

## EXECUTIVE SUMMARY

The review report was prepared in September-November 2010 in the framework of the component *Other Evaluations* of the technical assistance (TA) project *Conducting Evaluations for the Period 2009-2010* implemented under the contract *Carrying out Evaluations during the Implementation of the National Strategic Reference Framework (NSRF) and the Operational Programme Technical Assistance (OPTA)*, concluded between the Authority for Coordination of Structural Instruments (ACIS) of the Ministry of Public Finance (MoPF) and a consortium composed of KMPG Romania SRL (leader), GEA Strategy & Consulting and Pluriconsult.

The review was commissioned specifically to gain additional input into the Synthesis Report (SyR) designed to summarise the results of the individual Interim Evaluation (IE) Reports of the operational programmes (OPs) under the NSRF. The IE reports for two OPs were not ready in time for inclusion in the SyR. These were the Sectoral Operational Programme Environment (SOP ENV), the IE for which is planned for 2011 and the SOP Transport (SOP T), because of Managing Authority (MA) dissatisfaction with the relevant IE efforts in 2009-10. Because the two OPs encompass around 50% of the total value of the NSRF it was decided to commission a separate review of the infrastructure investment under the two OPs. The review focused on four evaluation criteria: relevance, consistency, effectiveness and efficiency, through answers to the following evaluation questions:

### *Relevance*

- **Q1** - The socio-economic analysis underlying the two OPs is based on indicators up to 2004/05. What important changes have occurred since then and are expected in the future?
- **Q2** - How do these changes in the socio-economic context affect the OP and its priority axes, in particular their relevance to Romania's investment needs. Is relevance reduced or increased by the crisis, and if so in what way?

### *Consistency*

- **Q3** - Is the implementation to date of the Priority Axes (PA) within the OPs complementary with each other?
- **Q4** - Are the OPs and PAs coherent with any recent major relevant national and international policy/strategies and investment programmes, including strategies to deal with the economic crisis?
- **Q5** - Are there overlaps in the implementation of the PAs or operations within each OP and between these and other investments in the two sectors?

### *Effectiveness*

- **Q6** - What is the actual implementation progress to the cut-off date? What is the gap between actual and planned progress? In particular, based on approaches to date and the likely project pipeline, what is the likelihood that the OPs will achieve their targets?
- **Q7** - Will the progress to date (and the rate of progress) lead to the achievement of the objectives of the OPs and PAs?
- **Q8** - What are the internal and external factors contributing to the gap between actual and planned performance? Are these factors at policy and decision-making level, management and implementation level? What is the nature and extent of specific obstacles such as policy-making capabilities, structures of implementation bodies, lack of investment prioritisation, relationships within and between structures, lack of personnel, lack of skills, and other evident obstacles?
- **Q9** - How has the economic crisis affected implementation progress, negatively or positively? What are the specific effects involved, e.g. budgetary difficulties, personnel shortages? Is this similar or different across the two OPs and the PAs?

### Efficiency

- **Q10** - Is the management system (managing authority, intermediary bodies, beneficiaries) functional and operating efficiently?
- **Q11** - How has the economic crisis affected efficiency, e.g. did it affect resources? Costs? Supply of services?

The review encompassed first stage data collection through desk research, followed by interviews and workshops with representatives of the MAs, Intermediary Bodies (IBs) and beneficiary entities.

### Relevance

#### SOP Transport

*Conclusion:* In the short to medium term, the crisis affected traffic and the future available financing. Probably the most important external constraint arising from the crisis is the need to rationalize public spending sharply and implement reforms in the public administration in general and the transport sector in particular. However, the current approach of the Ministry of Transport (MoT) and beneficiaries seem to be 'business as usual', relying on the assumption that budget rectifications can occur several times a year. The current forecasts of full absorption in 2013-14 must therefore be considered unrealistic.

*Recommendation:* MoT and beneficiaries – National Roads Company (CNADNR) and National Railways Company (CFR) implement the institutional changes recommended by the World Bank in the Functional Reviews consultancy: clarification of the respective institutional roles of the MoT and the beneficiaries, privatization of National Railways Company for Freight (CFR Marfa), review of expenditure portfolio. The sector may also want to streamline the implementation of the Medium Term Expenditure Framework (MTEF), as foreseen in the Fiscal Responsibility Law. This means preparation of budgets based on realistic schedules for implementation and available financing.

*Conclusion:* The relevance of projects may be affected by traffic variations. In particular, major projects for railways (PA1), railway station rehabilitation (PA2) and some smaller road projects on PA2 might no longer be relevant in economic terms. With their current technical specifications, some railway projects (PA1) are not economically efficient, even without the effects of the crisis.

*Recommendation:* While economic relevance might currently not be the only determinant for keeping some of the projects in the SOP T (particularly rail projects in PA1, where the reopening of the discussion on technical specification might lead to even longer delays), the re-assessment of economic efficiency could be useful.

#### SOP Environment

*Conclusion:* The changes in the socio-economic environment resulting from the economic crisis do not affect in any way the relevance of the interventions under SOP ENV. The needs identified during the programming period remain as relevant as initially estimated. Needs analysis started from the requirements of compliance with EU environment standards being agreed through the Accession Treaty and this is not connected to the economic crisis.

*Recommendation:* Although the economic crisis does not affect the relevance of the interventions, in the context of the limited ownership of the beneficiaries on the SOP ENV projects, the MA SOP ENV is advised to increase the awareness of the beneficiaries on the relevance of the SOP ENV interventions.

*Conclusion:* The financial allocation for Key Area of Intervention (KAI) 2.2 was overestimated. Public authorities own only six out of 1,800 historically polluted sites. Project proposals were prepared for only three of these six sites.

*Recommendation:* The MA for SOP ENV is advised to seek reallocation of the balance under KAI 2.2 to KAI 2.1, or, alternatively, the development of project applications for the other three publicly owned sites, but only after considering the findings of the in-depth interim evaluation scheduled for 2011.

## **Consistency**

### SOP Transport

*Conclusion:* The implementation to date of the projects under the different KAIs is not complementary, with road projects being more developed than railways, water and air transport projects. The projects tend to support a modal shift from rail to road, contrary to that which is desired, i.e. from road to rail. An additional determinant of this modal shift is that the initial railway construction programme under PA1 will now be finalized in two programming periods of SOP T (by 2022). While the preparation of railway projects has recently speeded up and those to be submitted in 2010 will likely exhaust the relevant allocations, the risk to railway projects remains in those cases where the MoT expects quicker implementation and absorption by reallocations to road projects.

*Recommendation:* The MoT is advised to adopt an integrated approach of national and EU strategies to rationalize spending and complement investments and should not give in to the temptation to push for reallocation to road sub-sector projects if project implementation in the rail sub-sector encounters difficulties, but seek to enhance CFR capacity to ensure a balanced absorption of the SOP T. Although possible in principle, it is advisable that reallocations be made only if all opportunities to implement the envisaged railways programme have been exhausted. This should be agreed also with ACIS/MoPF to ensure that budget allocations are not cut from seemingly lagging KAIs.

*Conclusion:* SOP T has a stabilizing effect on transport sector strategies, as the only programme that has been pursued largely consistently over several electoral cycles and with spill-over effects on other strategies (including road-user charging and preparation of maintenance). The focus on full absorption as a yardstick for its success (to judge by the latest wave of projects under preparation and evaluation) may reduce the coherence of SOP T and its value as a 'strategy substitute'.

*Recommendation:* The MoT and the MA are advised to improve the budgetary forecasts under SOP T, by introducing the effective, realistic multi-year budgeting required by the EC, and introduce a similar approach in national programmes. The MoT is further advised to reassess and prioritise, in economic terms, the total investment portfolio for the transport sector resulting from previously approved strategies, based on a similar process as for the SOP T, in the interest of ensuring a balanced development of the transport sector.

The MoT and the MA are advised to consider carefully its current 'full-absorption-as-measure-of-success' approach. The purpose of the SOP T is to make the best use of available resources, focus on key priorities and reach transport sector objectives. The current focus on full absorption encourages the selection of non-priority, but 'mature' projects, which results in preference being given to projects with returns on investments lower than for other possible projects.

*Conclusion:* The SOP T portfolio of projects provides the opportunity to focus on expensive, but politically less 'visible' investments, such as those related to traffic safety and monitoring, as well as projects of lower direct public interest, but long-term high impact (inter- or co-modality, in particular). However, because of implementation difficulties, some projects (e.g. inter-modality) are being dropped or up for re-assessment in the context of the preparation of the next SOP T.

*Recommendation:* The MA and beneficiaries are advised to focus on implementing the projects with lower visibility and high impact, and avoid reallocations from these as much as possible. In respect of inter-modality, the MA is advised to discuss with the EC – in advance of the next SOP T – the institutional framework necessary for a broader approach to establishing transport nodes relevant to the main corridors at several large cities (Bucharest, Timisoara and Constanta).

## SOP Environment

*Conclusion:* Consistency was given much consideration during the programming of SOP ENV. By contributing to regional development, SOP ENV projects are complementary to most other EU-funded programmes (including ROP, SOP IEC and NRDP). The objectives of the SOP ENV are fully correlated with the *National Strategy for Waste Management* and with the *National Strategy for the Sustainable Development. Romania 2013 – 2020 - 2030*. However, at the local level, consistency in implementation is reduced by the lack of ownership of projects on the part of local authorities.

*Recommendation:* The Ministry of Environment and MA SOP ENV are advised to take action in order to strengthen the role and contribution of the Regional Environment Protection Agencies in the Regional Strategic Evaluation and Correlation Committees. To increase local project ownership, the MA and IBs of SOP ENV are advised to request more engagement of the Agencies in the Committees' meetings.

## **Effectiveness**

### SOP Transport

*Conclusion:* Implementation of SOP T started slowly, but gathered pace in 2010, as indicated by the recent improvement of popularity ratio (14% at mid-2009, over 100% currently). Consequently, approval, contracting, payment and absorption ratios are smaller, showing the new thrust for preparation of projects that will need to go through all the next stages in the next months. Currently, projects submitted for major axes and KAIs generally exceed the respective allocations. The new wave of projects will possibly put pressure on the capacity for evaluation and approval in 2011. The implementation of major projects may experience delays for the usual reasons (land expropriation delays, tender contestations, faulty design and claims from constructors). Implementation may well exceed the capacity of understaffed beneficiaries. Although the MoPF is likely to allocate resources with priority to the absorption of EU funds, it remains necessary for the MoT to take budget availability in respect of SOP T into account. Application of the Fiscal Responsibility Law and limited opportunities for amending budgets may negatively affect implementation of SOP T.

*Recommendation:* As prioritization and realistic implementation schedules are critical to obtaining adequate budgets at the beginning of the fiscal year, the MA is advised that additional financing for projects not yet approved by the EC might be secured by taking advantage of the 2009 amendment of Council Regulation (EC) N° 1083/2006 according to which the EC can approve reimbursement of certified expenditure before the actual approval of major projects. This would avoid the need for budget rectifications/amendments mid-year by ensuring predictability of financing from the beginning of the year.

*Conclusion:* While delays in the implementation of SOP T can be overcome by adopting several measures proposed by the MA (including submission of any mature and eligible projects for EU financing), the main concern is that the success SOP T is measured in terms of full absorption of funds. Focusing on absorption may well ensure the spending of the full amount of available funds by the end of the programming period (N+2), *inter alia* through approving all projects that meet the eligibility criteria and reallocations from projects that do not work to those that likely do.

*Recommendation:* The MA and beneficiaries are advised to assign proper importance to physical targets and correlate these with applicable strategies. For example, in respect of the target for the total number of km of road to be built under the SOP T, adequate provision must be made for the timely financing of maintenance works on the relevant road sections in the future.

*Conclusion:* The major internal factors that affect the implementation of SOP T are understaffing and high workloads, excessive staff turnover, including at top management level (particularly at the

beneficiary entities), and risk aversion and red tape in the Romanian administration. Major external factors are the lack of good consultancy firms for the design of major projects in the market, current public procurement regulations, and the budgetary restrictions resulting from the crisis, including the recent introduction of the Fiscal Responsibility Law. While the latter is a good factor aimed to create predictability in the Romanian budgetary system, it requires good forecasting and planning capacity, which in case of MoT is still limited.

*Recommendation:* The MoT and MA are advised to put in place an effective risk management system. To facilitate sharing information on critical risk areas, before a formalized institutional arrangement is in place, an informal mechanism may be adopted at practically zero cost. This mechanism involves the sharing of information on a common platform, allowing for example future railways project managers to see how roads project managers handle land expropriation issues. The TA available under PA4 should be effectively allocated to adequate training that enhances capability of the beneficiaries to handle risks and manage projects effectively.

*Conclusion:* Although the economic crisis has not affected the implementation of SOP T directly, it may have negative effects through potential budget restrictions and the decision to restructure entities and lay off staff in 2011. The MoT and beneficiaries are preparing for a future reorganization and re-definition of structures and roles, because of the World Bank/IMF/EC joint loan conditionality and because the Government now focuses on accelerating the absorption of EU Funds.

*Recommendation:* The decision to restructure the entities involved in SOP T (MA, CFR and CNADNR) must take into account the need for qualified and accountable staff in key risk areas. The Functional Reviews, as well as TA provided under the World Bank Transport Restructuring Project may be used to cover the business areas subject to restructuring and staff reductions and fill in the needs of those departments where additional staff is needed, so as not to affect overall functionalities. The start of works on motorways, national roads and railways will require adequate staff resources and expertise, some of which cannot be outsourced (design approval and a part of works supervision).

#### SOP Environment

*Conclusion:* The overall projects' submission level is over targets, conclusion of contracts for the projects approved is closed to 100%, while the projects approved compared to projects submitted is lower (aprox. 60%). The payments within the contracted projects are quite delayed. The situation indicates the existence of problems in the SOP ENV implementation system, especially related to the length of the projects approval process. Unless the issues raised are urgently solved, the attainment of the SOP ENV targets may be endangered. Nevertheless, taking into account application of the  $n + 2$  rule and the current efforts at the national level directed to measures for increasing the SI absorption, there are good premises for improvements and the targets to be met.

*Recommendation:* MA SOP ENV is advised to increase the control over the timely implementation of projects in order to meet the established deadlines. The TA services should be used based on needs assessment process identifying and prioritizing the problems in the implementation system considered as a moving target.

*Conclusion:* The pace of submitting project proposals under for KAI 5.1 is slow, mainly because of a lack of consistency between technical solutions put forward in the project proposals and the provisions of relevant EU Directives. This is caused by experts' insufficient knowledge of sustainable development concepts in watercourse management, including the latest developments in this area in the 'old' Member States.

*Recommendation:* The National Administration *Romanian Waters* is advised to draw up a plan and take measures for improving its technical capacity in respect of formulating efficient and cost-effective technical solutions under KAI 5.1 that are in line with applicable EU Directives.

*Conclusion:* The fact that beneficiaries lack ownership of projects in the design and preparation phase generates bottlenecks in the course of project implementation.

*Recommendation:* Beneficiaries are advised to establish the core team of future PIUs at a very early stage of the project cycle, preferably already during the design phase. This PIU core team can then act as the main interlocutor with the IB/MA for all project stages.

*Conclusion:* Most of the SOP ENV projects with delays in implementation face problems related to the public procurement process. One underlying cause of this is the fact that Unit for Coordination and Verification of Public Procurement (UCVPP), National Authority for Regulating and Monitoring Public Procurement (NARMPP) and the National Council for Solving Complaints (NCSC) tend to address the same problem in different ways.

*Recommendation:* Using TA services, ACIS is advised to create a common understanding between contracting authorities, tenderers and regulatory bodies, by establishing of a Working Group with NARMPP, UCVPP and NCSC participation. Although this matter came up during the review of the SOP ENV, it might also be of interest for other OPs. It is therefore recommended to inform relevant other MAs accordingly and invite them to participate.

## **Efficiency**

### SOP Transport

*Conclusion:* SOP T is a learning exercise and solutions are found to problems as they are encountered, partly based on previous experience gained with ISPA and Phare projects. There are however some institutional weaknesses that need urgent correction, as they appear to be systemic and cannot be solved without explicit and clear policy decisions. The most important of these is the lack of clarity on the respective roles of MoT and its subordinated companies, which negatively affects the continuity of guidance. This results in unclear lines of responsibility and a high degree of informality in problem solving (inadequately documented ad hoc solutions, many of which lack clear timetables for implementation and deadlines), combined with a largely ineffective risk management system.

*Recommendation:* The clarification of the respective institutional roles between the MoT and beneficiaries (CFR and CNADNR) is critical for the success of SOP T and the functioning of the transport sector overall. The MoT is advised to retain policy preparation and strategy formulation and supervision functions, with CFR and CNADNR acting as companies that implement MoT strategies on the basis of performance contracts. It is advisable to limit the sanction of replacement of the companies' management staff to failure to comply with the performance obligations only. The MoT and the companies are also advised to implement in full the recommendations on institutional reform in the sector as in the World Bank Functional Reviews and the accompanying Action Plan.

*Conclusion:* Given the track record of the beneficiary companies in implementing the investment projects proposed by them, which necessitated downward adjustment of budgets in the course of the financial year, the main risk in the short run concerns the financing available for future projects. At present it is assumed by MoT that budgets should be conservative with additional resources granted during the financial year in case of better than expected performance. However, the Fiscal Responsibility Law may prevent this approach. The CFR expects to be granted around 15% of its estimated budget requirements for 2011. The CNADNR expects to have enough resources for project implementation, but it is unclear if they will suffice to finance the necessary land expropriations.

*Recommendation:* Both the MA and beneficiaries should focus on a realistic implementation schedule for the next year, starting from the assumption that the granted budget is the final one. This would prompt the MA and beneficiaries to consider the attaching risks in full and seek ways to mitigate them through coherent risk management procedures, instead of ad hoc solutions.

## SOP Environment

*Conclusion:* The marginal position of some PIUs within their respective organisations makes it difficult for project managers to distribute tasks to team members. This applies especially true if project team members are hierarchically superior to the project manager or formally belong to other departments with job descriptions containing functions and task beyond their involvement in the PIU.

*Recommendations:* Local public administration beneficiaries are advised to consider revising their organisational structure by subordinating PIUs directly to the highest level of management. In addition, using desk monitoring and site visits, the IBs are advised to monitor closely the stability of PIU staff and their tasks with regard to each project.

*Conclusion:* In the absence of in-house technical staff, beneficiaries find it difficult to fill the expertise gap with existing human resources, resulting in slow progress in project design and implementation.

*Recommendation:* The beneficiaries are advised to make use of the TA budget in order to contract services for their specific technical needs during the project implementation.

*Conclusion:* The management system in use within the MA for SOP ENV is of a very general character, lacking detailed instructions in respect of activities and evidence-based continuous improvement of business processes.

*Recommendation:* The MA for SOP ENV is advised to use TA services for improving its management system by the re-definition of processes, so as to avoid overlaps, mapping and formalising business processes, and establishing procedures for troubleshooting and remedial action.

*Conclusion:* The IBs have limited capacity for uploading data into SMIS, which is the cause for the usability of SMIS being limited for the purposes of the MA.

*Recommendation:* Provided that is considered useful by other MAs and IBs staff, ACIS is advised to establish a help-desk for the purpose of assisting SOP ENV IB staff with issues related to SMIS use in the day-by-day activities.