

2 Appraisal of the economic baseline analysis and the relevance of the strategy related to the needs identified

2.1 Economic baseline analysis

2.1.1 General

The present feature of the Romanian economy is a double challenge: global competition and EU integration. This was well described by Joaquin Almunia, Commissioner for Economic and Monetary Affairs, in his speech delivered at the National Bank of Romania in February 2006:

'... No longer a low-cost economy, strictly speaking, but not yet an economy driven by specialisation, high skill industries and innovation either, Romania faces double-edged competition in the global market place. Low-cost countries, competing on their best terms, stand 5 / 9 ready to snatch market shares from low value added industries in Romania. The global market opening of textile trade in 2005 took a toll on one of your main export industries, and is a clear example of the challenge of globalisation. Cost efficiency and adaptation of production structures is crucial in a time of global competition and is a challenge, for example, for those parts of Romania's industry which suffer from low energy efficiency [...] For Romania, full integration into the EU's internal market is another major challenge, but the fact that it offers a home market of 450 million people also presents a great opportunity in the light of globalisation. Vigorously implementing its structural reform programme should allow Romania to cope with the competitive pressure and market forces within the EU. But Romania should aim to do more than just cope! EU accession provides Romania with an unprecedented opportunity. For the ten most recent Member States we have estimated that membership of the EU will raise their GDP growth by up to two percentage points per year over this decade. That is only natural since enlargement of the internal market acts as a catalyst for economic growth by opening business and investment opportunities to all European enterprises. Enlargement is therefore a win-win situation provided that accession is well prepared.

' (cf. Joaquín Almunia 2006, *Unleashing Romania's Growth Potential and Meeting the Challenge of Globalisation*, Bucharest: National Bank of Romania, February 2006, pp.4-5)

In principle this real challenge is analytically captured in the economic baseline analysis of the programme document. The analysis is well focussed on aspects of competitiveness, i.e. not too broad and fuzzy as it is often the case in such programming documents. However, the structure and presentation of the single sectors is not yet optimal and there are some obvious contradictions (or at least facts not being properly defined and separated). The data base of that analysis is largely from national sources. Much more use of Eurostat data is recommended. The Eurostat general and regional data base includes Romania and can be easily

used for time series, cross-section and comparative analyses. As these tables can be downloaded in spreadsheet format it is also easy to produce figures/graphs.

The consultant has already submitted Eurostat time series 2000-2004 covering most of the topics looked at in the baseline analysis. It is advisable to also use comparison data as for instance EU25 averages. For that purpose, on 26 September, the consultant has advised the counterpart how to obtain the Eurostat data in spreadsheet format from the internet.

In addition to the particular economic aspects viewed, the general economic situation in terms of production and employment should be added at the beginning of the economic baseline analysis. This seems necessary due to two facts: (1) the SOP Economic Competitiveness is a programme at national level and will have substantial impact on employment and GDP and (2) income level and aspects like the participation/employment rate are indicators of economic integration and the growth potential of the Romanian economy.

The consultant has submitted a draft chapter for these topics. The Romanian counterpart can further refine or work on this draft.

In the introductory chapter of the economic baseline analysis ('Analysis of the Current Situation') the factor competitiveness should not only be highlighted from an international viewpoint by using the ranking study of the WEF (which is appreciated) but also from the viewpoint of European economic integration. Here it would be useful to use adequate indicators of intra-industry trade and/or revealed competitive advantage of the Romanian economy. Furthermore it is not useful to present data on particular issues like labour productivity, foreign trade, R&D etc. in this introductory chapter as these issues are dealt with in-depth in later sub-chapters. For the introductory chapter it would be advisable to define and justify the different economic topics which follow in chapters 1.2 ff.

The subsequent chapters 1.2 to 1.7 cover the description and analysis of the manufacturing industry, the SME sector, scientific research and innovation, ICT, energy and tourism. The presentation in its present form is clearly structured in its chapters but not always comprehensive in its analysis. Important conclusions are often not visible.

The writer considered it more useful for the Managing Authority to provide some guidance how to elaborate the economic baseline analysis instead of just commenting on its deficiencies.

Therefore for the baseline analysis it is proposed to follow the following structure:

1. Economic Baseline Analysis

1.1 Introduction

1.1.1 The Competitiveness of the Romanian Economy
(International ranking and analysis based on the WEF report)

1.1.2 The Level of Competitiveness of Romania within the EU 25+2
(Analysis of indexes revealing Intra-industry Trade and Revealed Comparative Advantage of the Romanian economy with a view of EU market integration: The programme has a strategic function for Romania's long-run integration into the EMU. As there is no opting-out, Romania needs to meet the nominal and real Maastricht criteria within the coming years. The programme has a specific relevance for real convergence. Therefore the relationship with the future EMU membership should also be pointed out)⁴

1.1.3 The economic situation with respect to the Integrated Employment and Economic Guidelines under the Lisbon process and the Community Strategic Guidelines

1.1.4 The fields covered in the economic baseline analysis
(A brief explanation which economic fields are covered in the analysis and why just these have a particular/critical relevance for competitiveness).

2. The General Situation of the Romanian Economy

2.1 Population, Demographic Development and Trends of Human Resources Development
(development of population, demographic trend and structure, trends of working population as a competitiveness factor⁵, risks of an ageing society)

2.2 Employment
(Participation rate as a major determinant of economic growth besides productivity, comparisons with the Lisbon target, female participation rate)⁶

2.3 Gross Domestic Product and Income

⁴ A corresponding draft chapter on economic competitiveness was submitted by the writer (see annex)

⁵ The participation rate is a very important indicator of national competitiveness across the EU. As the Commissioner for Economic and Monetary Affairs, Joaquín Almunia, points out in his speech at the Romanian National Bank in February 2006 (ibid.): "...For one thing, Europe's labour force is grossly underutilised. Employment rates in many Member States can significantly improve. In the EU, the employment rate is below 65%, compared to a rate of about 72% in the USA. Also, the average worker in the EU works 1,534 hours per year, compared with 1,782 in the US – a difference of 16%. In addition, after having peaked in the mid -1990's, labour productivity growth has been experiencing a gradual decline. And, thirdly, Europe must not fall behind in the ever-accelerating technology race.

⁶ A corresponding draft chapter on employment was submitted by the writer (see annex)

(to be briefly analysed as GDP/capita in PPP terms is the major indicator for the definition of 'Convergence' regions; here it should make sense to differentiate among the Romanian NUTS-2 regions in order to describe the regional disparities, although it is primarily a national programme)

3. Specific Issues of Economic Competitiveness

3.1 The Manufacturing Sector: Structure and Value added, Investment and Productivity

(sectoral shares, technology level shares, size shares, and trends of value added and investment, foreign trade; Output / labour volume)

3.2 The Service Sector: Structure and Value added, Investment and Productivity

(sectoral shares, technology level shares, size shares, and trends of value added and investment; value added / labour volume)

3.3 A further Glimpse at the SME Sector

(Horizontal multi-sectoral view: Trends of size structure, technology level, export orientation, employment and productivity, investment; accessibility to finance, entrepreneurship development, development of enterprise establishment and closure)

3.4 Scientific Research, technological Development and Innovation

(Romanian innovation policy, research potential, trends of R&D investment/GDP, R&D staff development, patents/million inhabitants, comparison figures with EU25)⁷

3.5 Information and Communication Technology

(Access to information infrastructure for large and SM enterprises in fields such as broadband coverage, PC penetration, Internet access, telephony, etc.; trend and comparison figures)

3.6 Energy and Energy Efficiency

(Energy production and consumption, low energy efficiency as a threat for competitiveness, trends of RES use, environmental impact)

3.7 Tourism in Romania

(Tourism as a competitiveness factor, attractions, the transformation of the tourism sector, structure of the tourism sector, trend/development of international tourists)

Statements in all chapters are to be compared with the findings in the NSRF. Any deviations should be sorted out and scrutinised. Deviation of data interpretation and mistakes are to be cleared.

All chapters should use figures/charts to visualise the strengths, weaknesses, opportunities and threats at a first glimpse. Tables are only recommended if a chart cannot capture the main message. Otherwise tables can be included in the

⁷ A corresponding draft chapter on R&D and innovation was submitted by the writer (see annex)

annex (as already done in the first draft version). All chapters should be as short as possible. It is important to stress the main message. Moreover, at the end of all chapters a short strategy relevant conclusion should be added. All these conclusions are to be transferred (in bullet point style) to the SWOT synopsis.

2.1.2 Further Questions/comments on the first draft economic analysis

The following issues are related to the contents of the first programme draft and were raised during several meetings with the Managing Authority and the debriefing meetings on 13 October and 10 November 2006. These comments are supposed to remain until a revised version of the economic baseline analysis is available. By 22 November 2006 (cut-off date for this evaluation draft) this could not be realised, so that a fresh review of a revised version is to be postponed.

- p.8/p.34 Is the labour force really a strength as later labelled in the SWOT? It seems the important group with higher education is underrepresented. Moreover, lifelong learning is under-average. Some more clarification will be added. Status of revision: Medium skilled persons are a strength, high-level skilled persons tend to be a weakness in Romania. According to the MA it's still true that labour force is a strength. The weakness lies in the mismatch between education and work force supply, i.e. the educational system does not respond to development changes.
- p.8: If Romania exhibits a relatively stable and balanced capacity of around 50 different scientific and technological fields, a selective funding approach (cf. Commission comments) would not be justified. Core criterion should be quality, justification, economic impact and sustainability of the project concepts. There are controversial views between the Commission and the MA (incl. the ex ante evaluator). Status of revision: The ex-ante evaluator supports the opinion of the MA in a way that an *a priori* selection of fields of research would discriminate non-selected fields. Furthermore, if there is a strong demand of funding and at the same time the applications are of high strategic quality, the importance and absorptive capacity would be underlined. The evaluator does not believe that a non-pre-selected approach would lead to disappointment among applicants who fail to get funding due to the high demand.
- p.10: The manufacturing production index fluctuates around 107 points since 2000 and the industrial exports (fob) increased by 69% since 2000. Does it mean that domestic absorption decreased correspondingly or are here nominal and real time series compared? Status: The data were checked. The numbers seem to be correct: the manufacturing production index fluctuates around 107 points (representing an average increase of 5,6%/year); the industrial exports (fob) increase is around 14%. The difference represents not necessarily domestic absorption decrease, but mainly imports increase. It should be noted that export figures include OPT (wages) which was quite high especially in textiles and clothing.
- p.11 The paragraph on industrial/manufacturing GVA could be related to table 1 on p. 10 (?!). Likewise, the paragraph on the average number of employees (p.11-12) should be related to or integrated with the respective on production p. 9 f.. With other words: more analysis is needed on production and employment shift/share development in the manufacturing

- sector (cf. Eurostat tables). Status of revision: More clarification will be provided by the MA or IB respectively in a third programme draft.
- p.12-13: 1st Table on p. 14 says that 56.6% is employed in SME; on p. 12 the text says that alone 54% of the workforce is employed by large manufacturers (i.e. the sum alone is more than 100%). Status of revision: More clarification was already provided. The 56.6% represents the percentage of SME's employees in total economy, while 54 % stands for workforce employed in large enterprises, only in manufacturing industry. The evaluator has checked the availability of Eurostat data on that issue. There exists a special data-set on SMEs in candidate countries from 2001⁸. These data are however too old.
 - p.12: A more analytic differentiation should be made between small and medium enterprises (also table on p.13) . The last sentence of the paragraph on labour productivity in industry is central and should be more highlighted here. The next sentence suggests that environmental standards are crucial for industrial competitiveness. The priorities/interventions do not explicitly include such a measure. The next sentence is again very important and needs more elaboration: 'Research driven innovation ... is sustained ... by 44 R&D specialised institutes, the capacity of which to generate applicable results is poor. Status of revision: The issue of medium enterprises will be considered. The evaluator has provided some more insight through specific documents (e.g. a research paper on medium enterprises in the UK⁹). The issue of the 44 R&D institutes will be further elaborated.
 - P. 13: SMEs in the service sector should be differentiated (high VA business-related services and tourism which are tradable vs. low VA services which are mostly non-tradable. Status of revision: The evaluator has already delivered extracted Eurostat data, making a distinction between low VA and high VA services. The MA has received corresponding support by the evaluator.
 - p.15 Medium enterprises appear less productive (also p.17). This is peculiar and needs more elaboration. Status: In the programme text (third draft) this issue will be further commented on (see footnotes below).
 - p.17 'Innovative activities' should be defined. Status: Innovative activities are related to the footnote on p. 17. The paragraph will be further clarified in a third draft. The references in the footnote will not contain sectors anymore.
 - p.18 What are certified researchers? Status: No revision needed. Certified researchers is a *terminus technicus* in Romania
 - p.20: Innovation expenditure is only 3.6% for the innovative enterprises. Can they then be labelled as innovative? The patent intensity appears extremely low Romania 0.3 vs. average EU25 107.7 per one million inhabitants. This gap is hard to believe. Status: The data were checked and appear to be correct.
 - p.23 Can it be that still 10% of the large Romanian enterprises do not have internet? According to Eurostat, 2004 already 66.5% of enterprises have internet. The low broadband penetration rate 1.7% as compared to 6.5%

⁸ Eurostat 2003, *SMEs in Europe – Candidate Countries: Data 2001*, Luxembourg

⁹ M-Institute 2006, *Empowering Medium Enterprise: A Guide for Policy Makers*, Sunbury on Thames, Surrey; Bill Snaith and Jane Walker 2002, *The Theory of Medium Enterprise*, University of Durham

(EU25) is striking. Status: The data were checked and appear to be correct.

- p.24 It is not clear why e-government users belong to the section of population with a reduced frequency. Perhaps the formulation is misleading (the whole chapter appears a bit unclear). The chapters on e-learning e-health and e-business are more comprehensive, but more visualisation (notably comparative graphs) are needed in order to facilitate reading and better grasp the problem situation. Status of revision: The section will be more clarified in the third version of the programme document.

It is to be stressed that the above evaluation of the economic baseline analysis refers to the first programme draft (April 2006). Due to the tight time schedule of the evaluation process the assessment of the improved third version (to be expected end of November 2006) could not yet be done. However, due to the far reaching agreement between the evaluator and the Managing Authority on weaknesses of the chapter and the very good working relations one can already expect that the chapter will be revised in a satisfactory manner.

2.1.3 Conclusion

The economic baseline analysis is already well focussed on aspects of competitiveness, i.e. not too broad and fuzzy as it is often the case in such programming documents. However, the structure and presentation of the single sectors is not yet optimal and there are some obvious contradictions and some minor and few major inconsistencies. Therefore the writer has proposed a specific structure of contents. So far the revised version of the baseline analysis is not available. Therefore, the evaluation remarks of the first draft version remain.

2.2 SWOT

The SWOT table appears already focussed and comprehensive. However, the connection to conclusions of the economic baseline analysis are to be made more explicit. Moreover, some variables are not well defined and sound a bit redundant. In some few cases strengths and potentials are mixed-up. Energy sector liberalisation and the liberalisation of the telecommunication market are potentials rather than strengths. A significant tourism potential is *eo ipso* a potential and not a strength.

Inconsistencies are visible in the assumed strength of 'highly skilled human resources in R&D sector' and the stated weakness of 'low productivity' and 'high concentration of low added value sectors'. This would raise the question whether either most highly skilled human resources in the R&D sector do not work demand-oriented (for the market) or the R&D sector is not endowed with sufficient capital. The problem in Romania seems to be a mismatch between education and market demand. But if there is no sufficient valorisation of R&D staff it cannot yet be assumed to be a strength. If at all it could be regarded as a potential to be reaped once R&D supply responds to the market demand.

On the part of the weaknesses causes and effects are structured at the same level. 'Competitiveness and technological gaps compared to the EU' is a

weakness which is implied by weaknesses at a lower level, such as 'low productivity' or 'export mainly based on low and medium value added products'. A 'reduced number of ISO certified enterprises' is a rather normative variable and should be re-considered as 'low quality assurance in production and organisation within SMEs'. 'Low use of public electronic services' is also normative and should be re-formulated as 'slow/ineffective public services'.

On the part of the opportunities 'second largest country of NMS' is not necessarily a potential. It can also be a threat. The opportunity 'Supply chain for foreign companies 3% ...' is not clear in its meaning. On the part of the threats 'international economic slowdown' is more an assumption on which the programme cannot have an influence. 'Exposure to global markets' is not a threat, it is just the implication of the deliberate liberalisation of the Romanian economy. Only from a leftist viewpoint (criticising a neo-liberal world economic order) exposure to global markets could be regarded as a threat. Neo-liberals would label it as a potential. The writer recommends to keep the message of the SWOT table politically neutral.

It is recommended to completely review the SWOT synopsis after the revision of the economic baseline analysis. The selected variables should exactly reflect the conclusions of the sub-chapters of the economic baseline analysis. A sound revision of the SWOT synopsis is only possible after a sound revision of the baseline analysis.

The above evaluation of the SWOT synopsis refers to the first programme draft (April 2006). Due to the tight time schedule of the evaluation process the assessment of an improved version (to be expected end of November 2006) could not be done. However, due to the far reaching agreement between the evaluator and the Managing Authority on weaknesses of the chapter and the very good working relations one can expect that the chapter will be revised in a satisfactory manner.

2.3 Relevance

The relevance of the economic baseline analysis and the SWOT is fully ensured. Some revision work is necessary (see above). The provided draft text can be used to a large extent and needs to be recast and complemented by graphs and clear conclusions.

2.4 Overall conclusions

The baseline analysis is already well focussed on aspects of competitiveness, i.e. not too broad and fuzzy as it is often the case in such programming documents. However, the structure and presentation of the single sectors is not yet optimal and there are some obvious contradictions and some minor and few major inconsistencies. Therefore the writer has proposed a specific structure of contents. So far the revised version of the baseline analysis is not available. Therefore, the evaluation remarks of the first draft version remain.

Main recommendations are:

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- In general the analysis chapter should be revised and recast with a view to better capture the purpose of the programme (see annex);
- Much more use of Eurostat data is recommended;
- It is advisable to also use comparison data as for instance EU25 averages;
- In the introductory chapter of the economic baseline analysis ('Analysis of the Current Situation') the factor competitiveness should not only be highlighted from an international viewpoint by using the ranking study of the WEF (which is appreciated) but also from the viewpoint of European economic integration;
- In addition to the particular economic aspects viewed, the general economic situation in terms of production and employment should be added at the beginning of the economic baseline analysis;
- All chapters should use figures/charts to visualise the strengths, weaknesses, opportunities and threats at a first glimpse. Tables are only recommended if a chart cannot capture the main message. Otherwise tables can be included in the annex (as already done in the first draft version). All chapters should be as short as possible. It is important to stress the main message. Moreover, at the end of all chapters a short strategy relevant conclusion should be added;
- The evaluator has prepared a structure of contents for the economic baseline analysis including model chapters on the level of integration of the Romanian economy, the participation rate of employment and Romanian R&D (cf. Annex)

As regards the SWOT synopsis is recommended to completely review it after the revision of the economic baseline analysis. The selected variables should exactly reflect the conclusions of the sub-chapters of the economic baseline analysis. A sound revision of the SWOT synopsis is only possible after a sound revision of the baseline analysis.

3 Evaluation of the rationale of the strategy and its consistency

3.1 Introduction

In this chapter the rationale and consistency of the strategy and the determination of the concrete policy interventions (i.e. the remedies) are viewed. On these aspects the writer has had a couple of formal and informal discussions. In the second draft of the programme (November 2006) some revision work was done, but there are still some individual weaknesses where the writer recommends to further revise the text.

3.2 Assessment of the rationale of the strategy

The strategic approach with the proposed intervention axes is fully justified. The major issues of Romanian competitiveness are identified in low productivity and low innovation potential of the private sector, particularly the SME sector. There are still numerous obstacles for a rapid structural change with a view to catch-up economically and to integrate in the EU markets. SMEs need more access to finance and need more networking with research bodies in order to develop new products for sustaining markets. Infrastructural bottlenecks are found in the 'information society'. Here Romania needs massive efforts in order to avoid missing the connection to the other EU countries. Energy inefficiency is a peculiar weakness of the Romanian economy, both in terms of cost and competitiveness as well as environment. Furthermore, tourism is a strategic service sector where Romania reveals a big potential comparative advantage. Since the transformation of this important sector has been slow it is important to further re-structure and mobilise forces in Romanian tourism. All these important intervention lines are covered in the strategy of the SOP IEC.

The following conclusion on the rationale of the strategy can be made:

- The proposed strategy, including the strategic objectives is sufficiently relevant in relation to the identified problems, needs and potentials from the analysis. Virtually all important determinants of economic competitiveness of the Romanian economy are addressed.
- The proposed strategy, including the strategic objectives is sufficiently relevant in relation to the identified trends and future challenges
- The relevance of the strategy can be further improved by a higher depth of focus determined by the economic baseline analysis. The issue of insufficient market integration of the Romanian economy and the need to accelerate the preparation for the later EMU could be more explicit.
- The proposed priorities and operations in the SOP are logically derived from the economic baseline analysis. However, an explicit link between the analysis, the SWOT, the strategy and the description of interventions (see below) would help to make the intervention logic clearer. Brief strategy relevant conclusions would be needed.

The stakeholders from the relevant intermediate bodies were sufficiently involved in drawing the strategic orientation of the programme. It was clearly perceptible for the evaluator that there is a high level of strategic consensus among the institutions involved. Stakeholders at regional level are more relevant for programmes such as the ROP.

3.3 The consistence of the strategy

3.3.1 Theoretical foundation of cohesion policy

The rationale and purpose of regional policy has been controversially discussed for a long time. From the pure neoclassical viewpoint, any policy to strengthen lagging regions remains futile, as according to the assumption of decreasing returns to scale, there will be an automatic process of convergence, because the lagging regions grow faster than the more advanced (Solow). Of course this ideal model has proven realistic only under (modelled) perfect market conditions. In practice one finds major market imperfections and particularly a considerable inequality of opportunity. Inherent regional disadvantages and insufficient fiscal capacity have forestalled to turn the neoclassical model into the real world. Therefore, there has been a major justification to subsidise regional development of lagging or declining regions and thus to pursue active regional policy fostering convergence of the regions across the EU. This is the underlying rationale for the EU Structural Funds. The additional EU Cohesion Fund was introduced in 1993 to support the poorer member states in upgrading their transport infrastructure and the environment. This was considered as an indirect budgetary aid in order to facilitate process of integration into the EMU and to cope with the demanding fiscal and monetary criteria. However, the desired effects have varied considerably among the member countries since – apart from Structural and Cohesion Funds - there are many more exogenous variables determining a process of convergence and cohesion like e.g. institutional behaviour, macro- and microeconomic management, location issues and others.¹⁰

According to Budd and Hirmis¹¹ economic competitiveness (regional or national) equals the sum of the comparative advantages at firm level under consideration of the exchange rate. The improvement of economic competitiveness corresponds to the increase of export market shares in physical volume (ECB-Monthly Report July 2006¹²). Apart from that, the competitiveness of a region or a nation also contributes to the level of competitiveness of the higher-order economic space. Romania, as part of the EU Internal Market can contribute to the competitiveness of the EU as long as the Romanian private sector is able to boost competitiveness. Since there is no opting out for the adoption of the Euro, Romania is obliged to prepare for EMU. That means that Romania has not only to consider the nominal targets of convergence (notably budget deficit, inflation, public debt) but also to enhance real convergence through enhancing market

¹⁰ Cf. Rolf Bergs 2004, 'Towards Market Integration in an Enlarged EU: The Choice of Regional Policy in the Accession Countries', in *The ICAFI Journal of Applied Economics* III/3, p.14

¹¹ Budd, Leslie and Amer K Hirmis 2004, 'Conceptual Framework for Regional Competitiveness', in *Regional Studies* 38/9

¹² EZB 2006, 'Wettbewerbsfähigkeit und Exportentwicklung des Euro-Währungsgebiets', *EZB-Monatsbericht* 7/006

integration. Just the latter is an important issue to be addressed by the SOP IEC.¹³

Although nominal convergence criteria are the official ones, a currency union to which Romania will belong as soon as it will join the EMU stipulates a high level of market integration otherwise the countries being strongly exposed to adverse shocks harming the whole ensemble of participating countries. With respect to the new member countries, in 2004 the European Central Bank has conducted an important analytical review (led by Peter Backé and Christian Thimann) on the acceding countries' strategy towards ERM II and the adoption of the Euro. This study (particularly pp.28-59) has a central relevance for the SOP IEC and its role in contributing to Romania's successful participation in ERM II and later EMU. A central statement in it is the following:

... 'An obvious starting point for such a broader analysis is the optimum currency area (OCA) theory, which is the standard reference point in terms of economic theory for many current discussions about the acceding countries' prospective readiness to join the euro area. According to the OCA theory, countries can be considered as part of an optimum currency area if they fulfil certain criteria, which determine the symmetry of external shocks and the capacity of a country to absorb shocks. These criteria refer to the similarity of economic structures, business cycle synchronisation, the degree of trade and financial integration, the flexibility of goods prices and wages, as well as factor mobility. The OCA theory suggests that if these criteria are fulfilled, a country can abandon the exchange rate as an adjustment tool.¹⁴

The comparative advantages of the advanced EU economies are determined by knowledge-intensive products and services with a high value added. Successful market integration of Romania implies a catching-up in terms of a knowledge-based economy. These advantages in economic competitiveness are determined by a high R&D intensity, a strong share of high-level business-oriented services and a permanent readiness of the private sector to adapt to market processes (notable through development of new and better products or solutions). The latter ability ensures sustainable growth and employment based on structural change in accordance to the overall market process in Romania and the EU as such.

The writer finds that in the strategy chapter this spirit is perceptible, but not systematically and explicitly described. Consideration of the a.m. ECB Occasional Paper is strongly recommended.

¹³ The relevance of cohesion policy to strengthen EMU as an optimum currency area (in the sense of R. Mundell 1961, 'A Theory of Optimum Currency Areas', in *American Economic Review* 4/1961, pp. 657 ff.) is often underestimated and appears to be more or less untouched in many publications of the DG Regio. Because of an insufficient factor mobility (notably labour) and the instrument of a national exchange rate policy not any more available in the Euro member countries fiscal equalisation schemes or powerful structural policy instruments are needed in order to stabilise real convergence. Concerning this cf. the speech Tommaso Padoa-Schioppa delivered 21 March 2002 in Warsaw: '... I would like to take issue with both these views and stress that real and nominal convergence should be pursued in parallel. Let me explain what I mean. Real convergence is more than the catching up in income levels; it is the adjustment of the real economies towards structures that allow the countries to participate in a monetary union without contributing to, or suffering from, significant asymmetric shocks.'; see also (from the ex-ante-view of EMU): Padoa-Schioppa, Tommaso 1987, *Efficiency, stability and equity - A strategy for the evolution of the economic system of the European Community*, Oxford University Press, pp.5 ff.

¹⁴ Cf. P. Backé and Christian Thimann 2004, *The Acceding Countries' Strategies towards ERM II and the Adoption of the Euro: An Analytical Review*, ECB Occasional Paper 10, Frankfurt a.M., p.28

3.3.2 Intervention logic

So far, the consistency of the strategy is not more than implicit. Principally the strategy needs to be geared towards the NSRF and the Cohesion guidelines. This should be done in the introductory parts of the strategy chapter.¹⁵

Furthermore, the intervention logic needs to be based on the SWOT synopsis. Here the strategy should point out adequate solutions to relieve the weaknesses, to stabilise the strengths, to reap the opportunities and to forestall the threats, which can later be translated into a system of intervention priorities. In order to make the strategy also consistent with the following description of the priority axes, the alternative policy instruments should be mentioned already here. The reference to the SWOT synopsis needs to be explicit. It is important to directly refer to the SWOTs, just as they are formulated, and to say that something needs to be done about those in order to make Romania economically **more competitive**. As an example the following style of formulation would be useful:

'The SWOT synopsis reveals a very low level of R&D in SMEs, implying that they are not competitive on the European markets. An important remedy to overcome this bottleneck is the introduction of more knowledge and research ... This includes measures of enhancing the co-operation of research bodies and SMEs ...' etc.

Instead of referring to the SWOTs, in the draft programme document too much repetition from the economic baseline analysis is found without explicitly referring to it. This way the strategy chapter appears isolated and not consistently connected to the analysis. This sounds often redundant and strategic statements appear often a bit blurred. It would be important to closely link the strategy chapter to the SWOT synopsis and the single variables where policy should intervene.

Status of revision: The consistency relations should have been made more explicit and visible. For this purpose the evaluator has elaborated and submitted a graphical system of programme objectives, visualising the interaction of strategic objectives. Meanwhile a second programme draft was submitted.

Still there are a number of points where the strategy chapter needs more improvement. At the beginning of the strategy chapter the relationship with NSRF, Lisbon strategy, the Commission guidelines on cohesion (attractiveness of Europe for investment, knowledge and innovation for growth and more and better jobs) and the Romanian sector strategies (SME policy, tourism policy etc.) is to be explained in a bit more detail.

The introductory reference to real convergence and enhanced competitiveness for economic integration of Romania into the EU markets is very important, but the term 'economic competitiveness' as the central objective of the programme is not yet defined in a comprehensive manner. Moreover, the European context is to be highlighted; the present version stresses just international competition under globalisation. Furthermore, in the revised version the need of sectoral diversification of Romania is stressed. The writer thinks that it is not so much a lack of diversification but notably the low average technology level which makes

¹⁵ Although a table on p.75 ff. (in the second programme version) illustrates the consistency with CSG and NSRF, an analytic discussion should be included in the strategy chapter. Otherwise the message remains vague.

up the prevailing competitiveness problem for Romania. Here some phrases in the strategy chapter remain vague. What is for example the advantage of an "integrated control of production"? Basically the production needs to be raised on a sustainable and higher technology level (in the sense of the *Lisbon* strategy) by reaping the sources of knowledge generation in Romania and even worldwide.

There are also still some vague statements associated with business cycles and employment. The economic risk for Romania is a structural one, not so much a possible cyclical downturn as pointed out in the strategy chapter. Recessions will anyway happen from time to time and affect any country - whether highly developed or poor. At the same time even a very poor country can be stable in macro-economic terms, provided the factor costs are competitive and fiscal policies are prudent. But this alone would not help to integrate Romania into the EU markets. It should be made clear that structural change (towards higher technology levels and a competitive trade within the EU) is to be pursued. Here it is worth to refer to the speech of Commissioner for Science and Research, Janez Potočnik who has dared Romania to do more to boost R&D. Apart from better regulation, an improved use of public procurement and tax incentives the partnership between the private sector and the science sector is of vital importance to create conditions for 'innovative lead markets'. Moreover, Potočnik has called for an integrated research policy where knowledge/innovation goes hand in hand with economic development. He suggests a 'less is more' approach to sort-out national priority areas where Romania can contribute to European excellence¹⁶. (cf. *Cordis-Focus Newsletter*, No. 271, October 2006, pp. 12-13)

3.3.3 A proposed structure of contents of the strategy chapter

The strategy chapter could be further improved by a more consistent structure of contents. The writer still recommends the following sequence of sub-chapters, which would also comply to the information required by the Commission *aide mémoire*.

1. The need of enhanced integration and innovation: Relationship of the strategy with overall strategies

(very brief on all following points: Romania's major SWOTs and the goal of economic integration into the EU [including preparation for the Euro], Lisbon strategy and the National Romanian Reform Programme, Commission Guidelines on Cohesion Policy [here the three major goals attractiveness of Europe for investment, knowledge and innovation for growth, more and better jobs]), the Romanian NSRF, the Romanian sector strategies [SME, R&D, Tourism etc.].

2. Strategic objectives of the programme

(comprehensive elaboration of the following points: definition of competitiveness as the programme objective, concretisation of the programme objective, reference to the major SWOTs)

¹⁶ Concentration is certainly a right approach, but the writer likes to point out that this should not be sector policy. It should be much more a selectivity according to quality and strategic prospects. The application procedures for projects under the SOP Competitiveness have therefore to be rigorous and accompanied by high-level specialist assessors.

3. Specific Objectives

(comprehensive elaboration of the following points: description including a chart showing the system of interacting objectives, horizontal objectives equal opportunity and environment. A corresponding was elaborated by the writer and submitted to the Managing Authority)

4. Justification of the priority axes

(just briefly determining the priorities from the objectives; in other words: the remedies to solve the specific economic problems are to be determined)

For efficiency reasons it is recommended to first elaborate a reviewed version of the economic baseline analysis and the SWOT synopsis before reviewing and further editing the strategy chapter.

For the third version of the programme document the above formulated recommendations have been already accepted so that the writer is confident that the consistency of the programme will be substantially improved.

3.3.4 Complementarity of priorities and measures / quality of the description

The contents of the sub-chapters describing the priority axes so far only include the objectives, quantified indicators, measures and indicative operations. With respect to the *aide mémoire* some obligatory information is still missing or not sufficiently elaborated:

- obligatory descriptions on the impact on specific territorial needs (this could be particularly important for tourism and the support of broadband coverage in 'market failure' areas). Where there is no primary impact on 'territorial cohesion' or where no specific regions are addressed by the programme, the impact on territorial cohesion can be only estimated ex-post, but this should be clearly stated in the programme document; an evaluation according to the Methodological Working Paper 1 (Ex-ante Evaluation) Annex IV cannot be carried out at this stage of the programme elaboration.
- the definition of target groups or beneficiaries respectively: The description of key areas of intervention should explicitly mention the types of prospective beneficiaries.
- the use or non-use of JESSICA and JASPERS; The prospective use of JEREMIE was added in the 2nd version, The Managing Authority has announced further modification after recent discussions on this topic.
- the definition of demarcation regarding interventions of EAFRD, EFF as well as EIB/EIF. The discussion of prospective complementarities with EAFRD have been added in the 2nd programme version, It is recommended also to mention the EFF programme and the foreseen EIB activities in the same way as with the Operational Programmes under the NSRF.

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| Priority axes/key operations | Comments |
|--|---|
| PA 1: An innovative productive system | |
| 1.1 Productive investments and preparation for market competition, especially for SMEs | The operation includes subsidies for a broad variety of purposes (tangible, intangible investment, ISO certification etc.) all of them very important for competitiveness of the SME sector; The operation is highly relevant and well justified by the SWOTs |
| 1.2 Access to credit and financing instruments for SME | This operation includes innovative funding instruments (financial engineering) for SME in order to enhance access to credit; the intervention is very important to boost competitiveness (just with a view to R&D based enterprises where innovative financial engineering tools are more adequate than for traditional industries) and well justified by the SWOT |
| 1.3 Entrepreneurship development | This is a rather heterogeneous operation including business incubators, cluster promotion and business consultancy. Although all these sub-measures appear relevant and justified it was recommended by the writer to consider the support of clusters under PA 2 as here anyway R&D and innovation is a major determinant. The same could be said for business incubators. For a programme supporting competitiveness and innovation these could be better captured by R&D infrastructure under PA 2. Status: The recommendation was not considered, simply due to practical reasons (including programming) which is understandable ¹⁷ . However, the support of simple business incubators (even though they might contribute to 'entrepreneurship development' as a <i>Lisbon</i> goal ¹⁸) is to be questioned. Criterion should be national competitiveness. Hence, incubators funded under the SOP-IEC should accommodate start-ups/firms with the potential of contribution to national competitiveness. This stipulates a sufficient technology level and an international orientation. This issue has now been solved in a way to focus business incubators on enterprises in medium and high tech sectors. This is clearly addressed in a footnote of the programme document. In the operation the flexibility clause according to Article 34, Regulation 1083/2006 (ERDF funded |

¹⁷ There are also technical explanations as this kind of Clusters are expected to be innovation-driven by industry rather than research, and envisage promotion of integrated productive systems, increasing the quality of products and services and sustaining SMEs to become long term providers. However, it is hard to identify a dividing line between both approaches.

¹⁸ The simple increase of the number of SMEs (in the sense of entrepreneurship) does not say anything about economic competitiveness, even though support to any SMEs would enhance Romania's position in the EU statistics on SME shares in the national economies.

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| | HRD measures) is foreseen. It should be however assessed whether this flexibility provision is really necessary and whether it can be properly managed. Experience of other programmes show that a well co-ordinated parallel operation of ESF and ERDF programmes is administratively easier and not necessarily less effective than mixed or pseudo-mixed programmes and/or operations. ¹⁹ |
| PA 2: Research, Technological development and innovation for Competitiveness | |
| 2.1 R&D partnerships between universities/research institutes and enterprises for generating results directly applicable in the economy | Under this operation, partnerships between SMEs and research bodies and networking with international research are supported. The operation is highly relevant and SWOT-justified, but very demanding in terms of quality of applications. Cluster support (1.3) could be better supported under 2.1. Due to practical reasons (different ministerial responsibilities) this recommendation was not accepted. (for technical explanations see footnote above) |
| 2.2 Investments in R&D infrastructure | This operation includes different high-level technology transfer infrastructures (laboratories excellence centres etc.). There is strong evidence of need from the SWOT. The recommendation to shift business incubators from 1.3 to 2.2 was not accepted due to practical reasons (Explanation above). |
| 2.3 RDI support for enterprises | This operation supports high-tech micro-enterprises and spin-offs, SME internal R&D infrastructure and promotion of innovation. The activities are supposed to be partly cross-financed by the flexibility facility (Article 34, General Regulation). By and large, the measure is justified by the SWOTs but needs to be better described in its instruments. It is recommended to include business plan competitions for spin-offs and highly innovative start-ups as this kind of measure has proved to generate a high level of commitment and sustainability ²⁰ . With respect to coherence it is to be stressed that there is some potential overlapping with the ROP. The dividing line between SME support in both programmes is size. Micro-enterprises (excluding high-tech start-ups) are supposed to be the target group of the ROP. Here, a consistency and coherence problem was obvious. <u>Status:</u> There have been consultations |

¹⁹ The reference to the flexibility facility was recommended in the Commission comments and also by the *aide memoire*; if it is not mentioned it cannot be activated.

²⁰ Cf. for instance the Objective-2-funded competition scheme: www.promotion-nordhessen.de, which was assessed as highly relevant and successful in the mid-term-evaluation of the Objective-2-programme Hessen 2000-2006.

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| | <p>between the two Managing Authorities. In the second version of the SOP IEC the problem has been addressed. However, there needs also be clarification and revision on the part of the Ministry of European Integration as the responsible MA for the ROP.</p> <p>Like for entrepreneurship development also in this operation the flexibility clause (ERDF funded HRD measures) is foreseen. It should be assessed whether the factual use of the flexibility facility is really necessary and whether it can be properly managed. Experience of other programmes show that a well co-ordinated operation of ESF and ERDF programmes is easier and not necessarily less effective than mixed or pseudo-mixed programmes and/or operations. Furthermore the mentioned possibility for young researchers (up to 35 years) to apply under the SOP HRD is in fact not available as described here (SOP p. 47)²¹.</p> |
| <p>PA 3 ICT for private and public sectors</p> | |
| <p>3.1 Supporting the Information technology use</p> | <p>This operation supports accessibility of SME to ICT (Internet, broadband connections etc.) and public authorities to set-up access points. Target areas are the lagging 'market failure regions'. Principally this operation is well justified by the SWOT. Market failure regions are not identical with laggard regions. This needs to be made clear otherwise it would trigger confusion (mixing up with the term 'lagging regions'). To be consistent with the SWOT, this operation should fill gaps in accessibility in regions with a major growth and innovation potential of SMEs. Although there is a common agreement regarding the need to reduce the digital divide, it is less clear why private operators have not been investing in broadband connections in certain areas of the country. The reasons for such market failure should be exposed in the programme as they underpin the need for public intervention. E.g. it should be possible to measure internet benefits for different areas. <u>Status:</u> In the second draft programme a sufficient explanation is given: ... 'In scarcely populated areas or where the distance from the exchanges to the final user is too long, the operators did not find it profitable to invest and upgrade or roll-out infrastructure in these areas on the grounds that expected demand is insufficient to ensure a positive return on investment...' (pp.61-62). It is however still recommended to further clarify that broadband coverage in 'market failure' areas is</p> |

²¹ Only doctoral and post doctoral studies will be financed; according to the MA the text will be revised.

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| | necessary for enhancing national competitiveness. ²² |
| 3.2 Developing and increasing the efficiency of modern electronic public services (E-Government, E-Education, E-Health)- | This operation supports public e-services. Principally such activities are justified, but as this measure addresses the public in general and not just the private sector, more analysis is to be elaborated on its impact on economic competitiveness in the economic baseline analysis. Standing alone, this chapter is not clearly defined and justified. The draft SWOT just says that there is a lack of public e-services. It is not clearly analysed why that is really needed in terms of competitiveness. If to be covered under the SOP Competitiveness just for practical or programming reasons, only secondary justifications could be put forward: E-government for a quicker communication and service delivery (also for the private sector), e-education for a more efficient qualification system and e-health for a more efficient health system reducing prevalence of sick-leave in the private sector. As indicated by the MA, this explanation will be included as a justification. |
| 3.3 Sustaining the E-Economy | Here e-services of the private sector should be enhanced (electronic tender systems, electronic payments/transactions. Principally the operation is justified by the SWOT; from a logical point of view this operation would fit to information technology use under 3.1. For practical reasons an own operation has been created ²³ . This is acceptable. |
| PA 4 Increased Energy efficiency and sustainable development of the energy system | |
| 4.1 Improvement of energy efficiency | This operation includes investment in the energy infrastructure (power capacities, networks etc.) in order to enhance efficiency. The operation is fully justified under competitiveness aspects and by the SWOTs. It is important to link new investment with increased efficiency. Oversupply is to be avoided, therefore energy demand should be focussed. The list of major projects is perhaps to be revised accordingly (<i>A Commission comment to be considered</i>). <u>Status:</u> The recommendation has been considered in the second programme draft in a way that reference to new capacities has been |

²² The National Broadband Strategy (that will be put under public consultation) provides a diagnosis analysis, stating the digital gap between rural and urban areas and pointing out the market failure areas. Therefore, on the ground of demand-offer analysis, it will justify the clear need for public intervention, in order to increase the broadband coverage, boosting the economic competitiveness. In this respect, the third SOP version will include an annex with the broadband coverage and the need for public intervention in under -served rural and small urban areas.

²³ Under PA 3, Key area 1, hard infrastructure is supported, while under Key area 3 software is financed

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| | eliminated and a new operation for energy efficiency for consumers has been added. |
| 4.2 Valorisation of renewable energy resources | New renewable energy systems are also very important to enhance efficiency and environmental protection. The operation is fully justified with respect to the SWOT. |
| 4.3 Reducing the negative environmental impact of the energy system | As the existent inefficient energy capacities have a negative impact on the environment, measures of gas de-sulphurisation are necessary. It is however the question why this operation is adopted under the SOP-IEC and not under the SOP Environment. The reason for that has simply been the request of the Commission to cover this measure under the SOP-IEC. But despite that fact triggered by external decisions, still more clarity on justification of that operation under the SOP IEC is needed in the programme text. |
| PA 5: Romania, an attractive destination for tourism and business | |
| 5.1 Promotion of the Romanian tourism potential | This operation comprises national promotion of tourism and its specific 'products' in Romania. The measure is justified by the SWOT and will be very important for enhancing competitiveness in a strategic sector of the Romanian economy. |
| 5.2 Development of the national network of Tourism Information and Promotion centres | This operation is an auxiliary measure for 5.1. Here the necessary infrastructural investments for a national promotion of tourism are supported (networks, equipment, data base and tourism information system). The operation is likewise justified by the SWOT and will be important for enhancing competitiveness in a strategic sector of the Romanian economy. |
| PA 6 Technical Assistance | |
| 6.1 Support to the SOP management, implementation, monitoring and control. | This operation facilitates project selection processes, programme management, monitoring and control. It is not a thematic field of intervention but justified and required by the regulation as such. The SMIS training and corresponding IT infrastructure are covered by priority 2 in the TA-OP. It needs to be checked with the Ministry of Public Finance, whether in the context of SMIS roll out to IB training will have to be covered by MA individually (A Commission comment to be considered). <u>Status:</u> In the second programme draft revision work was done. It now reads: '...The technical assistance priority axis of SOP IEC provides specific assistance for project preparation, monitoring, evaluation and control as well as communication activities, only with regard to the specificity of SOP IEC. The technical assistance of SOP IEC is complemented with the horizontal support of the OP TA, which provides assistance for the common needs of all the structures and actors involved in the management and implementation of the structural funds and ensures the general public awareness on |

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| | <p>the role of the community support.’ However it would be better (for clarity) to more elaborate what is specific and what is more general. This brief paragraph still does not appear really sufficient to explain why there is TA in general and TA specifically for the SOP IEC. According to the MA, further discussions in the TA working group are expected to solve this issue.</p> |
| <p>6.2 Support for communication, evaluation and IT development</p> | <p>This operation facilitates the necessary communication process which is highly demanding for the SOP IEC with its large network of IBs. Moreover, evaluation and IT infrastructure is supported here. The measure is generally required.</p> |

Apart from the consistence between the interventions and the SWOTs the evaluation should also view the internal consistence among the intended measures described above. The major question here is whether the programme with its priority axes and operations follows a synergetic approach. In terms of the internal consistence of the operations the following figure reveals a high level of synergy for the SOP IEC:

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Analysis of the internal consistence of the interventions

| | 1.1 Productive investments esp. for SMEs | 1.2 Access to credit | 1.3 Entrepreneurship development | 2.1 R&D partnerships | 2.2 Investments in R&D infrastructure | 2.3 RDI support for enterprises | 3.1 Supporting the IT use | 3.2 Modern electronic public services | 3.3 Sustaining the E-Economy | 4.1 Energy efficiency | 4.2 Renewable energy resources | 4.3 Reducing the negative environmental impact | 5.1 Romanian tourism potential | 5.2 National network of Tourism |
|---|--|----------------------|----------------------------------|----------------------|---------------------------------------|---------------------------------|---------------------------|---------------------------------------|------------------------------|-----------------------|--------------------------------|--|--------------------------------|---------------------------------|
| 1.1 Productive investments esp. for SMEs | | | | | | | | | | | | | | |
| 1.2 Access to credit | + | | | | | | | | | | | | | |
| 1.3 Entrepreneurship development | + | + | | | | | | | | | | | | |
| 2.1 R&D partnerships | + | + | + | | | | | | | | | | | |
| 2.2 Investments in R&D infrastructure | + | + | + | + | | | | | | | | | | |
| 2.3 RDI support for enterprises | + | + | + | + | + | | | | | | | | | |
| 3.1 Supporting the IT use | + | + | + | + | + | + | | | | | | | | |
| 3.2 Modern electronic public services | + | + | + | + | + | + | + | | | | | | | |
| 3.3 Sustaining the E-Economy | + | + | + | + | + | + | + | + | | | | | | |
| 4.1 Energy efficiency | ~ | ~ | o | o | o | o | + | + | o | | | | | |
| 4.2 Renewable energy resources | o | o | o | o | o | o | o | o | o | + | | | | |
| 4.3 Reducing negative environmental impacts | ~ | ~ | o | o | o | o | + | + | + | + | + | | | |
| 5.1 Romanian tourism potential | + | + | + | o | o | o | + | + | + | + | + | ~ | | |
| 5.2 National network of Tourism | o | o | + | o | o | o | + | + | + | o | o | o | + | |

Explanation:

- +: synergy
- o: neutral
- ~: potential trade-off or displacement effect
- : trade-off or displacement effect

It is to be noted that the few potential trade-offs and displacement effects mean that those could only occur where projects are not selected with sufficient care.

3.4 Overall conclusions on rationale and consistency

The strategic rationale of the programme is fully justified by the analysis of the economic situation in Romania. Innovation and more knowledge-based economic activities are the overarching policy approaches to integrate the Romanian economy into the EU markets and to make it internationally more competitive.

While the rationale is fully justified the intervention logic shows still some weaknesses. So far, the consistency of the strategy is not more than implicit. There is no explicit link to the SWOT synopsis SWOT and strategy are not well geared towards each other. The position of this programme within the overall European policy framework is not described. Furthermore there is only little effort to define what is meant by 'competitiveness'. The aspects of the policy strategy are formulated vague and do not really respond to the specific problem. Furthermore, the structure of contents of the strategy chapter could be improved as described above.

The description of the policy remedies (i.e. the concrete interventions) is more or less satisfactory. There is still some formal information missing. The major points at issue are related to coherence issues with other OPs. In most cases overlapping of intervention can be explained and can be managed by close co-ordination. Practical reasons (ministerial mandates) are often the simple reason. In one case, a consistency problem was caused by the special desire of the European Commission to have a pure environmental measure in the SOP Competitiveness. The internal consistence of the interventions does not suggest trade-offs or displacement effects. In most cases synergies are to be expected.

The writer generally questions the approach of mixed or pseudo-mixed programmes. The SOP IEC pursues – in accordance to Article 34 (General Regulation) a pseudo-mixed approach for two operations (ERDF funds for ESF type measures but with planning and implementation according to ESF rules). The integration of ESF and ERDF within one programme has very often complicated the programming and implementation process implying relatively high transaction costs. A well co-ordinated but independent intervention of both funds (the so-called 'mono-fund' approach) can be more efficient and at the same time equally effective. The Managing Authority wishes to keep this flexibility facility as an option. But then, at least the later use of this facility should be carefully assessed in the individual case.

Major concrete recommendations are:

For the chapter on the strategy the following recommendations should be considered:

- The strategy chapter could be further improved by a more consistent structure of contents. The writer recommends a sequence of sub-chapters, which would also comply to the information required by the Commission *aide memoire* (details on that see above).
- The role of that programme in Romania's process of catching up to the average level of development of the EU and thus market integration should be more explicitly considered. Indirectly this programme will contribute to strengthen real convergence and thus to facilitate Romania's ERM II process.
- For efficiency reasons it is recommended to first elaborate a reviewed version of the economic baseline analysis and the SWOT synopsis before reviewing and further editing the strategy chapter.
- It is recommended also to mention the EFF programme and the foreseen EIB activities in the same way as with the Operational Programmes under the NSRF.

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As regards the description of the priority axes the following major recommendations are made:

- Measure 1.3 (entrepreneurship): The difference between entrepreneurship development under the Lisbon strategy and knowledge economy should be considered. The programme should strive for supporting higher technology levels, not simply entrepreneurship. This applies to;
- Measure 2.3 (RTD for enterprises): The administrative implication of the application of the flexibility clause (Article 34, Regulation 1083/2006) should be recognised; moreover, some more co-ordination between the MA of the ROP and the MA for the SOP IEC is needed in order to avoid un-coordinated overlapping and inconsistencies
- Measure 3.1 (Supporting IT) It is recommended to further clarify that broadband coverage in 'market failure' areas is necessary for enhancing national competitiveness.
- Measure 4.3 (Reducing the negative environmental impact of energy): more clarity on justification of that operation under the SOP IEC is needed in the programme text.
- Measure 6.1 (Support to the SOP management): In order to distinguish between TA within the programme and the SOP TA, more clarity is needed on the difference between general and specific TA.

4 Appraisal of the coherence of the strategy with EU, National and Regional policies and the Community Strategic Guidelines

4.1 Appraisal of the compatibility of the strategy with regional, national and EU policy objectives

4.1.1 Lisbon strategy

The re-launched Lisbon Strategy has become integral part of the Community Strategic Guidelines on Cohesion (see below). Therefore, here the analysis of coherence is not separately done.

4.1.2 SME Policy

As regards coherence of the SOP IEC with the national SME policy one can ascertain a high degree of compatibility. The five priorities of the Romanian Government in support of SME development in the period 2004-2008 are:

- Creating a business environment supportive of SME development and growth
- Developing SME competitiveness
- Improving SME access to financing
- Improving SME export performance
- Promoting an entrepreneurial culture and strengthening management performance

and pursue the same objectives as the priority axis 1 and 2 (productive investment, financial engineering, credit access, entrepreneurship development, R&D support to enterprises). The scope of the SOP goes beyond the focus of the Romanian SME policy, but between the other priority axes (3, 4 and 5) no incoherence is visible.

4.1.3 R&D Policy

The Romanian R&D policy explicitly addresses the relationship with the NDP and the SOP Economic Competitiveness. The elaboration of the SOP has been closely co-ordinated with the NASR:

‘... During 2005 the project of the Strategy for NDP 2007-2013 was finalized. The strategy establishes six national development priorities, out of which the first one is „the increase of economic competitiveness and the development of the knowledge based economy”.

The SOP for Increasing Economic Competitiveness (SOP IEC) is coordinated by the Ministry of Economy and Commerce as Management Authority. The Programme was developed on the basis of objectives

corresponding to the first priority of the NDP Strategy, by a specific thematic working group, where NASR – IBSR is permanently represented.

In the finishing off process of SOP IEC 2007-2013 and in the process of identification the R&D projects portfolio, NASR – IBSR has organized several consultative meetings of the relevant R&D field partners, public and private, existing at local, regional and national level. ...' (cf. NASR: Annual Report 2005 on Government Policies in the field of R&D and Innovation)

Worth mentioning is the focussed approach of the Romanian R&D policy on the close co-operation between R&D institutions and the private sector in order to reap research outputs for innovation on the markets. Targets are an increasing the degree of assimilation, application and development of advanced technologies in the economic environment (i.e. stimulation of research-industry cooperation through the national R&D and innovation programmes, encouraging the participation of the private sector in R&D activities (i.e. launching technology platforms at national level), development of mechanisms providing technology transfer to the economy, including S&T parks and linking R&D and innovation activities with the industrial policy of Romania. Just these objectives are also pursued by the priority axis 2 of the SOP IEC. Issues of incoherence are not visible.

4.1.4 Tourism Policy

The formulation of Romanian tourism policy is largely based on analysis and recommendation of the WTTC. According to WTTC travel and tourism should be factored into mainstream policies for employment, trade, investment, education, culture and environmental protection. The strategic importance of travel and tourism (as a national factor of competitiveness) should be communicated to all levels of government, industry and local communities. All government departments affected by, or engaged in, tourism development should be closely involved in drawing up tourism policies and in planning and co-ordinating individual programmes.

Furthermore, the Romanian government should initiate an image campaign to ensure that all public and private stakeholders recognize the important impact of tourism across the national economy. Even more importantly, stakeholders should be made aware of its untapped potential and of the spin-off benefits of tourism that trickle down through all levels of the community.

Proposed measures include:

- Highlight and communicate the strategic importance of tourism
- Plan for the future
- Ensure that quality statistics and information feed into policy and decision-making processes
- Empower national Travel & Tourism institutions to drive forward development of the industry
- Co-ordinate infrastructure development which supports Travel & Tourism
- Create a competitive business environment that encourages investment
- Balance the economy with environment, people and cultures
- Develop the human capital required for Travel & Tourism growth

- Promote product diversification that spreads demand
- Bring new funding and co-ordination into promotion and marketing
- Favour technological advancement

This recommended strategy pursues a national framework for tourism in a way to promote Romania as a Tourism destination. Due to the fact that in the last decades Romania has suffered from a declining image, the idea to focus tourism policy on the national image and to set-up national co-ordination structures is more than logical. Without a national promotion and co-ordination effort, the Romanian tourism regions (e.g. the Black Sea coast or the Carpat mountain area) would not receive sufficient international attention to reap the enormous comparative advantage (national competitiveness) of that sector. The SOP IEC has adopted this important strategic orientation through (i) the promotion of a national tourism brand and marketing of the national destination Romania and (ii) to equip the co-ordination and promotion bodies with the required technical infrastructure.

As regards policy coherence, the SOP IEC and the Romanian tourism policy are compatible and co-ordinated. The national target of balancing the economy with the environment should be stressed in the description of the priority axis and the discussion of the environmental dimension of the SOP IEC. A similar recommendation is included in the SEA report. According to the MA, this recommendation was accepted.

4.1.5 Energy Policy

Upon accession Romanian Energy policy has to comply to European legislation. The power sector of Romania is still in a bad shape, both economically as well as environmentally. The energy sector has to be opened up and liberalised in order to become competitive and integrated into the European energy market. This process is still running. Only an efficient energy production can attract foreign and domestic investment, as energy is usually an important and critical cost factor. For the implementation of EC Directive 2001/80/EC, The Romania Government has therefore prepared a draft of Government Decision for the limitation of the emissions in the atmosphere coming from big power units i.e. over 50 MW, at the level of the EC Directives (for solid, SO₂ and NO_x emissions).

The Cartea Verde (O strategie europeana pentru energie durabila, competitiva si sigura) underscores the need of enhancing production capacities of the renewable energies in order to sustain energy supply and to make it competitive by a mix of different renewable energy sources.

The SOP IEC has adopted the Romanian energy policy through the improvement of energy efficiency and the valorisation of renewable energy sources. With the third key area of intervention within the priority axis 4 (Reducing the negative environmental impact of the energy system) the SOP IEC aims at contributing to the fulfilment of the directive 2001/80/EC.

Hence, the SOP IEC and the Romanian energy policy appear fully coherent.

4.1.6 Regional Operational Programme

There are still major coherence issues between the SOP IEC and the ROP:
Under priority 3, the ROP supports setting-up partnerships between enterprises and regional research and technological development institutes, in line with the Regional Innovation Strategies (RIS). Here, the use of R&D results aims to improve regional competitiveness in capitalising specific resources, leading to job creation, and inclusion of areas in decline within the economic circuit. To be coherent with the SOP IEC the dividing line is to be much better defined. The present programme drafts both support R&D based investment. The difference between regional competitiveness and competitiveness in general is to be defined. In principle such a clarification should be also made in the ROP.

As long as practical reasons do not rule out, it is recommended to recall Recommendation 26 (debriefing table) and to support science/R&D related incubators under the SOP IEC and to support regional (ordinary) business incubators under the ROP. R&D based enterprises have *per definitionem* a national relevance for competitiveness and should be supported only by the SOP IEC. It is true that simple business incubators could be regarded as a contribution to Lisbon (in term of entrepreneurship development), but they hardly contribute to national competitiveness. Otherwise, a very clear explanation and justification of that apparent cross contradiction would be required.

Business support structures under the ROP are also aimed at contributing to the enhancement of Romania's competitiveness within the framework of an enlarged European Union, which will create the basis for a better integration of the national economy within the European economy. This can only be a secondary objective of the priority 3 of the ROP. Otherwise this would duplicate the purpose of the SOP IEC. A clear dividing line is needed.

More analysis should be based on the second or third draft programme and follows later.

4.1.7 SOP HRD

The interaction of the SOP HRD and the SOP IEC is of specific relevance. Here no real overlapping is to be apprehended but issues of suboptimum use of synergies. Both programmes are complementary. The SOP HRD is at the supply side of the required high-level workforce needed to realise competitiveness of the Romanian economy. Here the SOP IEC represents a generator of the demand side. Therefore, there should be a clear and formal exchange between both programmes on requirements of training/qualification.

Regarding the activities under 3.2.3.1 of the SOP HRD (Promoting entrepreneurial culture) it is important not only to ensure the complementarity with the OP-IEC, but also to consider a way to organize projects that will benefit from both funds. In the implementation of the programme it is recommended to co-ordinate both OPs rather than utilising the flexibility facility (Article 34, Regulation 1083/2006). A genuine ESF measure under the SOP HRD supporting

young researchers (up to 35 years) which should apparently contribute to the priority axis 2 of the SOP IEC is in fact not foreseen under the SOP HRD. This passage needs to be revised in the SOP.

4.1.8 SOP Environment

Environment and competitiveness need to be linked in a synergetic way, otherwise policy runs the risk of a trade-off trap. Principally, increase of competitiveness is based on technological innovation. Technological innovation is the engine for structural change. Increased cost-efficiency of production is inherent in any innovation process. In other words the average resource consumption (input) per unit will be reduced through an innovation process (e.g. machinery consuming less energy or reduced communication cost through the internet. Moreover, R&D input into enterprises may also contribute to new standards, new products (eco-substitutes) and changed preferences among the consumers altogether leading to more sustainable development²⁴. This principle should be a matter of permanent consciousness among the stakeholders of the SOP IEC. There should not be the temptation to provide funding and other support to the private sector just to secure jobs or to counteract structural change. One should note that it is rather easy to label anything with the attribute 'innovative'.

For instance under priority axis 1 business incubators can be supported. It is again to be stressed that these should literally focus on genuine R&D or high-/medium-tech enterprises, otherwise running the risk of creating a trade-off regarding the environment.

4.1.9 SOP TA

After revision work there are no more immediate issues of coherence between the SOP IEC and the SOP TA. The specific technical assistance of SOP IEC is complemented with the horizontal support of the OP TA, which provides assistance for the common needs of all the structures and actors involved in the management and implementation of the structural funds and ensures the general public awareness on the role of the community support. In the programme text it would be better (for clarity) to more elaborate what is specific (in the sense of the operation under the SOP IEC) and what is more general (horizontal in the sense of the SOP TA). This brief paragraph still does not appear really sufficient to explain why there is TA in general and TA specifically for the SOP IEC (see above). According to the MA, the TA working group will further work on that issue.

4.1.10 SOP Transport

Between the SOP IEC and the SOP Transport no immediate issues of coherence are visible.

²⁴ According to the MA, these ideas will be included in the horizontal policy subchapter.

4.1.11 SOP Administrative Capacity

Between the SOP IEC and the SOP Transport no immediate issues of coherence are visible. Both programmes are complementary. Worth mentioning is the operation concerning the support granted to local administration for building up integrated Information Systems which is related to the supply of general training for the E-Government field in the SOP "Administrative Capacity Development". These actions are sufficiently co-ordinated.

4.1.12 EARDF and EFF programmes

The analysis of coherence between the SOP IEC and those two programmes cannot be evaluated since no drafts of those programmes have been made available yet. In the second version of the programme document few remarks on coherence between the priority axis 4 of the SOP-IEC and the NRDP are made. As regards fisheries (EFF), no immediate issue of coherence is visible, however, the Romanian fisheries sector (just as agriculture) can also have a relevance for national competitiveness²⁵, hence the relationship should be described.

4.2 Appraisal of the compatibility with the NSRF and the EU Strategic Guidelines

4.2.1 The Lisbon Growth and Jobs Strategy and the Community Strategic Guide lines on Cohesion

The three major strategic prongs of the Community Strategic Guidelines on Cohesion are

- An improved attractiveness of Europe and its regions for investment and the labour force
- Support of knowledge and information for growth
- More and better jobs

European Cohesion policy is hence a major factor in the re-launched Lisbon (Growth and Jobs) Strategy. It goes without saying – and does not need a more detailed analysis – that the SOP IEC aims at contributing with all its priority axes to just these objectives mentioned above. The SOP IEC is fully coherent with the Community Strategic Guidelines on Cohesion.

4.2.2 National Strategic Reference Framework

The Romanian NSRF is only available as a draft version. Under its chapter 3.2 all strategic threads are discussed. One of them is 'Increase the Long term Competitiveness of the Romanian Economy'. This chapter alone spells out the same strategic orientation as the SOP IEC. The priorities defined in the NSRF are

²⁵ Also here, R&D based investment is possible, therefore the possible upstream linkages between agriculture and fisheries and the respective agricultural or fisheries technology developed by the Romanian industry could be mentioned.

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- Productivity growth and creation of a dynamic business base,
- Business support services and infrastructure,
- Certification & Eco-innovation,
- Entrepreneurial Development,
- Access to Finance,
- Research, Technological Development and Innovation,
- Information and Communication Technology; and
- Tourism.

Energy efficiency is covered by the chapter on developing basic infrastructures to European standards.

The strategic orientation of the SOP IEC is clearly reflected in the NSRF; moreover the SOP IEC is constituent component of the NSRF. There are no visible issues of incoherence.

4.3 Appraisal of the compatibility with EU horizontal objectives on Environment, Equal opportunities and Information society

4.3.1 Environment

The European sixth environment action programme identifies four priorities:

- climate change
- nature and biodiversity
- environment and health, and quality of life
- natural resources and waste.

As regards the SOP IEC innovative technologies introduced in the Romanian private sector will have either a positive, but at least neutral impact on the climate change. In relation to the expected economic growth this is to be regarded positive. Sustainable economic growth will moreover ensure a higher quality of life with an improved environment and better public health. In terms of natural resources, the more efficient and sustainable use of energy will have an important positive impact on the environment. The key intervention area 4.3 directly addresses the protection of the environment.

The priority on tourism should also adopt the environmental protection as a major objective. According to the MA, the respective SEA recommendation has been accepted.

Within the SOP IEC no sectoral policy is pursued which is to be appreciated from the viewpoint of functioning markets. However, selection of project proposals should be sensitised - wherever relevant - by the fact that eco-innovation and 'green technologies' have an enormous growth potential which is important for competitiveness:

Eco-innovation and 'green' technologies are not just good for the environment. They also offer opportunities for economic growth — making good business sense and giving EU companies a competitive edge.

The world market for environmental goods and services was estimated at over € 500 billion in 2003. This makes it comparable in size to the aerospace and pharmaceutical industries. And, with a growth rate of around 5 % per year, this market is growing faster than the economy of the EU. It also creates new jobs.

The EU is making the most of this opportunity. Europe already has 'first-mover' advantage in wind energy technology. The Environmental Technology Action Plan aims to give the EU the same competitive head start for other environmental technologies. The plan makes it easier to obtain finance for new technologies and to validate their performance. It also promotes best practice, and encourages governments and local authorities to 'buy green'. Protecting the environment can thus be a positive spur to economic and social progress. It is a 'win-win' strategy

(cf. A Quality Environment: How the EU is contributing, Brussels, 2005)

4.3.2 Social inclusion

The overarching European objectives of the OMC for social protection and social inclusion are to:

- promote social cohesion and equal opportunities for all through adequate, accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies;
- interact closely with the Lisbon objectives on achieving greater economic growth and more and better jobs and with the EU's Sustainable Development Strategy; and
- strengthen governance, transparency and the involvement of stakeholders in the design, implementation and monitoring of policy.

The relationship of the SOP IEC with the objectives of social protection and social inclusion is more indirect in terms of social protection systems and government transparency as it is predominantly a programme for enhancing economic growth. Nevertheless, inclusion of all social groups implies an increase and stabilisation of the participation rate on the labour market leading to more sustainable growth, which is again needed for integration into the EU economy. In the SOP IEC disadvantaged groups are particularly addressed by Priority axes 1 (e.g. part-time work, tele-work) and 3 (access to small and isolated communities through broadband infrastructure). Therefore there is an important relationship with the second a.m. objective in terms of interaction with the Lisbon goals. Economic growth will then lead – given there is a transparent governmental system – to an improvement of the social protection opportunities and systems.

Equal opportunities should not be restricted to priorities 1 and 3 but addressed by all priorities (either directly or indirectly).²⁶

²⁶ According to the MA, equal opportunity is ensured mainly through preference points in the projects assessment process (as already stated in the programme complement). The explanation will be also mentioned in programme document.

4.3.3 Information Society

The Commission Communication 'i-2010: A European Information Society for Growth and Employment' underscores the following strategic threads:

- the completion of a Single European Information Space which promotes an open and competitive internal market for information society and media;
- strengthening Innovation and Investment in ICT research to promote growth and more and better jobs;
- achieving an Inclusive European Information Society that promotes growth and jobs in a manner that is consistent with sustainable development and that prioritises better public services and quality of life.

The SOP IEC aims at filling infrastructural gaps in the coverage of the information society (particularly with priority axis 3: ICT for private and public sectors). This should contribute to the completion of the European Information Space (bullet 1). Under priority axis 2 R&D activities and networking also include ICT research and innovation (bullet 2). As a horizontal objective of priority axis 2 social inclusion is addressed. The intended introduction of e-economy, e-government and e-health service delivery is aimed to be improved for the whole society (bullet 3).

The SOP IEC contributes to the European Information Society and is fully coherent with the overall supranational European policies.

4.4 Results of the Strategic Environmental Assessment (SEA)

The Strategic Environmental Assessment was carried out in accordance with the requirements of the European Council Directive on assessment of the effects of certain plans and programmes on the environment (2001/42/EC) and the Romanian Governmental Decision no.1076/8.07.2004 for setting up the environmental assessment procedure of certain plans and programmes (Of.J.no.707/5.08.2004). The full SEA report is annexed to the ex-ante evaluation report.

4.4.1 Major findings

The implementation priority axes of the SOP 'Increase of Economic Competitiveness' will probably have significant effects on the environment. The writer is convinced that, if interpreting the term 'increase of economic competitiveness' in a way to optimise the relationship between resource input and production output the environmental effect can only be either neutral (with additional output) or positive (same output with less resource input). This is, however, pure economic theory, and the SEA team has been right to point out that there are risks. Therefore, the recommendation of the SEA team to stress the need of 'increasing Romanian companies' productivity, *in compliance with the principles of sustainable development*, and reducing the disparities compared to the average productivity of EU' is justified even though the formulation might sound tautological. The same can also be underscored for the specific objectives, namely *environmentally friendly development* of the Romanian productive

sectors, favourable environment for *sustainable* enterprises' development, and promotion of *sustainable* tourism development in Romania²⁷.

The SEA has consequently concluded that mostly neutral and positive effects are expected from implementation of the measures to be carried out under SOP IEC. But there are risks, and negative effects may occur if e.g.: Natura 2000 protected sites will be identified in the locations or close to the operations to be funded from the SOP and if EIA procedures are not carried out or not carried out properly (e.g. the relevant stakeholders and the public are not involved prior to the activities that are likely to have significant environmental effects), that is, if in general, production costs will be kept low through externalisation and not through conscious optimisation of overall resource efficiency (i.e. sustainability).

Key mitigation measures of the SEA team were proposed for SOP IEC as follows:

- projects have to be screened for EIA. If EIAs are carried out, special consideration should be given to alternatives reducing the impact on Natura 2000, landscape fragmentation and green-field developments;
- priority support should be given to the investments that promote BAT technologies and application of sound environmental management practices (EMAS, ISO EN 14001) in the supported facilities;
- priority support should be given to the investments that promote reduction of energy consumption, increase energy efficiency, lesser energy demand (e.g. oil and gas), reduction of environmental emissions (especially air) and those promoting sustainable use of the natural resources;
- priority support should be given to the projects enabling PT use (e.g. rail versus road and measures aimed at PT promotion);
- projects that will be selected using the proposed environmental selection system (see below) should be prioritised in the overall SOP IEC funding;
- projects that help to fulfil Romania's environmental obligations assumed by international agreements and treaties.

During the assessment, a system for environmental evaluation and selection of project applications was proposed (as an additional measure to prevent, reduce or offset any significant adverse effects on the environment). The system for environmental evaluation was designed in two stages with a pre-project environmental evaluation during project preparation and a formal environmental evaluation during the official selection procedures.

In order to ensure monitoring, it was recommended:

- to incorporate the environmental indicators proposed into the overall system of monitoring the ROP implementation impacts;
- to connect the monitoring system to the system of evaluating and selecting the projects, using environmental criteria;
- to publish the results of monitoring regularly (at least once a year);
- to ensure sufficient personnel and professional capacities for environmental areas within the SOP monitoring;
- to involve the Ministry of Environment and Water Management into the discussion about the overall system of monitoring and especially the way of incorporating environmental issues into the overall system before it is launched; and
- to ensure that the applicants are informed sufficiently about environmental issues and about possible links of the draft projects to the environment.

²⁷ It was already recommended during the ex-ante evaluation process to consider environmental protection under the priority axis for tourism.

4.4.2 Conclusions

The recommendations formulated by the SEA team appear justified, fair and balanced. The ex-ante evaluator supports those recommendations. The final programme version has not been finalised by the cut-off date of the evaluation report. Therefore, the ex-ante evaluator has not had the opportunity to assess in how far the mentioned conclusions and recommendations of the SEA report have been considered in the final programme version (except the recommendation of including an objective of environmental protection into the priority axis on tourism). The writer is however convinced that the Managing Authority will seriously consider the SEA recommendations so that there will not be corresponding qualitative deficiencies in the programme document.

4.4.3 Consultations

The environmental report was prepared in close co-operation with the Managing Authority. Consultation with other relevant authorities (relevant ministries and agencies) has been done through the Working Group (WG) established for the purpose of the SEA. In order to involve the public in the consultation on preparation and assessment of the SOP IEC, the SEA team initiated the establishment of the web-page within the Managing Authority where the SEA working documents and other relevant information were posted. Visitors of the site were invited to comment on the draft documents in writing and could register to take part in the public debate. The public consultations based on this report took place on 19 January 2007.

4.5 Overall conclusions on the coherence of the strategy

As regards the national policies (SME policy, tourism, R&D policy and also energy policy) things appear well co-ordinated. This can be confirmed in the evaluation report. In the programme document a comprehensive analysis of coherence and policy synergies is given. There are also no issues regarding Lisbon, the CGC and the environment (except that some related environmental policy strategies should be added for the tourism priority (p. 68)). Equal opportunities should be covered by all priority axes (not only, as here the case, 1 and 3). Major coherence issues appear when viewing the interaction among the SOPs/ROP. However, effort is needed from the part of the ROP (rather than the SOP IEC) to define a clear demarcation line which reveals complementarity and synergy between programmes. It is advised to revise the orientation of the ROP to enhance economic integration of Romania into the EU. This is the characteristic purpose of the SOP IEC and should not be duplicated.

5 Evaluation of expected results and impact

5.1 Quantification of objectives at programme and priority level

At programme level the target is an average annual growth of GDP per employed person by about 5.5%. According to the planners this could allow Romania to reach approximately 55% of the EU average productivity by 2015. The National Commission for Forecast (CNP) and World Bank empirical research support this target so that it can be assumed realistic. However, one has to be aware that this forecast-justified economic goal is based on numerous assumptions which will not necessarily be realistic during the entire programming cycle. Long-run forecasts are always uncertain. Moreover, this policy objective is not exclusively related to the SOP but is a general forecast based on all economic variables explaining growth (as regards the possible impact of the SOP IEC see chapter 5.2.2).

The specific objectives are defined as the following ones

(1) 'Consolidation and growth of the Romanian productive sector': This objective is just qualitatively explained. The explanation remains rather general and virtually captures the idea of the whole programme. As an indicator and objective this is not practicable for programme monitoring.

(2) 'Establishment of a favourable environment for enterprises' development': The fulfilment of the two above objectives is quantified by the increase of SME's share within GDP by 10 percentage points in 2015. Assuming a further growth of the SME sector as it has been since 1999 (cf. Economic analysis of the first programme draft) this objective is realistic. It is however to be stressed, that the gain of ten percentage points should be based on economic growth but not shrinkage of the large enterprise segments of the economy. The SOP IEC will certainly contribute to that target.

(3) 'Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI': According to the planners the achievement of this objective should contribute to Romania's aim to increase the gross domestic R&D expenditures (GERD) to 3% of GDP by 2015. The objective of three percent is a political one, closely related to the Lisbon strategy. From the viewpoint of the writer, even the catching up of just 0.4 percentage points to reach the present average of the EU would be a quantum leap for Romania. The political target should remain, but it should be clear to the political decision makers what it really means. It goes without saying that the SOP IEC will contribute to increased R&D expenditure at national scale.

(4) 'Valorisation of the ICT potential and its application to the public (administration) and private sector (citizens, enterprises)'. The target is the increase of Internet users' number (enterprises' access to on-line services) from 52% in 2003 to 70% in 2015. This target can be assumed realistic. But it should be borne in mind that just as internet has been a genial innovation, other innovations within rather short periods of time might make this

target obsolete. The time horizon 2015 is already rather long.²⁸ According to the responsible Intermediary Body, the target will be possibly replaced with the broadband penetration rate (as number of broadband connections per 100 persons), which is a more specific and relevant indicator). The proposed target is then: increase of broadband internet penetration rate from 3.5% in 2005 up to 25% in 2015.

(5) 'Increased energy efficiency and sustainable development of the energy system':

The envisaged objective of the SOP is to contribute to the following national targets: the reduction of the primary energy intensity by 40% compared to 2001, the 33% share of electricity produced from renewable energy resources in the gross national electricity consumption by 2010 and the reduction of emissions in the energy sector according to the National Programme for the reduction of sulphur dioxide (SO₂), Nitrogen Oxide (NO_x) and dust emissions from large combustion plants. As it is a national target and independent from the SOP IEC, the writer cannot further comment on it, except that the SOP IEC will certainly contribute to the achievement of those targets.

(6) Promotion of Romanian tourism potential

The target is to increase tourism flows in Romania by 20%, by 2015. Since the programme only intervenes at the national level (policy framework, promotion and networking) the impact of the SOP IEC can only be indirect. Growth of the tourism sector will be generated in the tourist sites of the country.

5.2 Evaluation of expected results

5.2.1 Indicators and expected outputs and results

In the following chapter quantified outputs and results are assessed. The evaluation does not address the original indicators and quantification in the first and second programme draft but the newly agreed list of indicators prepared by Dietmar Welz.

Due to the fact that for Romania as a new EU member country, as of 2007, there are no forerunner programmes where to determine possible quantifications. The writer has therefore recommended to imagine typical projects (i.e. what for example is intended by the specific operations) and to calculate desired outputs and results against costs. According to the evaluator for the indicator system just this has been done. Therefore we assume the ex-ante quantifications to be plausible in general. In general the column for baseline values should be deleted. Since results and outputs are strictly programme related, baseline values are consequently always zero. The inclusion of baseline values is therefore not only useless but also confusing if data are automatically re-calculated in monitoring/spreadsheet applications. For instance, relative variations (percentage) then appear as error (x/0). Baseline values are only relevant for impact indicators.

²⁸ As an example, in the beginning of the 1990s the so-called interactive videotext (in France Minitel, in Germany BTX) has been also co-funded by the Structural Funds. That technology has been something of a forerunner of the internet. The revolution of the internet since mid-90s has rendered the BTX and all the investments undertaken valueless within few years.

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At programme level the following indicators including quantification have been defined.

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|---|------------------------|----------|---------------|----------------|---------------|
| Global Impacts | | | | | |
| Induced growth rate of GDP (national indicator, with an impact contribution of the SOP) | annual rate in % | | | | 5.5 |
| New jobs induced by the SOP IEC (including its multiplier impacts) | number FTE | | | | 100,000 |
| Specific Impacts | | | | | |
| Increase of SME's share of GDP | up to % of GDP | | | | 10 |
| Increase of gross domestic R&D expenditures (GERD) share of GDP | up to % of GDP | | | | 3 |
| Enterprises with access to on-line services (of total number of enterprises) | % | 52 | 2003 | | 70 |
| Additional population covered by broadband access | increase in % | | | SMIS / surveys | 10 |
| Increased market share of renewable energy production in total consumption | increase of share in % | | | | 1 |
| Increased tourism flows in Romania | rate of growth in % | | | | 20 |

As regards the global impact, the standard indicator (jobs created) has been selected. It should be made clear whether it means net or gross jobs. Gross jobs is understood as a result indicator rather than one measuring impacts (which would be net jobs). Induced growth rate of GDP per employee measures the growth rate of productivity. Both indicators are relevant and plausible in their quantification. An input-output estimation (see below) forecasts, by 2009, already 119,000 new jobs induced by the SOP IEC. This forecast seems to be rather optimistic; a conservative forecast of 100,000 new jobs generated by the SOP IEC until 2015 is therefore an acceptable quantification.

Although the indicator list should be kept brief and simple, a genuine competitiveness indicator is still missing. It is recommended to include an operational indicator measuring market integration (e.g. the Grubel-Lloyd index). Alternatively a productivity-related indicator could be appropriate. The other indicators are already assessed under chapter 5.1.

At priority axis 1 the following indicators are specified:

Priority Axis 1 An innovative productive system

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|--|--------------|----------|---------------|---------------|---|
| Output | | | | | |
| Assisted SMEs for direct investments | number | - | - | | 1,000 (with an average grant size of 250.000 Euro) |
| Assisted SMEs for certifications | number | | | | 1,500 |
| SMEs that participated in international fairs | number | - | - | SMIS | 1,200 |
| Local guarantee funds participating in the grant scheme | number | - | - | NCGF for SMEs | 10 |
| Newly created/or empowered incubators | number | - | - | SMIS | 20 |
| Result | | | | | |
| Jobs created in assisted enterprises | number / FTE | - | - | SMIS | 2,500 |
| Firms that implemented ISO 9001 | number | - | - | SMIS | 1,000 |
| Firms that implemented ISO 14001 or EMAS | number | - | - | SMIS | 500 |
| Investment of assisted firms that implemented ISO / EMAS | M Euro | - | - | SMIS | 280 |
| Increase in exports of assisted SMEs. | % | - | - | SMIS | 10% |
| SMEs recipients of guarantees | number | - | - | SMIS | 600 |
| Volume of granted guarantees | M Euro | - | - | SMIS | 120 |
| Incubated start-ups | number | - | - | SMIS | 500 |
| Enterprises benefiting of consulting services | number | - | - | MET | 2,000 |

The indicators for Priority Axis 1 as such are justified. The transmission from the output to the result indicators is implicitly visible.

The quantification of the first output indicator ('Assisted SMEs for direct investments') appears too low. E.g. the updated mid-term evaluation of the Objective 2-Programme Hessen (Germany) found around 200 enterprises supported by grants amounting to 32 million Euro²⁹. In Romania more than 625

²⁹ PRAC 2005, Aktualisierung der Halbzeitevaluierung des Ziel-2-Programms Hessen (2000-2006), Bad Soden, pp.33-34, (report downloadable under www.efre-hessen.de).

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million Euro are allocated for such grants³⁰, making up twenty times more than for the mentioned German programme. I.e. minimum 4,000 enterprises could benefit from grants in Romania. Since the price level in Romania is still much lower than that in Germany, the quantification could be even considerably more than 4,000.

The result indicator 'jobs created in assisted enterprises' is not well defined. It is neither clear whether those jobs are gross or net jobs³¹ nor is it clear what is meant by 'assisted enterprises'. In relation to the forecast overall employment impact 2,500 jobs appear rather low, even if those are only attributed to Priority Axis 1.

If 120 million Euro are foreseen for guarantees the question is whether the rest of 84 million Euro of the allocation of operation 1.2 (Access to credit and financing instruments) is devoted to other financial instruments. In this case either all targets are to be quantified (i.e. guarantees, venture capital, credit) or one indicator for the most innovative financial instrument among the possible ones (venture capital) should be specified. It is recommended to define 'Volume of venture capital shares: e.g. minimum 75 million Euro' replacing (or complementing) the indicator for the guarantees³².

At priority axis 2 the following indicators are specified:

Priority axis 2 Research, Technological Development and Innovation for Competitiveness

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|--|--------|----------|---------------|--------|---------------|
| Output | | | | | |
| Total of supported R&D projects | number | - | - | SMIS | 800 |
| Joint projects realized by R&D Institutions and enterprises (R&D partnerships) | number | - | - | SMIS | 200 |
| Enterprises supported in R&D partnerships | number | - | - | SMIS | 300 |
| Replaced by R&D centres connected to international networks supported by electronic platforms of GRID/GEANT type | number | - | - | SMIS | 80 |

³⁰ Cf. the table of categorisation in the programme document under code 08: Euro 625,625,308.-

³¹ Normally the concept of gross employment is pursued.

³² As the innovative financial instruments operation will start later, the MA prefers the guarantee indicator. However, as there is the clear objective to include innovative financial engineering tools (even with the assistance of JEREMIE) it is recommended to include this indicator. 75 million Euro are considered as a moderate target.

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| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|---|--------------|----------|---------------|--------------------------------|---------------|
| Supported high-tech start-ups and spin-offs | number | - | - | SMIS | 50 |
| Public expenditures in assisted RDI projects | mil EUR | - | - | SMIS | 495 |
| Result | | | | | |
| New jobs created in assisted beneficiaries (research related) | number / FTE | - | - | SMIS/beneficiaries | 200 |
| Direct private expenditures in supported RDI projects | mil EUR | - | - | SMIS/beneficiaries | 240 |
| New products and processes | number | - | - | SMIS / beneficiaries / surveys | 300 |
| US and EPO patent applications | number | - | - | SMIS / beneficiaries / surveys | 50 |

The indicators for Priority Axis 2 as such are justified. The transmission from the output to the result indicators is implicitly visible.

Two output indicators and one result indicator are not yet quantified. The result indicator 'enterprises involved in R&D partnership' is too vague. It should be clearly defined what is meant by 'involvement'. It could be anything from one phone call to considerable financial and working involvement. The result indicator 'new products and processes' should also be better defined.

At priority axis 3 the following indicators are specified:

Priority Axis 3 ICT for private and public sectors

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|--|--------|----------|---------------|--------------------|--|
| Output | | | | | |
| Broadband network projects supported in market failure areas | number | - | - | SMIS | 100 |
| Public internet access points projects supported in market failure areas | number | - | - | SMIS | 100 |
| Public electronic services projects supported | number | - | - | SMIS/beneficiaries | 100 |
| E-economy projects supported | number | - | - | SMIS/beneficiaries | 1000 |
| Result | | | | | |
| Additional communities connected to broadband networks in market failure areas | number | - | - | SMIS/beneficiaries | 500 (5 communities/project) |
| Additional users of public internet access points in the market failure areas | number | - | - | SMIS/beneficiaries | 20,000 (200 individual users/project) |
| Users of supported E-government applications | number | - | - | SMIS/surveys | Modified as 1,000,000 |
| SMEs using the supported E-economy applications | number | | | SMIS/beneficiaries | 5000 100 SME/project |

The indicators for Priority Axis 3 as such are justified. The transmission from the output to the result indicators is implicitly visible.

The quantification of just 5,000 additional SMEs with access to broadband appears to be low and not cost-efficient. Per broadband network in market failure areas only 50 SMEs will be supported. The indicator 'Additional SMEs using E-Business for market operations' does only make sense if it means the provision of electronic business services. If it is only use of that one might question the relevance of broadband access to the 1,500 enterprises not involved in e-government and e-commerce. Therefore it should be also made clear that the result indicators 'Additional SMEs connected to broadband internet access' and 'Additional SMEs using E-Business for market operations' are *pars pro toto*, i.e. part of the result indicator 'Additional SMEs connected to broadband internet

access'. It is therefore recommended to reformulate it 'thereof additional SMEs using e-government [e-business for market operations]'.
At priority axis 4 the following indicators are specified:

Priority Axis 4 *Improvement of energy efficiency and sustainable development of the energy sector*

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|--|-------------|-----------------|----------------------|---------------|----------------------|
| Output | | | | | |
| Projects for improving energy efficiency | number | - | - | SMIS | 20 |
| Projects for the valorisation of RES | number | - | - | SMIS | 25 |
| Projects for reducing the negative environmental impact in large combustion plants | number | - | - | SMIS | 5 |
| Result | | | | | |
| Reduction of primary energy intensity at assisted beneficiaries | % | - | - | SMIS | 10% |
| Additional capacity of RES | MW | - | - | - | 120 MW |
| | | | | | |
| Reduction of polluting emissions in assisted enterprises | % | - | - | - | 30% |

The indicators for Priority Axis 4 are justified. The transmission from the output to the result indicators is implicitly visible. From the evaluator no further comments are necessary.

At priority axis 5 the following indicators are specified:

Priority Axis 5 *Romania, an attractive destination for tourism and business*

| Indicator | Unit | Baseline | Baseline Year | Source | Target (2015) |
|---|--------|----------|---------------|--------------------------------------|---------------|
| Output | | | | | |
| Promotional campaigns for advertising the tourism brand at national and international level | number | - | - | SMIS / National Authority of Tourism | 10 |
| National Tourism Information and Promotion Centres supported | number | - | - | SMIS / National Authority of Tourism | 7 |
| Result | | | | | |
| Tourists visiting the Information and Promotion Centres | number | - | - | SMIS / National Authority of Tourism | 1 mil. |
| Web site visitors | number | - | - | SMIS / National Authority of Tourism | 1.5 mil. |

The indicators for Priority Axis 4 are justified. The transmission from the output to the result indicators is implicitly visible. From the evaluator no further comments on that are necessary.

As regards priority axis 6 (Technical Assistance) indicators are just management indicators (number of persons trained, monitoring committee meetings etc.). The auxiliary role of Priority 6 does not have a direct impact on economic competitiveness, therefore those indicators are not subject to a closer evaluation here³³.

5.2.2 Macro-economic impacts

In the following the macro-economic impacts of the SOP IEC are viewed. It was not the task of the ex-ante evaluation to independently estimate impacts on employment and income by available or self-developed macro-econometric or input-output models. Nevertheless it is the task of the evaluation to specify impacts based on rigorous research. For Romania, Andrea Bonfiglio (Università Politecnica delle Marche) has estimated employment and income effects with a multi-regional input-output model³⁴. The horizon of prognosis is limited to 2007-2009.

³³ Since many of the activities of that Priority Axis are determined by the general regulation (monitoring, implementation, evaluation, communication) and operationally described in the draft regulation on implementation, indicators are anyway not always relevant here as the authorities responsible for planning and implementation just need to comply to European law.

³⁴ Andrea Bonfiglio 2005, *Analysing EU Accession Effects in Romania by a Multiregional I-O-Model*, Quaderno di Ricerca No. 226, Università Politecnica delle Marche

Despite controversial scientific standpoints the I-O model is still considered a valid tool to quantify total effects in terms of output and, by a simple extension, of income and employment, deriving from the final demand variation. Moreover, the multiregional version offers further advantages: it guarantees major internal consistency than one region models, it allows taking account of the diverse pattern of consumption in the different regions, capturing effects due to trade relationships among regions and mapping impact distribution on the territory.

For the purpose of the SOP Competitiveness the presented aggregated estimation results are sufficient as the programme intervenes at national level.

2007-2009 the financial allocation of Structural Funds (without Cohesion Fund EFF and EARDF) is assumed with Euro 3.643 billion (in 2000 prices). Including the three additional funds 7.683 billion Euro are foreseen to be spent. For the SOP Competitiveness 655.644 million Euro are allocated until 2009. This makes up around 18% of the SF allocation and slightly more than 8.53 % of the whole EC contribution. In a very simple approach one can assume an evenly distributed weight of effects among all Structural Fund programmes so that out of the total input of Structural Funds until 2009 8.53% can be attributed to the SOP IEC.

Taking the estimation results found by Bonfiglio (2005, p.26) which are:

An additional income effect of 2.425 billion Euro (among that 128.6 million for the agricultural sector, 1.082 billion Euro for industry and 1.213 billion Euro for services) one can assume an impact of the SOP IEC at around 206.85 million Euro among all three sectors. Since emphasis of the SOP IEC is on industry and services and here the weight of impact is higher than for the agricultural sector, the simple estimation could be regarded as very conservative.

As regards employment effects, Bonfiglio estimates additional jobs effected by all EU funds at slightly above 1.4 million. Interestingly, the majority of jobs will be created in the agricultural sector (around 700,000) revealing the extreme difference in wage levels between agriculture on the one hand and industry and services on the other hand. That means that a corresponding estimate of 119,400 new jobs induced by the SOP IEC is to be regarded too optimistic³⁵.

5.3 Justification of the proposed policy mix

5.3.1 The choice of the policy mix

There is no doubt that the policy mix represents adequate remedies to strengthen economic competitiveness and EU integration. Principally the policy interventions respond to the strengths and weaknesses diagnosed.

³⁵ In comparison with 2000 data, income and employment are forecasted to increase by about 16% and 17%, respectively. The bigger variation is registered by agriculture, followed by industry and, finally, services. In terms of effectiveness, policy generates an increase in income by 32% of public expenditure and in employment by 183 labour units for each one million Euro. At a sector level, policy demonstrates to be more effective in services, as for income, and in agriculture, as for employment (ibid. p.25).

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In how far the pursued composition of policy remedies (under consideration of the repartition of the budget among the priority axes and operations) can realistically achieve the desired quantification should be closer looked at. The preliminary status of the programme, however, does not allow an in-depth analysis, as there is still uncertainty about the repartition of funds among the priority axes (and operations).

The indicative financial table is structured as follows:

SOP Economic Competitiveness for Romania 2007-2013

Indicative Financial Plan

| Priority axes / Key operations | Total Funds € | Total Public Funds € | ERDF € | National public funds € | Central government € | Local authorities/budg € | Municipalities € | other public funds € | private funds € |
|---|----------------------|-------------------------|----------------------|----------------------------|-------------------------|-----------------------------|---------------------|-------------------------|----------------------|
| PA 1: An innovative productive system | 1.285.900.000 | 1.005.470.000 | 694.400.000 | 311.070.000 | - | - | - | - | 280.430.000 |
| 1.1 Productive investments and preparation for market competition, especially for SMEs | 749.950.000 | 555.520.000 | 361.090.000 | 194.430.000 | - | - | - | - | 194.430.000 |
| 1.2 Access to credit and financing instruments for SME | 204.240.000 | 204.240.000 | 173.600.000 | 30.640.000 | - | - | - | - | - |
| 1.3 Entrepreneurship development | 331.710.000 | 245.710.000 | 159.710.000 | 86.000.000 | - | - | - | - | 86.000.000 |
| PA 2: Research, Technological development and innovation for Competitiveness | 978.300.000 | 736.730.000 | 470.400.000 | 266.330.000 | - | - | - | - | 241.570.000 |
| 2.1 R&D partnerships between universities/research institutes and enterprises for generating results directly applicable in the economy | 195.400.000 | 144.740.000 | 94.080.000 | 50.660.000 | - | - | - | - | 50.660.000 |
| 2.2 Investments in R&D infrastructure | 288.980.000 | 262.710.000 | 211.680.000 | 51.030.000 | - | - | - | - | 26.270.000 |
| 2.3 RDI support for enterprises | 493.920.000 | 329.280.000 | 164.640.000 | 164.640.000 | - | - | - | - | 164.640.000 |
| PA 3 ICT for private and public sectors | 538.110.000 | 449.910.000 | 336.000.000 | 113.910.000 | - | 1.990.000 | - | - | 88.200.000 |
| 3.1 Supporting the Information technology use | 170.630.000 | 136.710.000 | 100.800.000 | 35.910.000 | - | 1.900.000 | - | - | 33.920.000 |
| 3.2 Developing and increasing the efficiency of modern electronic public services (E-Government, E-Education, E-Health) | 158.120.000 | 158.120.000 | 134.400.000 | 23.720.000 | - | - | - | - | - |
| 3.3 Sustaining the E-Economy | 209.360.000 | 155.080.000 | 100.800.000 | 54.280.000 | - | - | - | - | 54.280.000 |
| | 15.000.000 | 15.000.000 | 15.000.000 | - | - | - | - | - | - |
| PA 4 Increased Energy efficiency and sustainable development of the energy system | 1.675.520.000 | 1.120.000.000 | 560.000.000 | 560.000.000 | - | 4.480.000 | - | - | 555.520.000 |
| 4.1 Improvement of energy efficiency | 924.000.000 | 616.000.000 | 308.000.000 | 308.000.000 | - | - | - | - | 308.000.000 |
| 4.2 Valorisation of renewable energy resources | 163.520.000 | 112.000.000 | 56.000.000 | 56.000.000 | - | 4.480.000 | - | - | 51.520.000 |
| 4.3 Reducing the negative environmental impact of the energy system | 588.000.000 | 392.000.000 | 196.000.000 | 196.000.000 | - | - | - | - | 196.000.000 |
| PA 5. Romania, an attractive destination for tourism and business | 131.770.000 | 131.770.000 | 112.000.000 | 19.770.000 | - | - | - | - | - |
| 5.1 Promotion of the Romanian tourism potential | | | 67.200.000 | 11.860.000 | - | - | - | - | - |
| 5.2 Development of the national network of Tourism Information and Promotion centers | | | 44.800.000 | 7.910.000 | - | - | - | - | - |
| PA 6 Technical Assistance | 79.060.000 | 79.060.000 | 67.200.000 | 11.860.000 | - | - | - | - | - |
| 6.1 Support to the SOP management, implementation, monitoring and control | 47.440.000 | 47.440.000 | 40.320.000 | 7.120.000 | - | - | - | - | - |
| 6.2 Support for communication, evaluation and IT development | 31.620.000 | 31.620.000 | 26.880.000 | 4.740.000 | - | - | - | - | - |
| | | | | | - | - | - | - | - |
| Summe | 4.688.660.000 | 3.522.940.000 | 2.240.000.000 | 1.282.940.000 | - | 6.470.000 | - | - | 1.165.720.000 |

The assessment of the policy mix has to be related to the quantification of the indicators and the budgetary repartition. With around 2.3 billion Euro (Priority axes 1 and 2) the foundations of a nation-wide knowledge-based economy should be laid³⁶. ICT for private and public sectors (priority axis 3) is necessary to facilitate the operation of a modern private sector and a civil society. It is just a modernisation of social and business-related infrastructure. Since the energy

³⁶ In relation to the overall volume of EU co-funded programmes 2.3 billion is with around 11.5% (from the overall budget under the NSRF programmes) a rather small share if one considers the important Lisbon targets. However, the writer is convinced that a conservative budgeting for such risk-bearing innovative operations is more than justified. Firstly, projects of that type (i.e. priority axes 1 and 2) are very demanding in terms of the quality of the applications. Secondly, if it turns out, at a later stage, that there is more qualified demand (absorptive capacity) for those operations, a general revision of the budget can be foreseen. Such a case should be regarded as a very favourable situation suggesting Romania to have a very robust knowledge-based growth potential. For the time being a conservative budgeting should be maintained.

sector suffers from rampant inefficiency and energy is one of the major cost factors of the private sector, modernisation is necessary in order to enhance competitiveness of the Romanian economy. The relatively large allocation compared to the priority axes 1 and 2 is justified because enormous efforts are necessary to remove the energy-implied obstacles for the private sector. While the energy sector is just an important upstream sector for Romanian producers the tourism sector is of national strategic importance in terms of competitiveness. Hence, although the programme might appear thematically rather broad (like a 'supermarket'), a second glimpse reveals that exactly these specific Romanian issues affecting competitiveness are tackled with the SOP IEC. Increase of economic competitiveness is the overall goal of that programme.

5.3.2 Analysis of Categorisation and Earmarking

The new member and acceding member states are exempted from the obligation to allocate 60% (or 75% respectively) for the Lisbon earmarking categories. Nevertheless the SOP IEC is the major generator of the Lisbon strategy in Romania; therefore an exemption from those earmarking obligations, particularly for that programme, is not advisable.

The categorisation of the SOP IEC has been defined at three dimensions, which are theme-oriented, finance related and territorial. The approach is in accordance with the draft regulation on implementation (CDRR-05-0010-07, annex IIA). The latter dimension has been introduced since the European Commission has put more emphasis on territorial cohesion. The categorisation table of the programme reveals that more than 82.5% of the planned expenditure belongs to operations of the so-called 'Lisbon Earmarking list'. This makes up around 2.109 billion Euro for the 'Lisbon allocation'. It must be noted however, that out of that around 625.6 million Euro (the biggest allocation in the SOP IEC) are allocated for subsidies to enterprises which – in this general definition – are not necessarily innovation-oriented³⁷. In spring 2006 there was a controversial discussion between the Commission and the member states on the code No. 08 (other business investments, i.e. the traditional grants)³⁸. The member states could succeed with their position, but the Commission still emphasises that any support to enterprises has to concentrate on genuine innovation. Therefore it is recommended (from the part of the ex-ante evaluation) for the programme text to stress the intention to spread direct subsidies to enterprises exclusively or at least mainly for measures of process or product innovation and/or modernisation in terms of the Lisbon targets³⁹.

5.4 Overall conclusions on expected results and impact

In conclusion it can be said that the specific indicators at the programme level are sufficiently defined and quantified. The Lisbon goal of 3% gross domestic expenditure on R&D (GERD) is an overall political goal, but hardly achievable by

³⁷ Part of this allocation will certainly be innovation-related, but it cannot be estimated ex-ante, so it was included under code 08.

³⁸ Thus, without code no. 08, only 58% of the allocations would have been earmarked for Lisbon. This variation is quite strong.

³⁹ i.e. not simply the extension of existent machinery.

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2015 (even for the EU on average). An impact indicator genuinely measuring economic competitiveness is missing.

The indicators and their quantification at operational level (priorities and related operations) are now sufficient. The transmission from the output to the result indicators is implicitly implicitly visible for all priority axes.

As regards the macro-economic impacts, recent research suggests that – under very optimistic assumptions - by 2009 the SOP IEC could contribute to increased employment with around 120,000 new jobs.

The pursued policy mix and the repartition of the budget (both internally as well as related to the overall NSRF allocations) can be regarded as justified.

With more than 80% measures covered by the Lisbon earmarking, the programme is likely to over-achieve the benchmarks (60% for the Convergence Objective) which is even not obligatory for new and acceding EU member countries. However, it is to stress that a large share of the Lisbon earmarked operations in the SOP IEC is related to direct business subsidies (code 08) which are contested as long as they do not explicitly contribute to process or product innovation or modernisation.

Major recommendations are:

- An impact indicator genuinely measuring economic competitiveness should be added. It is recommended to include an operational indicator measuring market integration (e.g. the Grubel-Lloyd index). Alternatively a productivity-related indicator could be appropriate.
- In some cases the definition of indicators should be more comprehensive. In priority axis 1 the number of enterprises targeted should be reviewed as the number appears too low.
- For the quantification of objectives it is recommended to imagine typical projects (i.e. what for example is intended by the specific operations) and to calculate desired outputs and results against prevailing costs.
- It is recommended to define 'Volume of venture capital shares: e.g. minimum 75 million Euro' replacing (or complementing) the indicator for the guarantees.

6 Appraisal of the proposed implementation system

6.1 Introduction

The implementation system of a programme has a critical relevance for the success of policy intervention. Even though a programme might pursue a realistic purpose based on a clear intervention logic, deficiencies in the institutional capacity and/or inefficiencies in inter-institutional co-ordination implying increased transaction costs can put any programme at risk. This chapter deals with the analysis institutional and inter-institutional capacity for the implementation of the SOP IEC. Furthermore the evaluation also looks at the formal compliance of the description of the entire implementation system.

6.2 Management

6.2.1 Description in the programme

In the programme document the description of the programme management and the co-ordination is quite comprehensive. The scope of tasks entrusted to the Managing Authority is fully in compliance to the Regulation 1083/2006 Article 60. Likewise the tasks of the intermediate bodies are completely described. The difference between the intermediate bodies and other 'implementing agencies' appears vague and should be clarified in the final programme draft. The role of 'implementing agencies' may just deal with receiving sub-delegated tasks. It should be therefore added that the MA and the IBs remain fully responsible for the operations. Implementing agencies are not to be considered part of the formal implementation structure.

6.2.2 Feasibility of the implementation system

Apart from the description in the programme, the feasibility of management and inter-institutional co-ordination is of particular relevance. The administrative set-up has been regarded by the writer as a particularly critical issue. The number of involved Intermediary Bodies is quite high, some of them has no specific experience with the implementation of larger European programmes and the staff capacities appear low in terms of experience.

For this purpose it was decided to have a closer look at the shape of the implementation system with a view whether it is capable to implement the SOP IEC with sufficient success.

The concrete Terms of Reference have been:

(1) to assess whether the IBs are capable to fulfil the required tasks for that programme in general (is the staff qualified and committed, are there clear job

descriptions; do they have experience with other funding schemes etc.?) and specifically with respect to such a large ERDF programme (do they know the important EU regulations and how to apply them in the operational activities/implementation?).

(2) Is the inter-institutional co-ordination MA - IBs (and IBs among each other) ensured? How do they co-operate/inform each other?

(3) a general assessment: Is there a chance for that institutional construction to be successful? If yes, what major recommendations should be conceived, in order to improve/stabilise the institutional capacity for the SOP-EC?

The assigned Romanian expert's task has thus mainly concentrated on the analysis of the administrative capacity of absorption. Both the Management Authority (MA) and the Intermediate Bodies (IBs) have been focused by qualitative empirical research in this respect.

The MA has been set up within the Ministry of Economy and Commerce while the IBs are included in the following ministries and agencies:

- the IB for innovative production systems – National Agency for SMEs
- the IB for R&D – Ministry of Education and Research
- the IB for ICT – Ministry of Communications and Information Technology
- the IB for increasing the energy efficiency – Ministry of Economy and Commerce, Energy Directorate
- The IB for tourism promotion – National Authority for Tourism, within the Ministry of Transportation, Construction and Tourism

The inquiry has been structured by three design elements, namely institutional-organizational structure, human resources and systems and instruments for programming and implementation, aiming to respond to the question of their readiness for the implementation of the OP-IEC.

With this purpose in view the inquiry has been organized into *two phases*.

First, a questionnaire regarding the administrative capacity of absorption was distributed to the MA and all IBs and it has to be remarked from the very beginning their promptness in filling it. This questionnaire was elaborated by the Romanian expert one year before, on the occasion of participating in the PAIS III study organized by the European Institute of Romania in order to assess Romania's absorption capacity of the EU funds. Thus an objective comparison between the facts emphasized last year and the current situation in the specific case of the OP-IEC has been possible. It may be said that a real progress has been recorded and various aspects will be referred to in the subsequent sections.

Second, interviews with the representatives of the MA and all IBs have been carried out, starting from the answers to the questionnaire and continuing with further details on the most important issues envisaged.

As regards the institutional-organisational structure the emphasis has been put on the legal setting up and internal organisation by department followed by the

relationship between the programming department and the other departments in the institution as well as the use of an extended partnership framework.

Both the AM and almost all IBs have been set up as a result of the Romanian Government's Decision of August 2004 regarding the institutions designated to deal with the EU structural assistance from January 1, 2007 on. As an *exception*, the IB for tourism promotion has been designated in this position and set up in January 2006 that could have created serious organisational catching-up problems. Though, they have been surmounted to a great extent owing to the personal efforts of a highly competent, energetic and dedicated general director, with a long experience in strategy, programming and pre-accession funds administration. Here can be added the experience of some of the team members with regard to integration strategy and programming in general as well as in elaborating and carrying out programmes for tourism development and promotion in particular. On the other hand, as the percentage of total OP-IEC funding allocated for Tourism priority represents only 5%, special problems with implementation of this OP priority axis are not foreseen.

In the beginning almost all IBs were set up as departments within the existing directorates for strategies, policies, European integration, programming, etc. As they have become separate entities within the corresponding ministries, agencies later on, this fact created a series of difficulties regarding the personnel policy, activity funding, infrastructure, etc.

At present both the MA and IBs have well balanced organisational structures, with clear responsibilities for each department (programming – implementation, monitoring and evaluation – management and financial control – IT, logistics and technical assistance).

As a rule, the programming department of the MA and IBs co-operates with the other departments in the institution in formally or informally established workgroups. In most cases the workgroups do not follow a regular pattern, being occasionally held in order to solve particular issues that come up during the planning and programming processes.

The use of an *extended partnership framework* – as a mandatory requirement for programming SFs and Cohesion Fund – varies among institutions.

The MA established an extended partnership structure in March 2005, with a permanent working group that includes representatives of all IBs and other institutions involved. As a particularity – that might create a difficulty – the MA for the OP-IEC is the only MA that has partners at the same level in their institutions (directors in the ministries where the IBs have been established). Though, the MA representatives consider that the good inter-personal communication with their partners plays a significant role in a successful co-operation. Otherwise, observing strictly the terms of the established partnership framework is the pre-condition for a successful co-operation between AM and IBs.

The MA of the OP-IEC does also participate in the thematic working groups coordinated by the MA from the Ministry of Public Finance and co-operates with the

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Ministry of European Integration as AM of the Regional Operational Programme (for a clear distribution of the objectives between the ROP and the OP-IEC, with corresponding responsibilities).

At the IB level, there are significant variations as far as the intensity and the success of their co-operation with potential partners is concerned, the main reason invoked for their difficulties by most of the IBs being the lack of funding and – as a consequence – of logistics for this purpose.

The best results can be mentioned in the case of the IB for SMEs (Axis 1 – innovative production systems), where the partnerships work successfully both at national and regional level and are considered powerful sources for institutional and social dialogue. In the opposite situation, the lack of funding for information and communication with potential partners (e.g. the case of the IB for Axis 3 – ICT for public and private sector) can create delays and even diminish the absorption capacity of the EU funds although the IB participated to numerous communication events in 2006.

In almost all cases analysed **the human resources** remain a sensitive issue. An overview on the existing staff as against the planned number of persons to be hired until the end of 2006 is presented in the table below. It also shows the number of persons hired in 2006 and of those of more than two years of experience in the administration of the EU funds.

| MA - IB | Planned staff | Existing staff | of which, hired in 2006 | Persons with more than 2 years of experience in the administration of EU Funds |
|-------------------|----------------------|-----------------------|--------------------------------|---|
| MA | 60 | 47 | 24 | 13 |
| IB-SMEs | 50 | 48 | 6 | 8 |
| IB-R&D | 60 | 48 | 38 | 7 |
| IB-ICT | 40 | 26 | 13 | - |
| IB-Tourism | 13 | 10 | 10 | 2 |
| IB-Energy | 50 | 44 | 32 | 3 |

Analysing the objective picture offered by this table and combining it with the results of previous informal discussions with representatives of various MAs and IBs it seems that the decisions regarding the personnel policy have led to overstaffed MAs and IBs, with quite serious difficulties in hiring persons of an adequate profile in terms of qualification and job description. Worth mentioning is that the Managing Authority and the IBs have already addressed that issue and expect that at the start of the programme activities the available staff will be better geared towards the needs of programme implementation (in number and qualification). However, in some cases (see IB – ICT) it is estimated that there will be not enough candidates for the vacant jobs until the end of 2006.

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The share of the inexperienced employees is high, many of them being hired soon after graduation from the university. Though, some of the interviewed IB representatives consider that their enthusiasm and openness to acquiring new knowledge can compensate in some degree the lack of experience. Doubts might be formulated in this respect, especially for the IB where the share of completely inexperienced employees in total existing staff is high. Two different examples in this respect: at the IB-ICT 13 out of total 26 persons have been hired in 2006; at the IB-R&D 24 out of 34 persons have been also hired in 2006 but the big difference is that many of the new employees in IB-ICT are young graduates whereas a high share of the new employees in IB-R&D have previous working experience.

As for the case of the experienced staff, most of them have been transferred from the strategy/programming directorate of either the ministry the IB belongs to or other ministries that have administered pre-accession funds. The others are people hired as a result of publicity campaigns, with very diverse backgrounds (engineers, economists, jurists, sociologists, etc.) coming from institutions with no direct involvement in EU integration. As could be noticed from the interviews organized by the Romanian expert – not only with directors of the IBs but also with their collaborators and ordinary staff – the employees with previous working experience (even though not in the EU funds administration) are diligent persons, open and able to adapt to the new job requirements (for example, the case of former researchers in scientific research institutes, former academics or teachers, etc.)

If the planned number of employees were lower the personnel composition would be more flexible and the transfer of knowledge and experience easier to be done (as the case of the IB – Tourism, where I could notice a high cohesion within the group).

In terms of professional knowledge and training, at the MA level the personnel involved in planning/programming activities is highly trained in the specific area of activity and has an in-depth knowledge of national and EU legislation on planning/programming, state support, public acquisitions, etc. EU requirements in programming as well as in other relevant areas (for instance: equal opportunities for men and women, protection of the environment, promotion of the information technology society) are also well known. This conclusion is not however applicable to all IBs some of these admitting that some personnel is poorly, insufficiently trained. They have also mentioned that in some cases the training courses provided more general knowledge rather than specialized one, in accordance with the concrete requirements of the future EU funds administration. As for the informal training (e.g. individually, via internet) in most cases this is rather low as a result of logistics scarcity. Specialized training will be possibly addressed in a new Phare TA project expected to start in December 2006.

In the context created by the novelty of operational programming for the use of structural and cohesion funds as well as by the lack of experience in the area *the impact of technical assistance received could have a decisive role*. This is referring to technical assistance received prior to the development of the operational programme as well as to that provided for this purpose as such.

In this respect the MA could benefit from twinning and technical assistance projects both prior to the design stage of the OP (especially via Phare programme) and during the elaboration of the OP (assistance provided within a twinning project with Italy as well as assistance provided by the Ministry of Public Finance), which indicates that personnel grew familiar with the EU experience and requirements in programming and other relevant areas that resulted in an higher level of personnel qualifications. Most of the IBs have also benefited from technical assistance, especially via their relationship with the MA and the twinning project, during the elaboration of the OP. Prior to this, some of the IBs did not mentioned any technical assistance or foreign support.

Finally, *providing adequate working conditions* is essential. Not only the MA but also the IBs consider that the logistics is far below the optimum level. It is possible that the adequate work conditions to lead to greater employee mobility and implicitly to a lower management capacity at institutional level. Ensuring adequate workplace, appropriately furnished and equipped with computers, printers, copying machines, etc. and related consumables is a must, as a major factor that may influence the efficiency of both programming and implementation.

As regards the wage level of the personnel, this is close to the national average (about 900 RON). The application of Law no. 490/2004 on financial incentives for personnel who manage community funds granted a 75% pay increase to the base salary, thus leading to higher wages for employees in MAs and most IBs compared to both other institutional departments which do not manage community funds and other public administration institutions in Romania.

Taking into account both the pay level and various non-financial incentives (such as job stability, training opportunities, career development) the mobility of employees still remains low. However, since the wage-based income (especially in the case of young employees) is far below the average pay offered by many private companies, an increased employee mobility towards these companies is quite possible. But so far a *high* instability is not expected since many of especially young people working in the public administration structures dealing with EU funds administration are seriously interested in a career development, not only in rapid wage increase).

The third component – systems and instruments for programming and implementation – has a particular significance to ensuring a high absorption capacity of the EU funds.

According to the MA's answers to some items in the questionnaire, the IBs are representative for their filed of activity but they do not have *expertise for the EU funds administration*, with one exception. Though, two of the IBs have administered national funds. This situation may create some adaptation problems and delays in programme implementation at least in the first 1-2 years.

Implementation agreements with all IBs have been established but they have not been signed yet. In line with the national legislation, the MA has not hierarchical authority in relation with the IBs. Nevertheless, when asked about the quality of

co-operation with the IBs the MA has considered it "very good". In mid and long run the clear establishment of responsibilities and terms of co-operation between MA and IBs are to represent the objective guarantee for an effective programme implementation.

As regards *the internal work procedures*, their elaboration is in progress for both programming and implementation. A *manual of conformity* with the EU legislation does not exist at the MA level but some IBs have started developing conformity procedures for their specific field of activity. From the discussions with the MA representatives, it has resulted that starting from January 1, 2007 the *acquis communautaire* will be considered and observed as national legislation.

One of the most sensitive questions refers to the *project selection procedure and project pipeline*.

So far, indicative selection criteria are included in the Complement Programme, available on the webpage of the Ministry of Economy and Commerce. Though, a *standardised application form* does not exist yet, but only a draft elaborated by the MA of the Ministry of Public Finance. According to the MA a second – improved- draft of the package (application form, payment claim and contract) will be issued soon by the MPF.

A national manual for the cost-benefit analysis applicable for big projects has not been yet elaborated. Instead, according to the MA statement, there is a Guide of the cost-benefit analysis for investment projects developed in 2002 under the co-ordination of the DG Regio, which is known only by a limited number of persons, even within the MA. At present a new guide is available and training for its employment is highly recommended.

The responses to the *project pipeline* question vary very much among the IBs. Some of them, like the IB – SMEs or IB – R&D are in a very good position, an important contribution being brought about by the territorial offices each of these two IBs have set up. The territorial offices act not only in the field of information dissemination and communication with potential beneficiaries but also for collection and primary, formal appraisal of applications. At present the IB – R&D runs a programme (IMPACT, funded by the state budget) that offers support for the elaboration of EU-funded project proposals via consulting providers chosen by means of three selection sessions. The IB – SMEs has also benefited from a Phare project for consulting purposes.

In other cases things have not advanced too much. The main cause consists in the lack of funding for own information campaigns and communication, in many situations information being transmitted as a result of participation of IBs representatives in various meetings organised by local public administration, local chambers of commerce, etc.

As possible remedy the IB – ICT proposes a horizontal operation to be adopted at the MA level in order to support the IB information and communication with potential beneficiaries, as a pre-condition for ensuring a high capacity of absorption. This will be possible under the TA priority axis.

From co-ordination viewpoint, the MA can initiate support procedures in order to improve the information and communication of IBs with their potential beneficiaries. At the same time it seems that IBs are well qualified for initiating proper project ideas.

To conclude, compared with the evaluation undertaken one year before, the elaboration of the OP-IEC and the preparations for its implementation have advanced with a reasonable pace, being possible to change the score corresponding to "D"-level (insufficient capacity) for human resources and systems and instruments * to the upper level of score "C" – capacity not entirely sufficient but with good chances to recover the weaknesses that still exist.

Further efforts and support should concentrate on the following:

- establishing and observing clear, objective rules for communication and co-operation between MA and IBs;
- defining precise, effective working procedures for the Monitoring Committee to be established and getting in force soon;
- a flexible employment (personnel) policy, focusing on the staff quality rather than strict quantity levels;
- changes in training orientation, with much more emphasis on specialized knowledge, new work procedures, new guide for Cost-Benefit analysis, etc.;
- providing adequate working conditions, in terms of logistics and wage;
- clear, effective support for project pipeline envisaging the funding of IBs information campaigns and communication in order to foster project ideas, qualified consulting for project elaboration and primary, formal appraisal of applications.

6.3 Monitoring

As regards selection processes and monitoring the partnership principle is sufficiently considered.

Operational monitoring (i.e. project monitoring and programme reporting) is entrusted to the Managing Authority which is controlled by the Programme Monitoring Committee (to be established according to Article 63, Regulation 1083/2006). The list of members should be more concrete. It is not sufficient to just list-up 'relevant NGOs' or 'social partners'. The emphasis on equal opportunities is to be appreciated, but in fact the Managing Authority has no direct influence on the seconded members and gender equity.

In the programme draft the information on the computerised exchange of data is insufficient. First of all it should be described whether and if yes how the SMIS is connected with SFC 2007 (interface). It is not sufficient just to say that there will be a computerised exchange of data with the European Commission⁴⁰. Very important is the description of information recorded by the system in place

* for institutional and organizational structure the score was already C, quite close to B (sufficient capacity) at the end of 2005.

⁴⁰ If the details are not yet known, it should be pointed out that this will be clearly described in the report on the implementation provisions (Article 71 of the Regulation 1083/2006)

(according to the Regulation on Implementation). This information has to distinguish between data for financial procedures and data and documents on the monitoring of the programme. The programme should also include a description on how to ensure reliability of the data and the security of data storage and exchange.

Regarding the selection process application forms/procedures are standardised among all programmes according to the origin of funding (Cohesion Fund, ERDF, ESF): Forms or criteria are to be geared towards the programme indicators and their quantification. In the application forms the project indicators are to be individually determined from the programme indicators. In a footnote it says:

„Note pentru Autoritățile de Management: Autoritatea de Management va realiza o lista cu indicatori pe tipuri de proiecte, corespunzătoare fiecărui domeniu major de intervenție din Programul Operațional, indicatori care vor apărea și în SMIS. ...”

This is very important and makes it possible to monitor ex-ante programme objectives and those summed up from the applications.

6.4 Evaluation

The evaluation plan appears to be too inflexible. For the programme a permanently assigned evaluator (or group of evaluators) should carry out a genuine ongoing evaluation. Two interim evaluations (2010 and 2012) can hardly protect the programme from failure (2010 could be too late). Romania as a new member country has not yet sufficient experience with programme implementation and the implementation structure is complex and vulnerable. It is also recommended to establish a steering committee for the evaluation procedures.⁴¹

6.5 Financial management and control

The financial management and control is comprehensively described.

The role of the certifying authority is described in line with the Article 61, Regulation 1083/2006. Regarding the payment process at the Ministry of Public Finance level, the decision was made to have two payment flows (i.e. including indirect payment, through the paying units that are established near Managing Authorities, for the other operational programmes). In this case it should be made clear that these paying units are only intermediate accounts needed for the proper financial implementation. They are not the authorities designed in accordance to Article 61.

The description of reporting on irregularities appears sufficient, while the description of the tasks of the independent audit authority is not sufficient. The reference to Article 62, Regulation 1083/2006 should be made. As it appears in the programme document one could interpret it as a requirement just of national law. It should be stated that this authority is supposed to carry out the required

⁴¹ The reference to ad-hoc evaluation will be detailed and a reference will be added to the multi-annual evaluation plan under the central evaluation unit of the MFP

independent random audits with the obligation to regularly report on an annual base. It should furthermore be stated that the description of audit trail will be submitted to the Commission within nine months after approval of the SOP.

6.6 Overall conclusions and recommendations on the implementation system

Quality of the description:

- (1) In general, the implementation system proposed for the SOP IEC meets the requirements of the Regulation 1083/2006 (Articles 58 ff.). It would be useful to more comprehensively define the difference between the intermediary bodies and implementing agencies in the respective sections of the programme document.
- (2) The composition of the Monitoring committee should be better described and defined including concrete designation of the institutions and the representatives. The respective representatives – probably the responsible programme manager - of all other OPs should be constituent members. Monitoring of the programme should be supported by consistent application forms. Forms or criteria are to be geared towards the programme indicators and their quantification. This makes it possible to monitor ex-ante programme objectives and those summed up from the applications.
- (3) The evaluation plan appears too strict. For the programme a permanently assigned evaluator (or group of evaluators) should carry out a genuine ongoing evaluation. Two interim evaluations (2010 and 2012) can hardly protect the programme from failure (2010 could be too late). Romania as a new member country has not yet sufficient experience with programme implementation and the implementation structure is complex and vulnerable. It is also recommended to establish a steering committee for the evaluation procedures.
- (4) The role of the paying units besides the certifying authority is still to be better described in order to avoid confusion. Furthermore some information on the random audits and the role of the independent audit authority (according to the General Regulation) should be added.

Inter-institutional co-ordination:

- (1) Both the AM and almost all IBs have been set up as a result of the Romanian Government's Decision of August 2004 regarding the institutions designated to deal with the EU structural assistance from January 1, 2007 on. The IB for Tourism has been created very recently and might face problems in quick adaptation to effective co-ordination
- (2) The MA established an extended partnership structure in March 2005, with a permanent working group that includes representatives of all IBs and other institutions involved. As a particularity – that might create a difficulty – the MA for the OP-IEC is the only MA that has partners at the same level in their institutions (directors in the ministries where the IBs have been established). Though, the MA representatives consider that

the good inter-personal communication with their partners plays a significant role in a successful co-operation. Otherwise, observing strictly the terms of the established partnership framework is the pre-condition for a successful co-operation between AM and IBs. In mid and long run the clear establishment of responsibilities and terms of co-operation between MA and IBs are to represent the objective guarantee for an effective programme implementation.

- (3) At the IB level, there are significant variations as far as the intensity and the success of their co-operation with potential partners is concerned, the main reason invoked for their difficulties by most of the IBs being the lack of funding and – as a consequence – of logistics for this purpose. The best results can be mentioned in the case of the IB for SMEs (Axis 1 – innovative production systems), where the partnerships work successfully both at national and regional level and are considered powerful sources for institutional and social dialogue. In the opposite situation, the lack of funding for information and communication with potential partners (e.g. the case of the IB for Axis 3 – ICT for public and private sector) can create delays and even diminish the absorption capacity of the EU funds.

Personnel:

- (1) Decisions regarding the personnel policy have led to overstaffed MAs and IBs, with quite serious difficulties in hiring persons of an adequate profile in terms of qualification and job description. The interviewed people themselves admitted, in some cases, that the number of planned staff is too high. Moreover, in some cases (see IB – ICT) it is estimated that there will be not enough candidates for the vacant jobs until the end of 2006. Two different examples: at the IB-ICT 13 out of total 26 persons have been hired in 2006; at the IB-R&D 24 out of 34 persons have been also hired in 2006 but the big difference is that many of the new employees in IB-ICT are young graduates whereas a high share of the new employees in IB-R&D have previous working experience.
- (2) If the planned number of employees were lower the personnel composition would be more flexible and the transfer of knowledge and experience easier to be done (as the case of the IB – Tourism, where one can notice a high cohesion within the group).
- (3) (Stability of the staff situation): Since the salaries (especially in the case of young employees) are far below the average pay offered by many private companies, an increased employee mobility towards these companies is quite possible. Staff fluctuations may affect the effectiveness of the programme implementation.
- (4) In terms of professional knowledge and training, at the MA level the personnel involved in planning/programming activities is highly trained in the specific area of activity and has an in-depth knowledge of national and EU legislation on planning/programming, state support, public acquisitions, etc. EU requirements in programming as well as in other relevant areas. This conclusion is not however applicable to all IBs some

of these admitting that some personnel is poorly, insufficiently trained. They have also mentioned that in some cases the training courses provided more general knowledge rather than specialized one, in accordance with the concrete requirements of the future EU funds administration. As for the informal training (e.g. individually, via internet) in most cases this is pretty low as a result of logistics scarcity. This situation may create some adaptation problems and delays in programme implementation at least in the first 1-2 years.

Project pipelines:

More advanced catalogues of projects exist for the priority axes 1 and 2. In other cases things have not advanced too much. The main cause consists in the lack of funding for own information campaigns and communication, in many situations information being transmitted as a result of participation of IBs representatives in various meetings organised by local public administration, local chambers of commerce, etc. Considering the large variety of priorities included in the OP-IEC (as a particularity in comparison with other OPs, much more focused on a specific domain) it is hard to believe (objectively speaking) that the MA has a comprehensive view on the project pipelines of all IBs. But, from co-ordination viewpoint, the MA can initiate support procedures in order to improve the information and communication of IBs with their potential beneficiaries.

Recommendations:

- (1) There should be a clear definition of IBs and 'Implementing Agencies' and the respective difference between both types of institutions involved.
- (2) The programme monitoring (i.e. the monitoring committee and the electronic system) should be better described in its details.
- (3) Organising a genuine ongoing evaluation instead of mid-term or on-the-spot assessments
- (4) The description of the independent audit authority should be in accordance to the Regulation.
- (5) Establishing and observing clear, objective rules for communication and co-operation between MA and IBs.
- (6) Defining precise, effective working procedures for the Monitoring Committee to be established and getting in force soon.
- (7) A flexible employment (personnel) policy, focusing on the staff quality rather than strict quantity levels (including the provision of adequate working conditions, in terms of logistics and salaries).
- (8) Changes in training orientation, with much more emphasis on specialized knowledge, new work procedures, new guide for C-B analysis, etc.

- (9) Clear, effective support for project pipeline envisaging the funding of IBs information campaigns and communication in order to foster project ideas, qualified consulting for project elaboration and primary, formal appraisal of applications.

Finally it is to be emphasised that the Managing Authority, the IBs and all other stakeholders in the process of programme implementation should proactively communicate the programme and the related opportunities for beneficiaries and final target groups.

7 Evaluation of the Community Value Added

The status of the evaluated programme is that of a draft version. The possible variation of Community Value Added is therefore fairly strong.

Multi-annual programming: In contrast to the pre-accession aid, cohesion policy is organised in a longer run planning process where stakeholders have to demonstrate discipline and reliability to stand a seven year period of strategy implementation. Cohesion policy stipulates more solidarity and co-ordinated activities and – if realised successfully by all member states– it will strengthen the European Union as a whole. Certainty in planning and trust in policy processes are further benefits of multi-annual programming.

A very important Community value added is enhancing real convergence. This is particularly important for Romania, as this country is still significantly lagging behind in most social and economic variables. Community value added does not materialise in more sustainable growth of Romania but rather in its implications for the EU as an economic space where poorer regions and countries are dynamically converging with the more advanced countries and regions. Here it is important to recognise that the overall goal of a balanced regional development according to Article 160 (EC Treaty) has to go hand in hand with the *Lisbon* objectives, representing the core of the economic growth strategy of the Community. For Romania, the interaction of the SOP IEC and the ROP are to be pointed out in this context.

If the spirit of the programme can be successfully transmitted, Romanian SMEs will become capable to internationalise, i.e. to enhance their export orientation within the EU and worldwide, to be ready for trans-European networking (with other enterprises and/or research institutions) and also to merge with companies from other EU countries. A successful 'going European' of Romanian SMEs will result in a higher degree of market integration and thus generating another important Community value added.

Enhanced partnership, both horizontally in terms of a functioning monitoring committee and perhaps inter-regional co-operation with other regions, as well as vertically in terms of a smooth co-operation between the Romanian government, the European Commission and the regional entities where the programme impacts directly materialise, is also an important aspect of Community value added.

A final specific value added to be expected by this programme (just as all other Community funded programmes in Romania) is the need of prudent monitoring and evaluation. Cost efficient budgeting and optimisation of effectiveness and impact is one of the major purposes of advanced control of programme progress. The impacts of effective national and regional programmes trigger important positive spill-over effects for other EU regions. As long as monitoring and the

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evaluation process will be organised soundly, not only Romania, but also the EU as a whole will benefit through efficiency and effectiveness of Community resource allocation.

Ex ante – and under consideration of the not yet finalised progress of programming – it is not possible to estimate the different aspects of Community value added more concretely.