

## 2. ANALYSIS OF BENEFICIARY CAPACITY

### 2.1 Societal Level

30. The economic background for the implementation of the Operational Programmes, is different from the programming period of the OPs, in the second half of 2006 and first half of 2007, when the Romanian economy had experienced six years of continuous growth, with good prospects of progressing in the same trend, particularly because – on 1 January 2007 – Romania became a Member State of the EU. However, in October 2008 Romania entered recession, having a very negative Q4 of 2008 from the point of view of public finances. The following year brought the economic and financial crisis, testing not only the resilience of private enterprise, but also that of the public administration and citizens. In 2010 there followed a severe budgetary crisis, leading to a reduction of public financial resources and lay-offs.

31. The analysis of beneficiary capacity, at the *societal level*, encompasses national policies and strategies, legislation, social norms, hierarchical relations, financial aspects and changes in the target group and demand for services

#### National policies and strategies

32. A ***national strategy or policy***, either horizontal (fiscal policy or SI policy) or in a given field (entrepreneurship, energy) may influence the implementation of a project especially when sudden, significant changes<sup>8</sup> occur.

33. In order to support EU interventions the Romanian authorities developed and implemented economic policies in order to *facilitate access to finance for public and private entities implementing SI projects*. The *National Credit Guarantee Fund for SMEs* was established in order to support private entities by providing loan guarantees to the bank as a credit facility for SMEs. The Fund offers several financial products to provide guarantees (up to 80%) for loans aimed to co-finance SI projects. The Fund was supposed to strengthen the capacity of SMEs to mobilize financial resources for SI projects, but because the Fund is overwhelmed by a high number of requests for this type of loan on the part of SMEs and it usually takes months to approve a guarantee, it is rather hampering SMEs project implementation (*detailed in the case study, Section 3*).

34. Similarly, support for SMEs through the JEREMIE<sup>9</sup> initiative – a framework for actions designed to promote SME's access to finance – was established. The JEREMIE initiative is funded from SOP IEC and its call for expressions of interest only target financial intermediaries (such a banks, guarantee funds, micro finance providers, and counter-guarantees) to SMEs (final beneficiaries). However, the progress of Key Area of Intervention 1.2 – *Access to Finance for SMEs* (in the Sectoral Operational Programme Increase of Economic Competitiveness) is relatively low: the first call of expression of interest was launched in August 2009. Only two banks submitted expressions of interest. No support has been provided to SMEs through the JEREMIE initiative by the cut-off date<sup>10</sup>, which has a negative effect on SI absorption.

35. The Government recently increased the pre-financing levels for SI implementation to improve access to finance, but beneficiaries still experience difficulties in getting funding. When applying for

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<sup>8</sup> In the legislation and in the context.

<sup>9</sup> Joint European Resources for Micro to Medium Enterprises

<sup>10</sup> 30/06/2009

pre-finance private beneficiaries are requested to submit a bank guarantee equivalent to the amount of pre-financing. The decision to request a letter of guarantee whereby to refund the advance payment must be made by the MA/IB. Banks consider that beneficiaries of European funds should discuss with the bank as early as the project preparation phase, in order to identify their financing needs, which is a prerequisite for the implementation of the project within the proposed conditions and duration. However, banks are selective and issue the guarantee letter based on their own risk assessment. Projects already approved by MAs and IBs may fail to meet the banks' requirements for collateral (cash or mortgage). This impact negatively on private beneficiaries' capacity to mobilize financial resources and in the end jeopardizes project implementation.

36. Although in discussion even years before the country's EU accession, multi-annual budgeting is not yet in place as it requires legal changes in the financial policy. However, the lack of multi-annual budgets is a factor with major implications on SI performance mainly for the public authority beneficiaries. SI project co-financing, sustainability and long-term impact are all correlated with the capacity of the public beneficiary to plan multi-annually the resources. It is therefore a factor influencing beneficiaries' capacity for project management and for mobilizing financial resources.

37. There is also poor alignment of the national budgetary legislation with SI requirements. According to Romanian public finance legislation and Government Decision No. 264/2003, local and county authorities have to recover advance payments made to the contractors in case these payments are not justified by delivery services, goods and works by the end of the same financial year. Local authorities are therefore not motivated to make advance payments during the last months of the financial year, which has a negative effect on their capacity to request for reimbursement.

38. The capacity to mobilise financial resources and the project management capacity were also affected by the recent increases in the VAT-rate<sup>11</sup>, which required additional administrative work by beneficiaries, as well as MAs and IBs, related to the preparation and processing of contract addenda.

39. The existing national strategies or policies, understood in a broad sense – for example employment<sup>12</sup> policy, fiscal policy – have an effect on private beneficiaries' capacity to mobilise financial resources. The influence of national policies and strategies on their project management capacity is visible mainly in connection to:

- the recent anti-crisis measures: for example, increases in taxes put pressure on operating budgets and had negative influence on beneficiary capacity to mobilize financial resources;
- poor education policy and systems, unable to adapt to the labour market demand in term of both project management skills and the technical skills necessary for implementation of activities have a negative effect on the beneficiaries' capacity to mobilize human resources.

40. One of the most important controversial dimensions of the national strategies for public beneficiaries concerns the human resources policies within the public administration in general and in particular where these apply to staff involved in SI projects. The current human resources policy in the public administration that leads to reduction of wages and staff turnover diminishes the capacity of the public sector beneficiaries to mobilize human resources and for the implementation of the SI projects. As this is related to staff motivation it is further explained in the section dedicated to organisational aspects.

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<sup>11</sup> From 19% to 24%.

<sup>12</sup> Defined as National Employment Strategy.

## Legislation

41. The influence of **legislation** is especially relevant to the capacity of beneficiaries to request reimbursement in the sense that mismatches among legislative layers tend to be converted into obstacles to spending the budget. A contradiction between national and EU rules influencing the implementation capacity of public authorities concerned the inability to comply with publicity requirements because of new regulations related to the recent budgetary restrictions. This was considered especially harmful, since all EU-financed projects have strict visibility and publicity rules. In addition, projects that had planned awareness campaigns and other publicity or promotion events have had to postpone them for almost one year, further to high-level government decision. This category includes technical assistance projects financed through OPTA and the TA Priority Axes of the other OPs, dedicated to disseminating information on the SI and preparing potential applicants, although recently the situation has improved due to a Government Decision issued in March 2010 which takes into account the fact that contracts financed from EU funds are exempted from the provisions regarding the ban to sign advertising and promotion contracts.

42. For the beneficiaries in the academic sector, there are additional normative layers<sup>13</sup>, which have to be taken into consideration for adequate implementation of SI projects. According to regulations of the Ministry of Education, external experts involved in the SI projects have to be approved only by the project manager, which is derogation from the existing provisions not allowing for additional staff. In the absence of this regulation the implementation of SI projects would have been much more difficult since external staff is necessary for successful implementation. Also, new SOP HRD regulations which specifies that pre-financing will be 30% from the overall budget of the project, is considered as an important improvement by beneficiaries from the academic sector.

43. For some of the projects carried on by the public research institutes, expenditures with the salaries in 2010 have been temporarily declared as non-eligible, as they were considered above wage thresholds for public researchers, and an official final decision in this respect is expected. Law 330/2009 concerning unitary wages for the personnel paid from public funds is applied by SOP HRD staff who declared these wage expenditures as non-eligible, but this Law has not repealed the effects of the Law 319/2003 allowing public research institutes to obtain resources from independent external financing. An eventual wage restriction for researchers would make SI projects unattractive for them and will generate severe difficulties in the capacity to mobilize human resources for the SI projects. This controversy has not affected public universities, which have a special legal status, and this would create inequity in the academic environment.

44. There are no significant difficulties affecting SMEs' project implementation capacity and clearly identifiable as stemming from a lack of correlation between Romanian and EU legislation. Desk analysis and interviews with MAs and IBs pointed towards the following problem areas, not applicable to the SMEs only, but pointed out by them:

- legislation and requirements governing reporting and providing supporting documents for reimbursement – particularly in the case of transnational projects, requirements related to stamps, notary visas, book-keeping and signed copies can prove difficult to provide by partners abroad; this in turn may lead to expenditures being declared non-eligible. Although these aspects are usually solved internally, between the beneficiary and the partners, occasionally they become a problem;

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<sup>13</sup> Ministry of Education and University Chancellery.

- legislation regarding public tenders – when acquiring goods/services from providers outside Romania through public tenders, potential tenderers must usually provide a large number of documents. If the situation is commonplace for public beneficiaries, SMEs regard the situation as discouraging and are reluctant to request them from foreign counterparts, particularly when a small company addresses large, well-known suppliers. As in the case of the above example, this is not an overarching problem but still creates difficulties during implementation.

45. The legal framework on VAT recovery was improved in June 2009 through Government Emergency Ordinance N° 64/2009 on financial management of SI and their use for the Convergence objective and MPF Order N° 2548/2009 (approving the methodology for the implementation of Government Emergency Ordinance N° 64/2009). VAT is not an eligible expenditure and, in the absence of clear procedures for its recovery, beneficiaries have to advance significant amounts for VAT without knowing when this will be recovered. Difficulties with regard to VAT recovery affect beneficiaries' cash flows and their capacity to submit proposals for other SI projects. Given the uncertainty related to procedures and the actual time necessary to complete them, the VAT factor is regarded as potentially risky for the capacity of mobilising financial resources, particularly in the case of projects with large budgets.

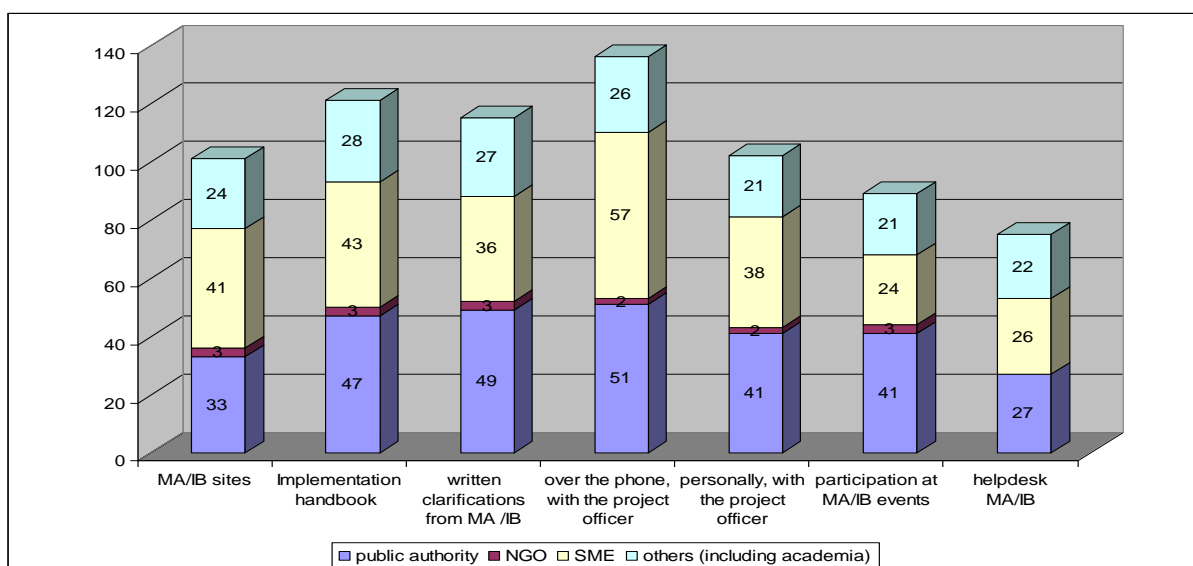
### Power relations/hierarchies

#### Collaboration with MAs and IBs

46. A major aspect of SI implementation, widely referred to when it comes to institutional relations (and often perceived as a power/hierarchical relation) is the beneficiaries' collaboration with MAs and IBs. This is a multidimensional factor highly influencing the implementation capacity of all SI beneficiaries.

47. Clear, reliable, accessible and non-contradictory *sources of information* from the MAs and IBs are of particular importance due to their implications for project management and implementation. There is general agreement among beneficiaries, that – in combination with quality resolutions and guidance and written instructions – information sources increase management capacity and significantly relieve the stress and uncertainties caused by the novelty of EU-funded projects.

**Figure 7. – Types and occurrence of information resources from MA/IB (Number)**



Source: First Ad Hoc Evaluation Beneficiary Survey

48. As shown in *Figure 7*, there is a variety of information sources used to a different extent by the beneficiaries. Less formal sources of information and support networks among colleagues from different decision layers (central and local), especially from the same layer and from the same region, become more important as project progress, guidance and informal decision making come to matter more than information *per se*. Most public authorities and private beneficiaries prefer to request information from the project monitoring officer within the MA/IB by phone. Academic sector beneficiaries tend to use implementation handbooks as their main information source.

49. The procedures technicalities and specific terminology of the SI have given shape to a highly specialised *corpus* of information, which needs to be permanently available for all beneficiaries. It might be considered that public authorities have better contacts with the information sources, especially when they are institutionally connected with the MAs. But even representatives of public administration entities sometimes have difficulties in keeping up with the most recent developments in implementation requirements. Given the fact that most processes related to project implementation are new, bureaucratic and strictly controlled, all beneficiaries rely heavily on the availability of information and on the quality of information sources, at all stages.

50. Timely access to correct information enhances the ability of beneficiaries to prepare and submit requests for reimbursement as scheduled. As indicated in *Table 8*, the utility (in the sense of accessibility and reliability) of information sources is quite highly appreciated by the beneficiaries, since this has a major influence on beneficiary capacity to request reimbursement. The project officer, Applicants' Guide and Implementation Handbook are the most appreciated information sources, while the MA and IB help-desk and the MA events are the least appreciated<sup>14</sup>. Most of the beneficiaries tend to combine the information they gather themselves from different information sources with verbal guidance and written instructions in order to increase the chances for timely reimbursement.

**Table 8. – Utility of various information sources (%)**

	<i>Lowest appreciation</i>	<i>Low appreciation</i>	<i>Medium appreciation</i>	<i>High appreciation</i>	<i>Highest appreciation</i>
MA site	4.6	13.0	19.4	34.3	28.7
IB site	7.1	6.1	21.2	34.3	31.3
Applicants' Guide	0.9	4.3	14.5	33.3	47.0
Implementation Handbook	0.9	6.4	19.1	30.9	42.7
MA events	7.0	14.0	27.9	20.9	30.2
IB events	7.3	11.0	19.5	20.7	41.5
MA help-desk	20.6	14.7	13.2	23.5	27.9
IB help-desk	14.3	17.5	9.5	25.4	33.3
Project officer	3.3	5.8	10.7	28.9	51.2

Source: *First Ad Hoc Evaluation Beneficiary Survey*

51. The implementation of projects under the SI is considered much more difficult than initially expected, both by beneficiaries and the institutions responsible for managing structural funds. The

<sup>14</sup> Although the events have generally a different purpose - promotion of EU support - and they are not directly addressing the beneficiary capacity to implement SI projects, indirectly, they do influence the beneficiaries level of information on the SI, thus their implementation capacity.

survey carried out in the context of the present evaluation confirms that more than half of the respondents consider SI related administrative procedures more complex than those for other projects and deem control, monitoring and human resources management more complicated. Under these circumstances, there is heavy reliance on official and authoritative information sources, whether written or verbal in order to increase implementation capacity.

52. The beneficiaries look for *resolution and guidance* especially from the authority directly coordinating the projects (MA or IB, depending on individual projects and programmes). This communication relies on official letters (or at least e-mail). There is a preference for working with IBs, as this level is more concerned with practical implementation matters than MA. In order to make sure that those decisions on implementation of activities, spending, reporting and reimbursement requests are correct, beneficiaries sometimes ask further clarification from the MA and other higher level layers. The reason for keeping close contact with IB derives from the beneficiaries' lack of experience in the implementation of SI interventions, the constant unexpected implementation problems occurring and not least because of inclination to obtain 100% *a priori* assurance that certain actions are adequate, even where the issue seems clear enough. The public beneficiaries sometimes have better access to informal, verbal support and guidance, because they generally have the contact details of relevant staff within coordinating authorities or use institutional communication channels.

53. The beneficiaries from the academic sector are affected by the lack of official guidance from the MA/IBs. The relationship with the MA/IBs is perceived mainly as a 'documentation exchange', as in the case of SOP HRD. This has stimulated beneficiaries to appeal to their informal networks and consult professionals within management structures whom they personally know, because of a felt need to find out additional information about procedures. The need for additional, informal guidance on procedures, does not constitute a problem in itself, but nevertheless constitutes a systemic risk, i.e. inequality of opportunities to enhance project implementation depending on informal access to management structures.

54. Regarding the *documents requested in the process of implementation*, more than half of the beneficiaries participating in the survey appreciated that Technical and Financial Reports (TFRs) and Reimbursement Requests are fairly easy or even extremely easy to elaborate (*Table 9*). Ensuring the timely submission of all required supporting documentation is considered a more difficult task and clarification requests addressed to MAs and IBs tend to focus on the content of supporting documentation.

**Table 9. – How do you appreciate the difficulty of preparation? (Nº and %)**

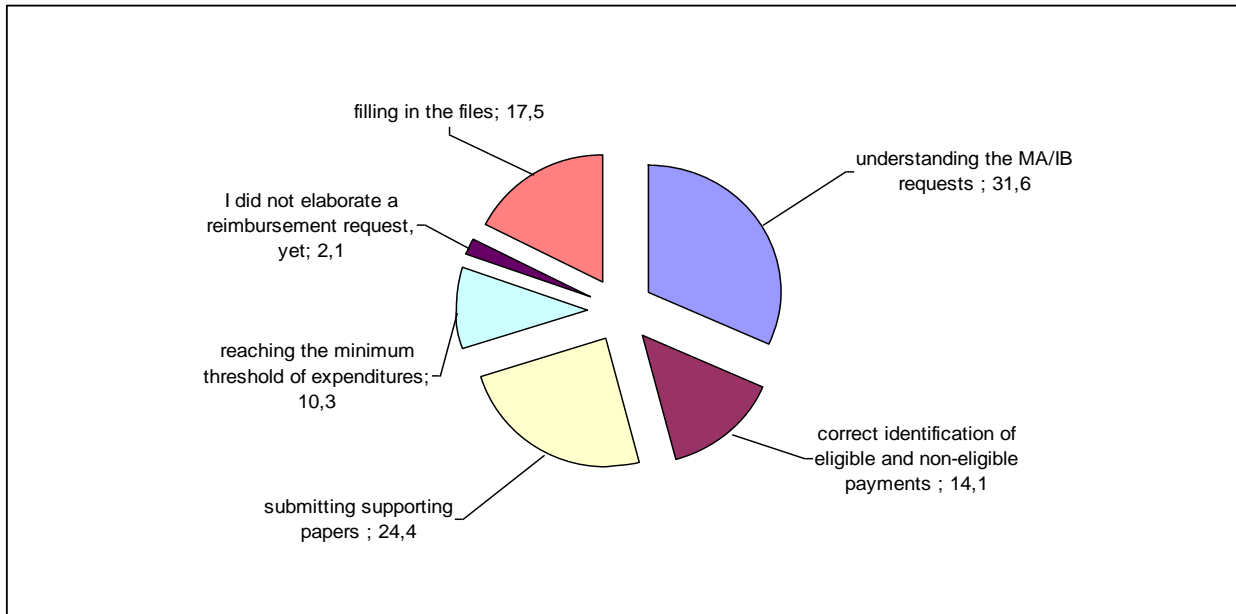
	Very difficult		Quite difficult		Quite simple		Very simple		Total	
	Nº	%	Nº	%	Nº	%	Nº	%	Nº	%
Reimbursement request form	6	4.7	37	28.9	64	50	21	16.4	128	100
Progress report/ TFRs	9	6.9	41	31.5	70	53.8	10	7.7	130	100
Justifying documents	30	22.6	38	28.6	53	39.8	12	9	133	100

*Source: First Ad Hoc Evaluation Beneficiary Survey*

55. The difficulty of complying with administrative requirements is a primary cause of concern for beneficiaries, especially in respect of the capacity to request reimbursement. The survey revealed that fewer delays in submitting reimbursement claims occur where the relevant functions are

outsourced. This was confirmed in interviews with all stakeholders, including MAs, IBs and beneficiaries. The *Figure 10* indicates the types of difficulties encountered by the beneficiaries in the preparation of reimbursement claims.

**Figure 10. – Types of difficulties in preparing for reimbursement requests (%)**



Source: *First Ad Hoc Evaluation Beneficiary Survey*

56. Private sector beneficiaries (both profit and non-profit) characterised the process of elaborating and compiling the necessary documents as highly bureaucratic, unnecessarily complicated and time consuming (*Annex 9*). This is the main reason why companies use consultancy services for project management, compliance with procurement procedures, submitting reimbursement claims or any other aspect of the implementation of their projects.

57. In the case of externalising project management services, dealing with the complexity of the required documentation relies mainly upon the supplier’s capacity. If project management is carried out in-house, dealing with the required documentation is still perceived as complicated and considered an extra task and therefore a burden.

58. The *quality of the written instructions* influences project progress overall. In the context of public administration procedures, written instructions are the basis for any action and the only officially acceptable way of transmitting or exchanging information. This is why public administration beneficiaries deemed all written instructions very important for successful project implementation.

59. Problems raised during the consultations with beneficiaries in the course of the present evaluation relate to: the lack of correlation between the various materials, contradictory information and lack of traceability. The general tendency for all beneficiaries (whether public or private) is to check in advance the conformity of the implementation and paperwork with the officials responsible for the approval. This is the most visible in the tendency on the part of beneficiaries to require written official letters. These letters are also regarded as useful additions to the 'audit trail' in case of investigations by the financial control and audit authorities.

60. In the context of delayed reimbursements, some beneficiaries of SOP HRD projects sometimes perceive clarification requests as a means for the MA or IB to postpone the processing of reimbursement requests, because the cut-off date for resolution, as a condition for reimbursement, is reset every time a clarification request is issued. Some IBs were found to have taken steps to limit

the number of clarification requests. MA representatives assert that errors in TFR and reimbursement requests typically concern details and do not really reflect the capacity level of beneficiaries who tend to be large NGOs or ministries with extensive project experience. In order to reduce the burden for the beneficiaries, the MA POSDRU has simplified the reimbursement application submission system, by enabling them to enter financial data regarding the implementation of projects in an online application called *ActionWeb* (in the *Expenditure Records* Section).

61. *Delays* caused by the MA/IBs (*ref. Figure 11*) at all project stages are often mentioned by a large number of beneficiaries both in interviews and during the workshops. Whether caused by insufficient staff, complicated checking and approval trajectories or lack of interest on the part of the MA/IBs, delays add a great deal of difficulty to project management for all beneficiaries. This analysis refers only to those delays that depend entirely on the speed with which MAs and IBs act in relation to the letters of clarification, contract addenda, reimbursement claims and instructions.

62. The projects most affected by delays in the inception phase are those dealing with fixed schedules (e.g. the school schedule, in the case of some SOP HRD interventions) or with infrastructure (where the weather-related and seasonal character of works is very important). Preliminary delays tend to trigger further activity rescheduling.<sup>15</sup>

63. No matter the beneficiary type, there are several causes of the delays in implementation and in submitting reimbursement claims induced by MA/IBs, such as:

- time-consuming and strict procedures for drawing-up the reimbursement file (progress report and supporting documents for the reimbursement claim); due to the strict rules of control, a large number of supporting documents needs to be collected and filed which is particularly burdening for HRD projects, where detailed information<sup>16</sup> must be collected for each participant, while some projects have thousands of participants;
- constant rule changes during implementation (e.g. changes in the format of the progress report template, visual identity requirements and notifications) represent additional burdens and costs for beneficiaries<sup>17</sup>;
- insufficient communication (e.g. questions submitted by the beneficiary to the MA/IB, in order to clarify some issue related to the reimbursement claim); if the MA/IB does not respond, the beneficiary does not know how to proceed with the documents and delays occur;
- unclear or contradicting information (e.g. MAs and IBs giving different answers and interpretations to the same question);
- problems in the contracting phase transferred into implementation; the most common problem relates to the activity schedule, mainly due to poor estimates on the part of the beneficiary, which results in notifications for postponing or prolonging the activities and, possibly, in delayed submission of reimbursement claims, if expenditures are not done according to the original plan.

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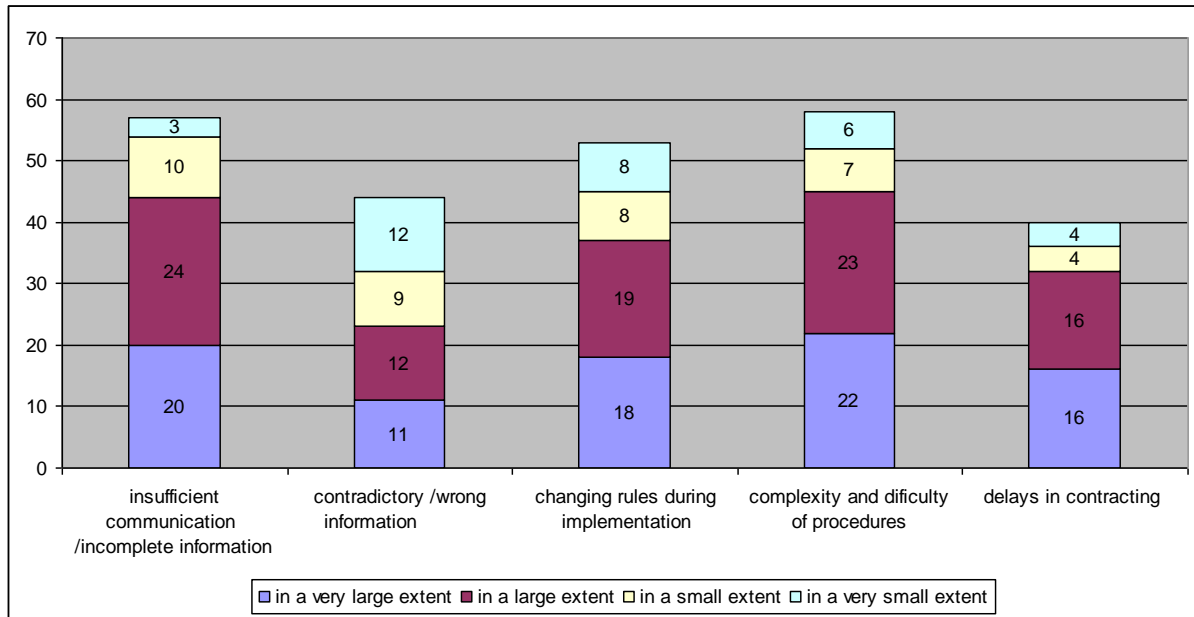
<sup>15</sup> The ROP projects assessed as eligible under project evaluation arrangements funded under the erstwhile EU/Phare Programme constitute a special case, in that the situation on the ground has changed significantly since the elaboration of the relevant feasibility studies and beneficiaries usually find that additional costs are involved when implementation starts.

<sup>16</sup> Including Personal Identification Number (CNP).

<sup>17</sup> For example, corrigenda from SOP HRD, instructions from SOP IEC and notifications.



**Figure 11. – Reasons for delays in submitting applications for reimbursement caused by MA/IBs (N°)**



Source: First Ad Hoc Evaluation Beneficiary Survey

#### Other Power Relations

64. A special situation related to the power relations highly influencing the implementation capacity is encountered by the SOP T beneficiaries and refers to the balance of power among them, MA and the Ministry of Transport (MoT). The quality of the institutional relationships among these three actors impacts on administrative capacity of the two largest beneficiaries of the SOP T (the National Roads Company and the National Railways Company) in terms of staffing, risk management systems (ref. Section 2.2) and continuity of procedures during project implementation<sup>18</sup>.

65. The interference by MoT in operational matters affects SOP T beneficiaries in various forms, most obviously in a lack of continuity of the management staff. While the MA SOP T has seen only one change in leadership since the beginning of the OP, the changes in top level management of the beneficiary companies have been much more frequent. For example, five successive Directors at the National Roads Company since the start of SOP T, mostly following the appointment of a new Minister of Transport. Similarly, the Director General of the National Railways has been replaced three times since the start of SOP T (ref. Section 2.2.).

66. The prudent, sometimes reluctant, approach on the part of banks to finance EU-funded projects, very often generates *tense relations between beneficiaries, banks and even Managing Authorities*. This is a major factor influencing the capacity of SI beneficiaries to implement SI projects. It is widely presented in the Section 3 of the report in the case study on the financial difficulties of the private beneficiaries. In a recent survey conducted by the National Council for SMEs<sup>19</sup>, more than 75% of the respondent SMEs declared little satisfaction in respect to their relationship with bank institutions; among the most important problems, they mentioned: “very difficult access to finance for SMEs and young entrepreneurs, excessive bureaucracy, unnecessarily high requirements, exaggeratedly large interest rates, lack of transparency etc.”

<sup>18</sup> Source: Second Ad Hoc Evaluation Report – Review of investments in transport and environment infrastructure

<sup>19</sup> [http://www.immromania.ro/retrieve.php?e=inf\\_presa&m=279](http://www.immromania.ro/retrieve.php?e=inf_presa&m=279).

67. There have been several rounds of discussions between ACIS, the Managing Authorities and representatives of major banks, but banks are consistent in maintaining a strict policy in respect to evaluating bankability of projects<sup>20</sup>. While this may be a correct approach for the overall credit policy, it can be considered overly cautious in the case of EU-funded projects, which have an implicit “guarantee” of the reimbursement and are anyway undergoing an evaluation/selection process by state institutions. SME access to financing - a critical issue even before the crisis – worsened even more, due to increased caution on the part of banks, the downturn in the real estate market and the associated increase in demand for loan collateral guarantees. This led to a situation in which some beneficiaries cancelled newly approved projects, as well as to a process of 'self-selection' of potential private sector applicants (i.e. only companies with a solid financial position can afford to prepare and implement projects for SI funding).

68. The SME’s relationship with the banks has to be considered in the context of the financial crisis of the recent years. In spite of that, there are banks which actually continued to extend credits to the SMEs and have made efforts to support them by dedicated products, access to fundig facilities from International Finacial Institutions (e.g. European Bank for Reconstruction and Development, European Investment Bank), signing protocols with guarantee funds (National Credit Guarentee Fund for SMEs, Guarantee Fund for Rural Credit), pre- and co-financing EU funded projects (*ref. Box 12*).

**Box 12. – Romanian Development Bank (RDB) supporting SI projects**

Starting 2007 RDB has been actively supporting the implementation of projects financed from EU post-accession funds, based on the following means:

- dedicated offer for pre- and/or co-funding of projects;
- organise dedicated events in order to promote financing by means of European grants and to explain to the potential beneficiaries the project trail consisting of preparation-approval-implementation-operation;
- participation seminars/conferences organised by MA/IB and discussions with the potential beneficiaries of European funds, in order to present financing solutions;
- presentation of concrete proposals whereby to improve the Eu fund absorption rate, during the consultation sessions organised by the Ministry of Public Finance and the MA/IB with the banking system.

RDB supports the EU-funded projects, in compliance with the general financing framework and with BRD’s internal rules. Eligible clients benefit from a specific approach:

- costs are lower than in the case of financing without EU funds,
- the guarantee structure considers the collection of money from management authorities,
- short response time, as soon as the bank gets all of the documents that are necessary to perform the analysis; the analysis may be extended if the financing dossier is not complete (elements essential to the decision-making process miss),
- flexibility concerning the reimbursement terms in circumstances where the reimbursements from MA/IB are delayed for objective reasons.

<sup>20</sup> See also interviews: [http://antreprenor.money.ro/firmele\\_cu\\_proiecte\\_ue\\_victime\\_colaterale\\_ale\\_crizei-84003.html](http://antreprenor.money.ro/firmele_cu_proiecte_ue_victime_colaterale_ale_crizei-84003.html)  
[http://www.efin.ro/stiri\\_financiare/banci\\_si\\_institutii\\_financiare/cnipmmr\\_cere\\_bnr\\_sa\\_modifice\\_normele\\_eximbank\\_si\\_cec\\_pentru\\_a\\_sustine\\_proiectele\\_din\\_fonduri\\_ue.html](http://www.efin.ro/stiri_financiare/banci_si_institutii_financiare/cnipmmr_cere_bnr_sa_modifice_normele_eximbank_si_cec_pentru_a_sustine_proiectele_din_fonduri_ue.html).

69. Beneficiaries and the banks are not the only parties involved in the project from the financial point of view. The MAs and IBs are equally important. The mechanism is as follows: the beneficiary receives project related credit from the bank only when the financing contract between the beneficiary and the MA has been signed. The flow of money is usually linked to and conditional upon the schedule of reimbursement claims in the contract. From project start to the first reimbursement claim, project activities are financed through pre-financing from the beneficiary's own resources or credit. Upon submitting the first reimbursement claim, the credit line is blocked until the MA reimburses against the first claim. While this mechanism is correct in theory, experience shows that as many as six months can pass before the MA makes payment. During all of that period, the beneficiaries need to use their own resources. Meanwhile, the beneficiaries find themselves in breach of contract with the bank, since the agreed upon reimbursement schedule was not respected. Managing this complicated relation between bank, beneficiary and the MA is one of the most significant external aspects affecting beneficiaries' project management capacity (*ref. Case Study in the Section 3*).

70. The overall **performance of partners and suppliers** appears to have only moderate influence on the overall capacity of the private beneficiaries to successfully manage SI projects. For public beneficiaries reliance on suppliers is almost complete and based only on contractual obligations resulting from public tenders. In contrast, private beneficiaries tend to have more control over their projects and partnerships are more likely based on prior collaborations. Other stakeholders (such as the MAs and IBs) shared that view, stating that at the end of the day it is the responsibility of the beneficiary to implement the project and it is a matter of good project management to ensure proper performance by suppliers – or replace them if they do not perform properly, although this may cause delays in implementation.

71. While other types of beneficiaries (especially SMEs) tend to turn to consultancy services to deal with project management, public entities (especially local authorities) are more inclined to resort to this solution both for the management of the projects and for the elaboration of the documentation submitted to MAs/IBs. This is keeping away the burden of the project management, but is decreasing the ownership of the implementation process and project results.

### **Social norms**

72. Complaints are so often encountered that they tend to be perceived as a societal norm: a recent report by the National Council for Solving Complaints (NCSC)<sup>21</sup> shows that in the first six months of 2010, the number of appeals increased by 16% compared to the same period in 2009 and by 50% compared with the same period in 2008. Appeals block public tender procedures until the authorities give a ruling<sup>22</sup>. This process may take several weeks and is subject to reiteration. In the case of Bucharest Ilfov region, about 30% of projects targeting micro-enterprises were blocked due to procedural appeals and complaints.<sup>23</sup> As a consequence, the calendar of activities cannot be followed and severe disruptions occur in project commencement and implementation. In order to reduce the excessive number of complaints and to discourage those entities who are not documenting properly

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<sup>21</sup> [http://www.cnsr.ro/images/stories/rapoarte/30iun/situatie\\_comparativa\\_dosare\\_intrate\\_30iunie2010.pdf](http://www.cnsr.ro/images/stories/rapoarte/30iun/situatie_comparativa_dosare_intrate_30iunie2010.pdf).

<sup>22</sup> Recently, the amended law regarding public tenders has brought on some improvements, but results are yet to be observed since the new regulations came into force in the autumn of 2010 after finishing data collection for this evaluation.

<sup>23</sup> ADRBI interview, March 2010.

their appeals, the Government issued in June 2010 an Emergency Ordinance<sup>24</sup> which was adopted by the Parliament at the end of 2010<sup>25</sup>.

73. Another important aspect of the, often negative, outcome of the public procurement process concerns its relation with quality control. There is evidence<sup>26</sup> that qualitative selection criteria are eliminated from the tender methodology in order to reduce areas where litigation might occur. This is limiting quality-oriented managerial room for manoeuvre and strengthens the tendency to base bid selection on best price and quantitative indicators only, especially in areas where objective measurement is difficult, as there is sometimes the case in SOP HRD and OP ACD projects. Some beneficiaries, in an effort to ensure valid tender outcomes, produce much too detailed technical specifications for the goods and services they wish to procure for controlling the adequacy of the tender results. That leads to the situations where the number of offers received is insufficient<sup>27</sup> and eventually to the cancellation of the tender procedure.

74. Public beneficiaries are expecting support in this area mainly related to tendering public works; there are beneficiaries considering that FIDIC procedures were useful and therefore they are still using them. MA/IB representatives point out that there are certain legal aspects of public procurement procedures, which are still subject of different interpretation. This is supported by the fact that the National Authority for Regulating and Monitoring Public Procurement (NARMPP) and the Unit for Coordination and Verification of Public Procurement (UCVPP) sometimes proffer contradictory resolutions to requests for clarification of certain legal aspects by public beneficiaries. This is challenging their project management capacity.

75. Public procurement does not represent such a major problem for academic beneficiaries as it does for other types of beneficiary, as the amounts allocated (typically for IT equipment and furniture) are low and tend not to attract controversy and litigation on behalf of tenderers. Yet, there are some difficulties indicated by the universities and research institutes as well as the other SI beneficiaries: the procedures are considered complicated and the process too long; also, the procurement has to be foreseen in the annual procurement plan and there is no flexibility to unexpected developments. For small value purchases (e.g. consumables) beneficiaries from the academic sector prefer to launch tenders from their own budget instead of using project finances. This has a positive influence on the speed of the project implementation, but is decreasing the use of SI funds.

76. The most important aspect related to social norms influencing beneficiary implementation capacity relates to the *spirit of the control visits*. Most beneficiaries (both public and private) see these as reflecting a suspicion that *something is wrong*. This relates to the Romanian society's apparently inherent incapacity to accept risks that are sometimes difficult to manage and therefore involve unavoidable mistakes. The occurrence of mistakes is generally not the consequence of malicious intent, but mostly reflects a reality in a changing process. The proper response is not adopting a highly defensive position or approach, but consists of management and politicians taking decisions.

77. This might be also due to professional culture of the controlling institutions but can also be seen as a consequence of the tendency to 'gold-plating', identified in the NSFR evaluation report. This

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<sup>24</sup> Government Emergency Ordinance (GEO) 76 for amending the GEO 34/2006 concerning assigning public procurement contracts

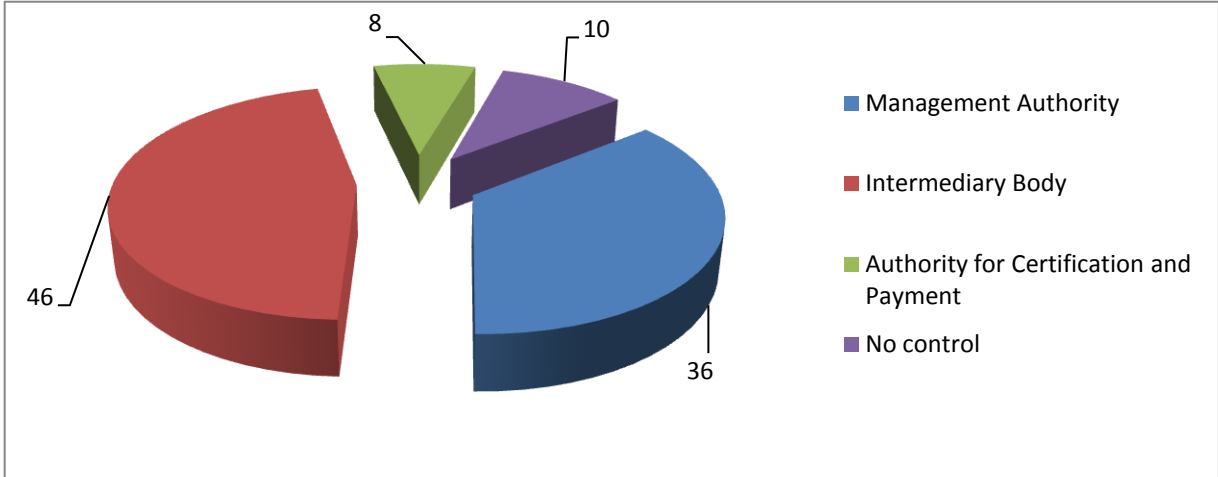
<sup>25</sup> Law 278 from 31/12/2010

<sup>26</sup> Interviews with local authorities beneficiaries of the ROP.

<sup>27</sup> The typically required minimum is three valid bids.

tendency pervades the system as a whole and the main controlling layers in particular, meaning the MA and IBs as most of the control visits are carried by them (79% control visits are carried by MAs and IBs as indicated by *Figure 13*). A frequently quoted example for the tendency to demand evidence of even minor project expenditure is the requirement to include in reimbursement requests the tickets for travel by bus for on-site visits. The requirement to notify in advance any kind of change in the schedule of activities, even when they represent improvements (e.g. front-loading implementation) illustrates the same tendency to arrive at a fully controlled system of checks.

**Figure 13. – Entities carrying control visits during the SI project implementation (%)**



Source: *First Ad Hoc Evaluation Beneficiary Survey*

78. NGOs perception of this factor refers to popular opinion among public authorities that NGOs spend a lot of money on SI-funded projects without much added value, with negative impact on the prospect of sustainability of especially those projects that pilot services and interventions envisaged to be included in the budgets of relevant public entities.

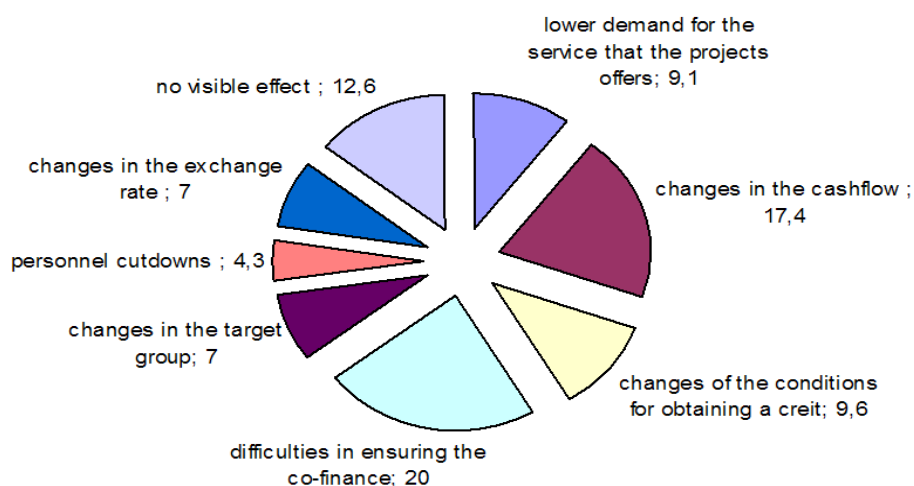
**Other factors**

*The effects of the financial crisis on the beneficiary capacity*

79. As indicated in *Figure 14*, there are several factors which in the current economic climate have significantly influenced the beneficiaries’ capacity to manage and implement SI projects such as the difficulties in ensuring co-financing and project cash-flow, limited access to credit, and declining demand for services and changes in the target groups. The economic crisis was brought forward mainly by the SMEs<sup>28</sup> as a factor influencing implementation capacity. Only a few public administration beneficiaries considered this factor.

<sup>28</sup> 79% of the respondents to the First Ad Hoc Evaluation Beneficiary Survey were SMEs, and 16% were public administration beneficiaries.

**Figure 14. – Aspects of the economic crisis causing delays in SI project implementation (%)**



Source: First Ad Hoc Evaluation Beneficiary Survey

### *Financial difficulties*

80. *Private and public beneficiaries experience financial difficulties*, although their manifestation takes different forms according to the beneficiary type. SMEs were among the first categories of beneficiaries to experience the effects of the economic crisis. Most economic sectors experienced significant deterioration of the overall financial situation, further reflected in a sharply reduced investment, cash flow problems and even layoffs.

81. In the case of SMEs, financial aspects are likely to influence project management capacity from two perspectives:

- (i) Reduced cash flow due to the slowdown of economic activity and limited access to resources endanger the completion of activities and achievement of project results; this aspect is even more important since it has implications on the expected impact and sustainability of the project, as financial difficulties also affect the companies' future strategies.
- (ii) Interference with the calendar of activities; lack of financial resources prevents beneficiaries from respecting the agreed calendar and this results in postponing activities<sup>29</sup>. Disruptions in the calendar of activities not only diminishes the time initially allocated and puts pressure on the team, but also causes overlaps with other tasks and potentially supplementary financial burdens for the beneficiary (if, for example, the company has other parallel projects or has to hire additional personnel). Delays can also increase other risks, such as changes in the exchange rate, inflation and interest rate.<sup>30</sup>

82. Projects carried out by private beneficiaries that were considered viable at the time of submitting the application (even if that was only a few months before) are not only no longer considered desirable by applicants but even regarded as potentially harmful, because of the often large

<sup>29</sup> This is done by notifications to the MA/IB and is reflected in progress reports. This issue was confirmed by interviews with the MAs/IBs, beneficiaries and during the workshops. Other sources include press interviews with the Director General of the MA for SOP IEC (See *Capital* 05/10/2009 *Peste 200 de beneficiari de proiecte renunță la finanțări din banii UE* and *Ziarul financiar* 05/03/2010 - *13% din beneficiarii de fonduri europene renunța la proiecte*)

<sup>30</sup> This was not the case of the sample analysed; however, the problem was acknowledged as a risk factor by stakeholders and must be taken into consideration. The evolution of the exchange and interest rates, from 2008 to 2010, shows up significant fluctuations when expressed in terms of (additional) costs for beneficiaries. For more information see <http://www.bnro.ro/Seturi-de-date-628.aspx>.

resources needed for implementation<sup>31</sup>. A relevant example concerns projects of SOP IEC and SOP HRD (ref. Box 15).

**Box 15. – Financial difficulties experienced by an SME**

In 2008, a beneficiary (SME) submitted an investment project for the extension of a furniture production line. By the time the project was approved for financing, in early 2009, the company was on the verge of bankruptcy, with almost no clients and no prospects of recovery. Under the circumstances, increasing the capacity of production and engaging in more than EUR 800,000 of expenditure was impossible and the beneficiary therefore gave-up the project. In the same way, a construction company, which had submitted a project under SOP HRD in 2009 for the purpose of training more than 80 employees, saw itself forced to refuse to sign the approved project, as it had only 50 employees left and severe cash flow problems by early 2010.

83. Even for beneficiaries who did decide to sign the financing contract or had projects under implementation in 2009, the economic constraints were similar. In that sense there are three major implications that are worth mentioning.

84. The first implication refers to *limited access to credit* - co-financing can be ensured either from the beneficiary's own resources (almost impossible for most SMEs during the crisis) and from bank loans. Under current regulations, when analysing the bankability of a project, banks do not take into consideration the fact that it is implemented from own resources or EU funds and apply the same rules, which imply a high level of guarantees and collateralisation. Start-ups and spin-offs are a special category of beneficiaries (SOP IEC) that are totally excluded from financing on these grounds.

85. Another limitation concerns *cash-flow difficulties* - given the fact that beneficiaries receive EU funds through reimbursements; their implementation requires a significant amount of liquidity. Since the crisis has affected all economic actors, companies are forced to deal simultaneously with: (i) decreasing demand of products/services; (ii) mounting bad debts; (iii) increased pressure from creditors; (iv) limited access to credit; and (v) the need to respect SI project implementation schedules. An increasing number of beneficiaries are unable to pay their own suppliers, wages or state contributions. Worse, they risk being sued and otherwise penalised for not meeting their obligations.

86. The third limitation refers to the *exchange rate fluctuations*: most difficulties in this respect are linked to the significant amount of time between the submission of applications and actual implementation: for example, projects submitted in 2008 were planned on the basis of an EUR/RON exchange rate of 1:3.5, but started implementation with a rate of 1:4.2 (a deterioration of 20%). This proved strenuous for quite some beneficiaries.

87. All these financial aspects decreased beneficiaries' capacity to mobilize financial resources and caused project delays.

88. Financial aspects are important for public beneficiaries as well, as they also have difficulties in maintaining project cash flow. The most visible effects of the budgetary restrictions refer to

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<sup>31</sup> Problems related to the pre-contracting phase are outside the scope of this evaluation. However, they should be kept in mind when considering the context of SI implementation in Romania. Similarly, although the cut-off for the present evaluation is 30/06/2009, occurrences after that date are referred to if they contribute to understanding.

mobilising allocated funds in order to ensure project cash flow prior to reimbursement claims being honoured.

89. In the case of local public authorities, financial aspects are of a different nature, in the sense that fewer resources are available for co-financing, a fact reflected in delays of submitting reimbursement claims. Among the projects at the cut-off date those implemented by the local public authorities register the highest percentage over three months delayed in claiming the reimbursement (*Table 2*).

90. The problems related to the economic contraction and their capacity to manage SI projects, as reported by public authorities also concern exchange rate fluctuations, which affect budgets in the period between project planning and contracting; like in the case of private beneficiaries, this has a negative effect on the project cash flow and consequently to the speed of the project implementation. In the end this is a vicious circle with a negative influence of the absorption.

91. It is to be noted that the Romanian Government approved in February 2010 the Government Emergency Ordinance N° 9/2010 which provides public beneficiaries of SI with a state guarantee, in the case they fail to ensure the necessary funds for implementing their SI projects from their own resources. Beneficiaries of these regulations are local and county authorities, research institutes and universities. The projects must be in a strategic sector such as: road infrastructure, energy infrastructure, wastewater and solid waste management infrastructure, education and research-infrastructure and health and social assistance infrastructure.

92. Difficulties arising from shrinking institutional budgets may affect the availability of these additional resources. Financial aspects of SI financed projects may even become more important after completion, because their sustainability will depend entirely on beneficiaries' own resources.

93. NGOs generally do not consider the financial aspects of the economic crisis as a factor influencing their project management capacity, in the sense of administering the current operations for achieving projects results.

94. The economic crises has not affected directly the financial resources of the SI projects for academic beneficiaries, as the external financing sources have remained robust throughout this period. Co-financing is not required for some projects (for instance scholarships) while in others the low co-financing share (either 2 or 5%) is ensured without major difficulties even by the public academia beneficiaries, despite shrinking budgetary resources (faculties have also independent resources, mostly coming from scholars' taxes).

95. The main problem reported by both universities and research institutes is the negative cash flow of the projects as a result of delayed reimbursements. The numerous projects implemented in parallel by academic beneficiaries represent an important proportion of their budgets. The cumulated delays, even for few months, lead to bottlenecks or even blockages in implementation despite of the measures for prevention and reduction of bottlenecks already taken (see the section on organizational level). It seems that some of the delays are triggered by the decentralization within SOP HRD (which is the main financing source for projects with academic beneficiaries) management system, as the files submitted by the beneficiaries were send from the MA to IB and sometimes they got lost in between.

#### *Changes in target group*

96. This factor relates mostly to changed labour market conditions generated by the crisis and it impacted mainly on employment-related projects (see case study in the Section 3). For private beneficiaries, all projects involving a target group are financed through SOP HRD, either through the



state aid schemes (SMEs and large companies<sup>32</sup>), or through grant/strategic calls (companies and NGOs). Current economic conditions forced many companies to lay off employees and thus diminish their target groups, which in turn led to either decreasing the expected indicators and the budget of the project (no more than 20%) or to cancellation.

97. Irrespective of the causes for project cancellations or delays, they have a negative effect not only on beneficiaries but also on the overall process of absorption of EU funds, since there is a potential risk of committing the funds (through contracting) but not spending it in time. However, given the stage of the current programming period, this risk is still low and the funds recovered from these projects can still be allocated to new calls for proposals.

98. Some NGO beneficiaries experienced difficulties in either maintaining the target group or meeting the performance indicator originally planned (*ref. Case Study in Section 3*). But most of them are concerned with the negative impact of the economic crisis on their capacity to ensure sustainability of results; either because the situation of their target group is constantly deteriorating or because their plans for getting public funding for the continuation of their services have become less feasible.

99. For public authorities, this type of contextual factor had an influence on the OPTA, OP ACD and the TA projects across OPs. For these projects, it was either difficult to maintain the target group because of staff reductions and turnover or it was difficult to attract the target group (as was the case with employees having difficulties in leaving their current tasks to attend training events).

100. The effect of the economic crises on the beneficiaries from the academic sector refers to the relevance of the *themes* covered in the SI framework: generally, the themes (as reflected in the SOP HRD objectives and Priority Axes) have become more relevant but the problems have become even more difficult to tackle. Also, the themes which are focused on structural problems of the society, like employment or the support for vulnerable groups, have become more relevant while the ones concerning more specific problems (for instance mobbing) are still relevant but have temporarily lost from their significance, as they fit better with the concerns and intervention capacities of more economically developed societies.

## 2.2 Organisational Level

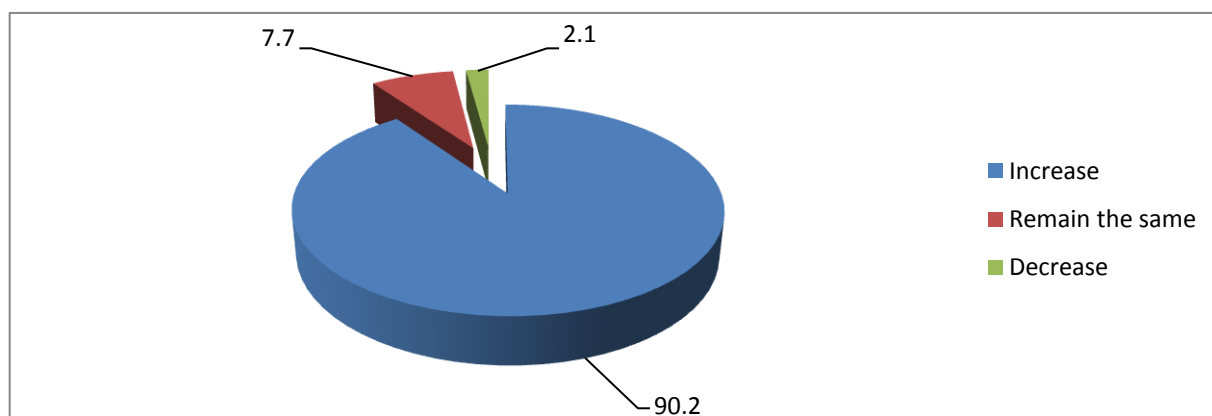
### Internal policies at the organizational level

101. There is a general perception among beneficiaries that SI projects have a positive contribution to the beneficiaries' capacity to achieve the overall organisational objectives (*Figure 16*). As a consequence it is expected that beneficiaries' internal policies to reflect this reality. For different reasons, presented below, it is not always the case.

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<sup>32</sup> This was not the case of the sample analysed; however, the problem was acknowledged during the interview with the MA for SOP HRD. There have been some cases when beneficiaries either gave up the project because of layoffs or decreased the targets (expected indicators) and the budget.

**Figure 16. – Contribution of SI projects to the beneficiaries' organisational capacity to fulfill their mission (%)**



Source: First Ad Hoc Evaluation Beneficiary Survey

102. For private beneficiaries internal policies tend to be of a theoretical interest rather than of practical use. Although the sample of analysed projects did not include large companies, there is reason to believe<sup>33</sup> they are the only ones having a clear set of policies, whereas SMEs, particularly small ones, tend to act informally, driven by the market (in respect of sales or investment policies, for example) and by the skills of the general manager (e.g., in respect to human resources).

103. *Investment policy, particularly regarding EU-funded projects* is considered important by private beneficiaries. It influences the extent to which efforts will be made so that projects can be implemented under good conditions. These efforts can range from ensuring co-financing to mobilizing the team and constant monitoring by managers. In contrast, if EU-funded projects are not regarded as a priority, it is more likely for the project to experience difficulties<sup>34</sup>. This issue is also extremely important for project sustainability.

104. Public administration beneficiaries accessing SI have indicated the existence of frameworks for developing and promoting strategic planning. However, public entities have as a main concern the stability, coherence and ownership of strategies. In the case of local public administrations, the existence of a *development strategy* is sometimes essential for accessing financial resources<sup>35</sup>, since, for example, project ideas (applications) are only approved by Local Councils if they appear in applicable development strategies.

105. Because of a general top-down approach in strategic planning the public authorities sometimes *lack ownership* of SI projects across and within administrative structures, especially in the case of County Councils and large municipalities (those with a large number of employees and several projects running in parallel). A project may consequently not be visible in the executive plans of beneficiaries which may have a negative effect both on the implementation process and on the sustainability of the projects<sup>36</sup>. This is often reported for the SOP ENV projects which are typically elaborated at the request of the Ministry of Environment, using TA support, with a view to achieving objectives established in the context of the Accession Treaty. Beneficiaries consequently often have an ownership problem, since they do not consider these projects as their own but rather perceive them as an MA or EC request. Due to a lack of interest in a project, authorities easily changed its

<sup>33</sup> This opinion is shared by the MAs/IBs and was confirmed during the workshops for the validation of the MCA.

<sup>34</sup> Interviews with beneficiaries and workshops.

<sup>35</sup> The case for the ROP projects.

<sup>36</sup> Often reported for the SOP ENV projects.

location, thus giving rise to the need for a new feasibility study, including consultations with the local community

106. Especially for the local public beneficiaries, a shift towards implementing most of the current activities on project based is still far from their current practice. This decreases both their capacity to implement SI projects since it is more difficult to connect these projects with the rest of their activities and reduces their capacity to undertake a better financial management of the institution.

### **Human resources policies**

107. Human resources (HR) policies have a major influence on all beneficiaries' project implementation capacity. In the case of SMEs usually there is no internal staff dedicated only to the implementation of the project. Due to the limited number of staff and for efficiency purposes, it is common practice that the team responsible for project implementation consists of the same persons who wrote the application, together with the accountant (or the administrative-financial department), hence not by replacing but adding to their routine tasks. Alternatively, consultancy companies are contracted. The interviews showed that, in this case, performance or quality of implementation, including reporting and administrative documents related to reimbursement, is not necessarily better than when done by an internal team. However, given the transfer of responsibility to the consultant, delays are less likely, also because in case of time constraints the consultant tends to dedicate additional resources.

108. The shift of focus towards SI projects would require, in the opinion of some representatives of academic sector, employing some additional staff, as available in-house expertise is not always sufficient, especially for administrative purposes, while external consultants are present only for definite periods of time. The decision to freeze hiring in the public sector (only one person can be recruited for every seven new vacancies) makes it impossible to achieve this aim.

109. The level of staff *motivation* in the case of private beneficiaries has markedly less influence on project implementation than in the case of public beneficiaries (as presented in more detail in the case study referring to the public administration included in *Section 3*). The difference may be attributed to two issues: (i) in the context of the financial crisis and layoffs that occur in most industries, the opportunity to work in a project is in itself an incentive; and (ii) projects are regarded part of the daily business or tasks assigned by superiors and need to be completed satisfactorily, regardless of staff motivation. This finding is closely linked with the heavy reliance on management involvement, particularly in small companies. In contrast, and in the context of the current financial restrictions, public beneficiary entities regard motivation as highly influential on project management and implementation. Not only because a lack of motivation decreases the level of personal involvement of the team and diminishes the quality of their work, but also because experienced, well trained staff prefer to leave the system for better paid jobs.

110. Many factors combine to limit the chances that a public employee chooses to work in the SI system and, even when he or she does, to attend to duties well. Workloads are very high, projects often deal with sensitive issues, and the public employee may be held accountable – financially or legally – for irregularities within the project. All this in spite of the fact that the emoluments of staff involved in the SI management and implementation are the same as that of other public employees.

111. The two major SOP T beneficiaries (National Roads Company and National Railways Company) signal work overload, better prospects in the private sector and having assigned more tasks than foreseen in their job description. For example, in the case of the National Railways Company the situation is particularly worrying since only half of the positions required for SI implementation are currently filled.

112. This complex of de-motivating factors is not counter-balanced by anything but the authority of the entity's management. The motivation to engage in SI management and implementation (which seemed to be a good career-path choice only two or three years ago) has for the main part been lost, since at present not even security of tenure is ensured. The one good perspective an individual may have (but one that threatens the SI system) is that of moving to a consultancy firm.

113. There are several other explanations behind the influence of this factor on beneficiary capacity to mobilise their human resources for the SI projects, such as:

- the general perception of public employees that decision-makers attach low importance to human resources motivation, as already understaffed personnel involved in SI implementation is subject to further layoffs;
- in spite of the massive budget reductions and intensive promotion of SI funding opportunities, there still exist reservations with regard to the benefits of SI projects.

114. These two issues contribute to further reduction of public employee motivation in engaging in the implementation of the SI projects meaning to difficulties for the public beneficiaries to mobilize human resources for the SI projects which in the end decreases the capacity of these beneficiaries to implement SI projects.

115. Employees of academic institutions have traditionally manifested keen interest in getting involved in SI projects, as this type of project has proved extremely beneficial for the development of their careers and motivating in financial terms. The implementation of the new possible wage restriction (*ref. para 43*), if enforced, will lead to loss of the financial relevance of SI projects at the individual level. The incentive to participate in the implementation of SI projects will in that case be that of professional interest only. The most probable result could be that especially the most experienced and prestigious professionals will prefer to offer their expertise to NGOs and reduce their input in projects within own organizations (which would be, in the end, detrimental for the quality of the project results).

116. For public authority<sup>37</sup> beneficiaries, *staff turnover* is directly related to decreasing motivation and budgetary restrictions in the context of the crisis. Another circumstance adds to the disincentive factors determining personnel departure. MA and IB on-site visits with local public authority representatives revealed that members of technical teams are sometimes replaced following management changes in the beneficiary institutions. As the projects require specialised knowledge about procedures in general and about specific activities already implemented, such changes tend to be highly detrimental to the efficiency and effectiveness of implementation. MA and IB personnel have to cover the same ground by training beneficiary replacement personnel. Since central public authorities are less likely to rely on consultancy services (partly because of financial restrictions and partly because they have dedicated support and operational departments), staff stability is very important for successful project implementation.

117. In case of the SOP T the excessive staff turnover combined with lack of management capability (*ref. Section 2.3*) at high level affects core functions such as risk management, accountability for major long-term projects and the willingness to focus on over-arching objectives for the transport sector<sup>38</sup>.

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<sup>37</sup> This is only in MA and IBs, for which 75% applies.

<sup>38</sup> Source: *Review of the investment in transport and environment infrastructure* carried within the same contract as the current evaluation

118. Private beneficiaries are also affected by staff turnover, but to a less extent and for different reasons. Restricted access to financing has a negative effect on the human resources budgets of SMEs, leading to salary cuts and staff reductions. NGOs correlate staff turnover with delays in reimbursement of pre-financed project expenditure, which forces them to delay salary payments, with negative effect on implementation capacity.

### **Internal arrangements**

119. Internal arrangements are also important for successful project implementation. Better performance is achieved when manager with the organisation demonstrate close interest in the development of activities and get involved in mobilizing financial resources, mobilizing the team or maintaining contact with the MA/IB, as well as suppliers and partners. This, in turn, increases the level of involvement of the team and prevents bottlenecks from becoming real problems (such as lack of finance). Equally important is the level of empowerment of the project manager. If he/she is not part of the management of the organization itself, internal arrangements and delegation of authority to the project manager are paramount for success, particularly because project implementation requires the participation of the administrative, financial, HR, technical departments (or persons).

120. Much as in the case of private beneficiaries, central administration beneficiaries acknowledge the fact that constant supervision by and involvement of superiors improves project implementation. This applies particularly in the case of ministries, where high-level involvement facilitates collaboration with other departments, responsible for the financial, procurement and human resources aspects of projects.

121. An organisational challenge expected to further increase in the case of public beneficiaries refers to an increasing number of projects from different OPs implemented in parallel. These beneficiaries have to adjust their internal arrangements and rules to the differing requirements of the OPs which mean that very often beneficiaries can not develop common internal approaches.

122. For academic sector beneficiaries the *rules* are more rigid and there are more decisional layers to take into consideration. These beneficiaries have to comply with the rules and report to several higher administrative layers: the Romanian Academia for instance in the case of the research institutes belonging to this structure, the University in the case of various faculties, the Ministry of Education for both types of beneficiaries. This is not unusual for the public institutions, but in this case the staff involved in SI projects used to collaborate in other EU-funded projects implemented by NGOs. There is the de-motivating tendency to compare the flexibility of the internal arrangements of NGOs with the less flexible institutional and procedural arrangements of academic entities. For the time being this does not really have an effect on the quality of the SI projects implementation by these beneficiaries.

123. The approval process with regard to tenders at SOP T beneficiary level is complicated. For example, the National Railways Company cannot organise a tender unless it has the prior approval of the General Shareholders Assembly (an additional control point, which was introduced after a notorious corruption scandal). However, this is a major source of delays in the implementation of EU-funded projects (for instance in the case that a tender cannot be launched because the Assembly has not met for a number of months).

### **Procedures**

124. Systematic *monitoring* of project implementation has a positive influence on project progress and the quality of progress reporting which establishes the foundation for requesting reimbursement. Respondents perceived this influence as high, because of a strong connection

between this factor and the success of the reimbursement process. In fact, reimbursement cannot be sought for SI projects in the absence of at least some project monitoring.

125. NGOs, especially those experienced in managing EU-funded projects, have developed internal monitoring practices based mainly on monitoring meetings, weekly and monthly progress reports utilising indicators of achievement, and a system of standardised reporting to ease the monitoring workload. These beneficiaries consider the operationalisation of monitoring tasks as having major influence in terms of increasing their project management capacity.

126. Monitoring meetings of PIUs, especially at the local level, are sometimes carried out in a *pro forma* manner. Project level monitoring would probably be more efficient if the overall monitoring function in the public institutions would be improved in the sense of incorporating it in a larger monitoring scheme operated by the beneficiary entity, in order to ensure a closer link with the entity's management functions. When an external provider has been entrusted with project management, the monitoring activities are also the responsibility of the provider and therefore tend to depend on the consultant's project management capacity.

127. As in the case of monitoring, *risk management* is demanded by the methodology of project implementation. Yet, this contradicts existing practices within organisations. There was general agreement among beneficiaries and the MAs and IBs that risk management remains at the theoretical level in most organisations (both public and private).

128. For the case of the SOP T beneficiaries the existing risk management including the provision of information on how to deal with a specific problem, such as faulty design, contestation of tenders, slow construction permits, lengthy and unsuccessful land expropriation procedures and utility relocation, relies on informal communication between project officers, without assurance that the information is shared with all other project officers encountering similar problems.

129. Public beneficiaries are more concerned with risk management because of the specificity of the projects (major investments implying higher risks in implementation) or because of more distance between the decision-making and operational levels. For major infrastructure projects keeping a risk-registry file per project is compulsory. The problem is that it consists only of listing the risk. Actual risk management activities are neither planned nor implemented in practice.

130. Private beneficiaries tend either to adjust implementation in a more flexible manner, leading to pro-active risk management on the part of managers in any case closer to project implementation, or engage in less complex projects with consequently less risk.

131. The insufficiency of proper risk management at the level of beneficiary organisations becomes especially visible when reimbursement requests are meeting with delayed response due to – insufficiently acknowledged – temporary liquidity problems on the part of the relevant contracting authority. Classification of expenditure as non-eligible usually leaves beneficiaries unprepared for the necessity to compensate from own resources.

### **Frameworks**

132. For central and local authorities, institutional frameworks, i.e. organisational structures involved in SI project implementation, such as project implementation units (PIU) were established in conformity with Applicant's Guides in all public administrations (Ministries and County Councils), as revealed by the in-depth interview. Also, specialized departments have been set up within the central and local public authorities' beneficiary structures. These units are specialised in drafting the project application and its' implementation.

133. The employees of these units faced problems in inter-departmental collaboration, especially with their colleagues in key departments already heavily burdened with specialist duties, such as

accounting. Over time, as it was made clear (informally or in official meetings) that the PIUs in charge of SI projects enjoy the full support of management, cooperation improved significantly. Still, in some instances, the fact that project staff continue to have additional responsibilities apart from the ones in the SI project(s) is still a burden towards the professionalization of these units.

134. The establishment of mutually supportive arrangements among beneficiaries from the same cluster is more accentuated on a territorial basis (e.g. between County Councils from the same region) and forms part of the learning process with regard to SI implementation. County Councils often play the role of adviser or engage in elaborating proposals on behalf of municipalities in their efforts to access European funding.

#### **Box 17. – Bureau for Structural Funds at the University of Bucharest**

An interesting institutional development was found within the University of Bucharest, where a special *Bureau for Structural Funds (BSF)* is operational since 2008. This structure supports the project teams in all administrative procedures and ensures a highly efficient financial management for the projects. The involvement of the BSF starts from the moment of application elaboration and continues during implementation, especially in respect of expenditures and financial reports (in co-operation with the project team member responsible for financials). The project teams consider BSF an important facilitator, as the project's experts can concentrate on technical aspects, while administrative features are the responsibility of an already highly experienced centralized structure. The existence of the BSF facilitates the transfer of knowledge from one "generation" of projects to another and across different projects running in parallel.

The University is a beneficiary of 34 SI projects (under SOPs HRD and IEC), among which 27 projects coordinated by faculties or Consortia of Faculties, while in seven projects these entities have a partner role. The staff of the Bureau includes six people; the ratio between the number of projects underway and the number of professionals proves the efficiency of this type of organization. The BSF has developed a financial risk management feature. New projects are internally approved as feasible and submitted to management authorities only after having undergone sensitivity analysis with regard to several scenarios in respect of the size of the proposed budget, reimbursement delays of various durations and the internal resources available.

The one negative aspect of these arrangements lies in the tendency at project level to rely on the BSF for resolving even the most trivial financial details, which could easily be resolved internally. This is an indication to a need for further improvement of project implementation capacity among these beneficiaries.

## **2.3 Individual Level**

### **Skills**

135. Professional skills refer to the field of project management or specific areas such as public procurement, financial control, and technical specialisations (directly related to the activities of the project). Also in relation to staff turnover, the utilization of consultancy services diminishes the need to have highly specialised personnel in-house. In fact, for small companies this is impossible, as some interviewees acknowledged. However, there is general agreement that good staff performance is a factor in the success of any project or activity, not only for EU projects.

136. The staff performance was highly appreciated by survey respondents, in terms of experience, expertise, personal involvement in the project and capacity to fulfil given tasks. As indicated in the *Table 18* the performance the project managers and of the accountants is the appreciated the most, but the differences compared with the other type of staff is very low. Also the assessments among types of beneficiaries are quite similar. The overall performance of the project team was appreciated to a great extent as good and very good by the beneficiaries who participated in the survey as follows: project management capacity (93.7%), acquaintance with contractual clauses (94.1%), acquaintance with the MA/IB requests (88.3%), capacity to prepare the necessary documentation (87.3%), capacity to conduct a public procurement process (86.8%), capacity to meet the deadlines (89.1%), capacity to reach the project objectives/indicators (91.9%).

137. In spite of the general optimistic perception of all beneficiaries regarding the skills of their staff there is field evidence<sup>39</sup> indicating that financial management and legal counselling (mainly referring to public procurement or administrative law) are still the most required skills when it comes to a performant SI project implementation. This need is not by far fulfilled, especially in the case of public sector beneficiaries.

**Table 18. – Beneficiaries’ self-assessment of the team members’ performance [average scores: 1 (low) to 5 (high)]**

	<i>Project managers</i>	<i>Financial managers</i>	<i>Technical experts</i>	<i>Accountants</i>	<i>Legal counsellors</i>
Central public authority	4.5	4.2	3.9	4.1	3.9
Local public authority	4.5	4.3	4.3	4.4	4.4
NGO	5.0	4.7	4.7	4.7	4.7
SME	4.2	4.1	4.3	4.4	4.2
Other	4.5	4.5	4.3	4.4	4
<b>Total</b>	<b>4.5</b>	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>	<b>4.2</b>

Source: First Ad Hoc Evaluation Beneficiary Survey

138. Although there is general agreement that the professional capacity of the staff involved is an important factor in successfully carrying out SI projects, both private and public beneficiaries consider it as having only moderate influence on implementation and reporting capacity. This is in spite of the pressure to perform on staff often facing problems for which they do not always possess the right knowledge or skills. To a certain extent, of course, this must be considered a normal situation for the initial stages of programmes with the size and scope of the OPs under the NSRF. In the end however, a contradiction remains, because one can hardly imagine that any activity can be undertaken without professional, skilled staff.

139. The skills necessary for working on a project basis are not sufficiently developed, in spite of the emphasis given in recent years to the importance of project-based management, coupled with the quite extensive experience of the authorities with projects funded by international organisations and major NGOs. Furthermore, there are cases of public sector beneficiaries where project managers

<sup>39</sup> Interviews with beneficiaries and MAs.



have no professional capacity in management or key specialist areas, with negative effect on the quality of project management overall. Poor planning skills lead to a weak schedule of activities without taking into consideration the actual availability of resources. This tends to lead to significant readjustments during the implementation phase, even in the absence of unforeseen circumstances.

### **Experience**

140. Previous experience in dealing with projects in general and EU-funded projects in particular is considered one of the most important factors for successful management by all beneficiaries. There is evidence<sup>40</sup> that beneficiaries who had already implemented EU-financed projects not only submitted better applications, but were also more successful in meeting implementation requirements, as well as in project management overall. The first two years of actual project implementation under the OPs appear to have been a learning process for all and the quality of the management and implementation process has shown continuous improvement.

141. Prior experience is important for project implementation, at all stages. However, the following three main aspects have to be taken into account when considering this factor:

- the rules and requirements of SI-financed projects are a blend between national legislation and EU law, which makes them unique for each country;
- the project cycle management modalities, general implementation rules, reporting and reimbursement procedures are to a degree similar for all EU-funded programmes and projects;
- basic project management rules are applicable to all projects, regardless of financing source.

142. Interviews with MA and IBs representatives revealed that SMEs lack the general culture helpful for implementing projects with the external funding assistance. Interviewees recall cases of beneficiaries having problems with understanding notions like 'eligibility', 'project cycle' or 'problem tree'. SMEs tend to have less extensive project management experience than public beneficiaries and NGOs.

143. In the case of academic beneficiaries, highly experienced individuals, with a rich background in project implementation including pre-accession funded projects, usually ensure the management of the projects. The implementation teams are composed of experts with extensive experience in project management. The novelty of the SI projects comes from the large budgets and the specific procedures required for implementation.

144. In the course of project implementation, SOP ENV beneficiaries (such as local public authorities and water companies) are often confronted with long tender documentation design periods, due to a lack of experience with regard to technical issues or the management of (large) infrastructure projects, especially amongst staff employed by local authorities. Although elaborated with TA, tender documentation tends to contain inconsistencies. At the end of the day, the responsibility for the quality of tender documentation remains with the beneficiary entity, which has the obligation to check all documentation, including the justification of the selection criteria.

### **Knowledge**

145. Having the information and understanding at individual level of aspects related to SI project implementation is based on gathering extensive information and knowledge. No matter the type of the beneficiary, the influence of knowledge on the beneficiaries' project implementation capacity relates to the following aspects:

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<sup>40</sup> Interviews with the MAs/IBs representatives, interviews with beneficiaries and MCA workshops with beneficiaries.

- beneficiaries generally have little previous experience in implementing EU-funded projects, and even less in those financed from SI;
- the amount of requirements is considerable and conformity is strictly observed by the MA/IBs;
- information is provided to beneficiaries in a fragmented manner – essential information is contained in a number of different documents (Guidelines for applicants, the contract, instructions and manuals); and
- procedures and requirements change at a relatively rapid pace.

146. Specific knowledge of SI project implementation at the individual level is very important for the success of a project. The current financing period sees the first implementation of SI in Romania, which means that the SI procedures are new for all stakeholders. The continuous changes require constant vigilance on the part of beneficiaries to keep abreast of procedural developments.

147. Proper documentation greatly improves beneficiary project management capacity, in the sense that it contributes to a better understanding of the overall functioning of the SI and the expectations from beneficiaries on the part of authorities. At the same time, it allows project implementation teams to anticipate risks and constraints better.

148. Consultations and interviews with beneficiaries, MA and IB representatives revealed a rather contradictory practical reality. Whilst everyone agrees that constant documenting is important in order to have the right knowledge for the project implementation, most MAs referred to the superficial approach of many beneficiaries towards important documents such as the financing contract, key annexes, as well as manuals and instructions. This might point towards relatively slow adjustment to the strict rules and requirements pertaining to EU-funds and a disregard for bureaucracy on the part of beneficiaries (those in the private sector in particular).

149. There is evidence that many of the questions addressed by beneficiaries have their answers clearly set out in the implementation handbooks or the contract. This aspect, which may affect all components of the implementation capacity, is partly the result of the need of beneficiaries to be 100% sure in advance, in the context of 100% checks by the relevant finance and control units. The fact that IB on-site visits typically result in recommendations that could have been avoided, if procedures would have been followed, tends to support the finding that beneficiaries sometimes neglect to consult available documentation thoroughly.

150. SOP HRD and ROP provide training for beneficiaries. Topics include: project management, contractual obligations, managing partnerships, public tenders, financial management, monitoring and reporting, VAT, on-site monitoring visits, irregularities and publicity. Training sessions are compulsory and are usually provided in the first months of implementation, in order to provide the basic necessary information. Beneficiary, MA and IB representatives confirmed that training has a large impact on beneficiaries' capacity to manage projects, irrespective of whether they are public or private entities.

151. However, as the workload and time pressure are high, beneficiaries have a low tolerance for training that is not directly relevant to their projects and in the interviews conducted often referred to instances where trainers could not suggest remedies to very practical and immediate concerns. Project managers tend to be too busy with daily project operations or they have other managerial responsibilities, which keep them from attending training.

152. Beneficiaries have expressed disappointment regarding the education system and the overall labour supply, which is unable to meet their requirements. The problem is two-fold. On the one hand, project management skills<sup>41</sup>, particularly in relation to EU-funded projects are scarce, since this is the first programming period for Romania and working with projects is not common practice. On the other hand, beneficiaries are required to have specific skills related to *inter alia* project management, financial management, public tenders and know how in respect of administrative procedures related to reporting and reimbursement.

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<sup>41</sup> Project management is a topic to be found in both undergraduate or post-graduate curricula; what is missing refers to a close connection to practice and especially with the SI project management practice. The National Agency for Public Employees is undertaking efforts to fill this gap.

### 3. CASE STUDIES

153. The evaluation methodology described in Chapter 1 foresaw conducting three case studies in order to better illustrate specific challenges encountered by SI beneficiaries in the process of project implementation. The three case studies presented below address two problems at the societal and one problem at the organisational level.

#### 3.1 Financial Difficulties Faced by Private Sector Beneficiaries


##### 3.1.1 Introduction

154. The first case study intends to illustrate a common problem faced by SMEs implementing investment projects financed under the OPs, namely financial difficulties in ensuring co-financing and cash flow. From a methodological point of view, the analysis can be considered a typical case study, since it describes a generally valid, very often encountered situation, in the current economic context.

##### 3.1.2 Short Description

155. During the current programming period (2007-13), SMEs are eligible for support through the Regional Operational Programme (ROP), the Sectoral Operational Programme Increase of Economic Competitiveness (SOP IEC) and the Sectoral Operational Programme Human Resources Development (SOP HRD). Together, these three OPs offer financing opportunities for *inter alia*: entrepreneurship, productive investment, innovation, research and development, training and employment.

156. One of the basic principles of EU funding, concerns capacity on the part of the beneficiary to take on a share of the eligible expenditure, in addition to all non-eligible costs of a project. Taking into account that State Aid rules apply to EU funding of this type, the share of co-financing that beneficiaries must cover is usually more than half of the total expenditure associated with a project. During implementation, beneficiaries receive payments based on reimbursement claims submitted to the Managing Authority. Beneficiaries must therefore have the necessary resources to pre-finance all project-related expenditure if they are not able to present the financial guarantee for receiving pre-financing from the MA.



**Beneficiaries must have the necessary resources to cover all expenses associated to the project activities, as EU financing is received upon reimbursement principle**

157. As a result of the current economic crisis, SMEs' financial capacity has decreased significantly, due to a number of reasons, among which the deterioration of the overall investment climate, decreasing demand and the cautious lending policies of credit institutions are the most important. In fact, the restrictions on the credit market is often deemed as the most serious issue; not only for projects that are under preparation, but also those under implementation, since very few beneficiaries can secure co-financing from other sources. This has led

to several cases of project cancellations, under both under SOP IEC and under ROP<sup>42</sup>.

158. Difficulties in accessing credit and cash flow problems have also, in even more cases, led to delays in project implementation. The reasons for this situation are set out in the following section.

### 3.1.3 Theory

159. Private sector beneficiary capacity to mobilize financial resources depends on three main actors (*Figure 19*): the **Beneficiary**, the **Managing Authority (MA)** and the **Bank**. Mainly in the course of project implementation, but also already before that, there must be a close collaboration between these three partners. Given their respective roles, the quality of the interaction between them has a large influence on the success of the project.

160. **The Beneficiary** is responsible for the correct implementation of the project, according to the application and the financing contract signed with the MA. From a financial perspective, the Beneficiary has to cover part of the eligible expenditure and all non-eligible costs and also needs to have the necessary resources for developing the activities, before receiving reimbursements. To be able to do this, the Beneficiary usually applies for bank loans or has the option of receiving pre-financing from the MA<sup>43</sup>.

161. According to Order No 2548 of the Ministry of Public Finance, Art.12, "the transfer of the amounts representing pre-financing requested by the beneficiaries according to the contracts/ decisions/ financing orders is done, provided that the following documents are presented:

- a written request from the beneficiary, according to the contract/ decision/ financing order;
- a contract for supplying goods / services / works signed between the beneficiary and an economic agent, with the exception of the projects whose implementation does not involve such a contract;
- a bank letter of guarantee for the amount corresponding to the requested pre-financing, only for contracts under the state-aid/ de minimis rules.

162. In the latter case, according to the national and European legislation, a bank letter of guarantee is required, equal to the amount of the pre-financing. The procedures for obtaining it from the bank require that the beneficiary presents a set of documents, referring to the economic and financial situation of the company, the project, the financing contract, etc.; more importantly, however, the beneficiary is required to present collaterals, which given the financial difficulties brought on by the crisis, and especially the collapse of the real estate market, he is unable to present. Until recently, the assets bought through the project were not considered eligible to be presented as collaterals, which further complicated the situation<sup>44</sup>.

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<sup>42</sup> Although none of the projects included in the sample are in this situation, the subject of cancellations was brought to our attention during the interviews with ROP Bucharest Ilfov IB and by the SOP IEC MA. Apparently, two patterns can be observed: some beneficiaries that choose to cancel their projects from the beginning and others, who continue the implementation in spite of the financial difficulties and experience delays. Since both reflect the capacity of the beneficiaries to mobilize financial resources, we have included them in this case study.

<sup>43</sup> According to Government Ordinance N° 64/2009 and Order N° 2548 of the Ministry of Public Finance

<sup>44</sup> The situation changed in July 2010, with GO N° 606 <http://oimm.mimmcma.ro/sites/oimm.mimmcma.ro/files/HG606.pdf>.

Figure 19. – Three main factors influencing private beneficiaries' financial capacity



163. **The MA** is responsible for assessing the application, completing contracting procedures, monitoring implementation and paying for eligible expenditure, following review and approval of reimbursement claims. Procedures are in place and deadlines defined for each of these functions. The MA may grant beneficiaries pre-financing of expenditure upon request, accompanied by a bank guarantee.<sup>45</sup>

164. **The Bank** is responsible with awarding letters of guarantee and loans to beneficiaries, on condition that they meet bankability criteria. Thus, they are supposed to financially support the beneficiaries to ensure the financing of EU projects.

165. After the launch of the OPs, most credit institutions regarded EU projects as a market opportunity and prepared dedicated products or specialized consultancy services for beneficiaries. The media abound with advertisements regarding low interest loans, covering up to 100% of the project value and with grace periods ranging from 12 to 36 months<sup>46</sup>. In theory, these products cover partial or total and co-financing of eligible and/or non-eligible expenditure. Usually, more than one instrument is used, including revolving credit lines, bridging loans, investment credits and operating credit, depending on the needs of the client and the nature of the project.

166. Generically, the bank requires information (documents) regarding: the economic and financial situation of the Beneficiary, the project, financing contract, guarantees or any other information considered relevant. Based on internal procedures, each bank assesses the eligibility of Beneficiary and issues the bank letter of guarantee or approves the credit.

167. The link between the Beneficiary, the MA and the Bank is formally established through the **Application** and the **Financing Contract**<sup>47</sup> and all negotiations are established based on these documents. The credit made available to the beneficiary is usually made available in tranches, with each tranche depending upon the reimbursement by the MA of the previous one. The implementation period and the reimbursement calendar are established in the Financing Contract. In fact, this is where most problems appear during implementation.

<sup>45</sup> Typically, the bank will charge the amount of the guarantee against the beneficiary's credit room, thus indirectly affecting the beneficiary's liquidity position.

<sup>46</sup> See, for example, dedicated credit products from EximBank, BCR, BRD, Raiffeisen Bank, CEC Bank and Alpha Bank.

<sup>47</sup> The Financing Contract refers to the contract signed between the Beneficiary and the MA.

168. The National Credit Guarantee Fund for SMEs (NCGFSME)<sup>48</sup> and the European Investment Fund (through JEREMIE) are two other entities involved in financing EU projects.

169. The **NCGFSME** offers guarantees to EU projects beneficiaries in order to improve their access to credit, provided that they meet all the other eligibility criteria imposed both by MAs and credit institutions. Basically, the Fund issues a letter/promise to guarantee the funding to be received by the SME. To counteract the effects of the economic crisis, the Fund's capital was increased by 46 MEUR.

170. **JEREMIE** is meant to ensure venture capital and credit opportunities for SMEs under Priority Axis 1 of the SOP IEC. Although the Memorandum between the Romanian Government and the EIF was signed in 2008, the scheme is still not functional and the 100 MEUR allocations remain unused.

### 3.1.4 Problems

171. According to SME stakeholders, the financial crisis is the single most important cause of project delays, in that it limits access to bank credit. In relation to the three main actors previously presented, there are three issues: bank approach towards EU-financed projects, performance of the MA and performance of the beneficiaries.

172. **Bank approach towards EU-financed projects** – in spite of the above mentioned facilities, bank regulations require that all investment projects be analysed according to established bankability criteria, regardless of source of financing. The fact that, in the case of EU-funded projects, there is a firm commitment by the Romanian authorities to reimburse expenditure is not regarded as a guarantee and does not decrease, in the eye of banks, the risks associated with the investment. The bankability criteria may include: the overall situation of the company, historical relation with the bank, capacity to reimburse the credit, and possible guarantees.

173. Another complicating aspect is that in order to qualify for EU-financing under the rules imposed by the MA in the Guidelines for Applicants, projects must show a relatively small internal rate of return (IRR) (e.g., a maximum of 13% under SOP IEC<sup>49</sup>), which makes them “unattractive” to banks, which typically prefer higher IRRs. In theory, the banks examine project applications rapidly and credit decisions provided in a matter of weeks or even days; in practice the process of credit negotiation can last up to several months. One of the beneficiaries interviewed during the evaluation had to contact six banks before finally getting access to credit. The whole process lasted more than eight months, which caused severe disruption in the project calendar and delays in submitting the reimbursement claim.

174. After the project is analysed, the contract with the bank is signed and credit is approved (or the bank letter of guarantee is granted). The Beneficiary is usually required to keep a close connection with the Bank and in keep it informed on a continuous basis, especially in respect of reimbursement



**Bank regulations require that all investment projects be analysed according to similar bankability criteria, regardless of their source of financing**

<sup>48</sup> In Romanian: Fondul National de Garantare a Creditelor pentru IMM-uri (FNGCIMM).

<sup>49</sup> The maximum IRR for SOP IEC investment project was even lower before 2010, i.e. only 9%.

claims and payments. Following payment by the MA of the last reimbursement claim, the credit is settled with the bank. If the initial calendar of activities is not respected, the beneficiary is unable to pay instalments on time (or to settle the credit in the agreed timeframe). The collaboration between the Beneficiary and the Bank may be negatively affected, since one criterion banks usually use when assessing the risk associated with a client is his previous collaboration with the bank and his ability to respect the terms of the contract with the bank. Higher risk rates usually mean higher interest rates or even rejection from further credits.

175. **Performance of the MA** – because of inadequate preparation of calls for proposals, lack of experience and chronic understaffing, MA performance has been marked by constant delays at all stages.

176. First, the time between project submission and approval (or rejection) is several months in most cases, with no possibility of anticipating the actual timeline or the outcome. Second, assuming that the project is accepted for financing, contracting also takes several months, leading to a total period of almost one year between application and start of implementation. Third, processing reimbursement claims can take up to six months in some cases<sup>50</sup> (often, without any communication, official or unofficial, from the MA to the Beneficiary during this entire period). Partially, these delays can be explained by the poor quality of the reimbursement claims and progress reports submitted by beneficiaries<sup>51</sup>. Nevertheless, they contribute to the worsening of the overall performance of the beneficiaries, as explained below.

177. **Performance of the Beneficiary** – the economic crisis changed financing conditions significantly, in a relatively short amount of time. This meant that project proposals that were eligible for credit when submitted to the MA were no longer bankable when the contract was ready for signing. Beneficiaries were thereupon forced to renegotiate with the bank, resulting in postponement of project activities. In other cases, beneficiaries started the projects with their own resources, hoping to receive the credit. This caused additional pressure on budgets and cash flow, which in combination with the overall worsening of market conditions, subjected beneficiaries to the risk of insolvency.

178. Once a bank loan was contracted, financial resources were made available to proceed with activities. In the case of loans made available in tranches, each tranche is settled in accordance with the agreed financing calendar, which depends on payments by the MA. If the MA does not process the reimbursement claim in time and delays occur, the Bank blocks the credit and may apply penalties to the Beneficiary for not respecting the contract with the Bank. During this time, beneficiaries must continue the implementation of activities with their own resources, to avoid breach of the Financing Contract with the MA. This puts further strain on the already weakened circumstances of SMEs and, especially, micro-enterprises.

179. Delays have a negative effect on the project management capacity of the beneficiaries, first of all by making them unable to anticipate and respect a projected cash flow. This, in turn, makes them unable to prepare and respond to the changes in the external environment (such as exchange rate, inflation, taxes etc.), which are more likely to appear and have heavier impact on a medium and long term than on a short term (for example, inflation is unlikely to fluctuate significantly during one month but it might do so over a period of six months).

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<sup>50</sup> Reported by MA SOP IEC and by beneficiaries SOP IEC and SOP HRD. See the Evaluation Report of SOP IEC.

<sup>51</sup> This subject was analyzed in the main report.



### 3.1.5 Remedies

180. In spite of several discussions between the MAs and the banks, beneficiaries are increasingly affected by very limited access to credit, lack of guarantee instruments and severe cash-flow problems. So far, the following remedies have been attempted or applied:

- Negotiations between the MAs/ACIS and banks, which have not yet resulted in concrete results.
- New guarantee instruments, including additional capitalization to NCGFSME; possible use of assets<sup>52</sup> as loan collateral; the effect of this measure is yet to be measured, since projects benefiting from it are at the beginning of their implementation. An analysis of their progress is likely to show fewer cash-flow problems and fewer delays of the activities.
- Other incentives, such up to 100% coverage of eligible costs for microenterprises under ROP; like in the previous case, it is still too early to assess the impact of this measure.

181. **MA-specific** remedies might include:

- Speed up the processing of applications, particularly through contracting support services (legal, evaluation, technical) through technical assistance. This decreases the risk of radical changes in the overall economic climate and facilitates access to credit.
- Speed up the processing of reimbursement claims, by reducing the number of documents required from beneficiaries, introducing sampling beginning with the second reimbursement claim<sup>53</sup>. Allowing beneficiaries to input data into SMIS would also contribute to speeding up reimbursement claims and, at the same time would contribute to reducing the burden of the monitoring officer.
- Provide further assistance to beneficiaries, by activating existing instruments (such as JEREMIE<sup>54</sup>).
- Increase transparency and improve communication with the beneficiaries, by providing written notifications regarding the processing of documents at all stages and also written instructions and guidelines. This would significantly relieve the stress and uncertainties and would enable the beneficiary (and indirectly to the bank) to anticipate the evolution of the project.

182. **Bank-specific** remedies might include:

- Consider analysing the bankability of a project while taking into account the amount granted through EU-funding to be included as a positive factor attached to bankability criteria;
- Consider lowering the risk associated with EU projects, taking into account the State commitment in respect of reimbursement.

183. **Beneficiary-specific** remedies might include:

- Establish and maintain close collaboration with financial institutions, starting from the project preparation stage.
- Establish and maintain close collaboration with the monitoring officer so as to get up-to-date information and a proper understanding of the requirements

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<sup>52</sup> This refers to assets acquired through the project; before July 2010 this form of collateral was not allowed.

<sup>53</sup> SOP HRD already implements sampling system.

<sup>54</sup> Currently, JEREMIE is subject to decisions by the EC.

- Attract enough qualified human resources for project preparation and implementation, so as to ensure that all administrative requirements (progress reports, reimbursement claims etc.) are met on time and in good quality.
- If no prior experience exists, invest in training for the project management team;
- Make sure that the project manager participates in all training sessions or communication events organized by the MA/IB.

## 3.2 Motivation of the Human Resources and Public Sector Beneficiaries

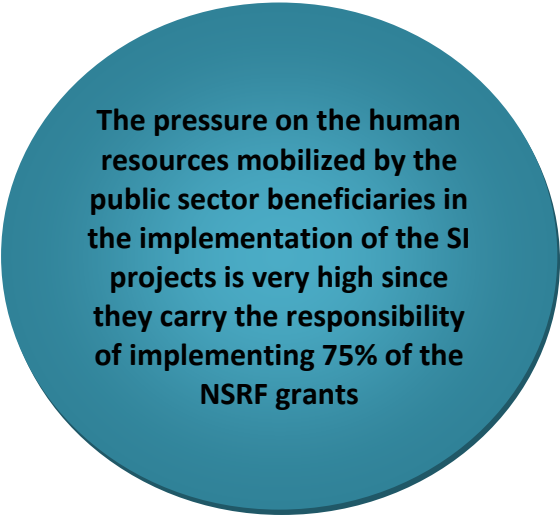
### 3.2.1 Introduction

184. This case study is intended to illustrate a common problem faced by public administration beneficiaries implementing projects financed under the OPs, namely to mobilize human resources in the implementation of SI projects. From a methodological point of view, the analysis can be considered a representative, crosscutting case study, since it describes an often-encountered situation in the current national socio-economic context.

### 3.2.2 Short Description

185. The analysis of the split of approved grants by type of beneficiary<sup>55</sup> shows that public sector beneficiaries together have a 75% share in the NSRF. This high proportion in favour of public sector beneficiaries raises *inter alia* the issue of the significant pressure and responsibility these beneficiaries face with regard to successful absorption of SI funds.

186. The qualifications and the experience of the human resources mobilized in an SI project represent an important criterion for the project in order to be funded. Beyond this criterion, the *motivation* of the respective staff becomes equally important in the project implementation phase. The following sections discuss how motivation influences public sector beneficiary capacity, investigates the related problems public beneficiaries currently face and set out the lessons learned.



**The pressure on the human resources mobilized by the public sector beneficiaries in the implementation of the SI projects is very high since they carry the responsibility of implementing 75% of the NSRF grants**

### 3.2.3 Theory

187. Human resources management theories emphasize the importance of staff motivation for achieving a high level of organizational performance. That is why the evaluation of SI beneficiary capacity, and this case study in particular, looked into motivation as a key success factor in the

implementation of SI projects. That this was applied only to public sector beneficiaries was because most of the evidence collected in the early stages of evaluation indicated it to be an issue primarily affecting this category of beneficiaries. The issue may partly be attributed to recent Government decisions concerning layoffs and temporary 25% wage cuts, cut of supplementary bonuses and

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<sup>55</sup> NSRF Evaluation Report.

unpaid holidays in 2009. However, the discontent amongst interviewees has deeper roots, which are investigated in this case study.

188. Successful implementation of SI projects is influenced by other factors, apart from beneficiaries' capacity to mobilize motivated human resources (e.g. capacity to mobilize financial resources, capacity to manage and implement the project). However, in terms of human resources, there is a linear causal chain – presented in the diagram below (*Figure 20*)– connecting the level of motivation of human resources involved in project implementation, their mobilization and performance in project management, and implementation and the success of the SI project.<sup>56</sup>

**Figure 20. – Causal chain linking human resources motivation and SI project implementation**



189. In the current socio-economic context there are several problems having a negative influence on the motivational level of the public sector staff, making more difficult to mobilize the human resources for the implementation of the SI projects.

### 3.2.4 Problems

190. **Heavy workload** – the evaluators found that often the projects capitalize from the input of most of the personnel within public administration institutions with large experience in project implementation<sup>57</sup>. During transition, a certain degree of expertise in this area has been accumulated within Romanian institutions and the qualitative evidence of this evaluation indicates that generally public institution have less experience than NGOs or some of the Academic beneficiaries but they are more experienced than SME beneficiaries. Usually, the personnel working in PIU have been involved previously in other European projects funded from pre-accession funds, if the employing institutions carried on such projects.

191. Most beneficiaries of SI projects consider SI funded projects very demanding in terms of the number and experience of the staff that needs to be involved. In many cases, public sector employees have to fulfil other duties besides the SI projects, because of personnel shortages related to the other workflows within their institutions. Apart from that, the effort involved in performing

<sup>56</sup> Basic theory of human resources management: see, for instance, Becker Gary S., *Comportamentul uman, o abordare economică* (Human behaviour, an economic approach), All Publishing House (1994) or Bryars L., Rue L., *Human Resources Management*, IRWIN – Edition Homewood, Illinois (1987).

<sup>57</sup> In the case of 121 out of 155 beneficiaries (all types of beneficiaries) who responded to this question of the on-line survey, the personnel involved in SI projects implementation has previous experience with project implementation. Most of the SI staff within is considered as experienced with project implementation.

constant – unpaid – overtime, is another issue. There are also many cases where the number of ongoing projects exceeds the number of available employees, each of which often have to deal with two projects<sup>58</sup>. In the case of entities with coordination responsibilities (such as Ministries and County Councils), staff has to adopt the informal role of technical and financial adviser for other public entities implementing SI projects. In rural areas<sup>59</sup> and smaller localities, Local Councils lack the experts with general project and specific European Funds experience, which adds to workloads. For instance, while all city halls have at least one employee specialised in EU-funded projects, only about half of village Local Councils have such staff<sup>60</sup>.

192. **High expectations /demands** – the strategic value placed on SI projects is reflected in the fact that the decision making level of public institutions is typically involved in their management. This is beneficial for project implementation in terms of access to decision-makers and opportunities to overcome bureaucratic obstacles. Also, the interest of the decisional layer of the public administration institutions in good implementation of the SI projects motivates the personnel to perform at its best, even when other factors which should play as incentives are missing (higher remuneration, better career prospective, better organisation of the work schedule) or disincentives are present (higher exposure to internal or even juridical sanctions). Although they are a positive premise for good performances in project implementation, the high expectations of the management towards SI personnel performances, when uncorrelated with other incentives, are sometimes perceived as an additional pressure factor.

193. The PA staff had also high expectations when the OPs were launched towards the effects of involvement in SI projects over their professional careers. This involvement was perceived as offering good careers prospects, leading to professional development and better remuneration. Many of the approved public administration project proposals specified high wages for the employees<sup>61</sup>. It may still hold true that specialisation in this type of project is a valuable professional asset but there are other better-paid opportunities besides working in the public sector once an individual has accumulated expertise in the area. Especially in the bigger cities, consulting firms are interested in recruiting high profile professionals from within the implementation system. Also, the NGO sector could represent an alternative, since salaries are considerably higher for implementation of similar projects.

194. **Heavy responsibilities** – the evaluation revealed several cases in which public administration workers suffered harsh consequences in connection with failure to manage payments related to SI projects properly. Employees were forced to make good errors from their own pockets and in some case were prosecuted. Unsurprisingly, this has led to excessive caution in assuming responsibilities even for minor decisions in project implementation, ultimately reflected in delays in project implementation and negative effect on the status of the staff involved in it.

195. **Wages** – while work demands are more or less similar, wage levels differ across public sector institutions, in accordance with each entity's salary scales. The salary of a young professional entering the system (junior expert) is slightly higher than the minimum wage in Romania.<sup>62</sup> The

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<sup>58</sup> In the PA structures in the locations where the interviewees took place, the ratio is above 1 specialist working in PIU to 2 projects underway.

<sup>59</sup> Rural areas are less targeted by the SI programmes, usually OP ACD projects; in consequence, they are less funded: among 816 projects for which the residential area of the beneficiaries is mentioned in SMIS, only 66 are in the rural area (66 projects).

<sup>60</sup> *Local Authorities Face to Face with European Funds*, Open Society Foundation (2010).

<sup>61</sup> Applicable for SOP HRD only.

<sup>62</sup> The minimum wage at the national level in 2010 is RON 600.

additional remuneration that a professional could earn from being part of SI projects implementation team in the framework of the current legislation is low.<sup>63</sup> A number of public entities – some less informed, others more open to risk – awarded, for periods of for several months, higher salaries to personnel involved in SI projects implementation. The salaries add-ons concerned later had to be returned.

**196. Security of tenure** – the public administration environment has traditionally been perceived as a provider of workplaces with better chances of secure tenure. However, this no longer applies, and also involvement in SI implementation does not protect public employees hired as temporary staff (not public servants) against the risk of lay-off.

**197. Insufficiency and instability of staff on account of layoffs and turnovers** – the interviews and the workshops carried out during the evaluation indicate that public sector beneficiaries are more affected by changes of the implementation team than other SI beneficiaries.<sup>64</sup> While personnel layoffs damage the system considerably, personnel turnover worsens the situation even more, as the best performing public employees are much more inclined to look for changing employment. The highly specialized workforce that SI implementation demands takes time to establish and is hard to replace. Various beneficiaries assess the related risk differently, depending on their location. In small cities and in rural areas, staff turnover is not a major risk, since the local labour market is typically unable to offer better alternative employment. For the central administration and the administration of major municipalities the risk is higher, because there the consultancy market still has the capacity to absorb qualified staff leaving the public administration.

**198. Higher demand for consultancy services or externalisation of project components** – increased contracting of services from consultancy firms<sup>65</sup>, combined with outsourcing of project components<sup>66</sup> might provide help to lessen the workload of public administration personnel, although the evaluation fieldwork yielded a mixed message with regard to public sector beneficiaries' appreciation of the quality of the consultancy services used so far. Some beneficiaries stated that projects implemented exclusively with own staff perform better, basically due to better physical availability of internal employees and also experience in working together. One major risk, if the outsourcing trend prevails, is decreased ownership of the projects.

### 3.2.5 Remedies

199. Ensuring a fair relation between workloads and levels of responsibility, on the one hand, and professional and financial rewards, on the other hand, must be considered the main motivational challenge for properly mobilizing the human resources of public sector SI beneficiaries. Public administration professionals face the effects of disincentives in terms of workload demands not

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<sup>63</sup> For example, the net wage of a superior counselor (the highest rank for non-management personnel) is RON 1,600-1,800. This is the basis for the additional salary earned for SI projects implementation, meaning about RON 10-11/working hour. With another two working hours dedicated to SI projects per day, the employee could earn an additional RON 400-450.

<sup>64</sup> The MCA workshops revealed that technical assistance projects have lost an important part of their target groups (professionals from PIU) for three reasons: lay-offs, higher workloads for the remaining staff, which does not allow them to participate as easily as before to training activities, and changes in the implementation team enforced by the management. Interviews with the management authorities further revealed frequent changes of the contact person with the PIU, especially in the case of the local PA, as a result of changes in the implementation team.

<sup>65</sup> The private entities resort to consultancy in a higher degree: 44 out of 83 private beneficiaries, compared with 21 out of 73 public sector beneficiaries (*ad hoc* evaluation survey data).

<sup>66</sup> The *ad hoc* evaluation survey data reveals that 65 out of 155 beneficiaries have externalised a project component; 6 out of 13 central public authorities have made this choice while only 14 out of 44 local PAs chose to do the same. No central PA outsourced the management of the project, but 9 local PAs did so. It seems that data revealed is contradictory.

compensated by incentives such as increased salaries and promotion. This is bound to increase demotivation and the risk of staff turnover, especially at the central level where alternative employment opportunities exist in the consultancy market.

200. Better funds absorption was frequently cited, by decision-makers in search of an adequate counter-crisis strategy, as one possible factor of economic recovery. To the extent that this assessment of the usefulness of SI funding is correct, the human resources policy of many entities involved in SI management and implementation appears to reflect the existence of a chasm between the assumed importance of SI funding at the strategic level and public entities support for effective human resources management and motivation.

### 3.3 External Factors and Beneficiary Implementation Capacity

#### 3.3.1 Introduction

201. This case study presents an illustrative example of the situation faced by those SI beneficiaries that implement projects involving the achievement of results indicators, specifically employment-related target indicators, under economic crisis conditions. Although the case study concerns a particular SI project, it is not a unique, but a representative example of the situation in which other SI projects may find themselves.

#### 3.3.2 Short Description

202. **Particular, but not an individual case** - the economic crisis had a negative impact on labour markets across Europe, no matter the country or the population group. In Romania the unemployment rate increased from 6.3% (Q1, 2008) to 8.1% (Q2, 2010)<sup>67</sup>. In the case of SI, this had a negative impact on those projects aiming to increase employment among vulnerable social categories (such as the disabled, Roma and former convicts). Achieving employment related target indicators in projects is difficult even under normal socio-economic conditions, because it refers to a result that is not under the full control of such projects' promoters. In the circumstances of an economic crisis this becomes even more difficult.



203. **Brief project description** - the project described in this case aimed to facilitate access to the labour market of 1,400 disabled people. It started in November 2008, will end in October 2011 and is funded under SOP HRD.

204. The main project activities are the following: (i) a national survey to identify the gaps and the triggers to the employment of the disabled people; (ii) a sectoral policy review; (iii) setting-up three Social Inclusion Centres for disabled people; (iv) labour counselling and mediation for 1,400 unemployed disabled people (of which 280 will have a job); (v) providing services of information, mediation and recruitment of disabled people for 300 employers.

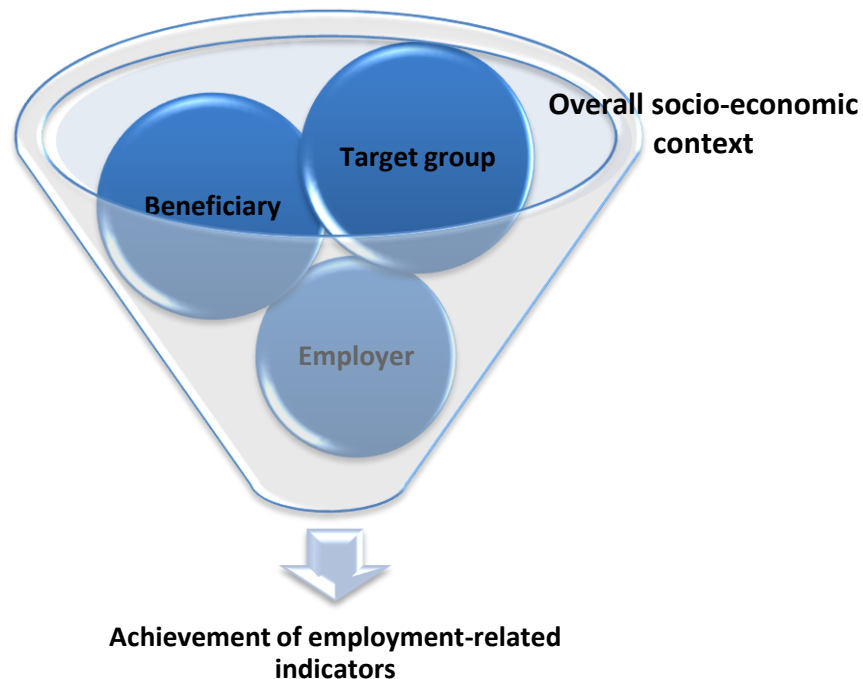
205. The project's estimated impact is to change both employers and disabled people's own perception of the capacity for work of this social category, and ultimately to increase its employability.

<sup>67</sup> Source: International Labour Organization (ILO).

### 3.3.3 Theory

206. As indicated in *Figure 21* in order to implement the project successfully, a beneficiary aiming to position its target group in the labour market has to take into account four factors: (a) the specific situation of the target group; (b) employers capacity to absorb the target group; (c) the overall socio-economic context; and (d) the beneficiary's own project implementation capacity. Apart from the last one, these factors are very little or not at all under the beneficiary's control. That is why, even if these factors are taken into consideration at the project design phase, major changes in them may pose serious difficulties to the beneficiary in terms of in achieving the project's employment-related indicators.

**Figure 21. – Factors influencing achievement of the employment target**



207. Although the SI beneficiary entity cannot control the above-mentioned factors, it is held responsible for the achievement of all project indicators targets in accordance with the Financing Contract and the Application (in annex of the Contract). Payments against reimbursement claims are also conditional upon progress in achieving targets of the indicators (intermediary and final).

### 3.3.4 Problems

208. As indicated during evaluation interviews by representatives of the beneficiary, the economic crisis and the related effects severely affected the organisation's project implementation capacity.

209. **The decrease of the labour market** - the economic crisis generated a decrease of the employment rate for the entire working population, from 59% (Q1, 2008) to 57% (Q1, 2010). Whatever the social group, it is currently more difficult to find a job than it was two years ago when the project was designed. The labour market has also become more competitive in the sense that a higher level of performance is expected from both the current and the potential labour force.

210. **A more difficult relation with employers** - in the current context it is more difficult to convince employers to give scarce jobs to disabled people. In spite of the subsidies available to firms for

recruiting disabled persons, employers prefer to give the job to a highly and easily performing person in order to reduce expenses in terms of adjusting the workplace to the needs of disabled employees or other staff compensating disabled persons' performance limitations.

211. **Changes in the situation of the target group** - the labour market for the disabled was substantially narrower already before the economic crisis. In 2009, the employment rate among disabled people was 12% compared with the average employment rate of the total population, which was 70%. According to the National Employment Agency, 7% of disabled people lost their jobs in the last two years, compared with 6.1% of the total population.

212. **Challenges for the beneficiary's capacity in the project implementation** - in a chain effect, all the above-mentioned factors generate project implementation problems. The main problem refers to the achievement of the target indicator on the employment of disabled people. Out of the total of 280 disabled people targeted to be employed by the project's end (October 2011), 90 should have been employed by the end-July 2010. In the event, only 38 people had gained employment at that time. The beneficiary therefore faces more effort in reaching out to the target group, in identifying employers interested to recruit disabled people, and in raising the awareness of the employees without disabilities on integrating colleague with disabilities.

### 3.3.5 Remedies

213. The beneficiary has to find solutions to overcome or at least reduce as much as possible the effects of the economic crisis. The following solutions represent tactics developed by the beneficiary in a group creativity (brainstorming) session on how to increase its capacity to achieve the project's target indicators:

- *diversifying the information sources about the labour market* – apart from the National Employment Agency (and its local branches), other sources of information about the labour market can be used, including the mass-media and on-line job searching and recruiting sites; social networks prove to be a good source of employment opportunity information;
- *increasing contacts with employers* – a more active identification of employers can be done via employers' associations and the Chambers of Commerce and Industries, or by establishing direct contacts with employers;
- *direct involvement of the target group in actively searching for jobs* – encouraging disabled people to get involved in identifying job opportunities and facilitating access to the respective opportunities;
- *increasing beneficiary's project management and implementation capacity* by combining the services provided by the project with other complementary services carried by the organisation, rendering the whole package of services more attractive and sustainable.

214. Specific remedies might include:

- in the preparation of the next programming period it would be highly relevant for ACIS to analyse how the labour market influenced the implementation of SI projects, as well as how SI projects influenced the labour market. The findings of such a complex analysis may be expected to have multiple uses, including raising beneficiary and MA awareness of the scale and diversity of the impact of SI projects on the labour market.
- eliminating delays on the part of the MA for SOP HRD in processing reimbursement requests would help to reduce the pressure on beneficiary cash flow, which in turn would increase beneficiary capacity to mobilize human resources needed for a better achievement of all project target indicators and successful project implementation.



- to explore innovative solutions to overcome the difficulties in reaching the target; for example, extending project duration, allowing for more flexibility in extending the target group, providing alternative support solutions for the target group.
- to avoid referring to the number of people employed as an output indicator, but as an outcome indicator; payments be conditioned by carrying out the project activities and delivery of outputs and not be related to the achieved results. The attainment of the outcome indicators may be checked some time after the end of the project.