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Annex 10.1 - Methodological Approach

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?

The first step was to establish the objective of the existing pre-financing mechanism, based on the provisions of the NSRF, OPs and the relevant EU and national legislation and evaluate the conformity of the current mechanism with its objective.

To this aim, the following steps were undertaken:

- ✓ Elaboration of an inventory of the different provisions in the legislative /programming documents in relation to the objective of the pre-financing mechanism (NSRF, OPs, national legislation on pre-financing and other relevant legislation, EU-level legislation).
- ✓ Analysis of the legislative and procedural framework of the pre-financing mechanism (specific legislation on pre-financing, provisions of the Applicant Guides for all KAIs/ operations within all OPs, instructions to the beneficiaries and decisions of the relevant authorities such as MAs and IBs, provisions of the Standard Financing Contracts for different KAIs and operations). Further to this analysis, the team identified 6 distinctive periods based on the pre-financing regime applicable.
- ✓ Qualitative analysis of the conformity of the pre-financing mechanism with its objective
- ✓ Agreement of the objective of the pre-financing mechanism with the relevant actors

In order to answer the second part of the Evaluation Question no. 1 – whether there are other alternatives (to the existing pre-financing mechanism) that serve better the same purpose, the following activities have been undertaken:

- ✓ Documentary analysis on other existing instruments aiming at improving absorption such as:
 - Research on existing financial engineering instruments (general research), including the JEREMIE initiative
 - Analysis of the relevant national legislation in relation to the guarantee and counter-guarantee funds
 - Analysis of the norms and procedures in relation to other instruments used in the past (such as the combined credit + grant scheme, used under the PHARE programme)



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- Analysis of the provisions of the EC (proposals) Regulations for 2014-2020 (especially the provisions in relation to the use of financial engineering instruments and pre-financing granted to MS)
- ✓ Research of instruments used in other Member States (Ireland, France, Czech Republic, Poland, Lithuania, Latvia and Bulgaria).
- ✓ Analysis of the proposed alternative instruments with the help of a panel of experts
 - The aim of the analysis was to help appraise and make suggestions on the appropriateness of the alternative instruments identified
 - Membership of the expert panel: Jim Fitzpatrick (Fitzpatrick & Associates, Ireland), Franck Sottou (ETCP, Public Impact, France), Susanne Volz (ETCP, Germany), Aura Raducu, Cristian Paun (professor, Academy of Economic Studies, Bucharest – Romania) and Florian Neagu (Economist at National Bank of Romania).

Instruments used:

- Documentary analysis and work with databases (SMIS and MAs /IBs own databases)
- Interviews/group consultations
- Panel of experts

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?

The purpose of the evaluation activities undertaken was as to analyse how the pre-financing scheme was actually used by the beneficiaries and understand the effects of the misuse of pre-financing, as well as to estimate the influence of such misuse on the achievement of the pre-financing objectives (including quantifying the impact of the existing scheme on the national budget).

To this aim, the following activities have been undertaken:

- ✓ Preparing the data set
Data at project level (up to 31st of March 2013, the agreed cut-off date) has been collected based on a template prepared by the evaluation team and was sourced from SMIS and the individual databases of the MAs. Data obtained was assessed and differences were calculated, by comparison with consolidated reports available at MFE level (Monitoring Department).
- ✓ Documentary analysis of the data in relation to the use of pre-financing.
Analysis was done at all relevant levels (OP/PA/KAI/operation), as well as on types of beneficiaries and for soft versus investment projects in order to identify



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common patterns and analyse the functionality of the pre-financing mechanism for each of the analysed levels.

✓ A dynamic analysis of the use of pre-financing

At this stage of the analysis, the evaluation team looked at the differences in the use of the scheme (by project/ beneficiaries clustering, as identified from the documentary analysis) in the context of the changes occurring in terms of legislation and applicable procedures, in order to understand how the different legislative and procedural modifications affected the actual use of the scheme.

The analysis took into consideration aspects such as the ceilings set for pre-financing, the granting conditions, the conditions for use, as well as modalities for reimbursement and recovery of unused amounts.

✓ Analysis of the limiting factors and problems encountered by the beneficiaries in the use of pre-financing.

The analysis has been done based on the results of the analysis of the actual use of pre-financing by the beneficiaries and the conclusions resulting from the interviews with representatives of the authorities (MAs and IBs) and those of the banking and financial sector (institutions consulted: Unicredit Tiriac Bank, CEC, FEI, the Guarantee Fund).

Moreover, in line with the requirements of the ToR, the analysis was complemented by a survey on the beneficiaries on the limiting factors and the problems encountered in using pre-financing, as well as on the effect of the subsequent legislative changes on the project implementation and spending.

The survey questionnaire has been adapted to different categories of beneficiaries and was analysed separately for state/non state aid projects, according to the similarities observed in the use of the scheme – as per the documentary analysis. The questionnaires and survey sample have been developed with the help of a professional research company, in order to ensure the thoroughness of the results and to maximise its relevance and efficiency.

✓ Analysis of the effects of misuse of pre-financing

The analysis has been done with respect to the pre-financing returned (at PA/KAI level) based on the data available at project level, as well as to identify the cases that represented misuse of pre-financing (for instance keeping the amounts for pre-financing in the beneficiaries accounts and not using them for the specific purposes they were aimed at and consequently, not submitting reimbursement claims on time; using the pre-financing for covering non-eligible expenditure, etc.) and analysing the incidence of such aspects and identifying discernible patterns at different levels (OPs/PA/KAIs/type of beneficiaries, etc.), based also on the interviews with the relevant authorities and beneficiaries (with the help of the survey)

✓ Quantifying the impact of the current pre-financing mechanism on the defined objective of the pre-financing scheme



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In order to quantify the impact of the current pre-financing mechanism, calculations have been performed as to evaluate the actual costs of the pre-financing scheme for the national budget in relation to mobilization of additional resources to top-up the EU pre-financing funds made available to Romania. The calculations were based also on the period of the time the different amounts (of pre-financing) were in the beneficiaries' accounts and the corresponding cost incurred to the state budget.

Instruments used:

- Documentary analysis and work with databases
- Interviews/group consultations
- Survey on the beneficiaries
- Econometric model

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 (e.g.: variation in the financing methods used by the beneficiaries or modifications in the pre-financing norms and rates) or external (e.g.: decrease of liquidities, restricted credit access which is limiting the co-financing capacity of beneficiaries as a result of the financial crisis) factors?

In order to answer to this Evaluation Question, the analysis looked into identifying the different patterns in the use of the pre-financing scheme, in relation to the different internal and external factors that influence the use of such a mechanism. The legislative and procedural changes identified under EQ1 (based on the 6 individual periods identified) were also considered in the analyses and answers to this Question.

The following activities have been undertaken in order to answer this Question:

- ✓ Identification of the internal and external factors that impact the use of the scheme (factors included specific parameters of the pre-financing mechanism, as well as external factors, such as the administrative capacity of the SI system, the financial capacity of the beneficiaries, the quality of the projects prepared etc.).
- ✓ Analysis of the changes in the use of the pre-financing scheme

The analysis was done in relation to the time periods identified and aimed to understand the impact of the relevant changes in the legislation on the access and use of pre-financing. To this aim, results were coupled with the results of analysis on the actual use of pre-financing.

Parameters analysed include: the average duration between the payment of the pre-financing to the submission of the first reimbursement claim, average



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duration for processing the claims by the relevant authorities, the periods when the pre-financing was most attractive (by OP/PA/KAI), as well as a dynamic analysis of the volume of pre-financing granted.

Instruments used:

- Survey on the beneficiaries
- Documentary analysis and work with databases
- Interviews/group consultations
- Econometric model

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 of the new national budget proposal?

The answers to this Evaluation Question are mostly based on the answers to the previous EQ. However, two new elements have been considered at this stage, namely the optimization of cash flows at project level (for the project groups identified as most relevant) and the estimation of costs of the potential use of the alternative instruments identified and optimized mechanisms.

To this aim, the following steps have been considered:

- ✓ Analysis of the projects' cash-flow

The analysis has been performed on 7 illustrative case studies, considered relevant by the Evaluation Team, based on the results of the analyses performed. The studies analysed included: Rehabilitation and extension of buildings, drainage system - school unit, County Development Strategy , Tourism/Leisure Infrastructure, Acquisition of equipment, The modernization of a wastewater collection and treatment, Promoting entrepreneurial culture, "Be enterprising" Programme, OP HRD – GRANT

For the selected projects, the analysis looked at the funds inflows (including pre-financing) and outflows in order to better understand the impact of pre-financing (including the arrangements for recovery and the associated costs, such as the interest costs) on the projects' cash flow.

- ✓ Definition of optimized cash flows at project level

For the analysed case studies, the optimum financing system was identified, as to ensure an optimized cash flow for the project. The current provisions on pre-financing, as well as the new legislative initiatives, such as the payment settlement, have also been considered when looking at the optimum solutions.

The optimized models include parameters such as: the optimum level of pre-financing, optimum timing and methods for pre-financing payment and



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reimbursement, eligibility conditions, limitations in use, recovery mechanism for the amounts granted as pre-financing. These parameters were adjusted subject to project type (infrastructure, investment, soft) and value (small versus large projects).

- ✓ Conducting a consultation among relevant public authorities and beneficiaries on the proposed model

The models developed have been presented to the relevant actors in the meeting that took place on 19th of July, 2013, which also presented the preliminary conclusions of the evaluation and obtained the agreement of the relevant actors on the objective of the pre-financing mechanism.

- ✓ Developing a model for quantifying the impact of the proposed models on the state budget

The evaluation team has analysed the various options, including by building scenarios, on how the pre-financing mechanism can best contribute to the maximization of absorption of EU funds.

Scenarios developed include application of larger amounts of pre-financing, accompanied by shorter claim requests by the beneficiaries and faster processing of claims by the relevant authorities. The scenario analysis will then look at the effects of such options on the absorption at national level, by OP and by types of beneficiaries.

- ✓ Training and coaching for the MFE/CPA/MAs in using the proposed models

The training aimed at presenting the model to the Beneficiary and the relevant institutions (as per agreement with the Beneficiary) for further use, such as adjusting different parameters (internal and external) in relation to the pre-financing mechanism and calculating the potential effect on absorption and on the national budget.

Instruments used:

- Documentary analysis and work with databases
- Interviews /group consultations
- Panel of experts
- Scenarios /option analysis
- Econometric model
- Training and coaching