

PREAMBLE

The present document is the final version of the Evaluation Report for the first component, entitled *A Formative Evaluation of Structural Instruments in Romania*, of the technical assistance (TA) project *Conducting Evaluations for the period 2009-2010*, implemented under the contract *Carrying out Evaluations during the Implementation of the National Strategic Reference Framework (NSRF) and the Operational Programme Technical Assistance (OPTA)* concluded between the Authority for Coordination of Structural Instruments (ACIS) of the Ministry of Public Finance (the ‘Contracting Authority’) and a consortium composed of KMPG Romania SRL (leader), GEA Strategy & Consulting and Pluriconsult (the ‘Consortium’).

This Evaluation Report presents the findings, conclusions and recommendations emanating from research and analysis designed to answer salient questions with regard to the performance, implementation, support, awareness and procurement modalities of Structural Instruments (SI) in Romania.

The cut-off date for the data used in the evaluation is 30 June 2009, unless otherwise indicated.

EXECUTIVE SUMMARY

The Evaluation Central Unit (ECU) of the Authority for the Coordination of Structural Instruments (ACIS), engaged a consortium formed by KPMG Romania, GEA S&C and Pluriconsult for the project *Conducting Evaluations for the Period 2009-10* under a contract with number 13/02.10.2009 and entitled *Carrying out Evaluations during the Implementation of the National Strategic Reference Framework (NSRF) and the Operational Programme Technical Assistance (OPTA)*. The duration of the contract covers the period 13 October 2009 – 12 April 2011.

The project has two main components, the first being a *Formative Evaluation of Structural Instruments in Romania* and the second encompassing four other evaluations, including an interim evaluation (IE) of the Operational Programme (OP) Technical Assistance (TA), the preparation of a Synthesis Report of all IEs carried out in 2009-10, as well as two *ad hoc* evaluations on thematic or cross-cutting issues, as required by the Contracting Authority.

The present report covers the formative evaluation under the first project component. The ToR for the formative evaluation state as its overall objective: *to contribute to strengthening the overall coordination of the SI implementation and to the development of an appropriate administrative system aiming at providing a mutual level of knowledge and experience among different actors involved.*

To achieve these objectives, the ToR expect results of the work under the component in the form of answers to five *Main Evaluation Questions* – numbered Q1 to Q5 – as follows:

- **Q1** What is the real performance of the SI under implementation in Romania related to: (**Q1a**) the expectations and the goals set; and (**Q1b**) the capacity of the entities involved in their implementation?
- **Q2** What are the major critical factors (**Q2a**: external and **Q2b**: internal) influencing the performance of the SI?
- **Q3** How well did the technical assistance support SI management and implementation?
- **Q4** Have adequate information and publicity measures been taken to reach the targeted audience?
- **Q5** Are the project pipelines and project selection processes appropriate for creating the conditions for achieving efficiency and effectiveness of SI implementation?

The project team used a wide variety of methods to formulate answers to these questions. The core of the methodology was formed by a *de-composition analysis*¹ of a wealth of data gathered through documentation review and data requests addressed to stakeholders, and validated through questionnaire-based surveys, interviews, focus groups sessions, workshops and meetings of relevant working groups. The stakeholders included ACIS, the Managing Authorities (MA) and Implementing Bodies (IB) engaged in the Structural Instruments (SI) management and implementation system, as well as (representatives of) beneficiaries of SI interventions.

The formative evaluation was carried out in the period October 2009 and July 2010. The cut-off date for the evaluation was 30 June 2009, unless otherwise indicated.²

¹ The decomposition analysis involves the calculation of ratios for signal milestones along the path of approval, contracting, implementation and payment for SI-funded activities. Each of the ratios allows the drawing of conclusions on overall progress of the NSRF at large and the individual OPs involved [for, respectively, Regional Development (ROP), Environment (SOP ENV), Transport (SOP T), Human Resources Development (SOP HRD), Increasing Economic Competitiveness (SOP IEC), Public Administration Development (SOP DAC), Technical Assistance (OPTA) and European Territorial Cooperation (ETC)].

² In some instances, the data used in the report were updated to end-June 2010.

General Conclusions and Recommendations

Main conclusions:

The evaluation found that the SI management and implementation system in Romania has not yet managed to scale the administrative burden involved in the procurement and financial management and control relative to the complexity of interventions, individual projects and the risk of default and fraud attaching to them.

Another feature of the Romanian SI system is concerns the tendency to ‘gold-plate’, i.e. the system requiring 100% control coverage and many levels of checks. The cost involved in control and audit, in terms of human resources and time, is not always tailored to the financial and moral hazard involved in less-than-perfect enforcement of applicable rules and regulations.

Main recommendations:

A key overall recommendation is that ACIS and the MAs ensure that the administrative arrangements pertaining to SI implementation are proportional to the potential risk attaching to interventions. To this end, ACIS and the MAs are advised to adopt a classification of interventions (such as *simple, normal, complex*) according to their total budgets, complexity and risk of the project implementation and sustainability, and to re-design the project selection mechanism so as to match that classification of interventions. This approach would allow the selection of projects for *simple* interventions based only on eligibility criteria; general calls for proposals would apply to *normal* interventions and be based not only on eligibility but also on scored project selection criteria; individual appraisals based on strict, preset criteria would be apply only to *complex* interventions.

In addition, ACIS is recommended to investigate – on the basis of the findings of individual OP-level interim evaluations – what options exist for funds re-allocation to counteract the effects of the current economic downturn, the perceived and projected absorption capacity of interventions and the demand registered by potential beneficiaries. This applies especially to issues such as allocation/concentration of funds and the balance of private/public targeting).

Specific Conclusions and Recommendations (Q1-Q5)

Q1 *What is the real performance of the SI under implementation in Romania related to: (Q1a) the expectations and the goals set; and (Q1b) the capacity of the entities involved in their implementation?*

Main Conclusions:

At the evaluation cut-off date, 30 June 2009, the volume of payments carried out amounted to 1.5% of the total allocation. This volume is very low when considered in proportion to the time that has elapsed since the start of the programme. The fact that this ratio had increased to only 3.7% by 30 June 2010 makes this issue even more urgent. In fact, the current pace of payment constitutes a major risk in terms of ensuring full absorption, as the paid grant amount is likely to reach the initial allocation in 2020.

The planning of interventions is not always satisfactory and has led to a number of OP priorities axes (across the board) not taking off as early as intended or with a lower mobilisation tempo than envisaged.

The OPs are structured in such a way that annual allocations tend to rise over the period 2007-13. In all cases, with the possible exception of SOP IEC, this has resulted in end-loaded programmes in terms of beneficiary access to SI grants. The interviews conducted during the evaluation have shown this pacing of access to allocations to have been intentional, partly because of a desire on the part of the planners to reassure beneficiaries there would always be access to the support. However, the consequence of the end-loaded character of OPs is that a very large volume of interventions must be requested and processed in the later years of the NSRF’s duration. This may cause ‘bunching up’ of approvals in 2012-13 and payments during the years 2013-15. This in turn may put severe stress on domestic co-financing capacity during a period of uncertain economic stability from the present perspective.

The Romanian NSRF is heavily orientated towards the public sector and shows up a relatively high representation of public sector organisations amongst its applicants and beneficiaries; higher at least than one would expect of a set of interventions targeting both the private and public sectors. It is understood that this public sector bias is founded upon an assessment by the authorities that the efficiency of the public sector forms a major factor in underpinning private sector development. Seen in this light, the authorities have drawn an apposite consequence.

There are capacity problems within most MAs and IBs related to the large number of unfilled and 'inactive' positions. In spite of the high level of visibility of these problems, coupled with a general awareness within the administration that something must be done to solve them, solutions have proved to be elusive to date. In the present economic climate and in the aftermath of the financial crisis, solutions will continue to be hard to find.

The staff turnover rate, by many thought to be very high, turns out to be within the bounds of the acceptable, averaging at less than 10%. This turnover rate may be considered acceptable, especially in view of the fact that the larger part of staff consists of younger persons, not afraid to try out different options and likely to switch jobs in search of the best possible career path.

Lack of capacity can be a problem at those OPs where both the allocated grants/employee ratio and the expected projects/employee ratio are high. SOP IEC and SOP HRD are cases in point. This is a result of the fact that the methods of application evaluation and approval are very similar and take similar amounts of staff time, regardless of the number and value of applications under a given intervention.

The options open to MAs in case of non-performance of one or more of its IBs are few and largely limited to: (i) exhorting IBs to perform better; or (ii) taking back functions. Re-absorbing the executive functions delegated to those IBs, however, may aggravate the MA's own existing capacity issues or may be the cause of a capacity problem emerging.

Main Recommendations:

ACIS is recommended to develop measures in the form of a system of rewards and sanctions in respect of acceleration of payment processes in order to enable the full absorption of SI by the disbursement deadline set for the current programming period (i.e. 2015) and enhancing public entities' motivation to seek reimbursement of pre-financed contributions.

ACIS and the MAs are recommended to prepare – in the course of the fourth quarter of 2010 and a deadline of 31 December 2010 – an additional (*Action Plan 2011-13*) for each OP for the period of 2011-2013, with a view to detailing the measures for ascertaining funds absorption.

ACIS, the MAs and IBs are advised to re-examine critically all interventions that have not been launched or showing limited progress (i.e. low demand from beneficiaries). Should it be concluded that interventions are not capable of achieving their targets, it is recommended that they be cancelled and the funds re-allocated to more promising interventions.

ACIS, the MAs and IBs are recommended to continue to find the ways and means to fill the unfilled and 'non-active' positions – if necessary on a temporary basis with appropriate emoluments – to prevent the current lack of capacity and capability from continuing to hamper the implementation of the programmes and endanger funds absorption.

ACIS, the MAs and the IBs are advised that the respective roles of MA and IB deserve clear separation and delineation. The MA should focus on policy and strategic issues, while the IB should be more responsible for operations at project level. The relationship between the MA and the IB would preferably be defined in terms of a contractual relationship between, respectively, 'client' and 'provider'.

ACIS, the MAs and the IBs are recommended to design and introduce an 'demand planning'-system to manage the timing of calls for proposals, thus forestalling excessive peaks in the receipt and processing of applications.

Q2 What are the major critical factors (Q2a: external and Q2b: internal) influencing the performance of the SI?

Main conclusions:

Across the board, procurement procedures under the SI in Romania tend to be slow, due to complicated procurement legislation, interpretation differences and the ingrained habit of contesting selection procedure outcomes. The management and control procedures under Romanian law are stricter in places than the EU's SI-related Financial Regulations stipulate.

Beneficiary small and medium-sized enterprises in Romania continue to encounter difficulties in accessing the bridging loans necessary for pre-financing the external contributions under SI interventions, because of stricter lending policies of commercial banks in the aftermath of the financial crisis and during the current economic crisis.

No genuine human resources policy for administrative entities seems to have been designed and implemented, in spite of the fact that several training programmes – also targeting the MAs and national IBs – having been implemented over the past decade. Decisions related to staff numbers and the hiring and firing of staff appear not based on a clear assessment of the mandate and workload of the different departments in the administration. Recent decisions related to cutting MA/IBs staff numbers and salaries is likely to impact SI absorption negatively.

SI implementation appears negatively affected by a series of overarching, policy-related factors, in particular a lack of correlation in strategic, legislative and financial terms. SI strategies (as embodied in the NSRF and the individual OPs) appear insufficiently anchored in the overall national development strategy. This leads to a lack of correlation between the legislation governing SI implementation and other relevant pieces of national legislation. Illustrative in this context is the fact that, although efforts have been made to ensure pre- and co-financing of projects through loans, this mechanism does not function smoothly in practice.

The problems resulting from internal factors are generally not related to a lack of procedures and regulations, or low quality documentation thereof. The quality of the manuals explaining the regulations and detailing the application of procedures is generally good.

The fact that all MAs and many IBs form part of the structures of their respective ministries and are subject to those ministries' internal operations and procedures is not the advantage it would *prima facie* appear to be. Differences between SI and internal procedures, combined with the fact that the SI entities have to compete for support services (legal, procurement, HR management and IT) within their ministry, poses efficiency problems. MAs and IBs have tried to address these problems by various means (contact persons, dedicated staff within support sections), but these are not always as effective as expected. This may be partly the result of the fact that SI-related incentives cause resentment on the part of ministry staff not receiving the same emoluments.

In those cases where IBs are not located in the same ministries as the MAs, problems of coordination and cooperation multiply. The cause of this is mainly that each ministry sets its own priorities and procedures, which cannot always be easily reconciled with those of other ministries. The vertical lines of responsibility cannot be avoided, which makes the horizontal cooperation that is often essential, difficult.

The lack of instruments to enforce good performance is primarily a function of the fact that the financing of IBs is not dependent on their performance in terms of their framework agreement with the MA. At the level of individual staff members, remuneration is not linked to performance targets and paid irrespectively of the quality and quantity of work done.

In theory, MAs can terminate the framework agreement with an IB, but in practice they would re-absorb delegated tasks in case of low performance by that IB. This practice does not contribute to further development of the operational capacity of the IB or the system at large, because it blurs the necessary separation of policy making, on the one hand, and execution, on the other hand. It also puts stress on the operational capacity of the MA itself and is therefore unsustainable in the longer term.

Main recommendations:

Responsible policy makers and ACIS are recommended to carry out a revision of the public procurement legislation and regulatory framework in place, in order to ensure that the legislation and regulations does not themselves constitute a brake on the absorption of SI funds in Romania.

ACIS and relevant MAs are advised that there exists an urgent need for dedicated instruments designed to assist SMEs in getting access to SI funds. One of the measures it is recommended to adopt is to relieve SMEs of the necessity to provide liquidity-reducing pre-financing guarantees, especially in the case of small-budget, moderate-risk interventions.

The Government is advised to establish and implement a human resources policy for all administration entities at central level. The policy would capitalise on the very substantial training effort undertaken over the past ten years. It should encompass a thorough training needs analysis, based on career development and performance management tools. The resources necessary to implement the policy and evaluate its effectiveness and impact on a continuous basis should be provided. Decisions regarding staff hiring and remuneration are recommended to take into account real staff performance.

For the next programming period (post-2013), ACIS and other relevant entities are advised to ensure coherence between SI-related strategies, on the one hand, and national policies, programmes and measures for fostering socio-economic development, on the other hand. It is recommended to involve in the SI coordination mechanisms not only ACIS and the MAs, but also ministries not hosting an MA or IB. At the same time, regional coordination mechanisms (e.g. similar to the Regional Committee for Strategic Correlation and Appraisal) should be created or reinforced.

ACIS, the MAs and the IBs are advised that especially the IBs should adopt and adhere to procedures and business processes suitable for the efficient and effective operation of SI interventions, even if these are different from the normal procedures and business processes within their host-entities (typically ministries). In the short-term this implies the separation of the IB within its host-entity. The separation in turns implies that the IB's access to the host-entity's support services should be made subject of a dedicated services agreement, specifying rights of access, service response times, costs and cost coverage.

ACIS, the MAs and the IBs are advised particularly for the next programming period, that, whereas MAs would continue to resort within the ambit of the relevant line ministry, IBs might well be separated from their host-entities and reconstituted as professional services providers with quasi-independent status, carrying out their SI-related activities on a payment-basis under services agreements with MAs.

Q3 *How well did the technical assistance support the management and implementation of the SI?*

Main conclusions:

Salient SI-funded TA has so far not been used extensively due to the fact that there is still an "overhang" of pre-accession funds financed TA available at present. This overhang is about to be exhausted and it is likely that SI-funded TA under OPTA and the TA priority axes of each OP will meet with better demand in the period 2010-11. Another reason for the low uptake of SI-funded TA is the reluctance to spend on such measures under current budget constraints. It cannot be said at present when the co-financing situation will improve to the extent that more calls will be made on the SI-funded TA.

It must be considered unlikely that it will be possible to absorb all TA funding, in spite of the fact that there is a clear need for the TA (studies, study tours, process development, twinning, adoption of best practice and specialist training), because of the current state of the SI management and implementation system.

The slow uptake of SI-funded TA is another result of the difficult and slow procurement situation. The underlying causes consist of: (i) lack of experience and detailed knowledge required for ToR preparation; (ii) lack of human resources and time for the preparation of same; (iii) difficulties in accessing legal and public procurement services within ministries; and (iv) interference by procurement staff in the technical details of ToR.

Main recommendations:

In view of the current and likely persistent domestic budget constraints, ACIS and the MAs are recommended to explore the possibilities that may exist for utilising the externally financed part of TA allocations without or with reduced domestic co-financing, *inter alia* by expanding the list of eligible costs.

ACIS and the MAs are recommended to conduct, with the participation of all IBs, a joint needs assessment to identify areas where TA can be brought to bear relatively quickly and with most effect, giving special attention to those operations not yet launched yet or lagging behind (e.g. specialised surveys in support of planned operations, market studies and development needs, external support for the preparation of Action Plans 2011-13 for each OP, workshops and consultations with stakeholders in the context of elaborating calls for proposals, thematic evaluations and case studies of examples of good practice).

ACIS and the MAs are recommended to stress the need for increased TA utilisation under each OP, including OPTA, when reviewing the Implementation Framework Documents and preparing the Action Plans 2011-13.

Q4 *Have adequate **information and publicity measures** been taken for reaching the targeted audience?*

Main conclusions:

Only a limited number of communication campaigns have been carried out, but that small number is not the main reason why SI progress is lagging behind expectations. The principal cause is the slow pace of approval and contracting of I&P measures. Secondly, the slow progress of the I&P interventions financed under the SI can be explained by the fact that Phare assistance substantially supported the communication activities until the cut-off date, thus decreasing the motivation to use SI resources.

This slow approval and contracting pace will likely prove insufficient for a complete absorption of the funds allocated to I&P actions.

It is difficult to assess the real impact of information and publicity at the cut-off date. Moreover, the assessment of effectiveness of the I&P measures is hampered by a lack of coherent Communication Plan (CP) objectives, a lack of consistency between CP, OP and Framework Implementation Document (FID) indicators, a clear predominance of output indicators instead of result ones (with the exception of indicators concerning the awareness level among the potential beneficiaries), which prevents assessing the impact of I&P interventions, as well as a poor connection between the effects of I&P measures and the absorption process of the SI.

Main recommendations:

Policy makers, ACIS and the MAs are recommended to update the National Strategy for Communication, as well as their respective CPs, *inter alia* on the basis of the findings of the interim evaluations of the OPs carried out in the period 2009-10.

ACIS and the MAs are recommended to improve the measurability of the CPs' achievements by setting up realistic, clear and coherent objectives, as well as a comprehensive S.M.A.R.T indicators system, based on adequately benchmarked targets. Clear identification of the indicators used to monitor the accomplishment of each specific objective will substantially enhance assessment of results and objective achievement (i.e. effectiveness of the information and publicity interventions).

Strictly observing the proportionality principle (i.e. by ensuring that only a limited number of indicators is included in the OPs), ACIS and the MAs are recommended to improve the coherence and consistency of the indicators established in CPs and those set out in OPs and FIDs, with a view to avoid duplication of effort.

ACIS and the MAs are recommended to measure on a regular basis, by means of surveys (promotion activities) or questionnaires (information activities), the impact of information and publicity actions. In the case of information activities, insight into issues such as the number of training participants submitting applications and the number of successful applicants who benefited

from previous training should be pursued, in addition to end-of-course participant satisfaction questionnaires.

Q5 Are the project pipelines and project selection processes appropriate for creating the conditions for achieving efficiency and effectiveness of SI implementation?

Main conclusions:

The eligibility criteria have less emphasis than project selection criteria in terms of efficiency and effectiveness. The filtering function of the eligibility criteria in respect of project selection and portfolio compositions is typically limited to regulatory compliance and legal issues. It has generally not led to the technical or financial filtering of applications.

Project selection criteria tend to reflect a much higher level of focus on both effectiveness and efficiency than eligibility criteria. This increases the chances of having a larger and better range of project ideas for selection, although it places a significant burden on the organisational units dealing with the registration, as well as the administrative, eligibility and technical-financial evaluation of the applications.

In respect of effectiveness, there appear to be no monitoring tools for keeping track of how the major policy issues that should shape and inform all levels of programming (NSRF, OPs, Applicant Guides) are served by the selection projects and the composition of portfolios.

In terms of efficiency, project selection and portfolio composition methods generally do not use internationally proven standards for counteracting the ‘dead-weight’ effect. Such might include a dedicated project for the selection of the potential group of beneficiaries by setting the eligibility and award criteria appropriately or the introduction of minimum and maximum grant sizes (using a scientific approach) for enabling developments whilst minimizing market distortion effects.

Main recommendations:

With regard to future calls for proposals, it is recommended that MAs and IBs ensure that eligibility criteria play a more important role than project selection criteria in the process of filtering applications. This can be done through improved identification of the types of potential applicants and the formulation of more sophisticated criteria.

MAs and IBs are advised that better targeting can be achieved through more precise interpretation of the objectives of NSRF thematic priorities. The *Action Plan 2011-13* provides the basis for that improved interpretation.

ACIS, MAs and IBs are recommended to make more use of the FID for the purpose of ensuring that major policy issues influence and form the basis for programming interventions at all levels (NSRF, OPs, Applicant Guides).