

EXECUTIVE SUMMARY

This report is an evaluation of the use of pre-financing in the implementation of the Structural and Cohesion Funds (SCF) in Romania from 2007 to the cut-off date of the evaluation, which was established as 31 March 2013. The evaluation Terms of Reference (ToR) set out four evaluation questions, each with several sub-questions. For clarity this executive summary addresses all of the evaluation questions in the order in which they were asked in the ToR.

The regulatory framework covering pre-financing in Romania

The EU regulations (from 2006) provide for advancing money to the Member States (MS) to facilitate the start and implementation of the Operational Programmes (OPs). The EU regulations were adjusted to respond to the effects of the economic and financial crisis from late 2008 onwards. The main adjustments were to increase the pre-financing rates available to MS; adjust (abolish) the automatic de-commitment of unused 2007 allocations; improve the maximum reimbursement rate by up to ten percentage points; and allow the MS to retain interest earned on pre-financing balances and introduce the possibility to pay pre-financing on contract and in instalments.

The Romanian legislation covering pre-financing consists of 16 legislative acts from 2007 to 2012. The main adjustments to the original scheme introduced in 2007 were to adjust (upwards and downwards) the rate of pre-financing available for certain OPs; and to enforce the return of pre-financing where a reimbursement claim is not submitted within a prescribed period. The modification of the national provisions for the pre-financing system can be divided into six time periods, which are presented in a summarised form as follows:

No.	Period	Pre-financing regime
1	2 nd of February 2007 – 2 nd of November 2008	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 20% (PA 1-5); 40% (PA 6)
2	3 rd of November 2008 – 23 rd of March 2009	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6)
3	24 th of March 2009 – 13 th of July 2009	<ul style="list-style-type: none"> • Pre-financing rate: 20% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
4	14 th of July 2009 – 25 th of July 2011	<ul style="list-style-type: none"> • Pre-financing rate: 30% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
5	26 th of July 2011 – 22 nd of March 2012	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects: 20% of the eligible value • State aid projects: 35% of grant value



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

No. **Period** **Pre-financing regime**

		<ul style="list-style-type: none"> • Amortisation: 30% of each Reimbursement Claim (RC) value (up to the last RC) • Pre-financing to be given back if RC (min 20% of value of pre-financing) not submitted in 6 months from receipt
6	23 rd of March 2012 – present	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects, projects co-financed 100%, projects <1 million RON (eligible value): 20% of the eligible value • State aid projects: 35% of grant value • Amortisation: 30% of each RC value (up to last RC) • Pre-financing to be given back if RC (min 60% of value of pre-financing) not submitted in 6 months from receipt

In general, the national framework established in legislation was followed at OP level, but the way that information on pre-financing was presented to beneficiaries and potential beneficiaries was significantly different in some OPs. Pre-financing rules were not always set out in one place – they could be found in applicant guides, contracts or in supplementary documentation. The ROP and SOP ENV had the most mature set of provisions. SOP ENV and SOP HRD allowed for payment in instalments or in annual tranches. The system to recover unspent pre-financing was introduced in March 2012 but the HRD SOP does not appear to have actively applied the recovery system.

Evaluation conclusions

Question 1: Does the pre-financing instrument serve its objective as it is defined by the NSRF/ Operational Programmes and the relevant legislation? Are there alternatives that serve better the same purpose?

Does the pre-financing instrument serve its objective as defined by the NSRF / Operational Programmes and the relevant legislation?

There is a consistent objective established for pre-financing in the NSRF, the OPs and the Romanian legislation. All three sources establish that the objective of pre-financing is to support the maximum absorption of funds from the structural instruments, mainly by supporting the commencement of operations. The initial stated Romanian objective of pre-financing is to help to commence operations. Later adjustments widened the potential use of pre-financing for the entire duration of an Operation, with the provision that the pre-financing amounts advanced are recovered before the final reimbursement claim is submitted.

The pre-financing scheme in Romania is fully in line with the EC regulations, national legislation, and the initially defined objective in the NSRF. The OP level rules are broadly in line with the national provisions. At overall structural instruments level there is an absence of an effective co-ordination of the rules applied by the MAs, and there are no results



oriented targets in place to guide its implementation and to serve as a basis for assessment of outcomes. At this level, there is limited information and tools to make informed tactical and strategic decisions about the management of pre-financing.

Are there alternative mechanisms to achieve the same aims?

As the objectives of pre-financing were to assist with the absorption of the EU allocation of structural instruments, the search for alternatives considers the alternatives for assisting the beneficiaries to deliver successful projects within the planned time. The alternative mechanisms were reduced to consideration of alternative sources of finance to support the implementation of operations, where three possibilities were identified:

The current (new) system of payments settlement: A new mechanism for local public beneficiaries¹ was introduced in 2013 which provides that payments may be made prior to approval of reimbursement requests, based on claims proving that the works have been executed. The payment is made to the contractor on the same day it is received by the beneficiary and a reimbursement claim must be submitted by the beneficiary within 10 days of the payment. This new system addresses directly the delays in processing reimbursement claims and is a positive incentive to both beneficiaries and contractors to submit the payment requests promptly. The disadvantage is that there is an increased element of unpredictability at the level of the State budget forecasting and there is an increase in administrative overhead. Overall, it is a viable alternative or improvement to the previous arrangements.

100% financing of projects through the state budget: This arrangement is generally considered to be pre-financing in many Member States (MS) and is widely used for large infrastructure projects. It is suitable for cases where the government is committed to a large national development programme. The advantages are that it supports central management of pre-financing and reimbursement and increases the potential for optimised absorption of EU funds. The disadvantage is the need for the government to access the required funding from alternative sources and a potential risk of funding ineligible expenditure.

Use of financial engineering instruments: The EU is expanding the potential use of financial engineering instruments as a means for successfully completing eligible operations and absorbing the structural instruments. A key advantage is that the EU considers the funds absorbed when they are passed to the financial intermediary. They harness the technical competence of the financial intermediary and tend to attract other potential funding sources. As financial engineering is an alternative route to absorbing the structural instruments it needs to be seriously considered for the next programming period. Some internal expertise to act as counterparts for the financial intermediaries is needed as the set up and administrative rules can be complex. Financial engineering is also only suitable for certain types of operation. For example, it is less suitable for ESF beneficiaries.

¹ after the cut off date of this report, the mechanism has been extended to cover also private beneficiaries, with effect from 29 July 2013.



The search for alternatives also covered the practices in use in other Member States (MS). The evaluation conclusion is that the practices for managing and controlling pre-financing in Romania are not significantly different when compared to other MS but that pre-financing is viewed from a different perspective. A key difference is that other MS tend not to isolate pre-financing as a single instrument but rather to take a holistic view of the structural funds management system and its contribution to absorption. Experience of other MSs shows that pre-financing measures need to be applied in conjunction with **other types of financial management measures**. The most common measures applied in other MSs consist of:

- Use of simplified cost options, such as the use of flat rates for expenditure
- Guaranteed reimbursement within a fixed period of time after submission of RCs
- Mandatory submission of RCs within a fixed period
- Special fast track for reimbursement of expenditure for large projects

Question 2. How was the pre-financing scheme used by the beneficiaries? Does its use facilitate the achievement of the pre-financing objectives, as they are defined by the programming documents or legal norms?

Overview of the use of pre-financing in Romania

The evaluation made a detailed study of the use of pre-financing in Romania since 2007 from the perspectives of the pre-financing and recovery funding cycle, the use of pre-financing by OP, by type of beneficiary and by type of operation. The following tables provide the summarised picture of the use of pre-financing. The data presented in the report is the most comprehensive presentation of information on pre-financing available to date.

The factual basis shows that the actual use of pre-financing is not optimised, that is, it has not operated to the maximum extent consistent with its objectives. Four SOPs account for over 96% of pre-financing granted. In overall terms, only 40% of projects supported accounting for 51.8% of eligible amounts benefited from pre-financing. Central Public Authorities and State Companies together account for 28.5% of the eligible value of SI projects contracted and the GoR committed itself to pre-finance these projects entirely by providing funds for project implementation directly in the budgets of the beneficiary institutions, MT and MECC.

The ROP had a good performance in terms of the management of pre-financing as seen in the amount reimbursed, the amount returned and the pre-financing balances with beneficiaries at the evaluation cut-off date. For the other three main users (ENV SOP; IEC SOP; HRD SOP) of pre-financing, the rate of pre-financing reimbursement is quite low in all three and the rate of pre-financing returned in SOP ENV is very high. This can be explained by the different typology of projects implemented under SOP ENV and the difficulties encountered in implementation, but may also reveal difficulties in using pre-financing.

Table 1: Overview of the pre-financing and recovery funding cycle

	RON Billion	ROP	SOP ENV	SOP HRD	SOP IEC
Pre-financing granted	7.758	32.1%	32.5%	26.1%	8.9%
Pre-financing reimbursed	4.196	45.6%	18.5%	25.9%	9.3%
Pre-financing returned	0.794	15.5%	80.7%	1.4%	2.4%
Pre-financing balances	2.768	16.4%	39.9%	33.6%	10.1%

The highest demand for pre-financing was for HRD SOP, where more than 79% of the projects accessed pre-financing but the amounts involved were relatively small which adds significantly to the management burden for the administration of the recovery of pre-financing balances. SOP ENV had the highest proportion (88.8%) in terms of the eligible value of projects that received pre-financing and the smallest number of projects receiving pre-financing which means they had a high individual value.

Table 2: Pre-financing granted

	U.M	All Ops	ROP	SOP ENV	SOP HRD	SOP IEC
Number of projects contracted	No.	9,493	3,405	330	2,288	2,923
Number of projects pre-financed	No.	3,803	1,241	175	1,813	374
	%	40.1%	36.4%	53.0%	79.2%	12.8%
Eligible value of projects contracted	RON Billion	89.528	20.820	23.633	13.850	10.470
Eligible value of projects that received pre-financing	RON Billion	46.404	11.473	20.991	10.711	3.050
	%	51.8%	55.1%	88.8%	77.4%	29.1%

Use of pre-financing at OP level

For the ROP, the rate of projects that received pre-financing is quite low (36.4% of the number of projects; 55.1% of eligible value) so this limits the overall contribution that pre-financing has made to absorption at OP level. The use of pre-financing in ROP is good, as reflected in the high reimbursement rate. This means that at project level, pre-financing has been effective in supporting the progress of project implementation. The rate of pre-financing returned (4.9%) is reasonable. The main beneficiaries using pre-financing in the ROP were Local Public Authorities, NGOs and Companies.

In the SOP ENV, 53% of projects covering 88.8% of eligible value have benefited from pre-financing which is a good performance at OP level. However, the contribution to achieving the pre-financing objective at OP level and at project level is not as significant as for the other OPs, in the context of the specificity of the projects implemented under this OP. This



can be seen in the low reimbursement rate (30.8%) and the higher return rate compared to the other OPs (25.4%). The SOP ENV beneficiaries were Local Authorities and NGOs but the value attributable to NGOs is negligible which indicates a problem for the Local Authorities accessing pre-financing in this OP.

A high proportion of the HRD SOP projects (79.2%) and of the eligible value (77.4%) was taken up in pre-financing. The reimbursement rate of 53.6% is consistent with the view that the projects in this SOP are small in amount and in duration. The low return rate is not of significance, as it is known that the MA has not pursued the return of unused pre-financing to the same extent as in other OPs. In value terms, the main users of pre-financing in the HRD SOP are NGOs and Central Public Authorities (applying for their partners as association leaders). It is reasonable to conclude from the figures that the availability of pre-financing has contributed to the pre-financing objective (to assist with absorption) in this SOP.

The low proportion of projects (12.8%) and the low proportion of eligible value for pre-financing (29.1%) for the IEC SOP means that the contribution of pre-financing to overall absorption at SOP level is very small. The main users of pre-financing in this SOP are companies. The reimbursement rate of 56.8% suggests that the use of pre-financing has made some contribution to the successful absorption of the EU allocation at project level.

The analysis of the performance gap between the desired and actual outcome from the use of pre-financing can be summarised as follows: For ROP and IEC SOP there is a low accessibility to pre-financing in terms of amounts. While a high volume and value of the ENV SOP projects gained access to pre-financing, the result in terms of absorption is poor. The quality of information available for HRD SOP was problematic but it appears that the availability of pre-financing makes some contribution to absorption for that SOP.

Main categories of beneficiaries

As the definition of beneficiary groups in the records (SMIS) is very detailed² the evaluation reduced the beneficiary list from 26 groups in SMIS to 8 primary user groups, as follows:

Crt. No.	Category defined	Content of each category
1	Central public authorities	Central public authorities and their subordinated and coordinated units
2	Local authorities	Local public authorities and their subordinated and coordinated units and associations of local authorities, such as ADIs
3	Regional operators	Regional operators
4	State companies	State companies
5	Companies	All types of companies, including SMEs, micro-enterprises, large enterprises and entities referred to as 'legal entities of private nature'
6	NGOs	Includes both classical type of NGOs (classified as such in the SMIS) and the 'legal entities of private nature and public utility',

² There are 26 categories of beneficiaries defined in the SMIS



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

Crt. No.	Category defined	Content of each category
		'legal persons of private nature, non-profit' and Regional Development Agencies (RDA).
7	State universities and research institutes	State universities and research institutes
8	Others	Includes beneficiaries in the following categories: religious institutions, museums, international financial institutions, trade unions, employers' organisations, chambers of commerce and custodians /administrators of natural protected areas and suppliers of professional training services (eligible under HRD SOP), whose legal statute can vary from an NGO to a company.

The analysis at the level of the 8 categories of beneficiaries defined shows that, in terms of **projects that received pre-financing**, local authorities lead in terms of number of projects, but in terms of eligible value they are in second place (with 31.1% of total eligible value), being outranked by the regional operators (36.9%). Almost 37% of the pre-financing has been granted to projects where beneficiaries are local authorities. Together, regional operators and local authorities account for more than 60% of the pre-financing granted. These categories are followed by NGOs (11.9%), State universities /Research institutes and companies, each with 10.1%.

Table 3: Beneficiaries of pre-financing – numbers of projects

Projects	Overall Beneficiaries					Beneficiaries who received pre-financing				
	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC
Total projects	9,493	3,405	330	2,288	2,923	3,803	1,241	175	1,813	374
Companies	4,857	1,802	0	617	2,430	882	221	0	462	199
Local Authorities	1,783	1,290	58	143	93	1,195	827	39	110	52
NGOs	1,144	241	57	727	95	890	160	55	655	0
Cen Public Authorities	875	33	121	301	153	190	5	0	177	2

Table 4: Beneficiaries of pre-financing – eligible value of projects contracted

RON Billions	Overall Beneficiaries					Beneficiaries who received pre-financing				
	All Ops	ROP	SOP ENV	SOP HRD	SOP IEC	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC
Value of projects	89.518	20.820	23.633	13.839	10.471	46.404	11.473	20.991	10.711	3.050
Companies	12.804	3.104	0	1.794	7.360	3.750	0.642	0	1.545	1.563
Local Authorities	22.283	16.166	4.845	0.377	0.616	14.453	10.204	3.580	0.275	0.304
NGOs	5.051	0.527	0.160	4.281	0.024	4.181	0.330	0.144	3.670	0

Examination of the pre-financing rate applied to the projects funded under the Structural Instruments



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

Central Public Authorities	7.191	0.503	0.824	3.420	0.737	2.242	0.014	0	2.182	0
----------------------------------	-------	-------	-------	-------	-------	-------	-------	---	-------	---

Main types of interventions

The main types of interventions receiving pre-financing are:

- **Public infrastructure:** includes projects under ROP (PA 1, PA 2, PA 3, PA 5–KAI 5.1), ENV SOP (except for PA 6) and Transport SOP (except for PA 4)
- **Investments:** includes projects under ROP (PA 4, PA 5–KAI 5.2), IEC SOP (except for PA 1–KAI 1.2 and PA 5)
- **Soft type interventions:** includes all TA interventions (all OPs and TA OP) and HRD SOP, ACD OP, IEC SOP (PA 1–KAI 1.2), ROP KAI 5.3

Public infrastructure projects received 60.9% of the pre-financing granted, followed by soft-type projects (27.2%) and Investments (11.9%).

Limiting factors faced by beneficiaries in accessing and using pre-financing

The evaluation considered the factors faced by beneficiaries that might explain the performance gap noted from the quantitative analysis. In terms of accessing pre-financing, it was possible to group beneficiaries who fall under the state aid rules and those outside the state aid provisions. For the beneficiaries falling under the state aid rules (mainly private companies) the requirement for a bank guarantee and the difficulty in obtaining the guarantee was a key limiting factor. The low size of pre-financing available, the accelerated rate of recovery of the pre-financing and the difficult administrative requirements to obtain pre-financing were all cited by beneficiaries as the main limiting factors. Other secondary limiting factors, but no less important in terms of the next programming period were the limited information available about pre-financing, the frequent changes to the pre-financing provisions and the different procedures and rules applied by the different OPs. In this regard, Local Public Authorities complained the least about difficulties in accessing pre-financing.

The factors affecting the use of pre-financing overlapped significantly with the factors that are thought to limit the overall absorption of structural instruments. The most serious factors were the poor performance of contractors, the complexity and judicial nature of the public procurement process, the effect of the financial and economic crisis and the poor quality of the technical projects. The performance delays caused by these factors in many cases render the financial cash flow profiling no longer reliable which has an effect on the reimbursement cycle by contributing to late submission of claims. The poor technical projects and poor standard of contractors add to the time required to check the documents support reimbursement claims. Where the pre-financing regulations changed during project implementation, this adds to the administrative problems for both sides.



The evaluation consulted with banks, as stakeholders in the funding business. Their perspective was that the requirement for a bank guarantee would cause them to assess the credit worthiness of the beneficiary/ contractor applicant. The financial capability of beneficiaries, the quality of the project and the uncertainties of the public procurement procedures were the highest risk factors for them.

The analysis of the use of pre-financing covered several further perspectives to see if it was possible to build on the observations from the basic analysis reflected in the above paragraphs. When viewed by project size (measured in terms of project value), 1,587 projects receiving pre-financing had a value between EUR 200,000 and EUR 500,000. The analysis showed that higher value projects accounted for the highest share of pre-financing which is to be expected. The conclusion is that relative size of project is not a major factor in the pre-financing system. This view is consistent with the poor performance of the large projects in the ENV SOP.

Effects of misuse of pre-financing

The vast majority of pre-financing returned is for procedural reasons rather than a reflection of fraudulent practices. The analysis of pre-financing returned shows that the failure to meet the planned timetable for submitting a reimbursement claim is the most common reason for returning the pre-financing. Unreliability of data continues to be a problem, especially in the case of HRD SOP. SOP ENV reported the highest level of pre-financing returned (25.4%); many beneficiaries applied for the maximum amount of pre-financing which could not be used within the six months timeframe assumed due to the complexity and size of the projects. The initial 30% pre-financing rate combined with the provision to recover pre-financing starting only with the second reimbursement claim resulted in significant funds taken out of service and eventually in a lack of funds for pre-financing in 2011, when a shortage of funds to continue “feeding” the pre-financing system became the main driving factor for recovery of pre-financing. Most returns started in 2011 and increased when the enforcement mechanism was clarified in early 2012.

The impact of the pre-financing mechanism on its defined objectives

The data collected was processed through the econometric model to add weight to the conclusions that might be made on whether or not pre-financing is meeting its objective. The aim was to assess the relationship between pre-financing granted and the absorption rate at the level of beneficiaries. This was done by studying the time intervals between the granting of pre-financing and the submission and subsequent payment of reimbursement claims. The model was calibrated for the changes in the available rates of pre-financing in the different time periods.

From the perspective of the OPs, the model showed that the time required to process a reimbursement claim was longer than the interval between the granting of pre-financing and the submission of the first reimbursement claim. This reflects a very poor efficiency rate



for the checking of the claims. For two of the large SOPs (IEC SOP and HRD SOP) the time interval from granting pre-financing to payment of the first reimbursement claim was approaching 200 days.

The model was used to calculate the three primary indicators for pre-financing for the different types of beneficiary for each OP. The indicators are the absorption rate, the use of pre-financing multiple and the accessibility of pre-financing. The results from the model analysis was that all OPs had a positive multiple for absorption based on the use of pre-financing, ranging from 421% (4.21 RON absorbed for each RON 1 of pre-financing) for ACD OP to 209% for SOP ENV and 197% for TA OP. By type of beneficiary, the model showed that NGOs have a multiple of 327% followed by 323% for Local Public Authorities³. The full list for beneficiaries by OP is given in Table 35 with separate tables by OP and by type of beneficiaries in Tables 36 and 37. These tables directly answer the evaluation question as they show the relationship between pre-financing granted and rate of fund absorption.

The data was further analysed through a regression model, applied to all completed projects and by OP to support the analysis of certain limiting factors influencing the performance of pre-financing in reaching its objectives. The analysis of the all completed projects was found to be valid, as the influence of the explanatory variables on the absorption rate is high (93%). There is a significant, positive relationship between the level of use of the pre-financing and the absorption rate: if the use of the pre-financing increases by 1%, then the level of absorption increases by 0.92%. The rate of pre-financing and the access to pre-financing have a positive influence on the absorption rate, while the distance in time between pre-financing payment, submission of RC and reimbursement have a negative influence on the absorption rate. The influence of the period between the first pre-financing payment and the submission of the first RC is smaller than the period between the submission of the first RC and the first reimbursement, so the “system-related” problems have a higher impact on the absorption than the “beneficiary-related” problems.

The conclusions of this analysis at OP level were that the time interval between the first registered claim and the first reimbursement is significant only for SOP HRD, SOP IEC and SOP ROP, and the influence is negative, being a sign of system vulnerability. For SOP IEC, the access to pre-financing has the lowest impact on the absorption rate, only 0.38, while the highest impact is recorded for ROP, with 1.22. The impact of the use of the pre-financing is evenly distributed among OPs.

When viewed from the perspective of beneficiaries, the model showed that the highest impact of the pre-financing rate on the absorption rate is for Regional Operators (1.03), while the lowest impact is for Companies (0.69). The period between the date of submission of the first RC and the first reimbursement is significant only for three types of beneficiaries: regional operators, companies and NGOs. For companies, the influence of the access to pre-financing on the absorption rate is the highest, with an elasticity coefficient of 1.23, so a 1%

³ From a technical perspective, the analysis showed that Central Public Authorities have a multiple of 369%, but this is less relevant, as this category is not eligible for pre-financing as such, but they have applied for pre-financing in the cases when they have acted as association leaders on behalf of their partners, such as NGOs or other type of beneficiaries.



increase of the access to pre-financing is reflected in a 1.23% increase in the absorption rate.

The implications of the use of pre-financing on the State Budget

In order to study the implications of the use of pre-financing on the state budget, the data set of quarterly fund movements was assembled (Table 41). The table showed that pre-financing had no net financial effect on the state budget as the advances received from the EC were sufficient to fund the net pre-financing issued to beneficiaries. The maximum exposure (i.e. of pre-financing balances in beneficiary accounts) was in quarter 3 of 2011 (approximately RON 4 billion). Since then, the pre-financing balances have been falling.

Question 3. Are there identifiable differences or changes in the use of the scheme? In what respect can these differences and changes be attributed to internal or external factors?

Evolution of access to pre-financing

The evaluation noted that the use of pre-financing can be divided into six separate time periods mainly based on changes to the rates of pre-financing that were available. The busiest period for the use of pre-financing was from 14 July 2009 to 25 July 2011 (time period 4) which coincides with an intensive period when all the SOPs were trying the launch calls for proposals and select operations and also when the rate of pre-financing available was the most attractive and was stable. The pattern of the relationship between the number of projects requesting pre-financing and the number of projects signed roughly follows a normal curve. The average for all 6 time periods is 40.4% but with a peak of 47.1% in period 4 followed by 41.5% in period 5.

Internal and external factors that influenced the use of pre-financing by the beneficiaries

In order to address this sub-question, the evaluation considered a short list of “likely” factors to explain the pattern of demand for pre-financing. The factors considered were the interest rate, the exchange rate, taxation legislation, the available public funding for providing guarantees in favour of the SI beneficiaries, and the forecasted effect of the financial crisis and its impact on banks /lending policies. The exploration of these factors with beneficiaries and stakeholders (through interview and survey) confirmed that none of them had a direct influence of the decision making to use pre-financing.

The conclusion is that the peak in demand for pre-financing was more likely influenced by the availability of pre-financing, the attractiveness of the rate and the relative stability of the rules in force for that period. The evaluation considered several other external factors like those identified as generally influencing the performance of the pre-financing mechanism (the financial capacity of the beneficiary; the administrative capacity of the SI



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

system; the administrative capacity of the beneficiary, including quality of project preparation; the stability of the general legal framework; the public procurement legislation; and the performance of the contractors) but none emerged as a dominant factor. The interesting conclusion to this question is that it seems that a combination of favourable factors is needed to persuade beneficiaries to access the structural funds, with a bias in favour of internal factors rather than external factors.

Impact of pre-financing on absorption by legislation periods

The analysis of the impact of pre-financing on absorption (at the level of the beneficiaries) based on the econometric models, shows that there was no effect in periods 1 to 3 and a consistently minor effect in period 4. For periods 5 and 6, the pre-financing rate had a significant impact on absorption. The model indicates that there is a positive multiplier effect. If the pre-financing rate increased by 1% then the absorption rate would increase by 1.23% for projects contracted in period 5 and by 1.12% for projects contracted in period 6. In view of the large take-up of pre financing in period 4 this follow-on effect on absorption is perhaps disappointing. It suggests that there is only a weak link between pre-financing and absorption.

Question 4. Which are the optimal pre-financing rates, applicable to the various types of projects and beneficiaries, as to accelerate the implementation process? What would be the impact on the national budget?

Optimal pre-financing rates for increasing absorption – current pre-financing system maintained

This question was addressed through the econometric model. The model was used to assess the potential options for modifying the pre-financing scheme in order to maximise the absorption rate at the level of the beneficiaries. The key assumptions used when building the following scenarios were that the main principles of functioning of the pre-financing mechanism are maintained, namely: (1) money placed from the beginning of project implementation directly in the accounts of the beneficiaries; (2) accelerated recovery of pre-financing; and that (3) the future behaviour of the beneficiaries when using pre-financing is similar to that observed in the past.

The analysis considered that the four variables that could be modified to obtain optimum values for the absorption rate at the level of the beneficiaries were the pre-financing rate, the level of accessing pre-financing (how much of the pre-financing available for beneficiaries, according to legal conditions, is actually paid to beneficiaries), the period between the payment of the first pre-financing instalment and the submission of the first RC (how fast the implementation advances or “the performance of the beneficiary”), and the period between the submission of the first RC and the first reimbursement to beneficiaries (how fast the administrative system processes the RC or “the performance of the system”).

The baseline scenario and three alternative scenarios were developed for consideration:

Scenario 1: The expected absorption rate at beneficiary level is 80%; The average time interval between the first registered claim and the first reimbursement decreases by 50%; All the other independent variables (use of pre-financing, access to pre-financing and distance in time between payment of pre-financing and payment of first RC) remain constant.

Scenario 2: The expected absorption rate at beneficiary level is 80%; The access to pre-financing increases by 20%; and all the other independent variables (use of pre-financing, distance in time between pre-financing payment and submission of first RC, average distance in time between the submission of first RC and the first reimbursement) remain constant.

Scenario 3: The expected absorption rate at beneficiary level is 80%, The access to pre-financing increases by 20%, the average time interval between the submission of the first RC and the first reimbursement decreases by 50%, the average time interval between the first payment of pre-financing and the submission of the first RC decreases by 50%, use of pre-financing remains constant.

The same expected absorption rate (80%) was used in the three scenarios. The model computed the optimal pre-financing rate needed to reach the target (expected) absorption rate for each type of beneficiary and type of intervention. The results shown below indicate that higher levels of pre-financing would be needed for scenario 1 than for the other two where the rates needed were similar.

Table 5: Optimum pre-financing rates by beneficiary in the alternate scenarios

Beneficiary	Baseline	Scenario 1	Scenario 2	Scenario 3
	Current rates	Optimum pre-financing rates		
Companies	24%	24%	18%	16%
Local Authorities	27%	37%	29%	29%
NGO	24%	32%	26%	26%
Regional Operators	24%	60%	70%	23%
State universities /research institutes	29%	50%	40%	68%
Others	24%	28%	23%	41%

Table 6: Optimum pre-financing rates by intervention in the alternate scenarios

Intervention	Baseline	Scenario 1	Scenario 2	Scenario 3
	Current rates	Optimum pre-financing rates		
Public infrastructures	25%	40%	31%	31%



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

Intervention	Baseline	Scenario 1	Scenario 2	Scenario 3
Investments	26%	25%	25%	25%
Soft-type interventions	26%	36%	30%	29%

Impact of the proposed scenarios on the national budget

The effect of the required pre-financing rates on the State Budget for the scenarios was calculated and compared against the baseline of the current amounts of pre-financing granted (RON 7.75 Billion). The analysis showed that for each scenario, pre-financing of between RON 10.26 billion and RON 11.72 billion would be needed. Pre-financing at current levels would be sufficient for ROP, and SOP IEC. An increase in pre-financing would be needed mostly for SOP ENV and partly for SOP HRD.

Optimised pre-financing mechanism for different types of projects in 2014+

The scenarios are based on the key assumption that the core principles of the current pre-financing system will be maintained in the future. The evaluation conclusions support the opinion of the beneficiaries that there are two basic limitations in the current pre-financing scheme. These are the rate of the pre-financing granted and the condition imposed to gradually deduct pre-financing from reimbursement claims before the final reimbursement claim. In other words, pre-financing is too small, but more importantly, it is not available to beneficiaries as a permanent cash flow support throughout project implementation and especially in the final stages of the project. This has resulted often in the situation that beneficiaries postpone final payments to contractors (and submission of final reimbursement claims) due to lack of cash.

The cash flow analysis of the three main types of projects (Infrastructure projects, usually implemented by public sector; investment projects, usually implemented by private sector (SMEs); and ESF soft projects) shows that for all three project types, the current payment settlement mechanism can be improved by replacing the current pre-financing system, both in terms of “exposure” of the state budget (the total amount paid from the budget to beneficiaries until the approval of the reimbursement claims) and in terms of cost (the cost registered by the budget as if the State would have to pay interest for the entire amount paid to beneficiaries, until reimbursement claims are approved). For investments by private sector and ESF soft projects, there are other factors than cash flow and costs that are support the use of alternative methods of financial support, such as providing free-of-charge guarantees or other type of FEIs for grant schemes and /or replacing grant schemes with credit and grant schemes. If the “classic” pre-financing mechanism is used, the funds should be left at the disposal of the beneficiary for the whole duration of the project.

Recommendations

Management of pre-financing



GUVERNUL ROMÂNIEI



UNIUNEA EUROPEANĂ



Instrumente Structurale
2007 - 2013

1. GoR should establish an efficient coordination of pre-financing at central level, by MEF and MPF and should harmonise the applicable norms and legislation at NSRF level.
2. The relevant MEF department charged with management of pre-financing or the Working Group for financial aspects (pending on decision in response to Recommendation no. 1) should be supported by a central TA expert resource, capable to provide continuous assistance in the areas of financial management, EU fund regulations, state aid and FEIs.
3. MEF /MAs should commission the necessary improvements to the design of the management information datasets for monitoring pre-financing. A priority is to improve the data definitions and simplify of beneficiary groups and types of intervention and to enable the tracking of the key dates in the pre-financing application and recovery cycles in order for the system (SMIS) to be capable of delivering tailor-made data sets concerning financial implementation, at project level.

Optimised pre-financing mechanism for different types of projects in 2014+

4. For all public infrastructure projects (central and local), future 2014+ advance payments from the EC should capitalise a dedicated pre-financing fund, managed directly by MEF /MPF (to take advantage of the government's access to funding at the best rates) or co-managed by MEF /commercial bank(s), with a view to secure pre-financing funds throughout project implementation, by using the current payment settlement system. A payment claim value limit (such as 15% or 20% of the grant) should be imposed to contain the exposure of the fund and to strengthen implementation discipline.
5. For ESF-type soft projects, a special fund to secure pre-financing should be set up, by using advance payments from EC and /or other GoR /private sources. Pre-financing should be granted to beneficiaries, by using the "classic" pre-financing method (15% of grant), with the advanced amount kept for the entire implementation duration.
6. MEF /MAs should setup dedicated FEIs to provide free-of-charge guarantees to private beneficiaries and /or should consider designing credit and grant schemes that would involve commercial banks in SI projects' implementation, as an alternative to pure grant schemes.

Complementary financial management measures to improve future absorption

7. For the next programming period, MEF should ensure that necessary improvements to the management of submission and processing of RCs are implemented in line with the best practices from other MSs, such as:
 - Use of simplified cost options, such as the use of flat rates for expenditure
 - Guaranteed reimbursement within a fixed period of time after submission of RCs
 - Mandatory submission of RCs within a fixed period
 - Special fast track for reimbursement of expenditure for large projects