and train corporate governance in the best way to implement governance.

The above institutions are the main governance guides worldwide to implement best governance practices. However, for each local reference country, companies must comply with the governance controls developed by these authorities. For example, in the United Arab Emirates, the Securities and Commodities Authority (SCA) is the regulator of the governance of public shareholding companies listed in the UAE market. The Central Bank is the regulatory body for the application of banks and the rules of governance adopted by the Central Bank. In this booklet, we will explain the principles that have been developed by the OECD as the most common.

## **8. Governance principles**

To the growing interest in the concept of governance, many institutions have been keen to study this concept and analysis; and to develop specific criteria for its application. The most prominent of these institutions are the Organization for Economic Co-operation and Development (OECD), the Basel Committee, and the Finance Corporation (representing the World Bank's BIS and the Bank for International Settlements)

Organization for Economic Co-operation and Development (OECD): these principles are considered as public shareholding companies in the world. It is worth mentioning that the Organization is in the process of amending the rules of governance as a result of the current financial crisis.

Bank of International Settlement - Basel Committee: The Committee of the Bank of Settlement: to regulate the work of banks around the world in order to reduce the level of risk controls for governance to control the work of banks in the pursuit of banks, and to protect them from economic shocks. The rules of governance prepared by the Basel Committee are the primary reference for all international banks.

International Finance Corporation (IFC): the principles of public shareholding governance; they are almost very close to that of the Organization for Economic Co-operation and Development (OECD). The Foundation is also implementing a number of initiatives to consolidate the rules of governance and train corporate governance in the best way to implement governance.

## **Conclusion**

Governance regulates the relationship between the key stakeholders in the Company, the shareholders and the management of the Executive Company and the Board of Directors, so as to define and specifically govern the respective responsibilities and rights of each party. Governance aims to promote the principles of transparency, accountability, accountability, and equity by establishing a set of rules that companies must adhere to. The Organization for Economic Co-operation and Development has developed principles are a reference for all institutions and companies and the most important result of these is the development of an effective corporate governance framework through the development of laws and legislation on governance and definitely that is consistent with other laws in the country. In addition, that is to encourage the effectiveness of financial markets in the country; free movement of heads of mothers across borders, and the establishment of the necessary regulatory institutions in the state. The principles of governance also emphasize the enjoyment by shareholders of the rights guaranteed by law; equality between small and senior shareholders and citizens or foreigners. Governance rules emphasize the need to establish a board of directors according to its composition, an election mechanism that complies with the relevant laws of the state, and the governance sets certain responsibilities for the board of directors. That should not interfere with the responsibilities of executive management. The principles of corporate governance also emphasize the need to disclose the company's financial statements and operations accurately and regularly.

When applying the rules of governance in any company or organization, the company's environment, nature and work conditions need to be taken into account these rules designed to guide and guide companies in the right direction. However, that does not necessarily mean that the company must adhere to the provisions of these rules, but it is recommended and it is preferably adapted to fit the special situation of the company. Moreover, these rules are the minimum commitment to corporate governance and companies should take action. As we see fit, we should mention that public shareholding companies listed on the financial markets are obliged to apply the governance rules established by the Securities and Commodities Authority. We encourage private companies, especially family businesses, to be guided by the rules of governance set by the Organization for Economic Co-operation and Development (OECD).

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## RESPECT AND SUSTAINABILITY OPTIONS

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**Abstract:** *What's surrounding us? Everyone observes and, according to the knowledge's and interests, finds explanations. The set of life-conditioning elements is natural and artificial, most of them. The last ones, designed to comfort and to fill some deficits, have altered and even interrupted, over time, the energy flux of ecosystems. The physical world and biodiversity have evolved by inter-conditioning, until the "creativity" of the industrial age has given increasingly "rich" destinations to matter. Specialist literature and statistical data revealed transformations, some of them even as "alarm signals". The purpose of updating bio-mechanisms in ecosystems is relevant to astral energy input, matter circulation and deepening of socio-economic aspects, as well as sustainability.*

**Keywords:** *biodiversity, bioenergy, economics, matter circulation, sustainability*

**JEL Classification:** O4; O5; Q1; Q2

### Introduction

The information sustains economic and environmental development in favor of socio-human comfort. Collaboration and interdisciplinary coordination have a decisive role. Thus, the ecologists, remarking and recording deviations into ecosystem mechanisms, can fix them only through economic exploitation, driven by not only domestic but also European and planetary policy. Following global discussions, the consensus for action makes it possible to plan and execute actions that are conducive to perpetuating life. The current challenges cannot ignore any of the components of the universe: energy, gas, water, soil and temperature. Selectively gathered up, they are exploited by organic systems, no matter if they are vegetal or animal. Biodiversity is the "dough" that "shapes" agriculture, as an important economic branch, for example in Romania. The biomass is the heart of the bio-economy and the key society challenges are addresses. Growing market demand for biomass involves existential assessment and availability, so that, by reconciling with ecological, economic and social sustainability, the biomass flows in the economy will not put pressure on



natural resources, regardless of their level. The European Commission itself has the objective (by 2050) to develop a competitive, resource-efficient and low-carbon economy. This challenge is in the field of bio-economics, and the review of the bibliography studied leads us to strong the proposed key notions and to raise awareness of bio-economic inter-connections. Scarlat et al. (2015) are convinced that the transition to bio-economy is based on advancing technological processes, achieving technical performance and cost efficiency and will depend on the availability of sustainable biomass. At the same time, for 2020, biomass energy is advancing to 50% of total renewable energy in the EU target. Concomitantly, Georgescu-Roegen N's statement is not neglected: "The economic system consumes nature - matter and energy with low entropy - and provides garbage - matter and energy high entropy - back to nature". So, in the current economic system, we are unable to incorporate long-term risk and value (Rockström, 2017).

### **1. Biodiversity**

To survive, the living organisms have specific, continuous and diversified consumption, and their lifecycle plays an important role in assessing the production of goods and services and of the impact on the environment. Through the economic exploitation of the environment and intensive agricultural technologies, the trophic chains specific to the ecosystem have been interrupted, with repercussions on the biodiversity dimension. As a result, the prosperity promoted by modern economies has disrupted natural resources through excessive consumption, but also by introducing synthesis resources in the form of inputs to feed the market-led ideology. Lester Brown, pointing out the negative effects of industrialization, signaled minimum guarantees against the risk of biodiversity loss or carbon stocks, saying: if everything is destroyed, there will be no economy. Today, the number one economic threat to humanity is our inability to real value the nature (Rockström J., 2017). Therefore, the nature assessment belongs to the field of ethics, inclusion and justice.

### **2. Food safety and security**

The activity of the biosphere through material and energy flows is completed by human force to obtain existential goods. Firstly, they were expressed through food resources. Micu and Petanec (2008) have approached the subject, defining food as the regulator of the exchange processes between the organism and the environment. Referring to Romania, whose territory includes structurally harmonized reliefs and in which vegetal crops are seasonally managed, the food is diversified and its quality depends on human

health. The food quality is strongly influenced by internal factors (physico-chemical composition, biological properties) and external ones (handling demands, storage environment, time etc.), Teodor et al., 2018.

The Romania's accession to the European Union, meant practically, the implementation of its requirements at all stages of food, from its obtaining to consumption. Teodor et al. (2018) have emphasized the importance and influence of raw materials on food quality. They took as an example the wheat, the second grain which exploits the quality of arable land in our country (Figure 1). The soil classification (9,236,031.59 ha and 63.40% of the total agricultural 2010, respectively) for the purpose of assessing yield capability through bonuses is generally based on cumulative conditions related to relief, climate, hydrology and physico-chemical properties of the soil.

36% of the arable land (the first two quality classes) meet very good and good conditions for field biodiversity and, if it is exploited by wheat cultivation, the bread production guarantees food safety and security. But, in the third class, predominantly presented by this structure, there are good enough conditions for the activity of the vegetal holdings.

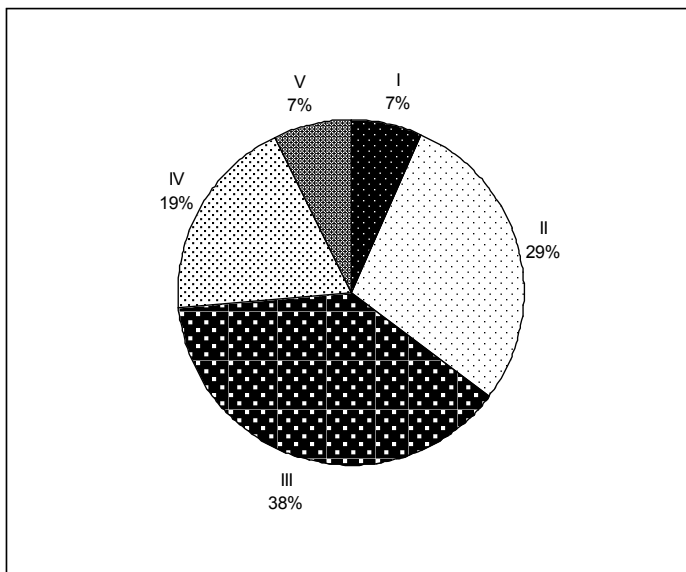


Figure 1. Classification of arable land in quality classes, according to the rating scale, by country - Romania, in 2010 (partly)

Source: I.C.P.A.

The determination of the product's suitability as a food, for example wheat, is made by the determination of specific indices with standardized

values (hectolitic mass > 78 kg, dropping index between 220 and 280 seconds, protein > 13%, wet gluten > 26% gluten between 65 and 80%, impurities up to 3%, IBA - Bucharest, 2015), together with maintaining of their value constantly. The quality of wheat yield is influenced by cultural, natural (exploited) and artificial parameters (technology: input allocation, harvest time). As a result, the quality of the soil resource influences the obtaining of quality agricultural raw materials and, for example, quality results in bakery (Teodor et al., 2018). During last time, the qualitative assessments are based on the land use or animal feed system, choosing for organic products. In Romania, according to Eurostat data (2010), only 0.2% of the 13.3 million hectares were certified as an ecological system.

The organic food system is designed to produce cleaner foods, as Ion (2012), quoting Manole (2006), and in full correlation with the conservation and development of the environment, using methods that respect its nature and systems. At the stage of organic farming, the use of genetically modified organisms, fertilizers, pesticides and growth synthesis regulators, hormones and antibiotics are prohibited.

The same author amplifies the aspect of food safety if the additions in recipes (use of additives, additional substances and synthetic chemicals) are limited in the processing stage.

The quality gives safety to the product as food, and the amount gives the security. Regarding the quantitative aspect, the plant biodiversity in Romania provides important yields through cereals, leguminous plants, horticultural plants, technical and forage plants.

Starting with 2011, according to statistical data, MARD attributed to the Romanian farmer 0.6 hectares of arable land. Assuming the efficient use of this surface, 1.7 tons of wheat or 2.4 tons of maize ([www.zf.ro](http://www.zf.ro)) could be harvested each year. The cereals providing, in addition to human food, and animal feed, result in a corresponding quantitative feeding of the inhabitants of Romania's borders.

Thus, according to the data of the Ministry of Agriculture and Rural Development (MADR), in 2017, agricultural output per head was as follows:

- wheat, rye and triticale - 516 kg / capita / year;
- peas - 15 kg / capita / year;
- sunflower - 160.57 kg / capita / year;
- soya bean - 20.59 kg / capita / year;
- corn - 739.86 kg / capita / year.

The economic value of primary crop products (eg: grains, fruits, roots, tubers, etc.) is the main motivation for land cultivation. The Romanian

agricultural sector cannot only provide domestic demand but can become a notable player on the European market and even global one (Teodor et al., 2018). The independence in ensuring domestic food security and the supply of agricultural products, raw materials and food products is only achieved by increasing the exploitation of the Romanian agricultural potential (Bazga and Chelmu, 2013). The Romanian people has a balanced diet between vegetable and animal foods because the share of cereals, roots and tubers in the total dietary energy supply is 45% and half of the protein consumption is of animal origin (Istudor et al. 2014).

### 3. Biofuels

As Barber (2009) observed, there are significant opportunities to exploit solar energy to generate fuels (hydrogen, alcohols and methane) on sustainable paths. Thus, biomass, as energy, includes agricultural products of arable crops, perennial herbs, tree vegetation, vegetal waste (straw, strains, cocoons, panes). These, undergoing processing (Table 1), undergo transformation with energy input.

Table 1. Processing techniques to obtain energy from biomass

Biomass processing techniques	Energy and bio-fuels				
	thermic	electrical	gas	liquid	solid
Direct burning	Yes				
Anaerobic digestion	Yes	Yes	Yes		
Fermentation				Yes	
Oil extraction				Yes	
Pyrolysis	Yes		Yes	Yes	Yes
Gasification	Yes		Yes	Yes	

Source: <http://biomasa-energie.ro/biomasa/conversia-biomasei-in-energie/>

A great part of the cultural (lignocellulosic) biomass, or residues, remains in the field, although it could generate revenue by using as animal bedding (straw). The residues are essential for ecosystem services, namely to maintain organic carbon in the soil or to prevent soil erosion. But, the demand for secondary agricultural products, which we called residues, is also expected to increase due to the development of the bio-economy, as a reformer of the economic conditions of production. By a European Council decision, the use of conventional biofuels to 7% of energy consumption in transport for 2020 (European Council, 2014) was limited; the rest must come from lignocellulosic biofuels (second generation, Scarlat et al., 2015).

The basis for the European waste management policy is the management options, namely reduction, reuse, recycling, recovery and storage. To ensure

sustainable use of the residue, only a certain part of this total can be removed from the field. On this basis, the plant residues is recovered by category (80% of residues resulting from cereals, 15% of oil seeds) and then introduced into industrial processes for the production of renewable energy. Thus, if only 1000 kg of strains + maize cobs yields 225.7 l of bioethanol (Vasile and Bran, 2017, citing Balat et al., 2008), the average yield of an intensive 10t maize / ha farm, by simple calculation, results (if respects the annual retention of 60% waste on the soil according to good environmental practices - criterion of sustainability) 900 liters of bioethanol/ha of arable land cultivated with corn. The example sustains the recognition of the Danube basin as the main agricultural residue area in the EU-28 (Camia et al., 2018). The biomass, as a concept, also includes industrial waste resulting from and through processing raw materials listed by the food industry (Figure 2).

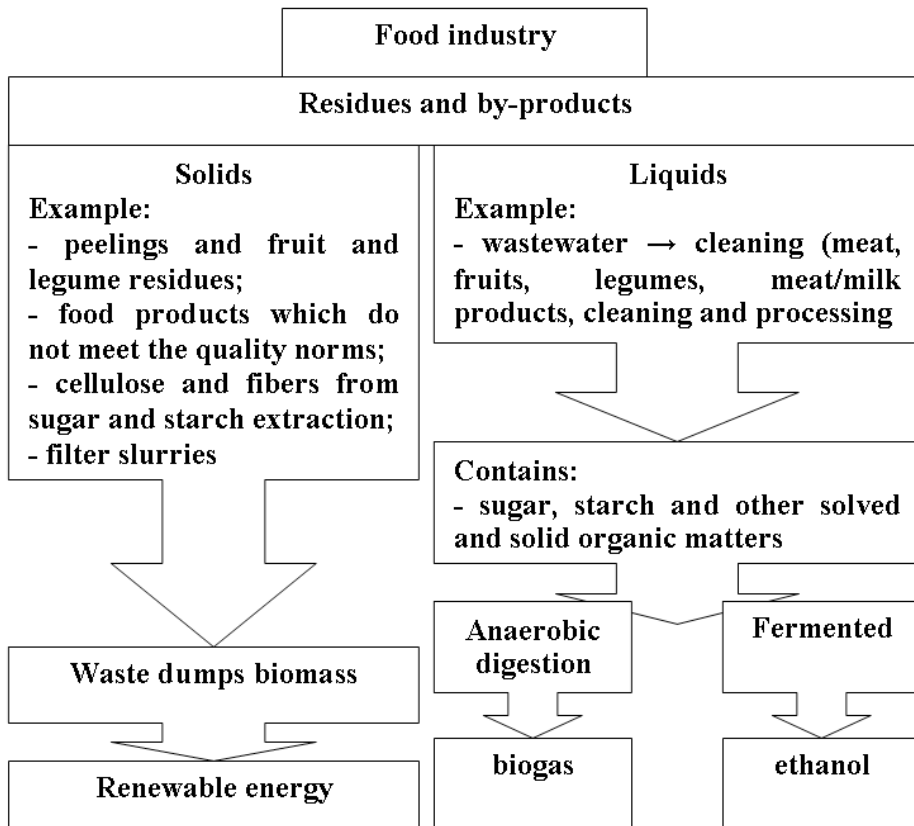


Figure 2. Renewable energy from industrial residues and by-products  
 Source: personal interpretation of the studied literature

In the biological world, the fuels directly derived from photosynthesis (biofuels) could form new technologies based on the success of photosynthesis. As an example, Barber (2009) refers to the potential of new photochemical energy technologies that copy our natural system. Similarly, Inderwildi and King (2009) highlighted an innovative carbon cycle for the production of synthetic biomass fuels (Figure 3).

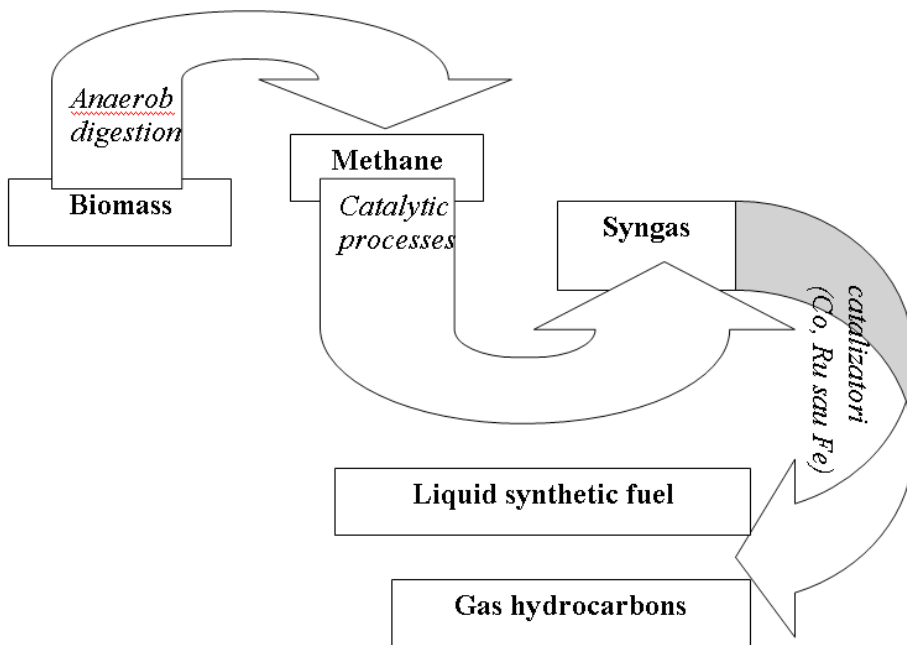


Figure 3. Processing variant of biomass into renewable energy

Source: Processing after Inderwildi and King (2009)

The improvement of the waste management is stimulating innovation in recycling and re-use. At the same time, it limits waste landfills, reduces resource losses, recovers energy and creates behavioral habits.

## Conclusions

The systems sustained by natural and integrated ecosystems and managed by man by agricultural technology play a key role for human well-being. Thus, the agriculture provides the economy with food, feed, fiber, energy and ecosystem services. The production processes in agriculture can rely more on re-use of products and raw materials and on the ability to restore natural resources. By processing agricultural products, the food industry produces a variety of feed-stocks, but also generates a large number of residues and by-

products that can be used as biomass energy sources. For biomass to be effective in reducing greenhouse gas emissions, it must be produced in a sustainable way. The biomass production involves a range of activities ranging from raw material growth to final energy conversion. Every step along this way can raise different sustainability challenges that need to be managed. The bioenergy plays a significant role anywhere in the world, without differentiating countries by degree of development. And this, under current conjuncture, when the world is dominated by concerns about energy requirements, but also for sustainable and fair development and environmental preservation. Total renewable energy support expenditure, including renewable energy technologies installed by 2020, plus new plants, indicates an increase in annual support expenditure under all policy options.

One of the main factors determining the possible economic use of agricultural residues - for bioenergy production – is the transport costs. For Romania, in the Danube Basin, a very favorable area for most vegetal species, large amounts of cereal residues, especially maize, are collected. If there is a waste processing point in bioethanol in this area, the transfer of lignocellulose to the processing is inexpensive and is done optimally in time and space. The situation is a little bit difficult to achieve because lignocellulose biofuels (bioethanol) have not yet reached commercial maturity, so there, there is no infrastructure and related logistics. During future, to support 9 billion co-citizens in the world, it is necessary to move to circular economic principles and practices.

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# PERSPECTIVES OF INTERNAL AUDIT PERFORMANCE IN ECONOMIC ORGANIZATIONS

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**Abstract:** *The notion of audit comes from the Latin *auditum* as an obedience, then an investigation, and ultimately a suggestion of solutions, the audit allowing the contribution of value to the reasoning of a motivated and independent person. Audit is the process by which competent, independent individuals collect and evaluate evidence to form an opinion on the degree of correspondence between those observed and certain predefined criteria. The audit term is fashionable. Fashion may pass, but the need for competent and independent evaluations in various areas is growing. As an examination, in order to determine the properties of a representation, the audit first applied to financial representations. There is financial audit, investment audit, marketing audit, quality audit, audit of information systems, IT, office, and social audit.*

**Keywords:** *audit, risk management process, organizations*

**JEL Classification:** *M42, G11, G30*

## 1. Introduction

Like each of us, organizations set goals that target different time horizons: short, medium and long. At the same time, any goal, irrespective of the time horizon it refers to, is subject to events that could jeopardize their realization.

The importance of risk assessment of an entity is marked by both the negative impact that can be avoided by developing a protection policy and the probability that can be avoided by developing a preventive policy.

The word “risk” derives from the Italian word “*risco*” that means “dare.” Thus, we can say about this concept that it is “a choice, not a fate”.

Any activity we undertake carries risks that materialize with or without our will in one sense or another. The ideal is to perceive them as they are and to use them for our benefit.

Under 2120.A1<sup>25</sup>, internal audit evaluates the exposures to risks associated with the governance of the public entity, its operations and its information systems with regard to:

- ✓ the veracity and integrity of financial and operational information;
- ✓ the effectiveness and efficiency of operations and programs;
- ✓ protecting heritage;
- ✓ compliance with national laws, regulations and regulations.

There are several types of risk in practice, classified according to certain criteria.

- After the probability of occurrence, the risks are:
  - potential risks likely to occur if no control is in place to prevent or correct them;
  - Possible risks, represented by those potential risks for which management has not taken the most effective measures to eliminate or mitigate its impact.
- By their nature, the risks are:
  - Strategic risks, related to mistaken actions related to organization, resources, environment, IT endowment, etc.;
  - information risks related to the adoption of unsafe or unreliable information and reporting systems;
  - Financial risks, related to the loss of financial resources or the accumulation of unacceptable liabilities.
- By nature of the activities (operations) carried out within the entities, the risks are:
  - a legislative risk;
  - a financial risk;
  - operational risks;
  - commercial risks;
  - a legal risk;
  - a social risk;
  - a picture risk
  - environmental risks
  - information security risks, etc.

The risk management department, where it is organized, has the task of managing the risks that may arise within the entity and, potentially, the impact it may have on achieving the entity's objectives.

According to the specifics of the entities, the risks are:

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25 Order on the approval of the National Internal Audit Standards no. 113 of 10.12.2012 published in the Official Gazette no.237-241 / 1378 of 16.11.2012

- general risks, regarding the economic situation and the organization of the management;
  - risks related to the nature of specific activities (processes, operations);
  - Risks related to the design and operation of systems;
  - Risks related to the design and updating of procedures.
- According to the General Norms regarding the exercise of the public internal audit activity, the risks are classified as follows:
  - organizational risks, such as: non-formalization of procedures; lack of precise responsibilities; insufficient organization of human resources; insufficient, outdated documentation;
  - operational risks, such as: not recording in the accounting records; inappropriate archiving of supporting documents; lack of control over high-risk operations;
  - financial risks, such as: unsecured payments, non-detection of financial risk operations;

Risk management has the task of continuously reviewing the organization's activities to identify new risks or how they have evolved over time. At the same time, the risk management department develops and updates the organization's rules and procedures regarding internal control to be implemented<sup>26</sup>.

Internal auditing is not the same as internal control, even if we consider the incompatibility of the two functions: you cannot monitor and evaluate objectively and independently what you do. Through internal audit, the management of an organization seeks to ensure that the internal control function in place functions efficiently, effectively and sufficiently to improve or eliminate the identified risks.

## **2. The role of audit in the risk management process**

The quality of internal auditor requires that a risk-based approach be used in the preparation of an annual audit plan. In fact, professional standards specifically require this. For a good risk assessment, the auditor needs to know the entity, auditable activities, associated risks, and internal control activities that work.

Risk assessment is a permanent issue, as conditions change forever, new regulations emerge, new people appear, topicality emerges, and all these changes constantly change the risk management process, which can never be completed. In our view, our internal risk-based audit is defined as the

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26 Domnișoru S., Vînătoru S. - Internal Audit and Control, Sitech Publishing House, Craiova, 2008

activity that provides assurance on risk identification and management by the management structure. The responsibility of internal audit in risk management is underlined even by the definition of internal audit. By examining this responsibility, we have obtained the following conclusions on the role of audit in the risk management process:

- The audit adequately establishes the techniques and procedures only if it is based on sound knowledge of the risks faced by the entity, therefore knowing the risks and their effects is a research scope for the auditor, knowing these risks is designed to help the auditor place the entity in an area or other risk.
- Not many risk factors are important, but the auditor's knowledge of the risk as such, the way in which it acts, the factors that drive and maintain it in a favorable environment, as well as the factors that can direct it to disappearance.
- The importance of risk management arises from the responsibility of management to design and implement an internal control system that performs the legal and effective management of the risks associated with the activities carried out within the entity.

As a consequence, internal audit is designed to provide assurance to the entity's management of the functionality of the internal control system and of the quality of risk management.

Some organizations, especially the large ones, have created a distinct operational structure to carry out this complex process, known as the organization's risk management (ERM). At the same time, given that economic and legislative circumstances are constantly changing, new mechanisms are needed to identify and control the risks associated with these changes.

The internal auditor, from the moment when the activities leading up to the audit engagements are carried out, and until they are completed, will deal with the risks. Risk is any element that may have an impact on the organization's ability to achieve its goals. This may include deprivation of liberty in the sense that internal auditors cannot do anything.

In conjunction with the publication of the Enterprise Risk Management-Integrated Framework (COSO), the IIA has issued a guide to the heads of audit departments presenting recommendations on internal audit relationships with ERMs within their organizations<sup>27</sup>.

Among other things, the purpose of this guide is to establish a clear line of risk management and internal audit responsibilities vis-à-vis the two.

Thus, the main internal audit activities in relation to ERM are:

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27 Renard J. - Internal Audit Theory and Practice, Publishing House, Paris, 2002, Translation Ministry of Public Finance, Bucharest 2003

- providing assurance on risk management processes;
- providing assurance that the risks are being correctly assessed;
- evaluation of risk management processes;
- Evaluating reports on critical risks;
- Essential risk management analysis.

Regarding the legitimate role of internal audit, the IIA emphasizes:

- facilitating the identification and assessment of risks;
- advise management to take risk protection measures;
- coordination of ERM activities;
- strengthening risk reporting;
- maintaining and developing the ERM framework;
- Developing the risk management strategy subject to approval by the Board of Directors.

At the same time, the IIA warns about the roles that internal audit should not assume:

- establishing the appetite for risk;
- imposing risk management processes;

Auditor's knowledge of the accounting and internal control system allows effective planning and development of an audit engagement as it will have implications in assessing the control risk and procedures to be used to reduce the risk of the mission at a level acceptable minimum.

Starting from this fact, in a personal sense, the role of internal audit in risk management is to provide a permanent information flow to identify and analyze the risks relevant to achieving the objectives and to provide reasonable assurance as to the extent to which the objectives can be achieved. Within this information flow, we consider that the role of internal audit differs according to the moment of risk reporting as follows:

- If the risk assessment is carried out before its effective occurrence, the role of internal audit is to analyze the sufficiency of internal control to avoid that risk;
- If the risk assessment is carried out after the risk has been detected as an actual product, the role of the internal audit is to determine the causes that have led to the risk exposure and to propose internal control measures for elimination, in order to ensure that the organization's objectives are met.

Thus, the internal audit has the possibility and the task of forming a self-evident, informed and independent view of the risks faced by the economic organization and to communicate directly the points of view, findings and conclusions to the hierarchical body and / or management, supporting superior

leadership in effective supervision and achievement of established goals. Collaboration between internal audit and risk management functions creates synergy, generates added value through mutual pooling of resources, skills and experience, and develops the organization's capabilities in risk management.

### **3. Models of quantitative and qualitative risk assessment**

Risk analysis is not an exact science. By establishing the control activities, the high risks are to be averaged or low, until eventual disappearance. However, the risks have to "evolve" downwards. The literature discusses two models of risk value analysis: the quantitative model and the qualitative model.

These start from the premise that any organization can expect to lose losses due to the inefficiency of a computer system, and this risk of loss results from the impact that threats on the organization's resources pose.

The quantitative model is based on the following elements:

- the credible asset value of the assets;
- the probability of annual losses;
- the expected annual loss;
- cost of control and precautions
- uncertainty.

The impact of one single threat or the potential loss associated with a single occurrence is calculated as follows:

$$\text{Impact} = \text{FV} * \text{VA} \text{ or } \text{PPA} = \text{FV} * \text{VA}$$

The annualized loss is influenced by the annual rate of occurrence of the risk and can be determined as follows:  $\text{PAA} = \text{PPA} * \text{RAA}$

where:

FV - vulnerability factor

VA - asset value

PPA - the potential loss associated with an occurrence.

PAA - Early Yearly Loss

RAA - annual rate of occurrence

Such an analysis also includes a cost / benefit assessment that will facilitate the design of the return on investment (ROI) for a given set of controls.

$$\text{ROI} = \text{Net Benefits} / \text{Cost}$$

These mathematical models provide a concrete result, but must be included in the economic environment and noticed if it represents reality.

Internal auditors can carry out accurate and complete evaluations when they have concrete facts or elements, but as a rule, when they intervene it is late because the facts have occurred and the problems have already arisen. This is where the novelty of the internal auditor's work, namely to act before the risk-

producing phenomena, comes in. For this, a horizontal approach must be taken to raise the interest of the auditee, to be responsible for the risks it manages. An important element here is communication after the completion of internal audit activities.

Specialist Alan Oliphant, as shown below, proposes a qualitative risk-assessment model that takes into account basic factors in assessing the value of the risk: financial impact, vulnerability, complexity and trust:

In this case, the value of the risk will be expressed by the values  
“Very Low, Low, Medium, High, Very High”

and not in absolute values,

and the formula for determining the value of the risk is as follows:

$$VR = VF * [(Cv * Wv) + (Cc * Wc) + (Ct * Wt)]$$

where:

VR - risk value

VF - financial impact on the organization; it represents a potential cost of the organization in the event of an error, system failure, fraud or other negative events.

The material value will be given by the financial value or the value of the assets. The impact on the organization can be increased through a non-financial multiplier:

$$[(Cv * Wv) + (Cc * Wc) + (C1 * Wi)]$$

where:

Cv-vulnerability refers, on the one hand, to the way authorized users have access to the system, and on the other hand, the accessibility of the organization’s system and assets to unauthorized users.

Cc - the complexity, takes into account the risk associated with the information technology itself, the number of users in the compartments or in more generic terms the organizational complexity.

But - trust, reflects human behavior in the organization and addresses two aspects: the integrity of staff and the level of involvement of managers.

and, Wv, Wc, Wi - are weight factors (important) that can be applied at the auditor’s discretion, depending on the specific conditions.

The accessibility of an information system can be evaluated according to the physical restrictions implemented within the organization and the modalities of access through the communication network. The calculated risk value will be translated into a “translation table” indicating the level of risk; in the design of this table, the auditors take into account the following rules:

1. the lowest risk value = 0 and



2. the highest value is considered to be the total (financial) value of the organization multiplied by 3.

Risk analysis or assessment is an important step in the work of auditors and is carried out for: the preparation of the audit plan and the preparation of the audit program, becoming an essential part of the management that must be carried out constantly at least once a year to identify all risks. It comprises the following phases:

a) identification of auditable objects (elements), which involves a structured approach starting from general to detail

b) establishing the risks for each auditable subject on the basis of the analysis of operations according to certain pre-designed criteria and performing hierarchical calculations and ranking them;

c) risk measurement, which will be based on the likelihood of occurrence of the risks and the impact and duration of the event's consequences.

Risk measurement is done through three methods:

- the probability method, which involves the following steps:
  - Assessing probable losses based on statistical tools and a historical approach;
  - Direct valuation of annual losses;
  - Recognition and extrapolation, with corrections, if necessary.
- the risk factor method, which is identified in advance from a risk classification.
- method of appreciation matrices, based on the criteria of appreciation and weights

risk on:

- ▭ financial impact: I - 35%;
- ▭ probability of occurrence: P - 20%;
- ▭ level of internal control: CI - 45%

The dimensioning of the relevance of the risks (R) is done through the two components variables of each risk: the consequence (C) and the probability of occurrence (P).

Arithmetically, the calculation relation is expressed as:  $R = C \times P$

We recall that if there is a risk management department within the organization, this assessment would be the responsibility of the organization.

Risk assessment involves identifying and analyzing them in light of the perceived threat to the organization's objectives as part of the operational process that needs to identify and analyze internal and external factors that could affect the organization's goals.

Internal factors may be, for example, the nature of the entity's activities, staff qualifications, major organizational changes, or employee performance, and external factors may be the variation in economic, legislative or technological changes.

Financial impact is defined as the value estimate of entity losses as a result of exploitation of system vulnerabilities by threats. This impact can have two components: a short-term impact and a long-term impact.

Risk assessments must cover the whole range of risks within the entity, so work should be done at all hierarchical levels, especially at the highest levels.

The evaluation process should identify measurable risks and non-measurable risks, such as operational risks, and select those that are controllable.

Management, through predefined control activities, identifies the risks and analyzes their evolution at the organization level. The Internal Audit Department, being an independent structure, resumes management risk analysis to assess the internal control system.

Internal auditors should report to management general results of their work and any significant weaknesses discovered during the course of the audit.

However, auditors are at their own risk: audit risk. They should consider the audit risk at the individual, balance sheet or transaction class. This helps them outline the audit area and set audit procedures.

The risk management process involves several steps, namely:

- ✓ identification of activities, operations;
- ✓ identifying the risks associated with them;
- ✓ establishing risk factors or criteria;
- ✓ risk evaluation;
- ✓ risk hierarchy or prioritization;
- ✓ the establishment of an owner, the person in charge of risk management;
- ✓ defining an action plan and tracking its implementation;
- ✓ systematic reporting of implementation of the recommendations.

Risk assessment is a concern of both internal auditors, which they perform in accordance with their professional standards, and internal control to provide performance management services. For example, if there is a recession in Romania, it will increase the risk of non-collection of taxes and duties and consequently we have to cut spending to fit into budgets by the end of the year.

From the above presented, it is clear the broad problem posed by the risk assessment based on their great diversity, their permanent evolution, but especially the implications that the risks inherent in today's management, politics, which are transmitted and have a great effect on individuals, those who are confronted or can even say they are struggling with the "perfection" of the risks. In this extremely tough context, we find that the assessment of the risks

respecting the phases they have to go through uses classical risk arguments and control activities, focusing on the self-control of those involved, setting key controls on the flow of procedures, and, most importantly, constantly adapting control activities to the evolution of risks.

### **Conclusions**

Internal audit is a profession that has been redefined over the years, from the desire to respond to the changing needs of entities. In addition, through their activities, internal audit adds value to organizations in which they are performing. Internal audit can act as an efficient and effective agent of change in economic organizations, as long as it is capable of self-refinement, that is to say it is its own agent of change. In other words, internal audit can help entities progress as long as they themselves adapt their procedures, methods, concepts, and mentality to management requirements and expectations.

Internal audit has become an essential component in the structure of any modern organization. Internal auditing ensures greater efficiency through a more appropriate use of human and material resources, as well as better coordination between the different departments of an entity.

Internal audit contributes to building a reputation for integrity, which in turn will help develop trusted business relationships. Also, internal audit will provide the necessary premises for the organization to play a positive role in the community by providing a public image and strengthening its image of seriousness.

As any activity, in particular, and internal audit (and primarily public internal audit), reveals a series of malfunctions resulting from the content of the normative acts and, on the other hand, the confrontation with the realities of an economy market. The existence of a modern legal framework and of rules and procedures developed in accordance with internationally accepted auditing standards and good practice in the European Union would be fundamental guarantees that public internal audit is a true agent of change within public institutions.

The key to auditing is to recognize that auditing can also be of greater value if it analyzes aspects beyond traditional financial issues and focuses on points of interest for a broader audience (such as the perception of the true image of the financial statements of the economic organization).

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## TECHNIQUES TO SIMULATE THE LEGAL ORIGIN AND TO DISGUISE THE ILLICIT ORIGIN OF MONEY

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**Abstract:** *Today, money laundering techniques are much more varied and more numerous, ranging from the use of bank accounts of individuals or companies to life insurance contracts, luxury goods purchases or “maneuvers” on the capital market or on the real estate market. The authorities’ efforts to diminish the criminal phenomenon, by enforcing legal provisions, including those on money laundering, forced offenders to find new ways to shelter the law. That’s why money laundering techniques are in constant motion and they do not know limits (perhaps only the imagination of offenders) and criminals are constantly trying to find new ways of washing. The goal is to identify the vulnerable segments of the financial system to generate fast, anonymous and efficient flows, extremely difficult to track. In the past, banks were the launderette’s favorite institutions, but lately the situation has begun to change. The banking system has become increasingly supervised and pursued by the supervisory authority involved in the fight against money laundering, and the professional training of bank officials with responsibilities in the application of WBT/ CFT legislation has increased considerably. Under these circumstances, offenders are trying to take advantage of the weak link in the chain of the global regulated financial system and law enforcement bodies by moving transactions, communications or assets to the least regulated jurisdiction with the most corrupt authorities law enforcement, with the highest degree of banking or professional secrecy, with the most ineffective seizure system, or the most inefficient banking supervision system<sup>28</sup>.*

**Keywords:** *Regulation and Business Law; business economics; Financial Markets and Institutions*

**JEL classification:** K23, M21, N24

Money Laundering and Anti-Money Laundering Laws have imposed stringent regulations to control the recycling phenomenon through banking institutions. Firstly by imposing customer knowledge standards and by making reporting to the competent authority. Romanian legislation requires banks,

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28 Savona, E. U., De Feo M. A. – „Money trails: international Money Laundering Trends and Prevention/Control Policies”

financial institutions, and other non-financial entities (including accountants / financial auditors) to submit three types of reports to the authority, such as suspicious transaction reports, transaction reports with cash over the equivalent of EUR 15,000 in any currency and reports on external transfers over the equivalent of EUR 15,000, expressed in any currency.

As legislation narrows the maneuvering space of offenders, they tend to focus their activities on other sectors, less regulated or more difficult to control, such as the securities market, the precious metals market, the legal advice sector, and fiscal-accounting, etc.

**The money laundering techniques** we are going to address in the following are the following<sup>29</sup>:

- A. Counterfeit cash / cash;
- B. Use of bank transfers;
- C. Using Company Accounts;
- D. Using „ghost”Folosirea firmelor „scoică”
- E. The use of the capital market;
- F. Money-laundering (Trade based laundering);
- G. Use of insurance companies;
- H. Internet payment services;
- I. Digital or electronic currency;
- J. Use of exchange houses.

#### ***A. Counterfeit cash / cash***

Counterfeit cash is represented by the physical transport of cash across national borders. It usually involves hiring couriers to transport money to countries where there are no restrictions in the field (or where they are less severe). The FATF qualifies as cash couriers individuals who physically transport money from one jurisdiction to another, along with personal luggage<sup>30</sup>.

In some situations, cash smugglers have demonstrated a high complexity of operations, even taking control of expedition companies, and then hiding dirty money inside the parcels for export.

A typology for cash smuggling is the directing of the cash flowing from the current activity of some transport companies to the states of origin of the employers' companies through the drivers. Not many times they were found at the crossing of the Romanian border, carrying small sums (10,000-20,000 EURO) in cash that they did not declare and could not justify. At first glance

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29 Nicolae Ghinea, Dita Bondarici (2005), *Fraudulent Use of Payment Instruments* - Publishing House. LUCMAN, Bucharest, p. 67

30 FATF Guidance – internațional Practices – Detecting and preventing the illicit cross-border transportation of cash and bearer negotiable instruments – 19 February 2010;

it does not seem too much, but if we take into account the fact that these races are regular, running at least once a week, a simple calculation leads us to the conclusion that, once a year, a single driver of a single transport companies can take out of the country over 520,000 EURO.

Many national authorities have found an increased incidence of cash accumulations in border areas or in ports. Generally, this is an indication that cash smuggling is taking place in those regions. Consequently, the most drastic measures were taken to reduce the phenomenon<sup>31</sup>.

From a geographic point of view, areas of high risk are the territories where offenders can move freely between jurisdictions, such as, for example, the European Union space as well as large countries with long, easy to cross borders and numerous ports. Airports also pose a potential risk, and for this reason, jurisdictions pay particular attention to these border crossing points.

Transparency associated with bank transfers and (more recently) and money-surrendering or other value-added services are factors that have led criminals to reconsider the importance of cash smuggling as a key element among the “move” disguising their origins and hiding traces.

Cash appears in all profit-oriented crimes, from drug trafficking to cyber-crime. A recent study<sup>32</sup> shows that cash remains an important part of the chain of recirculation operations in the case of cyber-crime, which can be identified in all three phases of money laundering as it has the enormous advantage of contributing to the loss of traces of dirty money.

### ***B. Use of bank transfers***

The use of bank transfers is particularly useful for money laundering. It is a fast, efficient and highly anonymous process (due to the huge number of transactions that take place on a daily basis). Once you enter the system, money can be easily transferred anywhere in the world, sometimes even without having contacts with bankers, in the case of Internet Banking operations. Most money transfers in the contemporary world, by talking about significant amounts of money, are made through bank accounts. Criminals do not want to, and do not want to avoid, this process, which offers great operating facilities, as well as the possibility of simulating commercial or lending operations, masking the fund<sup>33</sup>.

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31 At Amsterdam Airport there is a police unit specializing in detection of cash smuggling (and drugs), with dogs trained to detect banknotes;

32 Criminal MoneyFlowson the INTERNET – MONEYVAL research 2011, [http://www.coe.int/t/dghl/monitoring/moneyval/default\\_EN.asp?](http://www.coe.int/t/dghl/monitoring/moneyval/default_EN.asp?)

33 Popa S, Dragan G. – Money laundering and terrorist financing - planetary threats on financial routes - page 45



The advantages offered by this method are related to the speed of the operation and the irrelevance of the distance element, the funds being usually sent to a remote location (where the investigators are unlikely to travel to follow them). On the other hand, the disadvantage lies in the fact that the method leaves traces in the system because all these transfers and the identity of the persons who carry them are recorded by the banking institutions operating them and the records are kept for at least five years after the termination of business relations with that customer<sup>34</sup>.

Although new technologies such as on-line payment platforms or digital money are gaining ground in the contemporary economic and social environment, criminals and “laundries” still depend on the financial-banking system. Bank transfers can be a quick and effective tool for money laundering in a series of “fashionable” cyber-attacks such as cyber attacks at the beginning of the recycling process, especially if fraud is the removal victims’ money from their own bank accounts. At the next stage, the money is quickly transferred to the carrier accounts and withdrawn in cash or redirected to other destinations. If sent to other jurisdictions, transfers are often made in amounts below the reporting threshold (€ 15,000 or equivalent) to avoid making the origin of those funds compulsory.

Regardless of the method of payment, international fund movements have a number of characteristics and vulnerabilities in terms of money laundering, as if borders disappear for goods and funds movements (especially within supra-state entities such as the European Union) , they remain a barrier for the policeman and the judge, slowing down and complicating the discovery of criminal pathways, obstructing the effectiveness of repressive actions.

International money dispatch is usually part of the stratification step and follows other operations previously performed, such as the use of cash handlers. In transnational operations, more than one state is usually transited, making it more difficult to identify the offender who is “leading the game”, the one who invented the scheme and coordinates all transfers across thousands of kilometers. Undoubtedly, involvement in such schemes of companies established in offshore territories or in distant states of one another complicates things even more.

### ***C. Using Company Accounts***

A more and more common way in practice is to launder money illegally (usually from tax evasion) by introducing them into company accounts. Criminals store cash in the bank accounts of some companies or their cashier

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34 According to international standards

as a “firm creditor” to then receive the amounts back - sometimes with interest - with the title “credit repayment”.

In some cases, when the creditor is not the associate of the firm (or a minority associate), the situation in which, following the maneuver described, it may also take over control of the firm credited by transforming the credit into shares or shares. Their value or greater value can be obtained in the case of a firm’s divestiture or its dissolution. In the latter case, criminals prefer cash-based businesses such as restaurants, bars, nightclubs, hotels, currency exchange offices, and so on. Thus they have the possibility to mix the illegal money in the form of a false income with the legitimate receipts that alone can not sustain the business<sup>35</sup>.

#### ***D. Using „ghost”***

The use of ghost companies for laundering illicit funds is a relatively new method used in those jurisdictions where the commercial company registration system allows the provision of false data at setting up, fakes that can not or can not be verified in a timely manner and in a manner efficiency.

As suggestively illustrates the assigned name, “phantom” firms do not work anywhere, and their associates and administrators usually can not be identified, they are very young, very old or restricted, but have the necessary legal and tax records in relationships with other companies. There is also the situation of “professional” associates and administrators who simply sell their identity for money, relying on the inability of the authorities to identify or investigate them. The purpose of setting up these companies is linked exclusively to real-estate accounting. The “ghost” companies provide false documents to real companies for their recording in the accounts and facilitate the making of bank transfers through their accounts, transfers that constitute a “buffer” between the real firm’s account and cash withdrawal or other money-laundering operations. The “phantom” companies are registered at addresses that either do not exist (number 149 of a street that has only 140 numbers), or have altogether another destination, registering based on fictitious sales / renting documents.

There are many situations where these “phantom” companies with registration number at the trade register and fiscal code have been used for periods of 1-5 years and then introduced into insolvency and radiated. Under these circumstances, the company’s administrator and associate / association are “absolved” of any payment obligations. Faced with this practice, in the last years, the delisting file also requires the tax certificate stating that there are no debts that the state budget and the social security budget.

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35 T. Seah - Anti-Money Laundering 101 2006 – pag. 40

In Romania, the “phantom” firms or the “pocket-sized” companies formed the basis of the great tax evasion, through which the state lost billions of lei<sup>36</sup>.

### ***E. Using „shell”***

The use of “shell” companies is one of the most common methods by which organized crime networks wash money all over the world, especially if a laundrette has access to a professional in the field (such as a notary, a lawyer, an accountant or financial adviser) is all the easier for him to set up and then to use a company, corporation or “shell” partnership.

Such a firm is usually set up in a fiscal paradise, having a mailbox as a mailing address, and as associates and administrators difficult to identify.

Sometimes behind these companies are individuals who have offshore businesses and use offshore firms for fraud, hiding behind other companies to make it harder to identify them. Specifically, the system works like this: the X person who has the interest to hide his identity sets up two offshore Q and P. Afterwards, he incorporates another company R (possibly another off-shore!), whose associate is Q and administrator P. Company R is used in business partnerships in on-shore territory, in the sense that it provides different “services” to other companies, receiving counterparts of impressive amounts of money.

Moreover, through the complicity of a professional, it is possible to create a tangled chain of transfers through a network of such firms to mask the origin of the funds resulting from the crimes, and by dividing them into several jurisdictions one can also take advantage of the lack of communication and collaboration between law enforcement agencies in different states.

Faced with this company registration system, the Romanian banking system requires all companies registered in Romania to operate abroad and open bank accounts, carry out the procedure for identifying the beneficiary of the funds and submit all the legal certificates issued by the trade register in the country where registered affiliates have been registered, attesting to this real beneficiary, the natural person, as a majority associate (may be one or more, over the 25% limit of the number of social shares).

### ***F. Use of the capital market***

With the sophistication of the financial market, the level of complexity of recirculation operations has also increased. Thus, sometimes black money is used to acquire shares, bonds or other securities traded on the capital market, through which subsequent capitalization can be made of amounts of money of apparently licit origin. The capital market is a possibility to quickly invest

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large sums of money and is therefore often used by criminals who want to escape the money of fraudulent origin<sup>37</sup>.

The capital market also has the advantage of banks' high confidence in operations where one party is a financial investment services company. Thus, a transfer by a person (either physical or legal) in relation to such an intermediary is at the outset considered less risky.

A strong point of the capital market (and a weak point for money laundering) is the high degree of client knowledge by the intermediary company.

Since the capital market, together with the banking and insurance industries is a key segment by which individuals and businesses can access the financial system, in 2009 the FATF published a report on money laundering typologies using securities. Case studies and other information gathered in this research have shown that using the capital market for money laundering is a real threat. Moreover, industry itself can be used to generate illicit profits from licit funds.

When they are generated, these dirty profits are virtually almost automatically washed. This phenomenon is relatively new and contrasts with the traditional situation in which, through the capital market, funds from crimes committed in other areas<sup>38</sup>.

### ***G. Money laundering through commercial operations***

The international trade system is clearly the object of money laundering vulnerabilities that can be exploited by criminal organizations and terrorist financing. The attractiveness of the system for offenders is related to:

- the enormous volume of commercial flows that can hide individual transactions that can offer criminals opportunities to transfer values across national borders;
- the complexity of financial transactions generated by the use of a large number of foreign exchange operations and the use of different financial arrangements;
- the complexity of transfers that leads to easy merger of illicit funds with those from perfectly honorable sources;
- limited possibilities for authorities to exchange information between jurisdictions;
- limited resources available to customs to detect suspicious business operations.

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From the company's accounting perspective, this money-laundering technique is particularly important, as commercial transactions behind which dirty money transfers are camouflaged, are apparently recorded fairly in the accounting of the firms involved in the commercial operation in question, and the professional accountant detects a possible suspicion may be particularly relevant.

In fact, money laundering is done by manipulating the accounting documents of the importer and / or the exporter, resulting in over or under-invoicing, multiple invoicing of goods or services, alteration of the quantities entered in the transport documents and false description of the quality goods and / or services in question.

#### ***H. Use of insurance companies***

The insurance industry has a special place in preventing and combating money laundering, most of it being in the "heads" of recycling operations. In other words, assurances are used either in the integration phase, as a final good for the use of the offender, or as a ground for committing the predicate offense, in a manner similar to what was done on the capital market. As with securities, insurance fraud provides dirty money, which is then subjected to the recycling process using industry segments, at least in the immediate aftermath.

As far as the integration phase is concerned, we are dealing with the purchase by the scrubbers of life insurance products for them and their families, a matter of great certainty and worthwhile if the insured event occurs (for example, reaching a limit age of the insured person).

On the other hand, even in the case of the offender's death, his family may benefit from important amounts paid in the form of insurance premiums, sheltered by the state authorities or by potential offenders who may claim the wealth gained illegally.

Apparently, the above theory may seem ridiculous, but in practice there are not many cases of confiscation of insurance policies concluded by criminals with insurance companies, even if the offender was convicted for the predicate offense or for washing of money, and some, or even all, goods from offenses (other than that insurance) were confiscated.

From this perspective, the insurance industry is indeed insuring for offenders and their policy recipients.

In Romania, insurance companies have reported to the Financial Intelligence Unit specialized in combating money laundering with very few cases. And when they did, it turned out to be attempts to defraud the insurance company and not to actually launder the money from the offenses. The situation is explained both by the relatively modest development of the insurance

business and by the insufficient concern of these companies regarding the activity of preventing and combating money laundering<sup>39</sup>.

### **I. Internet payment services**

The term “Internet Payment System” (SPI) is generally used to describe bank transfers (payment services based on the existence of a bank account, the Internet being the only operating environment for payment orders from the ordering party to the payee), as well as other payment methods offered by non-bank financial institutions operating exclusively on the Internet and indirectly associated with a bank account.

In the case of SPI based on the relationship with a bank account, the transfers are made in the same way as any banking transaction, the only characteristic being related to the physical positioning of the client, namely in front of a computer connected to the INTERNET and not at its bank’s premises.

Non-bank SPIs (such as the Pay Pal service) offer their clients a range of services such as: transferring domestic or international funds, making online shopping, using their auction sites on -line, etc.

A number of SPIs allow their clients to hold accounts, in which case all client funds are aggregated into a single bank account opened on behalf of the financial service provider. In this situation, the bank where IPS has an account will not have a direct relationship with each of the individual suppliers of the supplier and therefore will not be able to run the client knowledge procedures in relation to them. Although SPI offers an inexpensive, anonymous and quick way to make international transfers, they are not always subject to the same CSL / CFT control and surveillance measures imposed by the authorities of other “classical” financial institutions, which may make them vulnerable to risks money laundering.

Due to the recent development of SPI, they are increasingly linked and interconnected with various other settlement systems (new or classical). Today, funds can be transformed by a variety of methods, from cash, fund transfer, digital money, bank transfers, or using cards. Furthermore, some SPI providers have begun to issue pre-paid cards that they offer to their customers, thus giving them unlimited cash access through a global ATM network<sup>40</sup>.

### **J. Digital or Electronic Currency**

Electronic money is an encrypted code representing the value attached to a particular account, as ordinary banknotes are pieces of paper bearing certain characteristics that make them a symbol of value.

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39 Popa S. Dragan G. – Money laundering and financing of terrorism - planetary threats on financial routes - page 54

40 Money Laundering Using New Payment Methods – FATF Document, October 2010

Some experts claim that electronic money is “real money” like banknotes, but it is not (as yet) as liquid as cash as it can only be used under certain circumstances (such as the availability of electronic equipment) , while cash can be used by anyone at any time in any payment transaction.

Globalized e-money services are accessible to all customers all over the world and make it possible to move values from one country to another almost simultaneously, sometimes without leaving any trace. Few of these international fund transfer operations are monitored as it happens with bank operations. Using the digital currency, both individuals and businesses can send and receive virtual money in real time. Payments can be made 24 hours a day, 7 days a week, quickly, anonymously and at minimal cost, without operators leaving their office or home.

As mentioned above, electronic money and quasi-anonymous payment systems are divided into two categories: “trusted” and those based on the value of some precious metals. The first category is based on the mutual trust established between the seller and the buyer. There is no “exchange rate” for such coins and they are of no value to others, except individuals and companies that use them<sup>41</sup>.

The second category has a precious metal warranty that determines the exchange rate for these electronic coins (Egold, Pecunix). Once the conversion is made, funds and accounts are unattainable. In addition, some companies offer the possibility of establishing a link between the electronic money account and a debit card that can be used in shops and ATMs.

Cyber criminals and money laundering start to use these systems that offer a high level of anonymity (depending on the issuer) and immediate compensation (conversion), all at a discounted price.

In some legislation on money laundering, electronic money payment systems are not included in the list of entities with obligations in the matter, which is why their operators are not obliged to identify their customers, to keep supporting documents for their operations, or to report possible suspicious transactions.

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<sup>41</sup> <http://www.ukash.com/fr/fr/home.aspx>

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