**CURRENCY EQUIVALENTS**

(June 6, 2006)

Currency Unit = New Romanian Leu (RON)

US$ = 2.7772 RON

**ABBREVIATIONS AND ACRONYMS**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
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<tr>
<td>CDD</td>
<td>Community-Driven Development</td>
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<td>CEE</td>
<td>Central and Eastern Europe</td>
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<td>CF</td>
<td>Cohesion Fund</td>
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<td>CSF</td>
<td>Community Support Framework</td>
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<td>EAFRD</td>
<td>European Agriculture Fund for Rural Development</td>
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<td>ESF</td>
<td>European Social Fund</td>
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<td>ESD</td>
<td>European Social Fund</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>EUI</td>
<td>Euro</td>
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<tr>
<td>FINA</td>
<td>Financial Agency</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GOR</td>
<td>Government of Romania</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ISPA</td>
<td>Instrument for Structural Policies for Pre-Accession</td>
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<tr>
<td>LAG</td>
<td>Local Action Group</td>
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<tr>
<td>LED</td>
<td>Local Economic Development</td>
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<tr>
<td>MA</td>
<td>Managing Authority</td>
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<tr>
<td>MAFRD</td>
<td>Ministry of Agriculture, Forests, and Rural Development</td>
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<td>MAI</td>
<td>Ministry of Interior Administrative Reform</td>
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<tr>
<th>Acronym</th>
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<tr>
<td>M&amp;E</td>
<td>Monitoring &amp; Evaluation</td>
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<td>MC</td>
<td>Monitoring Committee</td>
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<td>MEF</td>
<td>Ministry of Economy and Finance</td>
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<td>MEI</td>
<td>Ministry of European Integration/Ministry of Development</td>
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<td>MEF</td>
<td>Ministry of Public Finance</td>
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<td>NMS</td>
<td>New Member States</td>
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<td>NL</td>
<td>National Plan for Agricultural and Rural Development</td>
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<td>NSRF</td>
<td>National Strategic Reference Framework</td>
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<tr>
<td>NUTS</td>
<td>Nomenclature des Unités Territoriales Statistiques</td>
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<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>O&amp;M</td>
<td>Operations &amp; Maintenance</td>
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<td>OP</td>
<td>Operational Programme</td>
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<td>PEP</td>
<td>Pre-Accession Economic Programme</td>
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<td>PHARE</td>
<td>Poland and Hungary, Aid for the Reconstruction of the Economy</td>
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<td>PEIR</td>
<td>Public Expenditure and Institutions Review</td>
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<td>RCIA</td>
<td>Regional Committee for Strategic Assessment</td>
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<td>RDA</td>
<td>Regional Development Agency</td>
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<td>RSC</td>
<td>Regional Development Council</td>
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<td>RP</td>
<td>Rural Development Plan</td>
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<td>REPA</td>
<td>Regional Environmental Protection Agency</td>
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<td>ROP</td>
<td>Regional Operations Programme</td>
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<td>RSDF</td>
<td>Romania Social Development Fund</td>
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<td>SOP</td>
<td>Sector Operational Programme</td>
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<td>SAFARD</td>
<td>Special Assistance Programme for Agriculture and Rural Development</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SPD</td>
<td>Single Programming Document</td>
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<td>TA</td>
<td>Technical Assistance</td>
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ACKNOWLEDGEMENTS

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FOREWORD

This Policy Note summarizes the results of technical assistance offered in support of the Government of Romania (GOR) in its implementation of regional development programming for European Union (EU) accession. Three important questions confront Romania’s policy makers: (i) how to operationalize regional and local development, given the context of EU structural funds; (ii) how to develop effective mechanisms for multi-level planning and resource allocation to filter resources (EU net transfers) to the regional and local levels where they will be most useful; and (iii) how to build on the successful experiences of the EU-15\(^1\) and of projects supported by the World Bank and other donors that use bottom-up planning and implementation processes to develop effective local projects. This Note looks at some answers to these questions as well as at the issues surrounding possible integration of the Regional Operations Programme (ROP) with other relevant EU operational programs, notably Environment and Rural Development.\(^2\) Finally, this report aims to help inform the World Bank on how best to design future regional and rural development support programs, given the new context of EU funding.

Agricultural, rural, and structural funds account for more than 90 percent of EU allocations to Romania. For the programming period 2007–13, structural and cohesion funds allocated to regional development will amount to about EUR 3.7 billion. The general strategic objective of the Romania’s ROP is to accelerate economic growth in lagging regions to diminish disparities between the most and least developed regions. The ROP seeks to promote a bottom up approach to territorial development by catalyzing on local resources and opportunities. In addition to identifying key priorities for the ROP, Romania initiated several important legislative, institutional and programmatic processes in the context of EU accession in order to attain regional development goals and ensure compliance with the principles and procedures according to which regional development structural funds are allocated to EU member states. However, the programming and effective absorption of these significant EU grants pose technical, capacity, and governance challenges that could affect how well Romania progresses towards its regional development objectives.

During the past year, there has been significant progress and evolution in Romania’s preparations for the implementation of the ROP, which the report has tried to incorporate. Romania has also benefited substantially from a wide array of technical assistance to align its systems with European Commission (EC) requirements. However, the evolution of pre-accession preparations indicates that considerably less emphasis has been placed on incorporating the strategic implementation lessons of member states. As with almost all other operational programs, initial planning for

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\(^1\) EU-10 countries have only had two years of post-accession implementation, and while they provide several lessons, most new member states are in an adjustment phase and so look to the EU-15 experience.

\(^2\) Economic Competitiveness OP is also relevant though not covered in this Policy Note.
regional development seemed to have been largely exclusive as non-governmental stakeholders, especially local administration felt that consultations were more information sharing than substantive discussions seeking input on the design of the ROP. This view was also shared by Regional Development Agencies (RDAs) which have more recently been better integrated into the process of designing and structuring the ROP. RDAs have been designated as the Intermediate Bodies, and have been assigned significant implementation responsibilities. The strategic direction of ROP programming has been guided primarily by the formal priorities of the EU framework and to a lesser extent, grounded in regional and local priorities. Social partnerships remain weak; management and administration structures are still evolving; and monitoring and evaluation, beyond EC-mandated processes, is as yet undefined with respect to impacts. As a recent entrant to the EU, Romania has a unique opportunity to build on the hard-learned programming and implementation lessons provided by the relatively long EU-15 experience. There is still time to incorporate important lessons from more experienced member states (e.g. EU-15), on how to design an effective and decentralized implementation structure for regional development. These lessons could help the managing authority to further streamline ROP implementation, and help Romania maximize both the absorption and the productive use of available resources, and hence the development impact of EU funds.

This Policy Note recognizes that Romania has undertaken major steps towards operationalizing the ROP, and continues to refine implementation arrangements. Hence, the primary value-added of this Note is that it offers a strategic review of aspects of the ROP implementation system that can enhance the absorption and effective use of EU funds at the regional and local levels. It is not intended to provide a comprehensive review of Romania’s preparations for implementing the ROP especially given its rapid evolution. Rather, the aim is to complement advice from the EC and twinning expertise, and inform those aspects of regional development implementation that can strengthen impact at the subnational level and are the subject of national decisions and choices.

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3 The first draft of this Note was written in November 2006 (and comments from the Managing Authority of the ROP on a subsequent draft were incorporated in April 2007). The authors acknowledge that given the rapid evolution of programming and implementation arrangements, in some instances the Note may not reflect developments after April 2007.
EXECUTIVE SUMMARY

EU accession offers Romania an unprecedented opportunity to realize a broad range of economic and social development objectives. Substantial net inflows for 2007–13 could have a transformational impact on Romania’s national, regional, and sectoral development, but only if these resources are well managed and put to good strategic use.

During the past year, there has been significant progress and evolution in Romania’s preparations for the implementation of the Regional Operations Programme (ROP), which the report has tried to incorporate. The role of the Regional Development Agencies (RDAs) as intermediate bodies in the 8 NUTS II regions has been formalized, and coordination and collaboration between the managing authority for the ROP and the RDAs has been steadily improving over time. This development is important in terms of building a sense of “joint responsibility” for achieving good regional development outcomes. Other key immediate and longer-term steps toward strengthening the ROP are outlined below, and regional development lessons drawn from the EU-15 and implications for their implementation in Romania are integrated into the Executive Summary and throughout the Policy Note.

Immediate Next Steps

To Operationalize Regional Development

Focus initial implementation efforts (of managing authorities and intermediate bodies) on streamlining and implementing the ROP. Secretariat functions of the Regional Committees for Strategic Assessment (RCSA), coordination of technical appraisals and capacity support to beneficiaries will be crucial implementation challenges in the initial years, requiring concentrated attention from RDAs and the managing authority. ROP implementation should be structured to ensure an effective, streamlined, transparent process that is responsive to local and regional investment needs. Avoiding major implementation delays will require timely review of project proposals and feedback to beneficiaries. These “nuts and bolts” activities will significantly tax capacity in Ministry of Development Public Works, and Housing and RDAs over the short term. As coordination across Sector Operational Programmes (SOPs) becomes more important, GoR may need to revisit the regional structure to find the best intergovernmental set-up for promoting regional synergies across operational programs. This could increase the territorial impact of investments, and speed-up absorption (see Longer Term Agenda).

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4 See section II.1 of Key Issues and Challenges for details.
5 Formerly the Ministry of European Integration (MEI)
• **Strengthen the role of the regions in the decision-making framework for project selection.** The Managing Authority (MA) has decided to broaden regional decision making by establishing RCSAs. These committees will include local authorities and civil society actors. According the April 2007 ROP programming documents, the role of the RCSAs will be to ensure that project applications have a strategic fit with local and regional priorities. The document indicates that final decisions on project selection are to be made by the managing authority. However, the managing authority has advised the authors that project approvals will be decentralized. Governance and social partnership arrangements at the regional level have not been clearly articulated, and the Regional Development Councils (RDCs), comprising elected County Presidents, no longer appears to have a role in project selection processes. In order to ensure that project pipelines are genuinely anchored in regional and local priorities, it is important for regional and local stakeholders to have a substantive and well-defined role in the process of ROP implementation. In principle, under a decentralized approval system, the managing authority would not approve specific projects. The managing authority should instead perform a final check to ensure eligibility for EU support, as well as manage overall coordination, monitoring and evaluation, strategic audits, and relations with Ministry of Economy and Finance (MEF) and the EC.

**To Improve Resource Allocation to the Local Level and Facilitate Absorption**

• **Finalize indicative regional envelopes, develop and agree on transparent reallocation procedures.** Regional allocations (envelopes of resources) based on clear criteria, are an important mechanism for managed competition, ensuring that regions with the greatest need receive adequate resources. The regional allocations approach has been widely used in EU-15 countries, and Romania is also adopting this approach towards resource allocation, and these regional allocations should be publicly available. The envelopes decentralize resources to the regions but simultaneously link national priorities with local bottom-up needs identification through earmarking of shares of regional allocations by axis. However, it is likely that faster moving regions with better capacity will absorb resources more quickly. While it is important to build capacity for project development in weaker regions, it is recommended that the envelopes be indicative and be combined with a transparent process for reallocating resources away from slower regions. This will allow for the productive use of these funds with relatively fast absorption, if it becomes clear that a particular weak region(s) will not be able to absorb the resources within 2-3 years. In practice, there is likely to be some political difficulty with reallocating resources away from non-performing regions, but regional envelopes should be indicative and not become entitlements to avoid funds unnecessarily being lost to Romania as a whole.

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6 The ROP April 2007 version suggests that there is a new regional agency - Regional Committees for Regional Development Planning (RPC) which seems to have a mandate that is similar to that of the RDCs.

7 See section II.2 for detailed discussion of this issue.

8 The World Bank was advised that regional allocations have been finalized, though neither the criteria nor actual allocations appear to have been made public.

9 There is a risk of decommitments of funds after 2-3 years (n+3 during 2007-9, n+2 during 2010-2013).
• Harmonize the local counterpart contribution framework across all local public infrastructure investments within the range proposed by the Ministry of Economy and Finance (MEF) (2 to 5 percent) to ensure discipline in project preparation and identification. MEF has decided to finance most of the national counterpart from the national budget for investments where localities are the beneficiaries. However, importantly, MEF has also decided that there should be some amount of local counterpart, 2 to 5% depending on the situation, to ensure some amount of fiscal discipline and ownership of local projects. MEF is well advised to maintain its local contribution approach, and further clarify the local cofinancing financing percentages such that they are consistent across all structural funds for similar types of investments. Adequate and timely advance payments also need to be provided to localities whose projects are approved so as to allow them to sign implementation contracts with private companies. And to the extent possible, it is recommended that local public infrastructure investments under the National Plan for Rural Development be subject to a cofinancing framework that is consistent with the approach developed by MEF for structural funds.

To Build a High-Quality Pipeline of Local Projects

• Clarify and harmonize project selection criteria and processes across Nomenclature des Unités Territoriales Statistiques (NUTS) II regions. Methods of assessment, including selection criteria and weights (developed collaboratively by the managing authority and the intermediate bodies), should be applied uniformly throughout the eight regions, allowing the managing authority and the Monitoring Committee to assess their impact on pipeline quality. Such harmonization would also strengthen the overall transparency of the selection process, which, like the eligibility and evaluation criteria, should be made public to clarify both the rules of the game and the minimum requirements for successful applications. It should be noted that the managing authority has moved in this direction – the Monitoring Committee will approve the selection criteria for all regions in order to ensure a consistent approach.

• Develop a capacity-building agenda to support counties, cities, towns, and communes in bottom-up, participatory, territorial development planning based on public-private and broader stakeholder participation. This recommendation is built on the importance of combining absorption with impact through developing a high quality pipeline that is strategically aligned with regional and local needs. The proposed approach would help localities create practical, realistic development strategies and reconcile development aspirations with possible funding from the EU and other sources. Building this capacity will be a significant challenge requiring support from other ministries, especially the Ministry of Interior and Administrative Reform (MAI). It could also be funded by the Public Administration Operations Programs (OP), since MAI’s responsibility for decentralization and strengthening local governments justifies support of local capacity to attract investment resources.

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10 Advance payments have been agreed for Public Authorities. These payments need to be disbursed quickly after projects are approved in order to facilitate project implementation.

11 See section II.3 of Key Issues and Challenges for detailed discussion.
Successful absorption will also require that localities strengthen their procurement, financial management, revenue mobilization, and project management capacities, as these also affect the quality of local investments.

- **Ensure through RCSAs that approved projects are consistent with local economic development plans and with local priorities.** Ad hoc projects proposed by county elected leaders that do not fit the strategic local development plan or otherwise lacking broad-based support should be discouraged. This can be done quite effectively by assigning significant weight in selection grids to the fit of a particular local project with the corresponding local strategy. Also, given the planned multi-stakeholder composition of the RCSAs, these bodies seem well placed to review the strategic alignment of proposed projects with local strategies and needs.

**Longer Term Agenda**

- **To prepare for the next programming period, Romania must resolve structural weaknesses in its current regional model** and then closely monitor the impact of institutional arrangements and regional structures and processes during 2007–13 for key lessons on what works and what does not. Current plans to broaden the participatory basis of decision-making through expanded project-selection councils move in the right direction, and the effect on the quality of regional decision-making should be carefully studied for possible long-term adoption. Moving forward, Romania will need to decide whether to formally constitute regions as levels of government or continue to use them mainly for planning purposes. In addition, RDAs are now legally constituted as Non-Governmental Organizations (NGOs), regional coordination among Sector Operational Programmes may be difficult for RDAs to implement, especially where deconcentrated units of other sector ministries are involved. Therefore, it is recommended that GoR consider the legal status of RDAs as it refines the regional model and assigns implementation and coordination responsibilities within regions.\(^\text{12}\)

- **GOR should monitor and use the experience of 2007–13 to determine how best to strengthen regional and local synergies among operational programs with territorial dimensions.** Since this programming period will be the first post accession and it takes time to fully adapt and customize the EU framework to local circumstances, the managing authority should monitor and evaluate the effectiveness of the ROP very carefully. Such monitoring would provide a good basis for adaptation during mid-term and in future programming periods. One important area to review would be how to achieve integration among operational programs while respecting EU requirements for synergies and demarcation among operational programs. In particular, pillar 2 of the National Program for Rural Development and the European Regional Development Fund (ERDF) seem to have natural synergies on the territorial development aspects.

\(^{12}\) See section II.1 of the Policy Note for more information on implementation design, and decentralization issues
Monitoring and evaluation in Romania remains undefined, beyond the formal evaluation processes outlined by the EC. This will need to change to enable Romania to derive good lessons on which to design its future programming. However, given capacity constraints, in the near term, Romania is likely to focus on the EU’s formal monitoring and evaluation requirements rather than develop a more systematic or comprehensive approach tied to internal strategic objectives. If the monitoring and evaluation system both tracks implementation progress and evaluates whether ROP and project interventions are achieving desired results, it will ultimately be a useful tool for management decisions, identifying priority axes and refining measures and approaches for future programming periods.

Greater fiscal decentralization should be pursued long-term to strengthen the project-absorption possibilities of local administrations, including greater own-revenues and fiscal discretion regarding equalization grants. Limited fiscal decentralization weakens own-source mobilization and capacity to borrow in most localities, constraining the ability to finance most non-eligible costs. Given that co-financing and advance payments from the central budget are likely to diminish over the long-term, the lack of adequate of financial capacity at the local administration level is likely to be a critical bottleneck and threaten absorption of EU structural funds locally and the ability of local administration to achieve their local and territorial development goals.

\[13\] The definition of own-resource revenues has been expanded beyond normal technical classification to artificially increase the debt ceiling.
I. BACKGROUND

1. OBJECTIVE, RATIONALE, AND AUDIENCE

This Policy Note is the result of technical assistance offered in support of the Government of Romania (GOR) in its implementation of regional development programming for EU accession. Three important questions confront Romania's policy makers: (i) how to operationalize regional development, particularly at regional and local levels, given the context of EU structural funds; (ii) how to develop effective mechanisms for multi-level planning and resource allocation to effectively filter resources (net transfers from the EU) to the local levels (regions, counties, cities, and communes) where they will be most useful; and (iii) how to build on the successful experiences of the EU-15 and of projects supported by the World Bank and other donors that use bottom-up planning and implementation processes as effective tools to develop high-quality local projects. This Note looks at possible answers to these questions as well as at the possibilities for integration of the Regional Operations Programme (ROP) with other sectoral programs, thus building synergies with other relevant EU operational programs—notably Environment and Rural Development. The Note draws heavily on lessons and experience derived from the EU-15 countries, benefiting from their significant track record in working within the EU structural funds framework. Finally, these conclusions from the Technical Assistance (TA) also help inform the World Bank on how best to design its future regional and rural development support programs, given the new context of EU funding.

This Note offers a strategic review of those aspects of the ROP implementation system that can enhance absorption and impact of EU funds at the regional and local level. It is not intended to provide a comprehensive review of Romania's preparations for implementing the ROP, but instead seeks to complement ongoing advice from the EC and the twinning expertise. The Note does not address aspects of ROP programming that were negotiated between the Romanian government and the European commission, rather, focuses primarily on the operationalization of regional development programming priorities at the sub-national level, which are the subject of national decisions and choices.

Included in the audience for this Policy Note are key decision makers in the Ministries of Development, Public Works and Housing—formerly Ministry of European Integration (MEI) and of Agriculture, Forests, and Rural Development (MAFRD), which are the designated management authorities for the Regional and Rural

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14 The EU-10 countries have had only two years of post-accession implementation, and while these years have yielded several lessons, most new member states remain in an adjustment phase, continuing to look for guidance to the experiences of the EU-15.

15 This change in Ministry which houses the managing authority of the ROP took place in April 2007. Given that this report was written prior to the change, it continues to reference the MEI as the managing authority.
Development Programs, respectively, as well as the Ministry of Administration and Interior (MAI), responsible for decentralization and capacity enhancement of local administration, and, finally, the Ministry of Economy & Finance (MEF), which coordinates the National Strategic Reference Framework (NSRF) and discussions with the EC.

2. THE CONTEXT

Romania has recently acquired European Union (EU) membership. The country’s aspirations to EU accession have in recent years enhanced its macroeconomic stability and spurred renewed commitment to reforms. The economy grew robustly at 4 to 5 percent per year during 2000–5, with inflation declining from above 40 percent in 2000 to 8.6 percent in 2005, the lowest level since the beginning of the transition. Structural and institutional reforms accelerated during the same period: private sector share of Gross Domestic Product (GDP) has moved closer to EU-8 levels, more than 90 percent of banking assets are now held by the private sector, energy reform has resulted in a substantial reduction of quasi-fiscal deficits, and the independence of the judiciary has been strengthened. Nonetheless, Romania has yet to complete the ongoing reform agenda necessary to underpin growth and improve living standards. Much of the unfinished agenda relates to the need to remedy regional imbalances, attain EU standards of agricultural and private sector competitiveness, and redress the social exclusion of minorities and other vulnerable groups. About 15 percent of Romania’s 21.3 million people are poor, including 23 percent of the children under 15. Educational attainment remains low by EU standards, especially in rural areas, and infant mortality is 1.5 percent, the highest rate among EU member states and candidate countries. Accession to the EU offers Romania an important opportunity to address these issues, in terms both of planning and programming frameworks for social and economic convergence with member states and of substantial grant resources awarded by the EU to lagging regions and countries.

In the post-accession period, Romania will enjoy net-recipient status, with significant implications for government programs. As per indicative allocations, over the seven year period (2007–13), Romania will receive a total of EUR 19.667 billion through structural instruments, including those from the Cohesion Fund (CF), the European Regional Development Fund (ERDF), and the European Social Fund (ESF). In addition, the government will receive EUR 8.33 billion in agriculture and rural development funds through the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF). For the initial three years of membership (2007–9), EU indicative allocations for Romania amount to EUR 8.85 billion. This compares to Romania’s projected contribution to the EU budget of approximately EUR 800 million.

These amounts represent over 90 percent of EU funding for Romania during the 2007–13 programming period and are allocated to and programmed through the National

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16 NSRF Romania 2007–13, p 103.
17 NSRF + CAP.
Strategic Reference Framework (NSRF) and the National Plan for Agriculture and Rural Development (NPARD), respectively.

These significant net inflows offer GOR an unprecedented development opportunity to dramatically accelerate the pace of territorial development through rural and regional development and private sector growth; strengthen environmental management; improve national and local infrastructure; energize the agriculture sector; reduce the currently significant regional disparities; and strengthen the capacity of local administrations (counties, cities, towns, and communes) to plan and implement projects addressing local territorial needs and aspirations.

**EU Cohesion and Common Agricultural Policy Programming**

Regional development policy constitutes the core of the EU's cohesion policy. Based on a territorial development approach primarily targeting regions, the cohesion policy (2007-13) has three broad objectives: (i) convergence; (ii) regional competitiveness and employment; and (iii) (iii) territorial cooperation (urban and rural). It is financed by a budget equivalent to 0.37 percent of the EU Gross National Income (GNI). Consistent with the EC's overall structural emphasis, 81 percent of all structural funding is allocated to the convergence objective, with 60 percent of all EU funds going to Nomenclature des Unités Territoriales Statistiques (NUTS) II regions with GDP less than 75 percent of the average of all EU-25 regions. A total of 15.8 percent of all funds from structural instruments is earmarked for regions under the regional competitiveness and employment objective, and 2.4 percent is allocated to European territorial cooperation.

Regional (cohesion) policy is financed by three structural instruments: the Cohesion Fund (CF), the European Regional Development Fund (ERDF), and the European Social Fund (ESF). Romania will receive about EUR 19.7 billion in structural funds under the convergence objective during the 2007-13 programming period. This includes Euro 5.8 billion in cohesion funds (CF).

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18 Nomenclatures des Unites Territorial Statistiques (NUTS). NUTS II units have a population between 800,000 and three million inhabitants; NUTS I regions have between three and seven million, and NUTS III between 150,000 and 800,000.

19 Funds for member states with GNI per capita <90% of EU-25 average; used to finance larger or national investments in environment and infrastructure.
Figure 1: EU Regional Policy

### Regional Policy 2007-2013

| Objectives | Budget: EUR 307.6 bn (0.37% of EU-GNI) |

### Key Figures
- **Convergence objective**
  - 81.7% (EUR 251.33 bn)
  - Regional and national programmes
    - ERDF
    - ESF
  - Eligibility: Regions with a GDP/head <75% of average EU25
  - Priorities: innovation, environment/risk prevention, accessibility, human resources, administrative capacity
  - Allocations: 67.6% (EUR 177.29 bn)

- **Cohesion Fund including phasing-out**
  - 15.8% (EUR 48.79 bn)
  - Member States CHI/head <0% EU25 average
  - Priorities: transport (TENs), sustainable transport, environment, renewable energy
  - Allocations: 20.0% (EUR 81.42 bn)

- **Regional competitiveness and employment objective**
  - 15.6% (EUR 38.4 bn)
  - Member States suggest a list of regions (NUTS I or II)
  - Priorities: innovation, environment/risk prevention, accessibility, European Employment Strategy
  - Allocations: 3.4% (EUR 10.38 bn)

- **European territorial co-operation objective**
  - 2.44% (EUR 7.5 bn)
  - Cross-border and transnational programmes and networking (ERDF)
  - Border regions and greater regions of transnational co-operation
  - Priorities: innovation, environment/risk prevention, accessibility, culture, education
  - Allocations: 77.9% cross-border, 18.3% transnational, 3.9% interregional + EAFRD

Summary of the EU-15 Experience with Design of National Implementation Structures

As illustrated in Figure 2, the EU framework embraces a complex architecture of institutions required to facilitate implementation of national strategic reference frameworks and to enable access and absorption of structural funds. Two of the three aspects of this implementation architecture, Actors and Reporting, are fixed, but the EU framework affords member nations significant flexibility in adapting institutional arrangements for delivery, roles, and stakeholder responsibilities, according to the context. Therefore, while the EU prescribes what Actors must be involved and what reporting framework must be used, the rules of the game, the roles and responsibilities, and the interplay among national and sub-national actors can and does vary as member states make decisions according to their specific contexts. A review of the types and evolution of implementation systems follows.

Degrees of participation and decision-making powers of national and sub-national actors vary by member state. This reflects factors such as the distribution of competencies throughout the national, regional, and local levels; political interests and linkages; the amount and scope of co-funding available; the number and scope of
programs to be dealt with at each level; the degree of administrative experience with managing economic development; and the nation's historic legacy. It follows that practical arrangements for programming also vary, including approaches to program development, project generation, appraisal, selection and monitoring, and the extent to which these tasks are subsumed within the existing administrative structure, including whether parts of the implementation are carried out by dedicated administrative structures and how these are organized.

**Regionalization has increased over time in the EU-15.** A trend in many EU member states over the past 10 to 15 years has been a progressive regionalization of program management responsibilities, most recently in Greece and Ireland. In some countries, intermediate implementing bodies have been created to administer sub-regional or thematic parts of programs; for example, regional management offices in Austria, localized grants in France, integrated programs/projects in Italy, and local action plans in the United Kingdom.

The system for generating, appraising, and selecting projects strongly influences the efficiency and effectiveness of resource allocation in operational programs. As discussed below, administrative systems are, broadly speaking, either centralized or decentralized and differentiated or subsumed.

**Decentralized vs. centralized implementation structures.** Decentralized systems include both federal systems and systems involving autonomous (self-governing) regions. Centralized systems include those systems managed by national ministries and other national bodies with descending degrees of decentralization and partnership.

**Differentiated vs. subsumed systems.** Existing administrative structures exhibit two broad approaches to managing EU structural funds: at one end are systems that establish specific structures dedicated solely to management of these funds, and at the other are systems that use pre-existing domestic resource allocation structures for this purpose. Along this spectrum, three categories of program management systems can be identified:

- **Differentiated systems:** Dedicated organizational structures are established to deliver the structural funds, requiring their own instruments for project generation, appraisal, and decision making. Project appraisal is typically done by special structural fund secretariats and decision making by committees representing the partnership.

- **Subsumed systems:** Here the allocation of resources is channeled through existing national or regional ministries and agencies, and project decision making is

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undertaken by individual competent agencies. Project appraisal includes both EC and domestic funding projects.

- **Composite systems:** Combining elements of the two approaches, composite systems utilize a mix of domestic appraisal systems and elements specifically designed to manage structural funds.

**In general, decentralized, subsumed systems have a better record of management and use of EU funds.** Well known examples of such systems include Germany, Austria, and Spain, widely regarded as success stories in the management and implementation of structural funds. In all three countries, the institutional set up for regional development has been integrated into sub-national governments within the context of effectively decentralized intergovernmental systems and governance structures.

**At the opposite end of the spectrum, centralized, differentiated management systems have had a poorer record on management and use of EU funds.** Among countries with this type of management system, Greece and the United Kingdom are often cited as examples of comparatively poor structural fund management. Even in these two countries, however, some efforts have been made in recent programming periods to further decentralize and streamline implementation systems.

**In practice, countries often used a mix of fund management elements.** An often cited example of a successful combined approach is Ireland, which has a centralized but subsumed system with a good track record on absorption and implementation. Ireland’s model shows that even when systems are fairly hierarchical, allowing a significant amount of local flexibility is important. The Irish model includes extensive local consultation, an element often overlooked in broad characterizations of the system. Italy offers the reverse model – a decentralized, differentiated system – but its ability to absorb EU funds is well regarded by many experts, despite some questions about complexity, quality of expenditures, and impact in many of Italy’s regions. (See the Appendix for further details.)

**Structural Funds in Romania**

**The structural instruments for pre-accession**
Adopted by the European Council at Copenhagen in December 2002, the roadmap for Romania's EU membership envisaged an annual increase of pre-accession aid of 20 percent, 30 percent, and 40 percent respectively for the years 2004, 2005, and 2006. During this period, Romania benefited from EUR 3,078 million of European pre-accession aid. This aid was divided among three instruments: (i) half for Pologne, Hongrie, Aide à la Restructuration Economique (PHARE); one third for the Instrument Structurel de Pré-Adhésion (ISPA); and the remainder for the Special Accession Programme for Agriculture and Rural Development (SAPARD). Their implementation forms part of the National Program for the Adoption of the Acquis and the Accession Partnership for Romania. PHARE activities have focused on two priorities: helping the
administrations in candidate countries to build up the requisite capacities to implement the community acquis and set up regulatory and control bodies, while becoming familiar with the EC’s objectives and procedures; and bringing industries and basic infrastructures into line with community standards by providing the necessary investments. ISPA supports large-scale investments in transport and environmental infrastructure. The SAPARD program was launched in 2000 to facilitate the adaptation of agricultural structures and rural areas in the candidate countries of Central and Eastern Europe. In Romania, SAPARD programming mainly aims at improving the competitiveness of the agri-food sector and rural infrastructures, the development and diversification of the rural economy, and the training of human resources.21

**Implementation of post-accession structural programs in Romania**

Post accession, structural funds in Romania will be provided through seven Sector Operational Programmes outlined in the NSRF22 and a National Plan for Rural Development. The Sector Operational Programmes in the NSRF are regional development, economic competitiveness, transport, the regional operational program (regional development), the environment, human resource development, and technical assistance. Five programs cover cross-border cooperation (INTERREG IV).23 These programs are funded by ERDF, ESF, and CF. The Agriculture and Rural Development Plan is funded by EAFRD and EFF.

**Figure 3: National Strategic Reference Framework (NSRF): 2007-13**

<table>
<thead>
<tr>
<th>NSRF Allocation by OP</th>
<th>1%</th>
<th>18%</th>
<th>13%</th>
<th>1%</th>
<th>23%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TA</td>
<td>Admin</td>
<td>Econ Comp</td>
<td>HRD</td>
<td>Env</td>
</tr>
<tr>
<td></td>
<td>19%</td>
<td>Reg Dev</td>
<td>Trans</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

21 See the European Commission web site.

22 The SOPs are transportation, competitiveness, the environment, human resources, regional development, technical assistance, public administration, and European territorial cooperation (five SOPs are not part of NSRF).

23 (1) Romania, Ukraine, and Moldova; (2) Slovakia, Hungary, and Ukraine; (3) Romania and Serbia; (4) Romania and Bulgaria; and (5) the Black Sea.
The Regional Operational Program (2007-13, EUR 3.7 billion)
Within the NSRF, only one operational program is specifically geared toward addressing regional development needs, that is, that targets regions exclusively. Other SOPs, however, such as the Environment, Economic Competitiveness, and the Agriculture and Rural Development Plan, are expected to have a strong regional presence and important regional articulation. Nineteen percent of all NSRF funds, or EUR 3.7 billion, has been indicatively earmarked for the ROP. This structure is in stark contrast to that in more decentralized countries, such as Germany, Spain, and Italy, which have formal regional governments and integrated sector programs for each region. It is, however, similar to the structure in more centralized systems, such as Ireland and the United Kingdom.24

The general strategic objective of Romania’s ROP is to accelerate economic growth in lagging regions so that the disparities between the more and less developed regions, in terms of GDP per capacity, diminish over the 2007–13 period. The specific objectives are to (1) improve the general attractiveness and accessibility of regions through improved transport, education, and health infrastructure; (2) increase competitiveness of regions as business centers through improvements in supporting business infrastructure and micro enterprise development; (3) enhance the tourism and cultural potential of regions through rehabilitation of tourist and cultural sites; and (4) increase the socio-economic role of urban centers through integrated urban development. These objectives are to be realized through six priority axes:

Priority Axis 1: Support to sustainable development of urban growth poles
Priority Axis 2: Improvement of regional and local transport infrastructure
Priority Axis 3: Improvement of social infrastructure
Priority Axis 4: Strengthening the regional and local business environment
Priority Axis 5: Sustainable development and promotion of tourism
Priority Axis 6: Technical assistance

24 Romania has at present, however, less robust structures than so these well established systems.
II. Key Issues and Challenges

This section outlines the main challenges facing Romania as it pursues a coherent, robust operational approach to regional development. These challenges include (i) operationalizing and integrating regional development, particularly at regional and local levels, within the context of EU structural funds; (ii) developing multi-level planning and resource allocation mechanisms that effectively channel net transfers from the EU for efficient absorption at local levels (regions, counties, cities and communes); (iii) building on the successful experiences of projects supported by the World Bank and other donors in using bottom-up planning and implementation processes to develop high-quality local projects; and (iv) achieving synergies with other operational programs, especially those dealing with rural development. This section also reflects on how EU 15 experience might apply to the Romania regional development model.

1. Operationalizing Regional Development

The key question for Romania in operationalizing regional development is how best to strengthen its ROP implementation model. Below, we discuss the current design and possible evolution of Romania’s regional development structures and then use aspects of the EU-15 experience to analyze and reflect on useful future directions for strengthening them. The regional structure is particularly important for ROP implementation.

Romania’s longer term agenda must include resolution of the structural weaknesses in the current regional model and strengthening of regional and local synergies among operational programs with territorial dimensions. Immediate next steps require a focus on implementation efforts to streamline and operationalize the ROP and establish clear lines of responsibility for managing authorities and intermediate bodies.

Romania’s Regional Development Model

Romania has eight NUTS II regions, but it lacks a clear intergovernmental structure at this level as the NUTS II regions have been established primarily as planning regions. Under the Law on Regional Development (151/1998\textsuperscript{25}), Romania was divided into eight regions to implement pre-accession programs: North-East, South-East, South, South-West, West, North-West, Center, and Bucharest. This regional structure will endure for the 2007-13 programming period. These regions, however, are not considered to represent a formal administrative level, and their intergovernmental status, not clearly defined, remains somewhat ambiguous.\textsuperscript{26} Each region has a Regional Development Agency (RDA), a regional technical body created to manage territorial programming. Under Law 151/1998, RDAs were accorded NGO status rather than being designated formal government agencies. The law also

\textsuperscript{25} Law 151/1998 was replaced by laws 315/2004 and 58/2005, but the principles remain unchanged.

\textsuperscript{26} The Romanian government has so far decided not to amend the constitution to incorporate regions into the formal intergovernmental structure.
established a Regional Development Council (RDC) in each of the eight regions. RDC members include the county council president (usually the Chair, appointed on a rotating basis) and the mayors of selected cities, towns, and communes.

RDAs work differently in the various regions, although some evidence indicates a degree of collaboration in approach among some of them. Some have embraced local power dynamics and political structures and are known to have good relations with the RDCs. Others have had much more difficulty reconciling their technical role with the political realities and needs represented by the RDCs.

In a more recent development, the eight RDAs have been established as the intermediate body for the ROP. In commitments to the EU under chapter 21 of the Regional Policy and Coordination of Structural Instruments, the eight RDAs were designated as Intermediary Bodies for the ROP. The National Authority for Tourism is the intermediate body for ROP key area of intervention “Promoting the tourism potential and setting-up the needed infrastructure in order to increase Romania’s attractivity as tourism destination.” At the managing authority level within MEI, however, considerable discussion had occurred about introducing an alternative intermediate body and revamping the role of the RDA. Much of the ministry’s concern related to the status of the RDAs as non-public-sector institutions.

Strengthening Romania’s regional model will require building a consensus on these various approaches and roles, including rethinking the legal status of the councils and agencies, reexamining the attributions of existing regions, and reevaluating the overall process. The main issues are summarized below.

The limited and ambiguous legal status of the NUTS II regions is a constraint on the regional model and on the implementation of the regional convergence agenda. The EU experience suggests that decentralized and subsumed systems evolve more easily in the context of formal levels of regional government, with their own parliaments and corresponding executive branches of government. In a country recognizing 41 counties at the formal intermediate level, the regions have not been imbued with either the political or the technical capacity to negotiate with the central government or to drive a coherent regional development agenda in a post-accession context. The RDAs had substantial influence over PHARE, but post-accession each managing authority can assign the intermediary role to any national or sub-national institution. The EU has strongly supported the continuation of the RDAs as ROP intermediary bodies, building on the pre-accession experience, but this will ultimately be the Government’s decision.

In the initial phase, it is recommended that RDAs focus on implementing the ROP. Implementation of the ROP will be a major challenge for RDAs as their remit will expand beyond the scope of PHARE, and they will be expected to interact more extensively with the local players—counties’ councils and county staff and elected commune and city officials and staff—to facilitate a bottom-up process of negotiations around the core elements of the regional development investment strategy. This will
include the selection of both eligible and actual projects within that framework, an undertaking that will challenge both the technical capacity of the RDAs and their ability to navigate the political terrain on which they operate. On average there are five to six counties per region, each with a strong political mandate and clear development challenges. Each will alternately vie for and collaborate to attain increased access to limited funds. RDAs must be seen as largely technical bodies providing RDCs with the fair and objective technical assessments that form the basis of political decisions regarding the pipeline of projects. Any attempts by the RDAs, at this stage, to become hubs for coordinating and vetting the projects of other SOPs is likely to overwhelm the RDAs’ capacity and push them well beyond their current core competency. In addition, assumption by the RDAs of a larger mandate is unlikely to be seen as credible among sector ministries in the absence of a comparable track record on service delivery. Over time, as ROP implementation gains momentum, other SOPs could be expected to seek collaboration and to leverage the RDAs’ technical skills and capacity. This would open the door for an expanded hub-like role of the sort currently sought by some RDAs.

Governance and accountability framework within the regions must be strengthened. Under existing law (no. 3 15/2004), the regional governance structure is as follows: The RDC coordinates the RDA, which has a non-profit, non-governmental status under the law. As per the law RDCs are required to: (i) analyze and decide on regional development programs and strategy; (ii) approve regional development projects; (iii) present RDC proposals with regard to the National Regional Development Fund to the National Regional Development Council; (iv) approve the criteria, priorities, allocation, and destination of fund resources; (v) monitor the utilization of funds allocated to RDAs from the national fund; and (vi) to ensure observance of regional development objectives. The ROP however does not provide any information on the role of RDCs in project appraisal processes, and governance and partnership arrangements in the regional decision-making framework are not clearly articulated.

RDCs need a broader basis of stakeholder consultations and participation with respect to local and regional priorities to better reflect local development aspirations and priorities in approved projects. The RDC comprises the President of each of the County Councils and representatives of commune, town, and municipal councils designated by each county over the duration of the mandate. While in practice these designated RDC representatives are the mayors of these localities, the law permits the county to select any alternative it desires without overtly imposing a basis for the selection. The law also includes County Prefects (the national government head of deconcentrated county-level agencies) as members of the RDC, although without voting rights. The RDC includes a mix of elected local representatives and appointed central government officials. The law however is confusing with regards to the participation of commune, town, and municipal council representatives. While Article 7, paragraph (6) stipulates their participation outright, Article 7, paragraph (8) allows such representatives to be invited depending on the nature of the issues under discussion. It is unclear from the law whether this refers to additional representatives of localities.

27 The April 2007 ROP does not elaborate the role of RDCs in the regional development OP.
invited to defend specific projects or to a more general framework overriding paragraph (6). Romania's national and local administration electoral systems are all governed by proportional representation by party list. At any given time, the president of the county council speaks for only part of the council. Thus the RDC framework risks political capture by the majority party in a county or a region.

The Ministry of European Integration is considering broadening decision making by expanding the RDCs into Regional Committees for Strategic Assessment (RCSA) in each of the NUTS II regions. These committees would have an expanded membership embracing local authorities, civil society actors, and they would provide mechanisms for ensuring the strategic fit of project proposals with local and regional priorities. This approach has the advantage of engaging social partners within NUTS II regions and could help to provide a means of verifying the level of social inclusion and equity involved in decision making.

Under the revised structure, the role of the RDAs with respect to the ROP would be to provide initial eligibility and administrative verification as well as to coordinate the regions’ technical reviews, likely to be commissioned by MEI. The interplay between technical appraisal and formal project selection will be important in terms of balancing strategic local and political needs with quality and viability in the approved investments, thus maximizing development impact, including social and economic sustainability. (See the section “Building a Pipeline of High-Quality Local Projects,” below.)

The role of the RCSAs could be further strengthened to make them Regional Project Approval Committees with a more integral role in identifying priority regional and local investments. MEI’s role should also be clarified to emphasize not approval of specific project investments but monitoring, coordinating, and capacity building across the system—that is, managing implementation. These issues are discussed in greater detail below.

Applying EU Experience to the Romanian Regional Development Model

Over time, EU-15 systems have deepened their levels of local stakeholder participation, strategic focus, and integration within the intergovernmental system. The table below, adapted to include Romania’s status to date, shows that over the past three programming periods (1989–93, 1994–99, and 2000–6) a noticeable evolution has taken place in the articulation of NSRF and in implementation arrangements. Systems have generally moved (i) from exclusive to more interactive planning among stakeholders at the lower levels; (ii) from strategically passive to intensively strategic use of funds; (iii) from disjointed to integrated management and administration; (iv) from weak to more inclusive partnership modes and processes; (v) from opportunistic project delivery to strategic project selection; and finally (vi) from unsystematic to more comprehensive monitoring and evaluation. These general trends

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28 The roles and responsibilities of the RCSAs have been drafted and are currently being discussed with the regions.
show an increased maturing of these systems over time, with an ever increasing willingness to draw local stakeholders and social partners into the articulation and implementation of the regional development policy and programming.

Table 1: Evolution of EU-15 Programming from Planning to Monitoring and Evaluation

<table>
<thead>
<tr>
<th>IMPLEMENTATION PROCESS</th>
<th>PHASE 1</th>
<th>PHASE 2</th>
<th>PHASE 3</th>
<th>Romania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>Exclusive</td>
<td>Responsive</td>
<td>Interactive</td>
<td>Exclusive</td>
</tr>
<tr>
<td>Strategic Direction</td>
<td>Passive</td>
<td>Active</td>
<td>Intensive</td>
<td>Passive</td>
</tr>
<tr>
<td>Management and Administration</td>
<td>Disjointed</td>
<td>Consultative</td>
<td>Integrated</td>
<td>??</td>
</tr>
<tr>
<td>Partnership</td>
<td>Exclusive</td>
<td>Semi-Exclusive</td>
<td>Inclusive</td>
<td>Exclusive</td>
</tr>
<tr>
<td>Project Delivery</td>
<td>Opportunistic</td>
<td>Pro-active</td>
<td>Strategic</td>
<td>Opportunistic?</td>
</tr>
<tr>
<td>Monitoring and Evaluation</td>
<td>Unsystematic</td>
<td>Systematic</td>
<td>Comprehensive</td>
<td>??</td>
</tr>
</tbody>
</table>

Source: Adapted from a presentation by Professor Bachtler, University of Strathclyde

Romania’s preparations and programs to date markedly display elements common to the EU-15’s first phase of structural funds management. This implies that Romania has not yet incorporated valuable lessons from EU member states but is following the same path they did in the earlier phases of programming.

- **Planning has been largely exclusive.** Planning for the ROP and most other OPs, including Rural Development and Environment, has largely been exclusive, confined to small teams within the managing authority who undertake little real consultation with the ultimate intended beneficiaries. While a consultation process was carried out, most sub-national stakeholders viewed consultations to date as having been cursory: public information events rather than genuine efforts to elicit the views of stakeholders outside the managing authority. Even intermediate bodies such as RDAs and SAPARD have largely been left out of the planning exercise, even though they are expected to be pivotal in the implementation of the operational programs.

- **Strategic direction has been relatively passive, with choices being guided primarily by the EU framework.** While Romania has created national strategic visions for the operational programs, including the ROP, local and regional priorities seem to have been subordinated to the need to justify choices within the EU cohesion policy and Common Agriculture Policy (CAP) frameworks. This is not uncommon in early phases of EU programming. Over time, member states have become sophisticated at leveraging structural funds to address national needs and at making the strategic choices within the NSRF. The EC has been urging new entrants such as Romania and Bulgaria to make such choices, currently much of the Romanian government’s efforts are being directed towards drawing down funds and ensuring compliance with EU requirements.

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29 Source: May 2004, Professor J. Bachtler, presentation, 15 years of structural fund programming – what have we learnt.
• **Management and administrative direction appears to be disjointed.** Romania's management and administration direction continues to evolve as it prepares its programming plans, so it is too soon to say exactly where on the evolutionary spectrum its efforts will ultimately fall. On the one hand structures have been established to ensure that decision-making processes are more aligned with regional priorities, on the other hand the governance and partnership processes are ill-defined. MEI, however, now has an excellent opportunity to develop a programming complement with detailed consultative or even integrated institutional procedures and guidelines. The ultimate approach will depend on the openness, transparency, fairness, and inclusiveness of the project selection process and the extent to which relevant stakeholders are brought into the decision-making process. (These issues are discussed in greater detail in “Building a Pipeline of High-Quality Local Projects,” below.).

• **Partnerships have been weak and exclusive.** MEI, like most other managing authorities, is seen as having done an inadequate job of including social partners to arrive at a broad-based consensus around the programming agenda. This is consistent with the exclusive planning process to date and with a tendency to restrict stakeholder participation to provision of public information.

• **Project implementation and delivery processes are still evolving.** While project evaluations will be done regionally, indications from the April 2007 version of the ROP programming document are that final decisions on project selections will be made at the national level. MEI is also leaning toward an implementation approach in which final project selections are made on a first-come, first-served basis. Such an opportunistic process may help with absorption, but it may also significantly undermine project impacts and fulfillment of ROP stated objectives, in particular when balanced against requirements for regional growth and convergence within Romania.

• **Monitoring and evaluation (M&E), beyond the formal evaluation processes outlined by the EC, is as yet undefined.** Lessons from EU member states show that M&E remains a weak link across the system, with much more emphasis placed on monitoring and ex-ante evaluation than on downstream evaluation of impacts. In early phases, and given capacity constraints, Romania will be likely to place greater emphasis on formal EU monitoring and evaluation requirements than on developing a more systematic or comprehensive approach tied to internal strategic objectives.

2. **Developing Effective Mechanisms for Multi-Level Planning, Resource Allocation, and Absorption**

The Romanian government must design a coherent framework and process for allocating resources from programming pillars to regions and local administration. To the extent possible, the framework should treat EU resources as incremental and integrate them into the normal budgetary processes for sub-national resource allocation, for example, as intergovernmental transfers. It should encourage local resource mobilization for cofinancing and enhance operational efficiency by establishing clear
rules for access to funds. Finally, the GOR resource allocation framework should seek to balance equity and efficiency in the allocation of funds among regions and local administration.

The framework for allocating resources to regions and local administrations has a significant impact on absorption of funds. By setting out the overall regional resource envelope within which localities can compete for project funding, the framework introduces managed competition and establishes the number of potential projects that can be selected within the regional selection process. Regions are thus empowered to reconcile strategic trade-offs among different kinds of investments, thus avoiding a centralized approval system clogged with regional wish lists.

EU Experience Suggests a Strong Focus on Regional Allocations

Regional and local resource allocations are predetermined by priorities in the Single Programming Document (SPD). In previous planning periods, resource allocation for EU structural funds was generally predetermined by the priorities and regions set out in the SPD or Community Support Framework (CSF). Project selection processes influence resource allocation at the programmatic level, with complementarities between the national public expenditure framework and structural funds allocation.

Resource allocation at the regional or local level varies according to the extent of devolution. Systems of government and the degree of decentralization of responsibility for policy differ markedly across the EU. In Federations, like Germany, Austria, or Belgium, a significant amount of responsibility for the implementation of policy in many areas lies at the regional or state level. Although the formulation of policy is in general less decentralized, or is a shared responsibility among levels of government, regional authorities in such countries tend to have some autonomy over the measures implemented to achieve common objectives and may have some discretion over the level of priority given to various aims. Local authorities have especially extensive responsibility for policy in Denmark, Finland, and Sweden. Local income taxes provide much of the revenue to finance them, but these funds are complemented by national schemes that equalize fiscal capacity or provide additional resources. Following moves to decentralize government over the last twenty years, regional authorities also have a growing amount of responsibility for discrete areas of policy in Spain and Italy, and in Italy further extensive changes are being introduced.

In all EU member states, allocations or transfers to the regional and local level are assessed centrally using standardized objective criteria. The methods used are very similar throughout the EU, in most cases involving estimations of a standardized level of service per head of population, but their level of sophistication varies. In the

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30 It is important to note that structural fund evaluations do not assess the regional balance within member states on a systematic basis due to uncertainty over the geographical distribution of sectoral programs.
Netherlands, for example, central government transfers to provinces and municipalities account for most of their income and are determined by a wide range of indicators (such as size, population density, soil quality, social structure, and degree of urbanization, as well as their local taxable capacity). The sole aim of the system, however, is to equalize the income local entities have to spend, given their needs. Particular regions or local areas in many member states, such as the city Länder in Germany, receive preferential treatment in transfer allocations. Germany builds on its fiscal equalization approach when allocating resources to localities. For historical or cultural reasons, Italy, Spain, and the United Kingdom accord special status to certain regions, giving rise to greater devolution of powers and, in most cases, different funding formulae (in the case of the United Kingdom, for example, this policy affects funding to Northern Ireland, Scotland, and Wales).

Financial Absorption of Structural Funds in the EU-15

Meeting structural funds targets for committing and disbursing funds as per an established schedule is a critical challenge for many countries. Many programs face the risk of de-commitment as per the N+2 rule concerning automatic decommitments. Under this rule, European Commission commitments of assistance are made on an annual basis throughout the financing period (for example, 2000–6, 2007–13). If a commitment in year N has not been drawn down by acceptable payment applications from the member state by the end of the second year following the year of commitment, or N+2, the assistance is automatically decommitted and cannot usually be recommitted. This rule puts significant pressure on member countries to commit and disburse EU funds in a timely manner and represents a positive incentive to speed the pace of implementation and improve the efficiency of absorption processes.

Absorption problems may arise for several reasons, including overall economic slowdown, strategic and procedural factors, or, in some cases, regionally specific causes. All programs implement some actions to avoid decommitment risk or at least to curtail it. These actions include (i) stimulating project generation by softening project selection criteria; (ii) accelerating expenditures (a method used in virtually all programs); (iii) adjusting programs to tackle specific spending problems; (iv) launching new programs with high spending potential (a frequently used option); (v) reallocating responsibilities for the administration of schemes and increasing the decentralization of responsibility for program delivery (an approach being implemented in France; see Box 1 below).

The financial efficiency of programs is important in facilitating absorption. A major focus of all structural fund allocation programs is ensuring that their allocated resources are committed and spent as per the financial plan. Sufficient rates of spending are key to meeting N+2 targets. Spending efficiency in turn requires project monitoring efficiency, leading to simplified project management procedures that can help speed up expenditures.

31 EC, Third report on economic and social cohesion.
Box 1: Initiative by the French Government to Accelerate Structural Fund Expenditure

In France, where decommitment has been a problem for many programs (especially Objective 1), a holistic approach has been developed to deal with it. In 2002, the government launched a package of measures aimed at increasing expenditure, including a substantial simplification of procedures, intensification of activities for animation and generation of projects, and greater involvement of local authorities and regions in managing funds. Specific actions included establishing regional-specific animation teams addressing needs identified by Regional Prefects and local partners and creating a national network of regional teams for the exchange of good practice. Application, commitment, and payment procedures were substantially simplified, including the creation of local competitive funds that enabled Regional Prefects to receive EU funds directly within one week, without going through the ministries' central accounts. In the Alsace region, a decentralization pilot scheme was implemented to experiment with the transfer of management authority functions to a region.

The following graph highlights the absorption rates for Objective 1 and Objective 2 programs across EU-15 countries for the period 1994–99.

**Figure 4: Absorption Rate in the EU-15 (1994–99)**

![Absorption rate in EU 15 (1994-99)](image)

Note: Some data is missing because in 1994–99 some countries, such as Ireland and Portugal, were entirely Objective 1, while countries such as Finland and Denmark were mostly Objective 2. (Source: Netherlands Economic Institute (NEI), Ex-post evaluation.)

Three main types of absorption capacity issues relating to EU structural funds are likely to emerge as plans are implemented by members (NEI, 2002).

- **Macroeconomic absorption capacity** defined and measured in terms of GDP levels to structural funds allocated, may be inadequate. At the European Summit in Berlin, the upper limit for structural and cohesion funds was generally set at 4 percent of the GDP of the respective member state.

- **Administrative absorption capacity**, defined as the ability and skills of central, regional, and local authorities to prepare acceptable plans, programs, and projects in due time, to decide on programs and projects, to arrange coordination among the principal
partners, to cope with the vast amount of administrative and reporting work required by the Commission, and to finance and supervise implementation properly, avoiding fraud as far as possible, can be inadequate.

- **Financial absorption and cofinancing capacity** concerns the ability to cofinance EU-supported programs and projects, to plan and guarantee national contributions in multiannual budgets, and to collect contributions from several partners (public and private) interested in a program or project. One of the main principles of the cohesion policy is the need for cofinancing, which implies that member states should contribute their own financial resources in addition to funds from non-reimbursable EU assistance. This principle is based on the assumption that the resources allocated through the cohesion policy are considerably lower than is domestic governmental expenditure, which thus has a greater impact on economic and social cohesion.

Absorption issues reviewed in this note generally relate to the second and third categories, that is, financial and administrative absorption. The latter is related to building the local project pipeline, discussed below.

**Box 2: Absorption in Ireland**

Ireland’s history of the absorption of structural funds has been a highly successful one, and in the 2000–6 programming period, it has had the highest rate of absorption among the EU-15 member states. A major factor behind Ireland’s highly effective spending of EU funds was their seamless integration, for the most part, into the pool of national funds and a spending orientation toward existing domestic programs and schemes. Furthermore, despite a highly centralist approach toward structural funds programming, Ireland has had a very strong and successful history of partnership involving local actors. Over the last few years, and particularly in the 2000–6 planning period, Ireland showed a marked tendency to strengthen local influence on the planning process. This use of structural funds has served Ireland well, allowing its resources to be concentrated on priority areas and its absorption levels to remain high.

**Implications for the Resource Allocation System in Romania ROP**

**Balancing equity and efficiency objectives in programming EU and government funds** is an important challenge for Romania, requiring reconciliation of demand-driven, competitive processes for project awards with the needs of poorer regions. Global experience suggests that the poorest regions will have lower technical and organizational capacity and will be less likely to succeed in open national competitions. In addition, investing in more advanced, developed regions, which have the means to undertake many such investments on their own, may be both inefficient and inequitable as compared to plans emphasizing support of poor regions. A clear danger exists of establishing program procedures and awarding funds and projects in ways that could increase regional disparities. Poorer regions and localities may need more capacity support to submit viable projects and be competitive.

**Romania is already considering the use of indicative regional allocations for the ROP, a method which could be an effective means for balancing equity and**
efficiency in programming EU and national funds. Considerable EU-15 experience suggests that this approach is likely to introduce significant clarity, consistency, and resource predictability into the ROP, important factors in encouraging medium-term development planning as well as balanced regional development. Once regions are able to anticipate the resource flows over the programming period, they can then make strategic trade-offs among various competing local projects and prioritize and sequence projects in ways that realize broad regional development objectives. This approach is superior to a national competitive process based on a first-come, first-served principle, an approach that typically leads to a very short-term planning horizon and an ad hoc approach to regional development that is likely to become politicized. The indicative allocations should be based on objective and transparent criteria. ME1 has a number of options with respect to the design of the indicative allocations, including the use of such objective criteria as population, poverty level, or resource gaps in core areas, that can help identify the right unique allocation for each region.\footnote{The MEI has advised us that the regional allocations have been finalized.}

Indicative allocations should not be treated as regional entitlements. While it is important to build capacity of weaker regions and support project development in accordance with regional needs, given the N+3 and N+2 decommitment rules, the managing authority cannot afford to allow money to sit unused in nonperforming regions. Hence, regions anticipating receipt of a certain amount of resources each year should receive them only on condition of adequate performance: adherence to programming rules and eligibility criteria in project selection and financial absorption rates consistent with meeting decommitment rules. Ministry of Development Public Works, and Housing, as the managing authority, must establish transparent mechanisms for periodic reallocation of resources away from underperforming regions to those successfully meeting these criteria. This would create political and financial incentives for regions to strengthen the performance ethos within their operational programs. This approach should be complemented by systems for paying careful attention to capacity constraints in underperforming regions and to finding ways to provide these regions with additional capacity support.

Managed competition can effectively complement indicative allocations. The combination of indicative allocations and strategic reallocation could underpin an effective managed competition system. Localities within each region should compete for projects based on clear rules of the game and a strengthened governance structure (within the RDCs). Depending on the measure, indicative allocations could even be applied at the county or commune level.

Key Issues in Romania’s Financial Absorption of Structural Funds

Romania and Bulgaria successfully won agreement for an N+3 rule, approved by the EC in December 2005, allowing them three years to draw down funds allocated for the first three years (2007–9).
Most of Romania’s local administrations are fiscally constrained, and this could affect overall financial absorption of ERDF and other investments targeted at local governments. About 80 percent of localities, particularly communes, are not credit-worthy and lack adequate own resources to finance any significant local counterpart fund. Borrowing is therefore not viable in most cases, as only large cities and towns have borrowing capacity for cofinancing viable and significant local projects. Many of these larger local units, however, are close to their sub-national debt ceilings or face other challenges, such as the inability to hold external loans in commercial interest-bearing accounts. Constraints on local borrowing can challenge absorption with respect to measures requiring increases in local public investments. Fortunately, this potential cofinancing bottleneck has been addressed by the Ministry of Finance through a decision to provide most counterpart financing from the national budget.

The Ministry of Economy & Finance (MEF) has decided on a modest level of counterpart financing (2 to 5 percent) of total project costs under structural funds that could relieve local fiscal constraints. This is an important decision, as fiscal constraints notwithstanding, the absence of any local counterpart financing would severely erode project planning, selection, and implementation discipline at the local level. Counterpart financing from own resources is very important for restraining the tendency to provide local wish lists and to request investments on a scale for which Operations and Maintenance (O&M) cannot be supported by local budgets. Hence, the decision of the MEF has, in effect, addressed both the local cofinancing constraint and, to some extent, project planning discipline. MEF should also ensure provision of adequate advance payments to enable localities to enter into implementation contracts.

Financial absorption will also be affected by administrative and technical constraints related both to local capacity and to programming procedures. Local authorities have highly varied capacities, and this affects their ability to design and implement quality projects. The design of ROP implementation procedures, if bureaucratic, could exacerbate this problem. The next section, on building high-quality local projects, discusses issues related to overcoming such capacity constraints.

3. BUILDING A PIPELINE OF HIGH-QUALITY LOCAL PROJECTS

The process of building an effective pipeline of local projects requires substantial knowledge of local conditions and needs as well as local technical capacity adequate for translating needs into viable projects. Several technical assistance programs have already been initiated to build capacity of local actors to prepare projects. It is expected that the intermediate bodies will play a key role in providing guidance to potential applicants and ensuring the development of project pipelines. An important challenge for ROP in Romania will be developing an approach that strengthens participatory, bottom-up territorial development planning, project

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33 Current thinking would require 3% under the ROP.

34 Other operations programs, such as those supporting the environment and Rural would face similar challenges.
identification, needs articulation, and local resource mobilization. In this regard, local administration must play a major role in project planning and needs articulation. This implies somewhat of a paradigm shift for Romania's administration, as decentralized project selection and implementation is fairly new to the managing authorities involved. These authorities can, however, draw on a number of experiences for methodologies to support local administration: local economic development, community-driven development, and, in the agriculture sector, the EU’s own LEADER + program.

**Project selection criteria and processes must be transparent, streamlined, and aligned with local strategic priorities.** This will enhance the quality of the project pipeline and facilitate efficient project implementation and absorption of funds.

*Lessons from EU Experience in Developing and Delivering Effective Local Projects*

**Strategic coherence of the project pipeline remains a challenge for most member states.** Ensuring that the portfolio of projects in a structural fund program adds up to more than the sum of its parts and that the projects contribute to the achievement of strategic objectives and regionally and locally level priorities is a difficult task. A major trend toward strategic relevance has been the use of larger and more integrated projects to achieve synergies and leave legacies in the region that embed operational and strategic capacities for long-term regional development.

**Effective project appraisal and selection.** Project appraisal and selection lies at the heart of structural funds programs. The key objectives underlying all systems are streamlined, transparent appraisal and selection procedures; flexibility in dealing with innovative applications and the scope for fast-tracking low-risk projects; and aftercare arrangements supporting beneficiaries with project delivery.

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<thead>
<tr>
<th>Box 3: Streamlining Dedicated Project Selection Committees: Denmark</th>
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<td>Previously, Objective 2 project selection in Nordjylland involved several committees. Following an initial assessment by the structural fund secretariat, project dossiers were passed to advisory committees for sectoral expert appraisal and then to a coordination committee for a strategic assessment. The resulting recommendation was then passed to the regional steering committee, which took the decisions. Finally, these decisions, for the ERDF, at least, went through a technical check by the Danish Agency for Trade and Industry (DATI) at the national level before being formally confirmed. This decision-making process took at least four months. To streamline the process, the following amendments to the process have been proposed: first, removal of the advisory committees, with extension of the coordination committee role instead; and, second, allowing the chair of the regional steering committee to approve business development projects recommended by the coordinating committee (but with infrastructure projects, because of their political dimension, still going to the regional steering committee as a whole).</td>
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**Information, training, and publicity are at the heart of structural fund programming.** Programs must inform and engage applicants and grant holders to ensure they know whether an application is appropriate and how to prepare quality applications. Program partners require information that will ensure the smooth administration and steering of their programs. And the wider public must be informed about the contribution made by structural funds to improving regional and local development in their area. Publicity and communication have been emphasized in the
current round of structural funds. Programs have different communication needs over
the program life-cycle, and a range of good practices can be identified. These include
identifying the information needs and expected responses of the target audience;
choosing the right tools for the given audience, ensuring the message has a clear
purpose and can be delivered succinctly; and developing appropriate communication
management systems with clearly defined roles and assignment of responsibilities,
investment in capacity, efficient utilization of results, and built-in mechanisms for
assessing effectiveness.

Administrative efficiency and effectiveness are recurrent themes because of the
ongoing need to increase the speed of structural fund project decision-making,
streamline systems, and reduce complexity and cost. Member states continuously try to
reduce the burden of distinctive structures created for structural fund decision-making.
Maximizing the extent to which processes can be subsumed into existing national
systems is therefore desirable from the efficiency and effectiveness perspective.

Partnership is one of the fundamental principles of structural fund
implementation and has probably had a significant influence on EU cohesion policy on
regional development practices in the EU. It is also one of the most difficult principles
to operationalize. Typically, in less decentralized contexts, local and regional
authorities, civic society groups, and other social partners are engaged mostly as
members of the monitoring committees and have no major role in formulating plans.

Nevertheless, partnership has evolved from being a formal regulatory requirement to
being a mechanism used (albeit unevenly across the EU) to improve the effectiveness of
strategic planning, program management, and project selection, enhancing social
ownership and commitment to the program and increasing the scope for innovation.

Openness and transparency are key requirements of the EC and underlie the
guidelines for structural fund management and decision-making vis-à-vis project
selection criteria and processes. In addition to the processes and systems mandated,
member states have employed a wide range of innovations and options to strengthen
transparency, with varying degrees of success—especially in EU-10, where the
democratic mindset and ethos of transparency continues to evolve.

Structural fund monitoring and evaluation has thus far been the weakest part of
structural fund management and remains a key challenge. Very rarely are
objectives quantified and measured systematically. Efficiency has more often been
defined as financial absorption rather than in terms of cost per output or result achieved.
In recent years, however, evaluation has been recognized as a prerequisite for effective
programming, providing critical intelligence to inform every aspect of program design,
delivery, and evaluation.

While important lessons underpin reforms to EU programs from one period to
another, the M&E framework does not appear to place strong emphasis on
impacts. The EU monitoring and evaluation framework places much more emphasis
on monitoring (particularly ex-ante) and financial controls (through its structure of monitoring committees, accredited payment agencies, and audits) than on quality of expenditures. Managing authorities can achieve full financial absorption, fully conform to guidelines, and receive a performance bonus under the performance reserve while not necessarily achieving any real impact on the ground. The current emphasis on the more bureaucratic monitoring checks leave open the possibility for large-scale waste by member states of significant and well-intentioned transfers. A general perception of significant allocative inefficiency persists regarding of the entrenched EU-15 states. Evaluations of operational programs are generally conducted but are not widely shared or made available beyond the EC and a few involved policy makers. These documents could be important to the public, but few stakeholders see the evaluation results, particularly the final evaluations.

Lessons from Community-Driven Development and Local Economic Development Experience

The Community-Driven Development (CDD) approach has introduced the concept of bottom-up development and strengthened local investment planning and project execution in Romania. CDD is a development approach that empowers communities and local governments by substantially increasing their control over investment resources and decision making with respect to local development interventions. Over the past decade, the World Bank has developed a substantial portfolio of support through CDD programs in Romania. These operations provide useful lessons for developing high-quality local projects by strengthening local capacity building and community participation with respect to local investment decisions. Chief among these project are the Romania Social Development Fund (RSDF), the Rural Development Plan, and the Mine Closure and Socio-Economic Regeneration Project.

RSDF (I and II) were explicitly geared towards increasing local organizational and self-help capacity in the poorest Romanian villages and introduced participatory village investment planning for subprojects investments of up to US $75,000. RSDF was essentially the first awakening to the potential of local stakeholders to participate meaningfully in local investment decisions and hence improve the overall quality of local projects.

The Mine Closure and Socio-Economic Regeneration Project not only focused on mitigating the social and environmental impacts of mine closure, it also introduced participatory local development planning processes for economic regeneration of the affected communities. The range of instruments includes workspace centers (business incubators), enterprise support, employment incentive schemes (whereby employers receive incentives to hire the unemployed), micro credit, small grants, and provision of municipal infrastructure. The project also builds on RSDF experience and capacity by financing an extension of RSDF activities into mining regions.

The Romania Rural Development Project scaled-up the territorial dimension of the CDD model to the commune level by strengthening the interface between
citizens and commune governments (the lowest tier of local government) and by rendering commune investment decisions more bottom-up. The project approach uses a community-driven and participatory approach to the provision of rural road rehabilitation and rural water supply provision, two devolved but almost completely unfunded commune functions. The main objectives of the two-phase project are to strengthen local governance and to increase the institutional capacity of local administration, community or user groups, and private service providers to plan, implement, operate, and maintain small infrastructure investments in a participatory and accountable manner. The project is currently under implementation in 5 counties—Tulcea, Salaj, Botosani, Dolj, and Calarasi—and supports 20 communes in each county. Each commune benefits from at least 2 subproject investments each and, in some cases, from additional investments under the Association of Communes. RDP also included a small window of RSDF investments, which financed an additional 33 smaller scale village infrastructure projects implemented by RSDF II.

A bottom-up approach to territorial planning and investment prioritization would substantially strengthen the local pipeline of projects identified under the ROP and Rural Development Plan. Bank experience shows that a bottom-up approach can substantially improve the quality and sustainability of local projects, but some key issues regarding local government and community investment planning and decision-making capacity remain to be addressed: limited involvement of community groups and the poor in local government decisions; low government accountability; and inadequate investment planning or project preparation skills in local governments and communities. Local governments’ limited fiscal capacity is also a constraint in Romania. Intergovernmental budget transfers are low, as are own revenues, making provision of local investments and even routine maintenance of infrastructure and other services very difficult. Over 80 percent of all localities, including most communes, are unable to borrow funds to finance investment needs and priorities. The bottom-up process of World Bank projects, however, coupled with external grants, mobilizes communities to provide counterpart contributions in cash and kind in exchange for active roles in local decision making.

Developing good local projects will require scale-up and expansion of the bottom-up approach through local economic development (LED) and LEADER+—which is one of the initiatives financed by EU structural funds and is designed to help rural actors take a more active role in the development of their local region. The technology needed to identify good projects for regions, counties, and commune clusters is based on the same principle as CDD but uses a more expanded technology of local public-private partnerships. It will be important for ROP and RDP to build on CDD principles to facilitate and forge effective local partnerships and good project selection.

Building local technical capacity for absorption of EU funds and local development planning may require increased fiscal decentralization. Local administrative and technical capacity will be fundamental to Romania’s ability to absorb EU funds. Funds must be spent within three years or they will revert back to the EC (under the N+3
This rule is all the more important because the projects have significant cofinancing requirements, and approved projects must be prefinanced and then reimbursed by the EU. However, due to limited fiscal decentralization, own source mobilization and capacity to borrow are weak in most localities, and constrain their ability to finance most of the non-eligible. It also limits their ability to pre-finance approved projects without significant advance payments from the central budget. Strengthening own revenue potential of localities, plus additional support to enhance own revenue mobilization would strengthen potential to finance such project costs out of own revenues and borrowing (municipal debt ceiling being increased from 25% to 30% of own revenues.)

Strengthening local governance and local partnerships improves decision transparency and stakeholder participation. Stakeholder participation and local governance are very important for developing high-quality local projects with local ownership. This is confirmed by substantial global experience. In Romania, Regional Development Councils are currently seen as opaque and highly political. Rural localities decry a perceived urban-bias—pro-city allocation of pre-accession funds—and most experts consider the regional structure to be institutionally vague and to lack well-defined legal status. Decisions on resource allocation and project approvals must be made with substantial stakeholder participation at all levels. The rules of the game should be defined, refined, and widely publicized. The role of each level of local administration and of all non-government stakeholders should be carefully articulated to maximize transparency and participation and minimize transactions costs. This governance agenda should be addressed by drawing on lessons from successful community-driven development projects and successful LEADER+ implementation in EU member states.

Local Economic Development (LED) is a participatory approach to territorial development based on public-private partnerships that involves a range of “local” stakeholders in a process of identifying and implementing the economic development priorities of a locality. By actively reviewing their economic base, communities gain an understanding of the opportunities for, and obstacles to, growth and investment. With this understanding, they then attempt to expand their economic and employment base by devising and undertaking strategic programs and projects to remove obstacles and facilitate investment. Effective LED strategies to jumpstart local economies have been developed by countries across the world, including several regions in Eastern Europe, such as Zenica Municipality, Bosnia and Herzegovina; Vushtrri Municipality, Kosovo; Smolyan Municipality, Bulgaria; and City of Rezekne, Latvia.

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35 N+3 applies until 2009, at which point Romania (and Bulgaria) reverts to the N+2 standard used in other EU countries.

36 The definition of own resource revenues has been expanded beyond normal technical classification in order to artificially increase the debt ceiling.

37 ESF includes objectives to support good governance and to strengthen institutions and administrative capacities.
In Romania, the UN-supported Local Agenda 21 aimed to build a process for sustainable development at the local level by establishing a bottom-up link between local needs and national trends and by creating an enabling environment for the realization of sustainable development priorities and concerns. The process, adopted by over 40 municipalities, served as a mechanism for ensuring that citizens play an active and meaningful role in Romania's economic recovery.

Ideally, development of an LED strategy will be integral to the broader strategic planning processes of each sub-national region, city, town, or rural area. Typically, the process is initiated by the local government and, in many cases, overseen and facilitated by a special agency created within the mayor's office. Effective strategic planning ensures that priority issues are addressed and limited resources are well targeted. The LED approach has five basic stages: (i) organizing and mobilizing stakeholders; (ii) conducting a local economic assessment; (iii) creating an LED strategy; (iv) implementation; and (v) review. The five-step planning process is not prescriptive and should be adapted to meet the needs of individual communities. The process is crucial in designing a strategic approach to project selection that encompasses both specific local needs and broader economic and regional strategies. This helps communities to decide how best to allocate scarce resources among competing priorities. LED also provides an institutionalized approach for ensuring broad-based stakeholder participation and citizen engagement.

EU structural funds, especially ROP, offer good opportunities for incorporating LED as an approach underpinning project selection. Local bottom-up planning perspectives should ideally be linked with structural fund programming priorities and funding possibilities. Concurrently, the six sector operations programs (OP), INTERREG, and the National Plan for Rural Development (NRDP) could potentially be important sources of funding for medium and long-term local development priorities identified through LED. Ideally, even the capacity-building aspects required for facilitating LED should be funded under the public administration OP.

RDCs could shift from more ad hoc project selection to projects selected utilizing the respective LED strategies of counties, cities, and clusters of communes. While it may be difficult to avoid politics in project selection, a requirement that projects selected be linked to an overall LED strategy could at least minimize the tendency to fund the pet projects of a political minority at the expense of projects with broader-based support. This could in turn enhance the allocative efficiency of ROP expenditures.


39 INTERREG is an EU funded program that helps Europe's regions form partnerships to work together on common projects.
LEADER+ is the rural territorial development equivalent of LED and is the fourth of four axes under Pillar 2 of the CAP. Like LED, LEADER builds on local public-private partnerships to develop a set of local initiatives aimed at improving quality of life and stimulating entrepreneurship and innovation in rural areas.

**Key Aspects of Effective Project Appraisal and Selection**

The project selection framework has important implications for the quality of the project pipeline and the pace of implementation. The processes and procedures for project selection require good technical criteria linked to independent appraisal and transparent decision making involving a wide range of stakeholders.

Participatory, bottom-up planning and project identification enhance the quality of local projects. This is an important lesson from worldwide experience with CDD projects and LED. This bottom-up approach has the added value of supporting improved local governance.

The ROP’s evolving project selection process involves five main actors: the managing authority, the monitoring committee, RCSA, intermediate bodies, and beneficiaries. The key steps envisioned are as follows:

- MEI (the managing authority or MA) draws up manuals, procedures, and guidebooks.
- The monitoring committee analyzes and approves selection criteria as well as prioritization methodology.
- MEI established a calendar for financing applications and launches application calls.
- Beneficiaries apply for projects under ROP, submitting applications to the intermediate bodies (RDA).
- RDA prescreens projects based on general eligibility criteria and coordinates technical and strategic reviews.
- The RCSAs analyze projects for their conformity with ROP objectives and regional strategies, as well as their synergy with other operational programs.
- Intermediate bodies conduct technical appraisal of the projects using the selection criteria approved by the monitoring committees.
- MEI makes the final decision on financing the project.
- RDA signs the contracts with beneficiaries.

This process for enhancing the project selection process has many advantages. A number of important refinements can be made, however, that will strengthen the overall process by decentralizing decision making, minimizing selection bottlenecks, and contributing to overall good governance, accountability, and transparency:

- The RDA should undertake initial project screening based on eligibility criteria, with only those conforming moving ahead in the process. All applicants should
be informed of their project’s eligibility for the next round within 30 days of submission.

- Technical appraisals should be undertaken prior to the strategic review, using independent technical experts. The proposals, ranked and listed in order of technical quality, should then be submitted to the RCSA for strategic review.
- The RCSA’s strategic review should draw on the committee’s extensive local knowledge as well as referring to the local economic development plans for the concerned territorial unit whose investment(s) is under consideration.
- The RDA should prepare a revised list of RCSA-approved projects for submission to MEI.
- MEI should conduct a final eligibility check of all proposals, as well as an audit of 10 percent of the projects appraised. All projects that pass the eligibility check and have no significant divergence between their audit appraisal scores (MEI and RDA) should be placed on the final list. Where audit discrepancies are significant, MEI should instruct the RDA to redo the entire technical review and appraisal process, using different independent experts.

**Robust project selection criteria are crucial for developing a pipeline of high-quality local projects.** Without a strong project appraisal (evaluation) process, public investments undertaken for regional development under ROP are unlikely to attain maximum impact and help regions achieve their development objectives, including growth potential.

EU experience on project appraisal and selection suggests that use of entry and quality criteria are important in enabling program managers to influence the shape of applications and prioritize the allocation of resources. Independent experts, specialist panels and intermediaries (such as banks) are commonly used for certain measures or schemes—as in Germany, Italy, and Spain—particularly for large, complex infrastructure projects or specialist research and development schemes. Training beneficiaries in project appraisal techniques is also given high priority.
In Italy, a general streamlining of public administration has been pursued under recent Bassanini legislation, including the rationalization of project selection procedures relating to business support. The legislation affected both domestic and structural fund resource allocation. Three selection procedures were proposed: (i) a fast-track procedure for projects not requiring close scrutiny; (ii) a more detailed procedure for larger, more complex projects; and (iii) a method by which regional authorities can fund business development schemes while delegating their operation to other organizations.

- **Automatic procedure**: For small, straightforward projects not requiring a full technical, economic, and financial appraisal, project applications are checked for completeness and eligibility; projects are funded if the results are positive.

- **Estimative procedure**: Larger or more complex projects are selected following a full analysis addressing the investment's impact, contribution to measure objectives, adequacy of costs, and so on.

- **Negotiated procedure**: Territorial or sectoral development interventions involving several actors (such as local and central administrations and local entrepreneurial associations) can develop into integrated projects consisting of a range of business development schemes. Implementation of these schemes is then undertaken by these actors, using the automatic or estimative procedures.

Certain core project selection criteria should be included in the project evaluation criteria used for investment applications from beneficiaries: (i) technical feasibility; (ii) cost-effectiveness; (iii) financial sustainability; (iv) economic rate of return; (v) social sustainability; (vi) strategic fit with a participatory and bottom-up territorial development plan; and (vii) proposal inclusiveness, or the extent to which it benefits vulnerable groups.

**As with the project selection process, selection criteria should be harmonized across all regions.** The methodology for assessment, including selection criteria and weights developed (collaboratively by MEI and the intermediate bodies), should be uniformly applied throughout the eight regions, such that the monitoring committee any future process and impact evaluations can properly assess the impact of the selection criteria on pipeline quality. Such harmonization would also strengthen the overall clarity and transparency of the selection process.

### 4. **Synergies Between ROP and Other Sector Operational Programmes**

The ROP not only contributes to the objectives of National Strategy of Regional Development but also to the overarching objectives of the National Development Plan and National Strategic Reference Framework. In that respect, the ROP has important complementarities with the other six SOPs even though they primarily operate at a macro level with a national and trans-national focus. While most programs do not have clearly articulated links with local and regional agendas, the ROP identifies opportunities for cross financing with the Economic Competitiveness SOP (priority axis 2 and 5) and the Human Resources Development SOP (priority axis 3). Environment and Rural Development also display natural synergies with ROP with a significant sub-
national focus and links to local stakeholder needs. The remaining programs emphasize strengthening of national capacities and have as currently envisioned no explicit links to the needs of regions, counties, cities, and communes. This Note focuses on synergies with Environment and Rural Development programs given the fact that linkages between these agendas and regional development are both strategic and operational.

**The Environment Operational Program**

The aim of the Environment Operational Program (EOP) is to reduce the environment infrastructure gap that exists between the EU and Romania both in terms of quality and quantity. Specific objectives are to improve (i) access to public utilities, by providing regional water and waste management infrastructure in a minimum 35 counties, covering 70 percent of the population, by 2015; (ii) environmental quality, by supporting actions to promote integrated policies for water, land, and air protection, particularly aiming to comply with the EU acquis by 2015; and (iii) nature protection and flood risk management in selected priority areas. These objectives are translated into four strategic priorities: (1) development of regional management systems of water and waste utilities; (2) development of sustainable investments in environmental infrastructure; (3) setting up adequate management systems for nature protection and flood risk prevention in selected priority areas; and (4) technical assistance.~'^

The Environment OP largely focuses on fulfilling EU acquis aimed at helping Romania converge with EU environmental standards. Programming choices are largely supply driven by EU requirements and far less by their suitability for local conditions and affordability.

The EU Environment acquis includes over 200 legislative acts under eight broad categories concerning these issues: horizontal impacts; air quality; waste management; water quality; nature protection; industrial pollution control; chemicals; and noise.

The EU plan is extremely ambitious and will require substantial investment in Operation and Maintenance (O&M.) While the charge per household is not in itself prohibitively high, it occurs within a context of severe under pricing. Price increases close to 100 percent are already needed to raise tariffs to cost-recovery level. The success of a user-funds-all approach will therefore depend on the government and the utilities’ ability to make such large increases palatable to users. A particular concern is what will happen to O&M costs following the introduction of 250 new water treatment plants. One hope is that increased costs associated with these plants could be offset by reduced losses associated with some of the planned upgrades and rehabilitation.~'^ It is doubtful that the local administrations to which these plants will be turned over will have the fiscal capacity to sustain these investments. Hence, while sustainability of environmental infrastructure is a key goal of the OP, it is not obvious how this will be achieved.

40 Draft Environment Operational Program of the Government of Romania.
41 World Bank, Romania Public Expenditure and Institutions Review (PEIR), 2006.
While EU grants are expected to cover 80 percent of the cost, the financial resources to be raised domestically are still substantial. The cost of this plan is estimated at about €8.6 billion, of which about €1.1 billion will be needed over the 2007–10 period of the medium-term expenditure framework. This implies a domestic financing requirement of €229 million for water and wastewater in those four years.

Access, rather than affordability is the critical problem for rural households. Income and consumption data is scarce for the rural population, but what is available suggests that affordability is less of a problem for the rural dweller. This is because access to utilities is extremely low in rural areas, however, especially among low-income households.

Despite this, rural water supply provision is falling through the cracks of structural and rural development programming. This important access issue is unlikely to be addressed by any of the three implicated operational programs because of coordination issues, gaps in priority setting, limited resources, and the general expectation that all water sector issues fall under the Environment OP.42

Overall synergies with regional and environment programming are weak, as the environment OP responds to EU rather than local mandates and therefore pursues a highly centralized strategy.

The National Plan for Rural Development

Rural Development is the second of two pillars of the Common Agricultural Policy (CAP). For programming period 2007–13, it promotes both sectoral and territorial approaches through four priority axes: (i) competitiveness, (ii) environment and land management, (iii) quality of life and income diversification, including infrastructure, and (iv) LEADER+. Rural Development is financed through the EAFRD, from which Romania will receive almost EUR 3 billion (2007–09) and a total of EUR 8.33 billion over 2007–13 for all agriculture, rural development, and fisheries. In terms of rural development (Pillar 2) investments, European Agriculture Fund for Rural Development (EAFRD) provides grants of up to 75 percent of funds required to finance eligible projects; counterpart financing of up to 20 percent is required from national or local public budgets.43

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42 The Rural Development Plan can, in principle, fund rural water supply systems, under Article 56 of EC Regulation 1698/2005, which includes it as an eligible expenditure under axis 2 covering off-farm basic services for a village or cluster of villages. Indications from MAFRD, the managing authority, suggest, however, that commune RWSS investments will either not be included in the Rural Development Plan or will be included at an inadequate level.

43 85% EAFRD + 15% national budget = 100% of funds available for the rural development program. For eligible projects, these funds cover 50 to 100% of eligible projects (most projects with private beneficiaries require 50% counterpart financing).
Upon EU accession, Romania will no longer operate a national agricultural and rural development policy, but will assume responsibility for the national implementation and management of the CAP adopted by all EU members. The CAP’s considerable flexibility, however, will allow Romania to choose from a wide set of instruments and implementation options. These strategic choices have implications for both the national budget and for sectoral development and income.

**Given that about 45 percent of its citizens live in rural areas, regional and rural development are potentially strongly complementary in Romania.** Operational synergies between these agendas are therefore both natural and essential. EU strategic directions for both rural and regional development stress the importance of achieving such synergies but offer no clear or detailed guidance on how to do so. Areas of programming overlap include enterprise and SME sector and investment climate; labor market development; infrastructure investment; environmental risk prevention; and education and cultural heritage. The regional operational program and the rural development program have similar application and funding procedures. Both nationally and at the EC level, however, each has a separate management authority; regional and rural developments are managed by DG Region and DG AGRI, respectively. Most synergies are expected to occur locally, but this requires significant local coordination and a clear plan for local capacity enhancement. The major area of synergy between ROP and RDP falls within the rubric of CAP Pillar 2 programming, which combines sectoral and territorial development elements. The interface of territorial development seems to fall naturally at the county and regional levels, covering public and private investments also targeting the communes.

**Romania’s accession to the EU will take place the same year that a reformed framework for CAP Pillar 2 rural development measures will be introduced.** Pillar 2 comprises a set of rural development measures from which each member state selects, within predefined minimum allocations, those deemed appropriate to its rural development strategy. Rural Development measures under the EAFRD fall under four axes: competitiveness of farming and forestry; environment and land management; quality of life and diversification; and LEADER+, envisioned as a cross-cutting approach that can be used to implement elements of the other axes.
Improving and developing infrastructure related to development and adaptation of agriculture and forestry; supporting farmers who participate in food quality schemes; setting up young farmers; and helping semi-subsistence farmers in new member states become competitive.

Natural handicap payments to farmers in mountain areas; NATURA 2000 payments; agri-environment measures; and animal welfare payments.

Diversification to nonagricultural activities; support for creation of micro enterprises; encouragement of tourism; village renewal.

MAFRD, as the managing authority for EAFRD interventions, is currently in the process of developing its Operational Program for Agriculture and Rural Development. While no decision on the measures to be implemented within each axis has been reached yet, a recent draft of the National Strategic Plan indicates the following levels of resource allocation: 45 percent of EAFRD allocations (€1.1 billion over 2007–9) for measures under Axis 1; 25 percent (€606 million) for Axis 2; 30 percent (€727 million) for Axis 3; and 2.5 percent (€61 million) for measures under Axis 4.

If not addressed in a timely and appropriate manner, the implementation of CAP Pillar 2 measures might repeat the poor performance and uptake under SAPARD. In June 2006, the Romanian government announced that SAPARD funds had been fully committed. SAPARD disbursements are still lagging, however, and the pre-accession instrument was only successful in terms of local administration uptake of infrastructure investments. The demand for rural infrastructure (roads, running water, sewage, and so on) far exceeded the program expectations, and measure 2.1 of SAPARD had received by mid-2005 more than twice as many applications as it could finance, reflecting the historical underinvestment in public services in Romanian villages. Despite the pre-financing constraint, the lack of counterpart financing was a strong incentive for local government to seek these public infrastructure investments. But zero counterpart financing will not be fiscally sustainable post-accession. Private beneficiaries under...
SAPARD were required to pay 50 percent of total project costs in income-generating projects, and the uptake of private measures has been very slow.\(^{44}\)

**MAFRD has to move quickly to define national application and eligibility criteria within the more general set of criteria defined by the EC.** Definition of many of the detailed project application rules is expected to come from the operating procedures manual of the RDP's intermediate body. But SAPARD is awaiting clarification of the final list of measures and broad criteria from MAFRD, at which point it will develop more streamlined, simplified post-accession application procedures.

**CAP Pillar 2 cofinancing requirements for public investment measures should be consistent with the agreed national cofinancing framework for structural funds (a 2 to 5 percent local counterpart).** Such a harmonized approach would create consistency across public investment measures and build on global experience regarding the importance of local cofinancing for local planning and investment discipline and of local ownership to enhance overall quality of the local public investment pipeline.

**SAPARD now has deconcentrated offices in each of the 41 counties, but their capacity and role interfacing with beneficiaries is as yet unclear and undefined.** This set of front line actors offers the RDP a real opportunity to do local outreach with respect to requirements for accessing measures. But their effectiveness will depend on capacity and clarity of the rules of the game, and the extent of delegation of support to beneficiaries. If the county offices are relegated to collecting and transmitting applications for centralized approvals, it would be a missed opportunity to respond more dynamically to beneficiary needs.

**MAFRD and SAPARD should avoid centralizing project approvals in Bucharest, which will induce unnecessary implementation delays.** An efficient framework for resource allocation among beneficiary groups in various regions is necessary, as is a managed competition process similar to that recommended for ROP. SAPARD must also simplify application and approval processes.

**LEADER +**

**The LEADER + program is a bottom-up local development approach for rural areas.** It is the fourth axis of CAP-2, and new member states like Romania and Bulgaria must allocate a minimum of 2.5 percent of CAP-2 to LEADER-based initiatives. A minimum of 5 percent is expected from older member states, with LEADER applied to the other axes applying towards this amount. The approach is very similar to that under LED.

**LEADER + is seen as contributing to the implementation of any or all of the other three axes.** Member states are encouraged to exceed the minimum requirements by

\(^{44}\) Romania PIER, vol. II, Experience with Pre-Accession Funds.
adopting LEADER for other relevant measures within the CAP that respond to local development aspirations emerging through the LEADER process.

The fourth axis supports three measures: (i) implementation of local development strategies through a LEADER approach to contribute to the achievement of the objectives of one or several of the three other axes; (ii) inter-territorial and transnational cooperation among LAGs; (iii) and running costs of Local Action Groups (LAGs), capacity building, and animation.

LAGs are the core local institution at the heart of LEADER. A LAG is made up of stakeholders supporting a community of between 10,000 and 100,000 citizens and covering up to 120 square km. The LAG operationalizes the core elements of the approach, supporting initiatives that are bottom-up, rural, participatory, integrated, and innovative through local financial management and networking capabilities. While LAGs are expected to be homogeneous and rural, they have no pre-defined boundaries, and any cluster of stakeholders, villages, or localities can in principle apply for the status and be made LEADER eligible.

LAGs undergo a LED-type planning process and are rewarded with large grant funds, which they can then re-grant to target community groups within the LAG jurisdiction that submit proposals consistent with local development strategy and priorities. The community grants are small and include capital investments, training, analysis, and development, and they require local matching at different rates depending on the measure (public or private): capital grants are provided up to 50 percent of total project costs, not to exceed Euro 65,000; training grants are provided at 100 percent of costs for community and 50 percent for private projects; and analysis and development grants are awarded for up to 80 percent of costs for community initiatives up to Euro 12,500 and 50 percent for private projects up to Euro 7,500.

The LEADER+ and LED approaches share important core elements and are consistent with the Bank’s community-driven development (CDD) approach, as implemented under the Romania Social Development Fund (RSDF) and the Rural Development Project (RDP)\(^4\). Experience from RDP in particular, which worked at a somewhat higher level of aggregation than did RSDF—communes and associations of communes—is likely to help those communities that benefited from RDP support to assume a strategic position from which to implement LEADER. Already approximately 7 of the 100 or more applications to become LEADER groups were initiated by RDP communes in partnership with neighboring communes.

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\(^4\) RDP is a USD $40 million project that provided rural water supply and rural roads rehabilitation in 100 communes in 5 counties (20 each—Salaj, Dolj, Calarasi, Tulcea, and Botosani) via a bottom-up CDD approach. RSDF I and II is a long-running social fund program with national coverage that has provided community-driven village infrastructure projects in the poorest communities.
The figure above outlines many of the core areas of synergy among the three operational programs, each of which would be very helpful to Romania in developing integrated approaches to rural and regional development and environmental protection.
III. Conclusions and Recommendations

EU accession offers Romania an unprecedented opportunity to realize a broad range of economic and social development objectives. The substantial net inflows during the 2007–13 periods, if well managed, could have a transformational impact on Romanian national, regional, and sectoral development. But these resources must be well managed and put to good strategic use if they are to have the desired impact, as good absorption by itself will not guarantee good local and regional outcomes.

In the past year, Romania has made significant progress in its preparations for the implementation of the ROP and programming arrangements continue to evolve. The role of the RDAs as intermediate bodies in the 8 NUTS II regions has been formalized, and coordination and collaboration between the Ministry of European Integration (MEI) as managing authority for the ROP and the RDAs has been steadily improving. This development is important in terms of building a sense of “joint responsibility” for achieving good regional development outcomes. Other key immediate and longer-term steps toward strengthening the ROP are outlined below.

Romania could derive significant additional benefits by drawing more heavily on the EU’s hard-earned lessons in programming and implementation, especially the relatively long experience of the EU-15. While Romania has gained substantially from a wide array of technical assistance measures to help align its systems with EC requirements, considerably less emphasis has been placed on incorporating the strategic implementation lessons of member states. The process of articulation and elaboration of the NSRF, NRDP, and Sector Operational Programmes with clear sub-national relevance (ROP, EOP, and RDP) shows that Romania’s process most closely resembles that of older members in Phase I. Yet, in many areas a window remains open for incorporating many of these lessons and thus ensuring that Romania is better poised to maximize both the absorption and the development impact of EU funds. Key steps to strengthen regional development programming are summarized below.

Operationalization of regional development in Romania will require closer coordination and collaboration between MEI and the NUTS II regions. In particular, a stronger working relationship between the managing authority and the regional development agencies is important to clarify and build a consistent technical approach to project approvals and technical support among the RDAs and the ministry.

Clearly, it may take some time to develop processes that fully reflect the evolution of the EU-15. And there is no blueprint as each country needs to adapt the EU framework to its particular circumstances and context and work out the political, social, and economic implications of various implementation modalities over time. But there are clear lessons which Romania could internalize. It will take time to move from Phase I, characterized by exclusive planning and partnerships, passive strategic direction, disjointed management, opportunistic project delivery, and unsystematic monitoring and evaluation, to Phase III, characterized by a more inclusive, intensive, integrated, strategic, and comprehensive approach. The recommendations below
summarize methods of leapfrogging ROP implementation beyond Phase I, possibly into Phase II, where ROP operationalization would be more responsive, consultative, proactive, and systematic.

**Immediate Next Steps**

**To Operationalize Regional Development**

Focus initial implementation efforts (of managing authorities and intermediate bodies) on streamlining and implementing the ROP. Secretariat functions of the Regional Committees for Strategic Assessment (RCSA), coordination of technical appraisals and capacity support to beneficiaries will be crucial implementation challenges in the initial years, requiring concentrated attention from RDAs and the managing authority. ROP implementation should be structured to ensure an effective, streamlined, transparent process that is responsive to local and regional investment needs. Avoiding major implementation delays will require timely review of project proposals and feedback to beneficiaries. These "nuts and bolts" activities will significantly tax capacity in ME1 and RDAs over the short term. As coordination across SOPs becomes more important, GoR may need to revisit the regional structure to find the best intergovernmental set-up for promoting regional synergies across operational programs. This could increase the territorial impact of investments, and speed-up absorption (see Longer Term Agenda).

- **Strengthen the role of the regions in the decision-making framework for project selection.** The Managing Authority has decided to broaden regional decision making by establishing RCSAs. These committees will include local authorities and civil society actors. According the April 2007 ROP programming documents, the role of the RCSAs will be to ensure that project applications have a strategic fit with local and regional priorities. The document indicates that final decisions on project selection are to be made by the managing authority. However, the MA has advised the authors that project approvals will be decentralized. Governance and social partnership arrangements at the regional level have not been clearly articulated, and the Regional Development Councils (RDCs), comprising elected County Presidents, no longer appears to have a role in project selection processes. In order to ensure that project pipelines are genuinely anchored in regional and local priorities, it is important for regional and local stakeholders to have a substantive and well-defined role in the process of ROP implementation. In principle, under a decentralized approval system, the managing authority would not approve specific projects. The managing authority should instead perform a final check to ensure eligibility for EU support, as well as manage overall coordination, monitoring and evaluation, strategic audits, and relations with MEF and the EC.

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46 See section II.1 of Key Issues and Challenges for details.

47 The ROP April 2007 version suggests that there is a new regional agency - Regional Committees for Regional Development Planning (RPC) which seems to have a mandate that is similar to that of the RDCs.
To Improve Resource Allocation to the Local Level and Facilitate Absorption

- **Finalize indicative regional envelopes, develop and agree on transparent reallocation procedures.** Regional allocations (envelopes of resources) based on clear criteria, are an important mechanism for managed competition, ensuring that regions with the greatest need receive adequate resources. The regional allocations approach has been widely used in EU-15 countries, and Romania is also adopting this approach towards resource allocation, and these regional allocations should be publicly available. The envelopes decentralize resources to the regions but simultaneously link national priorities with local bottom-up needs identification through earmarking of shares of regional allocations by axis. However, it is likely that faster moving regions with better capacity will absorb resources more quickly. While it is important to build capacity for project development in weaker regions, it is recommended that the envelopes be indicative and be combined with a transparent process for reallocating resources away from slower to regions able to combine productive use of these funds with relatively fast absorption, if it becomes clear that a particular weak region(s) will not be able to absorb the resources within 2-3 years. In practice there is likely to be some political difficulty with reallocating resources away from non-performing regions, but regional envelopes should be indicative and not become entitlements to avoid funds unnecessarily being lost to Romania as a whole.

- **Harmonize the local counterpart contribution framework across all local public infrastructure investments within the range proposed by the Ministry of Economy and Finance (2 to 5 percent) to ensure discipline in project preparation and identification.** MEF has decided to finance most of the national counterpart from the national budget for investments where localities are the beneficiaries. However, importantly, MEF has also decided that there should be some amount of local counterpart, 2 to 5% depending on the situation, to ensure some amount of fiscal discipline and ownership of local projects. MEF is well advised to maintain its local contribution approach, and further clarify the local cofinancing financing percentages such that they are consistent across all structural funds for similar types of investments. Adequate and timely advance payments also need to be provided to localities whose projects are approved so as to allow them to sign implementation contracts with private companies. And to the extent possible, it is recommended that local public infrastructure investments under the National Plan for Rural Development be subject to a cofinancing framework that is consistent with the approach developed by MEF for structural funds.

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48 See section II.2 for detailed discussion of this issue.

49 The World Bank was advised that regional allocations have been finalized, though neither the criteria nor actual allocations appear to have been made public.

50 There is a risk of decommitments of funds after 2-3 years (n+3 during 2007-9, n+2 during 2010-2013).

51 Advance payments have been agreed for Public Authorities. These payments need to be disbursed quickly after projects are approved in order to facilitate project implementation.
To Build a High-Quality Pipeline of Local Projects

- **Clarify and harmonize project selection criteria and processes across NUTS II regions.** Methods of assessment, including selection criteria and weights (developed collaboratively by the managing authority and the intermediate bodies), should be applied uniformly throughout the eight regions, allowing the managing authority and the Monitoring Committee to assess their impact on pipeline quality. Such harmonization would also strengthen the overall transparency of the selection process, which, like the eligibility and evaluation criteria, should be made public to clarify both the rules of the game and the minimum requirements for successful applications. It should be noted that the managing authority has moved in this direction – the Monitoring Committee will approve the selection criteria for all regions in order to ensure a consistent approach.

- **Develop a capacity-building agenda to support counties, cities, towns, and communes in bottom-up, participatory, territorial development planning based on public-private and broader stakeholder participation.** This recommendation is built on the importance of combining absorption with impact through developing a high quality pipeline that is strategically aligned with regional and local needs. The proposed approach would help localities create practical, realistic development strategies and reconcile development aspirations with possible funding from the EU and other sources. Building this capacity will be a significant challenge requiring support from other ministries, especially the Ministry of Interior and Administrative Reform (MAI). It could also be funded by the Public Administration OP, since MAI’s responsibility for decentralization and strengthening local governments justifies support of local capacity to attract investment resources. Successful absorption will also require that localities strengthen their procurement, financial management, revenue mobilization, and project management capacities, as these also affect the quality of local investments.

- **Ensure through RCSAs that approved projects are consistent with local economic development plans and with local priorities.** Ad hoc projects proposed by county elected leaders that do not fit the strategic local development plan or otherwise lacking broad-based support should be discouraged. This can be done quite effectively by assigning significant weight in selection grids to the fit of a particular local project with the corresponding local strategy. Also, given the planned multi-stakeholder composition of the RCSAs, these bodies seem well placed to review the strategic alignment of proposed projects with local strategies and needs.

**Longer Term Agenda**

- To prepare for the next programming period, **Romania must resolve structural weaknesses in its current regional model** and then closely monitor the impact of institutional arrangements and regional structures and processes during 2007–13 for

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52 See section II.3 of Key Issues and Challenges for detailed discussion.
key lessons on what works and doesn’t work. Current plans to broaden the participatory basis of decision-making through expanded project-selection councils move in the right direction, and the effect on the quality of regional decision-making should be carefully studied for possible long-term adoption. Moving forward, Romania will need to decide whether to formally constitute regions as levels of government or continue to use them mainly for planning purposes. In addition, RDAs are now legally constituted as NGOs, regional coordination among Sector Operational Programmes may be difficult for RDAs to implement, especially where deconcentrated units of other sector ministries are involved. Therefore, it is recommended that GoR consider the legal status of RDAs as it refines the regional model and assigns implementation and coordination responsibilities within regions.

- **GOR should monitor and use the experience of 2007–13 to determine how best to strengthen regional and local synergies among operational programs with territorial dimensions.** Since this programming period will be the first post-accession and it takes time to fully adapt and customize the EU framework to local circumstances, the managing authority should monitor and evaluate the effectiveness of the ROP very carefully. Such monitoring would provide good basis for adaptation during mid-term and in future programming periods. One important area to review would be how to achieve integration among operational programs while respecting EU requirements for synergies and demarcation among operational programs. In particular, pillar 2 of the National Program for Rural Development and the ERDF seem to have natural synergies on the territorial development aspects.

- **Monitoring and evaluation in Romania remains undefined, beyond the formal evaluation processes outlined by the EC.** This will need to change to enable Romania to derive good lessons on which to design its future programming. However, given capacity constraints, in the near term, Romania is likely to focus on the EU’s formal monitoring and evaluation requirements rather than develop a more systematic or comprehensive approach tied to internal strategic objectives. If the monitoring and evaluation system both tracks implementation progress and evaluates whether ROP programs and project interventions are achieving desired results, it will ultimately be a useful tool for management decisions, identifying priority axes and refining measures and approaches for future programming periods.

- **Greater fiscal decentralization should be pursued long-term to strengthen the project-absorption possibilities of local administrations,** including greater own-revenues and fiscal discretion regarding equalization grants. Limited fiscal decentralization weakens own-source mobilization and capacity to borrow in most localities, constraining the ability to finance most non-eligible costs. Given that co-financing and advance payments from the central budget are likely to diminish over the long-term, the lack of adequate of financial capacity at the local

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53 See section II.1 of the policy note for more information on implementation design, and decentralization issues.

54 The definition of own-resource revenues has been expanded beyond normal technical classification to artificially increase the debt ceiling.
administration level is likely to be a critical bottleneck and threaten absorption of EU structural funds locally and the ability of local administration to achieve their local and territorial development goals.
Appendix: *Typology for Program Management Systems*\(^{55}\)

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<tr>
<th>Country</th>
<th>Institutional Arrangements</th>
<th>Program Management Structures</th>
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<tbody>
<tr>
<td>Ireland</td>
<td>Centralized &amp; subsumed</td>
<td>The Irish CSF is administered through a generally well established, experienced, and effective public administration system. Operational programs were delivered via sectorally based national lead departments and implementing agencies. The vertical nature of these departments and agencies, however, led to some inflexibility and resistance to change and reprogramming. Also, the generally “light” nature of Ireland’s regional administration was reflected in a weak regional dimension to CSF (now NISRF) planning and delivery.</td>
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<tr>
<td>Greece</td>
<td>Centralized &amp; differentiated</td>
<td>As the general rule, structural funds assistance in Greece is covered by the Community Support Framework (CSF), with one integrated operational program for each region. NUTS II regions in Greece do not constitute sub-national self-government; they decentralize state administration at the regional level. The major expression of the principle of subsidiarity in the structural funds programs has been the participation of local authorities’ representatives in the programs’ monitoring committees. The Ministry of Economy &amp; Finance (MEF) is the general coordinator of all structural fund interventions. A single paying authority for all structural funds was set up in MEF, with a clear separation of tasks from those of the CSF managing authority.</td>
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<tr>
<td>Portugal</td>
<td>Centralized &amp; differentiated</td>
<td>A governmental commission was responsible for the overall coordination of the CSF. This commission was chaired by Ministry of Planning and Territorial Administration and members are the relevant ministries’ members responsible for the OPs. Directors of the entities responsible for the national management of the ERDF (DGDR), ESF (CCFSE), EAGGF (Ministry of Agriculture), FIFG (Fishery General-Direction), and by the Cohesion Fund.</td>
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<tr>
<td>Germany</td>
<td>Decentralized (federal) &amp; subsumed</td>
<td>In Germany, funds are implemented through existing domestic administrative structures. The German Objective 2 programs are managed at the Land (state) level, typically by a coordination unit in the Land ministry for economics. Decisions about project selection, however, are taken principally by the implementing units of various state ministries (mainly economic ministries), selected regional banks, and agencies.</td>
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<tr>
<td>Spain</td>
<td>Decentralized &amp; subsumed</td>
<td>In Spain, decision making is undertaken at both national and regional levels through existing public finance systems rather than program specific structures. For Objective 2 programming, ministries and departments of the regional authorities identify aspects of their multi-annual plans and programs that can be financed through structural funds.</td>
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<tr>
<td>UK</td>
<td>Decentralized &amp; differentiated</td>
<td>The basic structure for program delivery in UK is a secretariat that undertakes administrative tasks associated with project selection (including assessing eligibility), specialist committees, or working groups to advise on issues of project selection. These are regional government offices in England and program executives in Scotland and Wales. The program management committee (PMC) makes ultimate decisions on funding. The specialist groups of partners who make recommendations are either area-based or theme-based experts.</td>
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<tr>
<td>Sweden</td>
<td>Decentralized &amp; differentiated</td>
<td>Following EU accession, new structures were created to manage structural fund programs. Structural fund decision making was placed principally at regional levels with national organizations ensuring technical eligibility and acting as the paying authority. In Sweden, the new set of administrative bodies, especially established for the implementation of Structural Funds were catalysts for pushing the decentralization agenda, where local politicians were given the power to decide on the use of EU funds for individual projects.</td>
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<tr>
<td>Denmark</td>
<td>Decentralized &amp; differentiated</td>
<td>Denmark’s decision to use dedicated structures for SF implementation was shaped by its insufficient preexisting regional policy structures. In the 1994–99 programming period, Objective 2 programs had a dedicated program secretariat, advisory committees, a coordinating committee, a steering committee, and national decision-making bodies. Applications are first sent to the SF secretariat, and then passed on to an advisory committee and a coordinating committee comprised of regional actors for a more strategic assessment. The regional steering committee makes the ultimate decisions.</td>
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<tr>
<td>France</td>
<td>Centralized &amp; composite</td>
<td>There is a clearly identifiable national approach to SF programming in France though details may vary across regions. This involves submission of applications and “instruction” or appraisal by a single agency, followed by forwarding to a technical committee (TC) to generate a recommendation, and then submission to a decision-making committee for the final decision. Often, the regional TC for SFs is also project decision-making committee for State Region Contracts de Plan – an efficient dual use of these structures.</td>
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<tr>
<td>Italy</td>
<td>Decentralized &amp; composite</td>
<td>Structural fund administration is undertaken by the regional councils and integrated within domestic decision-making structures. Each measure is the specific responsibility of the department of the regional government. Specific tasks under specific measures, however (for example, making selections among business development projects generated by calls), might be decided by a dedicated technical committee or group. In addition, panels of experts might be called on to decide large and complicated projects, such as establishing a technology park.</td>
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MAP SECTION