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Examination of the pre-financing rate applied to the projects funded under the Structural Instruments

Project implemented by:

CPD /NTSN CONECT /GEA Strategy & Consulting

Evaluation Report

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The present report was issued as an independent evaluation commissioned by the Ministry of European Funds to the consortium formed of CPD, NTSN CONECT and GEA Strategy&Consulting.

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List of abbreviations

AA	Audit Authority
ACD (OP)	Administrative Capacity Development (Operational Programme)
ACP	Authority for Certification and Payments
ADI	Inter-community Development Associations (Romanian acronym)
ANRMAP	National Authority for Regulation and Monitoring of Public Procurement (Romanian acronym)
CBC	Cross Border Co-operation
CF	Cohesion Fund
CFR	National Company Romanian Railways (Romanian acronym)
CNADNR	National Company for Motorways and National Roads (Romanian acronym)
CR	Council Regulation
DCA	Decomposition Analysis
EC	European Commission
ECU	Evaluation Central Unit
EGO	Emergency Government Ordinance
EIB	European Investment Bank
EIF	European Investment Fund
ENV (SOP)	Environment (Sectoral Operational Programme)
ERDF	European Regional Development Fund
ESC	Evaluation Steering Committee
ESF	European Social Fund
EU	European Union
EUR	Euros
EWG	Evaluation Working Group
FEI	Financial Engineering Instruments
FR	Final Report
GD	Government Decision
GO	Government Ordinance
GoR	Government of Romania
GR	General Regulation



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HRD	Human Resources Development
IB	Intermediate Body
IE	Interim Evaluation
IEC (SOP)	Increase of Economic Competitiveness (Sectoral Operational Programme)
IR	Inception Report
KAI	Key Area of Intervention
MA	Managing Authority
MECC	Ministry of Environment and Climate Changes
MEF	Ministry of European Funds
M€	Million euros
MPF	Ministry of Public Finance
MS	Member States
MT	Ministry of Transport
NGO	Non-Governmental Organisation
NSRF	National Strategic Reference Framework
OP	Operational Programme
PA	Priority Axis
RAP	Rules of Application
RC	Reimbursement claim
ROP	Regional Operational Programme
SCF	Structural and Cohesion Funds
SF	Structural Funds
SI	Structural Instruments
SME	Small and Medium-sized Enterprises
SMIS	Single Management Information System
SOP	Sectoral Operational Programme
TA	Technical Assistance
TO	Technical Offer
ToR	Terms of Reference
UCVAP	Central Unit for Public Procurement Verification (Romanian acronym)
VAT	Value Added Tax

EXECUTIVE SUMMARY

This report is an evaluation of the use of pre-financing in the implementation of the Structural and Cohesion Funds (SCF) in Romania from 2007 to the cut-off date of the evaluation, which was established as 31 March 2013. The evaluation Terms of Reference (ToR) set out four evaluation questions, each with several sub-questions. For clarity this executive summary addresses all of the evaluation questions in the order in which they were asked in the ToR.

The regulatory framework covering pre-financing in Romania

The EU regulations (from 2006) provide for advancing money to the Member States (MS) to facilitate the start and implementation of the Operational Programmes (OPs). The EU regulations were adjusted to respond to the effects of the economic and financial crisis from late 2008 onwards. The main adjustments were to increase the pre-financing rates available to MS; adjust (abolish) the automatic de-commitment of unused 2007 allocations; improve the maximum reimbursement rate by up to ten percentage points; and allow the MS to retain interest earned on pre-financing balances and introduce the possibility to pay pre-financing on contract and in instalments.

The Romanian legislation covering pre-financing consists of 16 legislative acts from 2007 to 2012. The main adjustments to the original scheme introduced in 2007 were to adjust (upwards and downwards) the rate of pre-financing available for certain OPs; and to enforce the return of pre-financing where a reimbursement claim is not submitted within a prescribed period. The modification of the national provisions for the pre-financing system can be divided into six time periods, which are presented in a summarised form as follows:

No.	Period	Pre-financing regime
1	2 nd of February 2007 – 2 nd of November 2008	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 20% (PA 1-5); 40% (PA 6)
2	3 rd of November 2008 – 23 rd of March 2009	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6)
3	24 th of March 2009 – 13 th of July 2009	<ul style="list-style-type: none"> • Pre-financing rate: 20% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
4	14 th of July 2009 – 25 th of July 2011	<ul style="list-style-type: none"> • Pre-financing rate: 30% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
5	26 th of July 2011 – 22 nd of March 2012	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects: 20% of the eligible value • State aid projects: 35% of grant value



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No. **Period** **Pre-financing regime**

		<ul style="list-style-type: none"> • Amortisation: 30% of each Reimbursement Claim (RC) value (up to the last RC) • Pre-financing to be given back if RC (min 20% of value of pre-financing) not submitted in 6 months from receipt
6	23 rd of March 2012 – present	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects, projects co-financed 100%, projects <1 million RON (eligible value): 20% of the eligible value • State aid projects: 35% of grant value • Amortisation: 30% of each RC value (up to last RC) • Pre-financing to be given back if RC (min 60% of value of pre-financing) not submitted in 6 months from receipt

In general, the national framework established in legislation was followed at OP level, but the way that information on pre-financing was presented to beneficiaries and potential beneficiaries was significantly different in some OPs. Pre-financing rules were not always set out in one place – they could be found in applicant guides, contracts or in supplementary documentation. The ROP and SOP ENV had the most mature set of provisions. SOP ENV and SOP HRD allowed for payment in instalments or in annual tranches. The system to recover unspent pre-financing was introduced in March 2012 but the HRD SOP does not appear to have actively applied the recovery system.

Evaluation conclusions

Question 1: Does the pre-financing instrument serve its objective as it is defined by the NSRF/ Operational Programmes and the relevant legislation? Are there alternatives that serve better the same purpose?

Does the pre-financing instrument serve its objective as defined by the NSRF / Operational Programmes and the relevant legislation?

There is a consistent objective established for pre-financing in the NSRF, the OPs and the Romanian legislation. All three sources establish that the objective of pre-financing is to support the maximum absorption of funds from the structural instruments, mainly by supporting the commencement of operations. The initial stated Romanian objective of pre-financing is to help to commence operations. Later adjustments widened the potential use of pre-financing for the entire duration of an Operation, with the provision that the pre-financing amounts advanced are recovered before the final reimbursement claim is submitted.

The pre-financing scheme in Romania is fully in line with the EC regulations, national legislation, and the initially defined objective in the NSRF. The OP level rules are broadly in line with the national provisions. At overall structural instruments level there is an absence of an effective co-ordination of the rules applied by the MAs, and there are no results



oriented targets in place to guide its implementation and to serve as a basis for assessment of outcomes. At this level, there is limited information and tools to make informed tactical and strategic decisions about the management of pre-financing.

Are there alternative mechanisms to achieve the same aims?

As the objectives of pre-financing were to assist with the absorption of the EU allocation of structural instruments, the search for alternatives considers the alternatives for assisting the beneficiaries to deliver successful projects within the planned time. The alternative mechanisms were reduced to consideration of alternative sources of finance to support the implementation of operations, where three possibilities were identified:

The current (new) system of payments settlement: A new mechanism for local public beneficiaries¹ was introduced in 2013 which provides that payments may be made prior to approval of reimbursement requests, based on claims proving that the works have been executed. The payment is made to the contractor on the same day it is received by the beneficiary and a reimbursement claim must be submitted by the beneficiary within 10 days of the payment. This new system addresses directly the delays in processing reimbursement claims and is a positive incentive to both beneficiaries and contractors to submit the payment requests promptly. The disadvantage is that there is an increased element of unpredictability at the level of the State budget forecasting and there is an increase in administrative overhead. Overall, it is a viable alternative or improvement to the previous arrangements.

100% financing of projects through the state budget: This arrangement is generally considered to be pre-financing in many Member States (MS) and is widely used for large infrastructure projects. It is suitable for cases where the government is committed to a large national development programme. The advantages are that it supports central management of pre-financing and reimbursement and increases the potential for optimised absorption of EU funds. The disadvantage is the need for the government to access the required funding from alternative sources and a potential risk of funding ineligible expenditure.

Use of financial engineering instruments: The EU is expanding the potential use of financial engineering instruments as a means for successfully completing eligible operations and absorbing the structural instruments. A key advantage is that the EU considers the funds absorbed when they are passed to the financial intermediary. They harness the technical competence of the financial intermediary and tend to attract other potential funding sources. As financial engineering is an alternative route to absorbing the structural instruments it needs to be seriously considered for the next programming period. Some internal expertise to act as counterparts for the financial intermediaries is needed as the set up and administrative rules can be complex. Financial engineering is also only suitable for certain types of operation. For example, it is less suitable for ESF beneficiaries.

¹ after the cut off date of this report, the mechanism has been extended to cover also private beneficiaries, with effect from 29 July 2013.



The search for alternatives also covered the practices in use in other Member States (MS). The evaluation conclusion is that the practices for managing and controlling pre-financing in Romania are not significantly different when compared to other MS but that pre-financing is viewed from a different perspective. A key difference is that other MS tend not to isolate pre-financing as a single instrument but rather to take a holistic view of the structural funds management system and its contribution to absorption. Experience of other MSs shows that pre-financing measures need to be applied in conjunction with **other types of financial management measures**. The most common measures applied in other MSs consist of:

- Use of simplified cost options, such as the use of flat rates for expenditure
- Guaranteed reimbursement within a fixed period of time after submission of RCs
- Mandatory submission of RCs within a fixed period
- Special fast track for reimbursement of expenditure for large projects

Question 2. How was the pre-financing scheme used by the beneficiaries? Does its use facilitate the achievement of the pre-financing objectives, as they are defined by the programming documents or legal norms?

Overview of the use of pre-financing in Romania

The evaluation made a detailed study of the use of pre-financing in Romania since 2007 from the perspectives of the pre-financing and recovery funding cycle, the use of pre-financing by OP, by type of beneficiary and by type of operation. The following tables provide the summarised picture of the use of pre-financing. The data presented in the report is the most comprehensive presentation of information on pre-financing available to date.

The factual basis shows that the actual use of pre-financing is not optimised, that is, it has not operated to the maximum extent consistent with its objectives. Four SOPs account for over 96% of pre-financing granted. In overall terms, only 40% of projects supported accounting for 51.8% of eligible amounts benefited from pre-financing. Central Public Authorities and State Companies together account for 28.5% of the eligible value of SI projects contracted and the GoR committed itself to pre-finance these projects entirely by providing funds for project implementation directly in the budgets of the beneficiary institutions, MT and MECC.

The ROP had a good performance in terms of the management of pre-financing as seen in the amount reimbursed, the amount returned and the pre-financing balances with beneficiaries at the evaluation cut-off date. For the other three main users (ENV SOP; IEC SOP; HRD SOP) of pre-financing, the rate of pre-financing reimbursement is quite low in all three and the rate of pre-financing returned in SOP ENV is very high. This can be explained by the different typology of projects implemented under SOP ENV and the difficulties encountered in implementation, but may also reveal difficulties in using pre-financing.

Table 1: Overview of the pre-financing and recovery funding cycle

	RON Billion	ROP	SOP ENV	SOP HRD	SOP IEC
Pre-financing granted	7.758	32.1%	32.5%	26.1%	8.9%
Pre-financing reimbursed	4.196	45.6%	18.5%	25.9%	9.3%
Pre-financing returned	0.794	15.5%	80.7%	1.4%	2.4%
Pre-financing balances	2.768	16.4%	39.9%	33.6%	10.1%

The highest demand for pre-financing was for HRD SOP, where more than 79% of the projects accessed pre-financing but the amounts involved were relatively small which adds significantly to the management burden for the administration of the recovery of pre-financing balances. SOP ENV had the highest proportion (88.8%) in terms of the eligible value of projects that received pre-financing and the smallest number of projects receiving pre-financing which means they had a high individual value.

Table 2: Pre-financing granted

	U.M	All Ops	ROP	SOP ENV	SOP HRD	SOP IEC
Number of projects contracted	No.	9,493	3,405	330	2,288	2,923
Number of projects pre-financed	No.	3,803	1,241	175	1,813	374
	%	40.1%	36.4%	53.0%	79.2%	12.8%
Eligible value of projects contracted	RON Billion	89.528	20.820	23.633	13.850	10.470
Eligible value of projects that received pre-financing	RON Billion	46.404	11.473	20.991	10.711	3.050
	%	51.8%	55.1%	88.8%	77.4%	29.1%

Use of pre-financing at OP level

For the ROP, the rate of projects that received pre-financing is quite low (36.4% of the number of projects; 55.1% of eligible value) so this limits the overall contribution that pre-financing has made to absorption at OP level. The use of pre-financing in ROP is good, as reflected in the high reimbursement rate. This means that at project level, pre-financing has been effective in supporting the progress of project implementation. The rate of pre-financing returned (4.9%) is reasonable. The main beneficiaries using pre-financing in the ROP were Local Public Authorities, NGOs and Companies.

In the SOP ENV, 53% of projects covering 88.8% of eligible value have benefited from pre-financing which is a good performance at OP level. However, the contribution to achieving the pre-financing objective at OP level and at project level is not as significant as for the other OPs, in the context of the specificity of the projects implemented under this OP. This

can be seen in the low reimbursement rate (30.8%) and the higher return rate compared to the other OPs (25.4%). The SOP ENV beneficiaries were Local Authorities and NGOs but the value attributable to NGOs is negligible which indicates a problem for the Local Authorities accessing pre-financing in this OP.

A high proportion of the HRD SOP projects (79.2%) and of the eligible value (77.4%) was taken up in pre-financing. The reimbursement rate of 53.6% is consistent with the view that the projects in this SOP are small in amount and in duration. The low return rate is not of significance, as it is known that the MA has not pursued the return of unused pre-financing to the same extent as in other OPs. In value terms, the main users of pre-financing in the HRD SOP are NGOs and Central Public Authorities (applying for their partners as association leaders). It is reasonable to conclude from the figures that the availability of pre-financing has contributed to the pre-financing objective (to assist with absorption) in this SOP.

The low proportion of projects (12.8%) and the low proportion of eligible value for pre-financing (29.1%) for the IEC SOP means that the contribution of pre-financing to overall absorption at SOP level is very small. The main users of pre-financing in this SOP are companies. The reimbursement rate of 56.8% suggests that the use of pre-financing has made some contribution to the successful absorption of the EU allocation at project level.

The analysis of the performance gap between the desired and actual outcome from the use of pre-financing can be summarised as follows: For ROP and IEC SOP there is a low accessibility to pre-financing in terms of amounts. While a high volume and value of the ENV SOP projects gained access to pre-financing, the result in terms of absorption is poor. The quality of information available for HRD SOP was problematic but it appears that the availability of pre-financing makes some contribution to absorption for that SOP.

Main categories of beneficiaries

As the definition of beneficiary groups in the records (SMIS) is very detailed² the evaluation reduced the beneficiary list from 26 groups in SMIS to 8 primary user groups, as follows:

Crt. No.	Category defined	Content of each category
1	Central public authorities	Central public authorities and their subordinated and coordinated units
2	Local authorities	Local public authorities and their subordinated and coordinated units and associations of local authorities, such as ADIs
3	Regional operators	Regional operators
4	State companies	State companies
5	Companies	All types of companies, including SMEs, micro-enterprises, large enterprises and entities referred to as 'legal entities of private nature'
6	NGOs	Includes both classical type of NGOs (classified as such in the SMIS) and the 'legal entities of private nature and public utility',

² There are 26 categories of beneficiaries defined in the SMIS



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Crt. No.	Category defined	Content of each category
		'legal persons of private nature, non-profit' and Regional Development Agencies (RDA).
7	State universities and research institutes	State universities and research institutes
8	Others	Includes beneficiaries in the following categories: religious institutions, museums, international financial institutions, trade unions, employers' organisations, chambers of commerce and custodians /administrators of natural protected areas and suppliers of professional training services (eligible under HRD SOP), whose legal statute can vary from an NGO to a company.

The analysis at the level of the 8 categories of beneficiaries defined shows that, in terms of **projects that received pre-financing**, local authorities lead in terms of number of projects, but in terms of eligible value they are in second place (with 31.1% of total eligible value), being outranked by the regional operators (36.9%). Almost 37% of the pre-financing has been granted to projects where beneficiaries are local authorities. Together, regional operators and local authorities account for more than 60% of the pre-financing granted. These categories are followed by NGOs (11.9%), State universities /Research institutes and companies, each with 10.1%.

Table 3: Beneficiaries of pre-financing – numbers of projects

Projects	Overall Beneficiaries					Beneficiaries who received pre-financing				
	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC
Total projects	9,493	3,405	330	2,288	2,923	3,803	1,241	175	1,813	374
Companies	4,857	1,802	0	617	2,430	882	221	0	462	199
Local Authorities	1,783	1,290	58	143	93	1,195	827	39	110	52
NGOs	1,144	241	57	727	95	890	160	55	655	0
Cen Public Authorities	875	33	121	301	153	190	5	0	177	2

Table 4: Beneficiaries of pre-financing – eligible value of projects contracted

RON Billions	Overall Beneficiaries					Beneficiaries who received pre-financing				
	All Ops	ROP	SOP ENV	SOP HRD	SOP IEC	All OPs	ROP	SOP ENV	SOP HRD	SOP IEC
Value of projects	89.518	20.820	23.633	13.839	10.471	46.404	11.473	20.991	10.711	3.050
Companies	12.804	3.104	0	1.794	7.360	3.750	0.642	0	1.545	1.563
Local Authorities	22.283	16.166	4.845	0.377	0.616	14.453	10.204	3.580	0.275	0.304
NGOs	5.051	0.527	0.160	4.281	0.024	4.181	0.330	0.144	3.670	0

Examination of the pre-financing rate applied to the projects funded under the Structural Instruments



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Central Public Authorities	7.191	0.503	0.824	3.420	0.737	2.242	0.014	0	2.182	0
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Main types of interventions

The main types of interventions receiving pre-financing are:

- **Public infrastructure:** includes projects under ROP (PA 1, PA 2, PA 3, PA 5–KAI 5.1), ENV SOP (except for PA 6) and Transport SOP (except for PA 4)
- **Investments:** includes projects under ROP (PA 4, PA 5–KAI 5.2), IEC SOP (except for PA 1–KAI 1.2 and PA 5)
- **Soft type interventions:** includes all TA interventions (all OPs and TA OP) and HRD SOP, ACD OP, IEC SOP (PA 1–KAI 1.2), ROP KAI 5.3

Public infrastructure projects received 60.9% of the pre-financing granted, followed by soft-type projects (27.2%) and Investments (11.9%).

Limiting factors faced by beneficiaries in accessing and using pre-financing

The evaluation considered the factors faced by beneficiaries that might explain the performance gap noted from the quantitative analysis. In terms of accessing pre-financing, it was possible to group beneficiaries who fall under the state aid rules and those outside the state aid provisions. For the beneficiaries falling under the state aid rules (mainly private companies) the requirement for a bank guarantee and the difficulty in obtaining the guarantee was a key limiting factor. The low size of pre-financing available, the accelerated rate of recovery of the pre-financing and the difficult administrative requirements to obtain pre-financing were all cited by beneficiaries as the main limiting factors. Other secondary limiting factors, but no less important in terms of the next programming period were the limited information available about pre-financing, the frequent changes to the pre-financing provisions and the different procedures and rules applied by the different OPs. In this regard, Local Public Authorities complained the least about difficulties in accessing pre-financing.

The factors affecting the use of pre-financing overlapped significantly with the factors that are thought to limit the overall absorption of structural instruments. The most serious factors were the poor performance of contractors, the complexity and judicial nature of the public procurement process, the effect of the financial and economic crisis and the poor quality of the technical projects. The performance delays caused by these factors in many cases render the financial cash flow profiling no longer reliable which has an effect on the reimbursement cycle by contributing to late submission of claims. The poor technical projects and poor standard of contractors add to the time required to check the documents support reimbursement claims. Where the pre-financing regulations changed during project implementation, this adds to the administrative problems for both sides.



The evaluation consulted with banks, as stakeholders in the funding business. Their perspective was that the requirement for a bank guarantee would cause them to assess the credit worthiness of the beneficiary/ contractor applicant. The financial capability of beneficiaries, the quality of the project and the uncertainties of the public procurement procedures were the highest risk factors for them.

The analysis of the use of pre-financing covered several further perspectives to see if it was possible to build on the observations from the basic analysis reflected in the above paragraphs. When viewed by project size (measured in terms of project value), 1,587 projects receiving pre-financing had a value between EUR 200,000 and EUR 500,000. The analysis showed that higher value projects accounted for the highest share of pre-financing which is to be expected. The conclusion is that relative size of project is not a major factor in the pre-financing system. This view is consistent with the poor performance of the large projects in the ENV SOP.

Effects of misuse of pre-financing

The vast majority of pre-financing returned is for procedural reasons rather than a reflection of fraudulent practices. The analysis of pre-financing returned shows that the failure to meet the planned timetable for submitting a reimbursement claim is the most common reason for returning the pre-financing. Unreliability of data continues to be a problem, especially in the case of HRD SOP. SOP ENV reported the highest level of pre-financing returned (25.4%); many beneficiaries applied for the maximum amount of pre-financing which could not be used within the six months timeframe assumed due to the complexity and size of the projects. The initial 30% pre-financing rate combined with the provision to recover pre-financing starting only with the second reimbursement claim resulted in significant funds taken out of service and eventually in a lack of funds for pre-financing in 2011, when a shortage of funds to continue “feeding” the pre-financing system became the main driving factor for recovery of pre-financing. Most returns started in 2011 and increased when the enforcement mechanism was clarified in early 2012.

The impact of the pre-financing mechanism on its defined objectives

The data collected was processed through the econometric model to add weight to the conclusions that might be made on whether or not pre-financing is meeting its objective. The aim was to assess the relationship between pre-financing granted and the absorption rate at the level of beneficiaries. This was done by studying the time intervals between the granting of pre-financing and the submission and subsequent payment of reimbursement claims. The model was calibrated for the changes in the available rates of pre-financing in the different time periods.

From the perspective of the OPs, the model showed that the time required to process a reimbursement claim was longer than the interval between the granting of pre-financing and the submission of the first reimbursement claim. This reflects a very poor efficiency rate



for the checking of the claims. For two of the large SOPs (IEC SOP and HRD SOP) the time interval from granting pre-financing to payment of the first reimbursement claim was approaching 200 days.

The model was used to calculate the three primary indicators for pre-financing for the different types of beneficiary for each OP. The indicators are the absorption rate, the use of pre-financing multiple and the accessibility of pre-financing. The results from the model analysis was that all OPs had a positive multiple for absorption based on the use of pre-financing, ranging from 421% (4.21 RON absorbed for each RON 1 of pre-financing) for ACD OP to 209% for SOP ENV and 197% for TA OP. By type of beneficiary, the model showed that NGOs have a multiple of 327% followed by 323% for Local Public Authorities³. The full list for beneficiaries by OP is given in Table 35 with separate tables by OP and by type of beneficiaries in Tables 36 and 37. These tables directly answer the evaluation question as they show the relationship between pre-financing granted and rate of fund absorption.

The data was further analysed through a regression model, applied to all completed projects and by OP to support the analysis of certain limiting factors influencing the performance of pre-financing in reaching its objectives. The analysis of the all completed projects was found to be valid, as the influence of the explanatory variables on the absorption rate is high (93%). There is a significant, positive relationship between the level of use of the pre-financing and the absorption rate: if the use of the pre-financing increases by 1%, then the level of absorption increases by 0.92%. The rate of pre-financing and the access to pre-financing have a positive influence on the absorption rate, while the distance in time between pre-financing payment, submission of RC and reimbursement have a negative influence on the absorption rate. The influence of the period between the first pre-financing payment and the submission of the first RC is smaller than the period between the submission of the first RC and the first reimbursement, so the “system-related” problems have a higher impact on the absorption than the “beneficiary-related” problems.

The conclusions of this analysis at OP level were that the time interval between the first registered claim and the first reimbursement is significant only for SOP HRD, SOP IEC and SOP ROP, and the influence is negative, being a sign of system vulnerability. For SOP IEC, the access to pre-financing has the lowest impact on the absorption rate, only 0.38, while the highest impact is recorded for ROP, with 1.22. The impact of the use of the pre-financing is evenly distributed among OPs.

When viewed from the perspective of beneficiaries, the model showed that the highest impact of the pre-financing rate on the absorption rate is for Regional Operators (1.03), while the lowest impact is for Companies (0.69). The period between the date of submission of the first RC and the first reimbursement is significant only for three types of beneficiaries: regional operators, companies and NGOs. For companies, the influence of the access to pre-financing on the absorption rate is the highest, with an elasticity coefficient of 1.23, so a 1%

³ From a technical perspective, the analysis showed that Central Public Authorities have a multiple of 369%, but this is less relevant, as this category is not eligible for pre-financing as such, but they have applied for pre-financing in the cases when they have acted as association leaders on behalf of their partners, such as NGOs or other type of beneficiaries.



increase of the access to pre-financing is reflected in a 1.23% increase in the absorption rate.

The implications of the use of pre-financing on the State Budget

In order to study the implications of the use of pre-financing on the state budget, the data set of quarterly fund movements was assembled (Table 41). The table showed that pre-financing had no net financial effect on the state budget as the advances received from the EC were sufficient to fund the net pre-financing issued to beneficiaries. The maximum exposure (i.e. of pre-financing balances in beneficiary accounts) was in quarter 3 of 2011 (approximately RON 4 billion). Since then, the pre-financing balances have been falling.

Question 3. Are there identifiable differences or changes in the use of the scheme? In what respect can these differences and changes be attributed to internal or external factors?

Evolution of access to pre-financing

The evaluation noted that the use of pre-financing can be divided into six separate time periods mainly based on changes to the rates of pre-financing that were available. The busiest period for the use of pre-financing was from 14 July 2009 to 25 July 2011 (time period 4) which coincides with an intensive period when all the SOPs were trying the launch calls for proposals and select operations and also when the rate of pre-financing available was the most attractive and was stable. The pattern of the relationship between the number of projects requesting pre-financing and the number of projects signed roughly follows a normal curve. The average for all 6 time periods is 40.4% but with a peak of 47.1% in period 4 followed by 41.5% in period 5.

Internal and external factors that influenced the use of pre-financing by the beneficiaries

In order to address this sub-question, the evaluation considered a short list of “likely” factors to explain the pattern of demand for pre-financing. The factors considered were the interest rate, the exchange rate, taxation legislation, the available public funding for providing guarantees in favour of the SI beneficiaries, and the forecasted effect of the financial crisis and its impact on banks /lending policies. The exploration of these factors with beneficiaries and stakeholders (through interview and survey) confirmed that none of them had a direct influence of the decision making to use pre-financing.

The conclusion is that the peak in demand for pre-financing was more likely influenced by the availability of pre-financing, the attractiveness of the rate and the relative stability of the rules in force for that period. The evaluation considered several other external factors like those identified as generally influencing the performance of the pre-financing mechanism (the financial capacity of the beneficiary; the administrative capacity of the SI



system; the administrative capacity of the beneficiary, including quality of project preparation; the stability of the general legal framework; the public procurement legislation; and the performance of the contractors) but none emerged as a dominant factor. The interesting conclusion to this question is that it seems that a combination of favourable factors is needed to persuade beneficiaries to access the structural funds, with a bias in favour of internal factors rather than external factors.

Impact of pre-financing on absorption by legislation periods

The analysis of the impact of pre-financing on absorption (at the level of the beneficiaries) based on the econometric models, shows that there was no effect in periods 1 to 3 and a consistently minor effect in period 4. For periods 5 and 6, the pre-financing rate had a significant impact on absorption. The model indicates that there is a positive multiplier effect. If the pre-financing rate increased by 1% then the absorption rate would increase by 1.23% for projects contracted in period 5 and by 1.12% for projects contracted in period 6. In view of the large take-up of pre financing in period 4 this follow-on effect on absorption is perhaps disappointing. It suggests that there is only a weak link between pre-financing and absorption.

Question 4. Which are the optimal pre-financing rates, applicable to the various types of projects and beneficiaries, as to accelerate the implementation process? What would be the impact on the national budget?

Optimal pre-financing rates for increasing absorption – current pre-financing system maintained

This question was addressed through the econometric model. The model was used to assess the potential options for modifying the pre-financing scheme in order to maximise the absorption rate at the level of the beneficiaries. The key assumptions used when building the following scenarios were that the main principles of functioning of the pre-financing mechanism are maintained, namely: (1) money placed from the beginning of project implementation directly in the accounts of the beneficiaries; (2) accelerated recovery of pre-financing; and that (3) the future behaviour of the beneficiaries when using pre-financing is similar to that observed in the past.

The analysis considered that the four variables that could be modified to obtain optimum values for the absorption rate at the level of the beneficiaries were the pre-financing rate, the level of accessing pre-financing (how much of the pre-financing available for beneficiaries, according to legal conditions, is actually paid to beneficiaries), the period between the payment of the first pre-financing instalment and the submission of the first RC (how fast the implementation advances or “the performance of the beneficiary”), and the period between the submission of the first RC and the first reimbursement to beneficiaries (how fast the administrative system processes the RC or “the performance of the system”).

The baseline scenario and three alternative scenarios were developed for consideration:

Scenario 1: The expected absorption rate at beneficiary level is 80%; The average time interval between the first registered claim and the first reimbursement decreases by 50%; All the other independent variables (use of pre-financing, access to pre-financing and distance in time between payment of pre-financing and payment of first RC) remain constant.

Scenario 2: The expected absorption rate at beneficiary level is 80%; The access to pre-financing increases by 20%; and all the other independent variables (use of pre-financing, distance in time between pre-financing payment and submission of first RC, average distance in time between the submission of first RC and the first reimbursement) remain constant.

Scenario 3: The expected absorption rate at beneficiary level is 80%, The access to pre-financing increases by 20%, the average time interval between the submission of the first RC and the first reimbursement decreases by 50%, the average time interval between the first payment of pre-financing and the submission of the first RC decreases by 50%, use of pre-financing remains constant.

The same expected absorption rate (80%) was used in the three scenarios. The model computed the optimal pre-financing rate needed to reach the target (expected) absorption rate for each type of beneficiary and type of intervention. The results shown below indicate that higher levels of pre-financing would be needed for scenario 1 than for the other two where the rates needed were similar.

Table 5: Optimum pre-financing rates by beneficiary in the alternate scenarios

Beneficiary	Baseline	Scenario 1	Scenario 2	Scenario 3
	Current rates	Optimum pre-financing rates		
Companies	24%	24%	18%	16%
Local Authorities	27%	37%	29%	29%
NGO	24%	32%	26%	26%
Regional Operators	24%	60%	70%	23%
State universities /research institutes	29%	50%	40%	68%
Others	24%	28%	23%	41%

Table 6: Optimum pre-financing rates by intervention in the alternate scenarios

Intervention	Baseline	Scenario 1	Scenario 2	Scenario 3
	Current rates	Optimum pre-financing rates		
Public infrastructures	25%	40%	31%	31%



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Intervention	Baseline	Scenario 1	Scenario 2	Scenario 3
Investments	26%	25%	25%	25%
Soft-type interventions	26%	36%	30%	29%

Impact of the proposed scenarios on the national budget

The effect of the required pre-financing rates on the State Budget for the scenarios was calculated and compared against the baseline of the current amounts of pre-financing granted (RON 7.75 Billion). The analysis showed that for each scenario, pre-financing of between RON 10.26 billion and RON 11.72 billion would be needed. Pre-financing at current levels would be sufficient for ROP, and SOP IEC. An increase in pre-financing would be needed mostly for SOP ENV and partly for SOP HRD.

Optimised pre-financing mechanism for different types of projects in 2014+

The scenarios are based on the key assumption that the core principles of the current pre-financing system will be maintained in the future. The evaluation conclusions support the opinion of the beneficiaries that there are two basic limitations in the current pre-financing scheme. These are the rate of the pre-financing granted and the condition imposed to gradually deduct pre-financing from reimbursement claims before the final reimbursement claim. In other words, pre-financing is too small, but more importantly, it is not available to beneficiaries as a permanent cash flow support throughout project implementation and especially in the final stages of the project. This has resulted often in the situation that beneficiaries postpone final payments to contractors (and submission of final reimbursement claims) due to lack of cash.

The cash flow analysis of the three main types of projects (Infrastructure projects, usually implemented by public sector; investment projects, usually implemented by private sector (SMEs); and ESF soft projects) shows that for all three project types, the current payment settlement mechanism can be improved by replacing the current pre-financing system, both in terms of “exposure” of the state budget (the total amount paid from the budget to beneficiaries until the approval of the reimbursement claims) and in terms of cost (the cost registered by the budget as if the State would have to pay interest for the entire amount paid to beneficiaries, until reimbursement claims are approved). For investments by private sector and ESF soft projects, there are other factors than cash flow and costs that are support the use of alternative methods of financial support, such as providing free-of-charge guarantees or other type of FEIs for grant schemes and /or replacing grant schemes with credit and grant schemes. If the “classic” pre-financing mechanism is used, the funds should be left at the disposal of the beneficiary for the whole duration of the project.

Recommendations

Management of pre-financing



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1. GoR should establish an efficient coordination of pre-financing at central level, by MEF and MPF and should harmonise the applicable norms and legislation at NSRF level.
2. The relevant MEF department charged with management of pre-financing or the Working Group for financial aspects (pending on decision in response to Recommendation no. 1) should be supported by a central TA expert resource, capable to provide continuous assistance in the areas of financial management, EU fund regulations, state aid and FEIs.
3. MEF /MAs should commission the necessary improvements to the design of the management information datasets for monitoring pre-financing. A priority is to improve the data definitions and simplify of beneficiary groups and types of intervention and to enable the tracking of the key dates in the pre-financing application and recovery cycles in order for the system (SMIS) to be capable of delivering tailor-made data sets concerning financial implementation, at project level.

Optimised pre-financing mechanism for different types of projects in 2014+

4. For all public infrastructure projects (central and local), future 2014+ advance payments from the EC should capitalise a dedicated pre-financing fund, managed directly by MEF /MPF (to take advantage of the government's access to funding at the best rates) or co-managed by MEF /commercial bank(s), with a view to secure pre-financing funds throughout project implementation, by using the current payment settlement system. A payment claim value limit (such as 15% or 20% of the grant) should be imposed to contain the exposure of the fund and to strengthen implementation discipline.
5. For ESF-type soft projects, a special fund to secure pre-financing should be set up, by using advance payments from EC and /or other GoR /private sources. Pre-financing should be granted to beneficiaries, by using the "classic" pre-financing method (15% of grant), with the advanced amount kept for the entire implementation duration.
6. MEF /MAs should setup dedicated FEIs to provide free-of-charge guarantees to private beneficiaries and /or should consider designing credit and grant schemes that would involve commercial banks in SI projects' implementation, as an alternative to pure grant schemes.

Complementary financial management measures to improve future absorption

7. For the next programming period, MEF should ensure that necessary improvements to the management of submission and processing of RCs are implemented in line with the best practices from other MSs, such as:
 - Use of simplified cost options, such as the use of flat rates for expenditure
 - Guaranteed reimbursement within a fixed period of time after submission of RCs
 - Mandatory submission of RCs within a fixed period
 - Special fast track for reimbursement of expenditure for large projects



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1 PREFACE

Contract background

The evaluation was carried out through a contract under Framework Agreement no. 23/22.08.2011 for the evaluation of Structural Instruments during 2011-2015, Lot 1 – Evaluations. The Beneficiary is the Ministry of European Funds (MEF), through the Unit for Analysis, Programming and Evaluation. The project started on 26 September 2012 and has been extended twice, to 26 May, respectively 31 July 2013. The reason for extension was the unavailability of data needed to support the analyses asked for through Terms of Reference (ToR). The cut-off date for the report was also extended, to 31 March 2013.

The project was implemented by a consortium of companies consisting of CPD (Estonia), the consortium leader, NTSN CONECT (Romania) and GEA Strategy and Consulting (Romania)⁴.

The evaluation questions and the structure of the Evaluation Report

The evaluation had to answer to the following four evaluation questions:

- 1) Does the pre-financing instrument serve its objective as it is defined by the NSRF/ Operational Programmes and the relevant legislation? Are there alternatives that serve better the same purpose?
- 2) How was the pre-financing scheme used by the beneficiaries? Does its use facilitate the achievement of the pre-financing objectives, as they are defined by the programming documents or legal norms?
- 3) Are there identifiable differences or changes in the use of the scheme? In what respect can these differences and changes be attributed to internal or external factors?
- 4) Which are the optimal pre-financing rates, applicable to the various types of projects and beneficiaries, as to accelerate the implementation process? What would be the impact on the national budget?

The Evaluation Report is divided into an introductory part, a main section and annexes. The first four chapters aim to make the reader familiar with the contractual and technical background of the evaluation; the methodology used by the evaluation team; the main characteristics of the pre-financing mechanism employed by Romania within the 2007-2013 programming period; and the econometric model used to provide answers to some of the evaluation questions. The main section of the report follows the four evaluation questions. Chapters 5 to 8 provide answers, in the form of findings and conclusions, for each question and sub-questions of the ToRs. The recommendations of the evaluation are presented separately, in Chapter 9, under the form of a Conclusions and Recommendations table.

⁴ The authors of the report are: Colm Dunne (team leader), Lavinia Cioara, Dragos Pislaru, Alina Bosoi, Dan Pele and Serban Totoescu



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2 INTRODUCTION

2.1 Context of the evaluation

The experience of the Member States (MS) that joined the European Union (EU) since 2004 has shown that often the beneficiaries of EU funds are unable to find the financial resources necessary to ensure the cash flows needed for project implementation. This has resulted in failure of project commencement, delays during the implementation phase and in some cases, a failure to deliver the promised results that were expected. To address this problem, for the 2007-2013 programming period, the European Commission (EC) provided through General Regulation (GR) 1083/2006 for advance payments to be paid to MS to facilitate the implementation of the Operational Programmes (OP). The setup of subsequent pre-financing mechanisms at national level was left at the discretion of the MS.

In the case of Romania, as per the provisions of the National Strategic Reference Framework (NSRF) for the period 2007-2013, a pre-financing mechanism was to be setup at national level "*to pre-finance certain operations for which the beneficiaries are central and local public authorities and Non-Governmental Organisations (NGO)*" in order to avoid delays in projects' implementation. The mechanism consists of providing advance payments directly into the accounts of the beneficiaries. By 2009, the pre-financing mechanism had been extended to cover private beneficiaries. Also, important provisions concerning the financing of projects where the beneficiaries are central public institutions and national companies subordinated to Ministry of Transport (MT) and Ministry of Environment and Climate Changes (MECC) were introduced. Through the NSRF, Romania also assumed the responsibility that, if pre-funding received from the EC was not sufficient to cover the pre-financing needs in a certain year, the additional resources needed would be provided from the state budget. In accordance with Article 82 of GR 1083/2006⁵, Romania received, in the period 2007-2010, pre-financing amounting to 9% of the European Regional Development Fund (ERDF), 13% of the European Social Fund (ESF) and 12.5 % of the Cohesion Fund (CF) 2007-2013 allocations. In total, the advance payments amounted to approximately € 2.1 billion. These funds were to be used for both pre-financing and reimbursement payments.

The legislation covering the pre-financing mechanism has had several important changes from 2007 to 2013, consisting mainly of modifications to the pre-financing rate applied to various types of beneficiaries and projects and adjustments to the procedures for disbursement to beneficiaries. The subsequent modifications of the national provisions for the pre-financing mechanism can be divided into six time periods, which are presented in a summarised form as follows⁶:

⁵ amended by Regulation no. 284/2009 and Regulation no. 539/2012

⁶ Dates of entry into force of the respective acts (publishing date in the Official Journal) was considered



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No.	Period	Pre-financing regime
1	2 nd of February 2007 – 2 nd of November 2008	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 20% (PA 1-5); 40% (PA 6)
2	3 rd of November 2008 – 23 rd of March 2009	<ul style="list-style-type: none"> • Pre-financing rate: 15% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6)
3	24 th of March 2009 – 13 th of July 2009	<ul style="list-style-type: none"> • Pre-financing rate: 20% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
4	14 th of July 2009 – 25 th of July 2011	<ul style="list-style-type: none"> • Pre-financing rate: 30% of eligible value • SOP HRD: 30% (PA 1-5); 40% (PA 6) • State aid projects: 35% of grant value
5	26 th of July 2011 – 22 nd of March 2012	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects: 20% of the eligible value • State aid projects: 35% of grant value • Amortisation: 30% of each Reimbursement Claim (RC) value (up to the last RC) • Pre-financing to be given back if RC (min 20% of value of pre-financing) not submitted in 6 months from receipt
6	23 rd of March 2012 – present	<ul style="list-style-type: none"> • Pre-financing rate: 10% of eligible value (1st instalment: 5%; 2nd instalment after authorisation of 60% of the 1st instalment) • Major projects, projects co-financed 100%, projects <1 million RON (eligible value): 20% of the eligible value • State aid projects: 35% of grant value • Amortisation: 30% of each RC value (up to last RC) • Pre-financing to be given back if RC (min 60% of value of pre-financing) not submitted in 6 months from receipt

2.2 Objectives

The specific objective of the project is to provide decision makers, policy makers and programme managers with pertinent information and credible assessments as to the: (1) efficiency and effectiveness of the pre-financing mechanism; (2) key parameters of beneficiaries using pre-financing; (3) issues regarding access to and use of pre-financing; (4) optimal relationships within the pre-financing structure. The project aims to contribute to the acceleration of project implementation in the current programming period and the set-up of a more appropriate administrative structure for SI in the next programming period.

The analyses, recommendations and tools developed by the project will support MEF and MPF to measure the costs for the national budget, for the application of the pre-financing mechanism and thus provide a more solid justification for the future adjustments to the



mechanism. Through the analyses made at the level of the beneficiaries, the project will contribute to the effectiveness of the pre-financing mechanism objective of securing the absorption of the EU funds available for Romania.

According to the ToRs, the main target groups identified (as users of the Evaluation Report) are:

- The Managing Authorities (MA)
- The Intermediate Bodies (IB)
- The Authority for Certification and Payments (ACP)
- The Ministry of European Funds (MEF)
- The Ministry of Public Finances (MPF)
- The Monitoring Committees of the Operational Programmes
- The European Commission (EC).

The project will affect both actual and potential beneficiaries of SI and therefore should impact on more groups than those directly using the Evaluation Report. Moreover, other institutions directly involved in the implementation of SI, such as the banking system and other financial institutions should be affected by the conclusions and recommendations of the report.

2.3 Scope

The project activities and sub-activities were designed with a view to ensure a thorough research of the aspects and factors influencing the efficiency and effectiveness of the pre-financing mechanism in Romania. The actions planned follow a logical structure, aiming to address, in a coherent and adequate manner, the evaluation questions defined by the Beneficiary.

The analysis process includes both qualitative and quantitative analysis of the data and information collected, which concern all Operational Programmes (OPs) in Romania, within the 2007-2013 programming period. In order to respond to the level of detail entailed by the evaluation questions, a specificity of the project was that its starting point was the compilation of a comprehensive data set consisting of information, at project level, concerning the financial implementation of all OPs. Such a task proved more difficult than anticipated. The information in Single Management Information System (SMIS) continues to be unreliable with respect to several OPs, therefore the data set needed to be complemented with information extracted directly from MAs and IBs, which was time-consuming.

In order to respond in a comprehensive manner to the evaluation questions raised and especially with a view to contribute to the setup of a sound administrative system for the



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period 2014+, the qualitative analyses, interviews and beneficiary survey addressed also SI beneficiaries outside the current pre-financing scheme, as this is defined by the legislation. In this context (and as confirmed by the consultations with the evaluation's stakeholders), it is important to note that the financing system setup through EGO no. 64/2009 for central public institutions and state companies represents, *de facto*, another type of pre-financing mechanism, which is entirely supported by the state budget. The evaluation is taking account of this reality and the recommendations made point to an integrated approach to pre-financing at the level of the SI for the next programming period.

2.4 Methodological approach

The Consortium's approach was designed to address the requirements of the project ToRs. The principles underlining the approach are:

- Compliance with the ToRs;
- Combining quantitative and qualitative evaluation methods;
- Using a participative approach;
- Focusing the evaluation process towards achieving the project objectives; and
- Ensuring relevant know-how transfer.

Details of the methodology used to answer to the four evaluation questions are presented in Annex 1.



3 THE PRE-FINANCING MECHANISM IN ROMANIA

3.1 Key characteristics of the current pre-financing system in Romania

The pre-financing mechanism in place in Romania for the programming period 2007-2013 has the following key characteristics:

1. Funds referred to as pre-financing are paid, in one or more instalments, in advance of actual project implementation, directly to the accounts of the beneficiaries (public or private ones) on request, following the signature of the financing contracts.
2. Beneficiaries of state aid-type of projects, be it private or public, must provide letters of guarantee for the amounts requested as pre-financing.
3. A key principle for the use of pre-financing is the accelerated recovery of the funds received as pre-financing by the beneficiaries, through amortisation, as a percentage of the submitted reimbursement claims. In practical terms, this means that pre-financing is supporting only a part of project implementation.
4. The rate and the conditions for granting and using pre-financing for non-state aid-type of projects (which are the majority) have varied in time, from an average of 15% of the project eligible value, to 30% (except for one PA in Human Resources Development (HRD) OP, for which it reached 40%) and then to 10% (or 20%, depending on certain characteristics of the projects). In the case of state aid-type of projects, the pre-financing rate has been constant since 2009, at 35% of the grant value. While the conditions for granting and using pre-financing were changed for practical reasons relating to the needs to accelerate project implementation, the changes in the pre-financing rate were not based on calculations of the intended effects at project level but were applied rather intuitively and for pragmatic reasons, such as the insufficient resources available at the level of the state budget.
5. Although the legislation provided for the conditions for using pre-financing, there were no corresponding provisions on how to recover pre-financing in case of non-compliance until March 2012. After such provisions were introduced, the actual enforcement capacity of the MAs has proved to be mixed.
6. Central public authorities and national companies subordinated to MT and MECC are excluded from the pre-financing mechanism defined as such by the legislation. In this case, the financial resources necessary for the implementation of SI projects are provided directly in the annual budget of the public institutions or in the annual budgets of MT and MECC, for the subordinated national companies. This method represents *de facto* a 100% pre-financing system for these types of beneficiary for the entire implementation period.



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7. As of April 2013, a new payment mechanism called “reimbursement of payment claims” has been introduced for local public authorities and ADIs-type of beneficiaries. In simplified terms, the mechanism allows for the invoices corresponding to executed works or services delivered to be paid by the beneficiaries using GoR funds, prior to the submission of reimbursement claims. Although it is not named as such, this mechanism, which functions in parallel with the “classic” pre-financing mechanism, represents another form of pre-financing.

3.2 European and National legal provisions on pre-financing

3.2.1 European regulations on pre-financing

The EC regulations provide for advance payments (pre-financing) to be paid to the MS, to facilitate the start and implementation of the OPs. The advance payments could be used by the MS to cover both pre-financing and reimbursement claims received from beneficiaries. The advance payment amounts are allocated to each OP, by applying the percentages defined in the regulations to the corresponding yearly allocation of each OP. Records are held separately for each OP, as regards both pre-financing and reimbursed amounts.

The mechanism defined initially (through GR no. 1083/2006) was adjusted in the context of the economic crisis, with a view to counterbalance the negative effects of the crisis, facilitate the management of SI and accelerate the investments in the MS. The aim was to make more EU funding available to the MS in order to reduce the pressure on their diminished national resources and to provide simpler and clearer rules, to improve the efficiency of payments and the access of the beneficiaries to funding.

The relevant EU regulations are summarised in Section A below.

Section A: EC regulations on pre-financing

The original EC regulations

- [GR 1083/2006](#)

In accordance with Article 82 of GR no. 1083/2006, Romania was entitled to receive **pre-financing** as follows:

- For ERDF and ESF: In 2007 2 % of the contribution from the Structural Funds to the operational programme, in 2008 3 % of the contribution from the Structural Funds to the operational programme, and in 2009 2 % of the contribution from the Structural Funds to the operational programme;



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- For Cohesion Fund: in 2007 2,5 % of the contribution from the Cohesion Fund to the operational programme, in 2008 4 % of the contribution from the Cohesion Fund to the operational programme, and in 2009 4 % of the contribution from the Cohesion Fund to the operational programme.

In the same article, it is required that the total amount paid as pre-financing shall be reimbursed to the EC by the body designated by the MS if no application for payment under the OP is sent within 24 months from the date on which the EC pays the first instalment of the pre-financing amount.

Article 83 of GR 1083/2006, provided that the interest generated by the pre-financing was to be acknowledged and used as a resource for the MS in the form of national public contribution.

Article 92 of GR 1083/2006 confirms that the amounts received as pre-financing are not subject to automatic de-commitment and shall count for absorption at the level of the OPs concerned. However, the total amount paid as pre-financing shall be reimbursed to the EC if no application for payment under the Operational Programme is sent within 24 months from the date on which the EC pays the first instalment of the pre-financing amount.

The EC response to the financial and economic crisis

- [Council Regulation 284/2009](#)

In Council Regulation 284/2009, the amount of the pre-financing granted to the MS was increased to a total of 9% of the allocation for Structural Funds (SF), as follows:

In 2007: 2 % of the contribution from the SF to the OP, in 2008 3 % of the contribution from the SF to the OP and in 2009, 4 % of the contribution from the SF to the OP;

The same regulation introduced more flexible conditions for the acceptance of in-kind contributions, depreciation costs and overheads as expenditure incurred by beneficiaries for the implementation of operations (including in regard to the financial engineering instruments).

- [Council Regulation 539/2010](#)

In Council regulation 539/2010 there was a significant 'relaxation' in regard to the provisions for automatic de-commitment. Under the N+3 rule, applicable for the period 2008-2010, the unused 2007 allocation was to be de-committed by the end of 2010. The regulation removed this requirement and redistributed the 2007 allocation evenly over the remaining six programming years (by adding one sixth of the 2007 annual contribution to each of 2008 to 2013 allocations).

This Regulation also increases the pre-financing granted through ESF and Cohesion Fund to those MSs with a decrease in GDP in 2009 of more than 10 % in real terms in comparison to



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2008, by granting in 2010 a supplementary pre-financing of 2 % of the contribution from the Cohesion Fund and 4 % of the contribution from the ESF to the operational programme.

A further relaxation was made for projects falling under state aid rules. The regulation provided for the possibility to provide a guarantee from any financial institution, not only from banks.

- [Council Regulation 1311/2011](#)

The changes introduced in Council regulation 1311/2011 further improved the availability of the EU contribution to SI operations. The regulation provided for an increase of interim payments and payments of the final balance by an amount corresponding to 10 percentage points above the co-financing rate applicable to each PA, but not exceeding 100 %, applied to the amount of eligible expenditure newly declared in each certified statement of expenditure submitted during the period in which a MS meets certain conditions set by the regulation.

The provisions of this regulation were applied retroactively (with effect from 1 January 2010) for Romania, Hungary and Latvia. The effect of this regulation was to increase the reimbursement rate from 85% to 95% in many cases.

- [Regulation no. 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union](#)

This common act repealed the previous Council Regulation on financial rules and introduced (1 January 2013) more simple and clear rules in order to facilitate the payment system and the access of the beneficiaries to funding. The provisions pertaining to pre-financing refer to the interest rate generated by the pre-financing payments, which is no longer due to the EU (with some exceptions), the financial reporting, checks on commitments and validation of pre-financing payments. The new rules also state that the costs relating to a pre-financing guarantee lodged by the beneficiary of the grant represent eligible costs.

3.2.2 The national Legislation

The Romanian legislation for the pre-financing mechanism includes a total of 16 legislative acts, regulating aspects such as:

- *The pre-financing rate*
- *The beneficiaries entitled to receive pre-financing*
- *The conditions for granting pre-financing* (including aspects such as the documents required, the number and value of instalments, etc.)
- *The recovery terms* (amortisation of the pre-financing)

The detailed provisions and modifications in relation to the pre-financing mechanism, corresponding to each of the six periods defined are presented in Section B below.



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Section B – Detailed description of legislative changes to the pre-financing mechanism

2nd of February 2007 – 2nd of November 2008

The possibility for public beneficiaries and NGOs to benefit from pre-financing was defined through GO 29/2007, starting with 2007. The document defined the scope of pre-financing but did not set any exact pre-financing rate. This was further detailed in the GO Norms, which were published in the Official Journal in August 2007 and according to which, the pre-financing rate was 15% of the eligible value of the financing contract for all OPs, with the exception of SOP HRD (20% for PA 1-5 and 40% for PA 6). Only public beneficiaries and NGOs were eligible to receive pre-financing under the established mechanism.

Pre-financing could be granted in one or more instalments, while its amortisation was to take place progressively, in full before the last reimbursement claim. The request for pre-financing had to be accompanied by proof that the beneficiary had signed a first contract for the procurement of services, goods or works under the project.

An obligation for the beneficiaries to give back the pre-financing if not spent within 6 months from the granting date was also established but no legal mechanism was specified to put this effectively in practice.

3rd of November 2008 – 23rd of March 2009

The MPF Order no. 3154/2008 increased the pre-financing rate for the SOP HRD (PA 1-5) to 30% of the eligible value of the financing contract. The other conditions in relation to the pre-financing mechanism remained unchanged.

24th of March 2009 – 13th of July 2009

MPF Order no. 469/2009 increased the pre-financing rate for all OPs to 20% of the eligible value of the financing contract, with the exception SOP HRD (for which the maximum value of pre-financing already equalled 30% of the eligible value of the contract for PA 1-5 and 40% in case of PA 6).

The Order also introduced an important change in the pre-financing regime related to the availability of the pre-financing for the projects subject to state-aid regime, starting from 24th of July 2009. The maximum amount of pre-financing that could be accessed by these beneficiaries was fixed at 35% of the non-reimbursable value of the financing contracts.

The possibility of the state aid project beneficiaries to access pre-financing was conditioned by presentation of a letter of guarantee, covering the entire value of the pre-financing granted. The guarantee was to be released only after the full pre-financing was recovered.

14th of July 2009 – 25th of July 2011

MPF Order no. 2286/2009 increased the pre-financing rate for all OPs to 30% of the eligible value of the financing contract, with the exception of PA 6 of SOP HRD, for which the pre-financing rate remained at 40%. The other conditions were unchanged.



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An obligation to submit reimbursement claims within a certain period after receiving the pre-financing (3 months for the public beneficiaries falling under the provisions) was introduced with effect from December 2010 (GO no. 120/2010). Up to that date, the only repayment provision was an obligation for the beneficiaries to give back the pre-financing if not spent within 6 months from the granting date. This provision was generally not enforceable as there was no legal mechanism instituted to put this into practice.

26th of July 2011 – 22nd of March 2012

An important change in the pre-financing rates was defined starting with July 2011 (MPF Order no. 2359/2011 coming into force on 26 July 2011). This introduced a sharp reduction of the pre-financing rate, to 10% of the eligible value of the project, granted in two or three instalments: a first instalment of 5% of the eligible project value; the other instalments after the validation of expenses, of a minimum of 60% of the value of the first instalment.

For projects falling under the state aid regime, the pre-financing remained unchanged (up to 35% of the non-reimbursable funding), while for major projects, the pre-financing could be increased up to 20% of the project eligible value.

The same regulation required that the pre-financing amount would be recovered by applying 30% to each reimbursement claim, in order to recover the full amount of pre-financing granted up the last repayment claim. No fixed percentage was defined for the amortisation of the pre-financing from the reimbursement claims up to this date. MAs could establish their own rules for the amortisation method of the pre-financing granted.

At the same time, the regulation restated the obligation for the beneficiaries to give back the unused pre-financing if reimbursement claims amounting to 20% of the pre-financing granted were not submitted within 6 months from receiving the pre-financing.

On 28th of July 2011, the share of pre-financing that needed to be spent within 6 months from its receipt was further increased to 60% of the value of the pre-financing received.

23rd of March 2012 - present

Government Decision (GD) no. 218/2012 made further modifications to the regime in place. A minimum threshold (2% /5% of the eligible value of the project) was defined for the value of the signed contracts that needed to be presented by the beneficiary in order to receive the pre-financing.

In addition, the pre-financing rate was increased to 20% of the project's eligible value even for small projects, with a maximum eligible value of 1 million RON, and to projects co-financed 100% from the EU and national funds.



3.3 Pre-financing at OP level

The rules for pre-financing established at OP level generally follow the framework established at national level but there are large differences in the way the information is presented to the Beneficiaries in the context of different OPs. These differences refer to:

- *The document where the full information is provided and the level of detail of the information available*

The rules on accessing and reimbursing pre-financing are either presented in a comprehensive manner in the Applicant's Guide (ROP; ENV SOP), the Applicant Guides, complemented by the provisions of the Financing Contract, or are defined through additional instructions and decisions (HRD SOP), which creates quite a confusing picture for the beneficiaries.

- *Documents required for obtaining the pre-financing*

Both ROP and ENV SOP requested documents showing a certain degree of maturity in the implementation process (such as a notification from the National Authority for Regulation and Monitoring of Public Procurement (ANRMAP) or Central Unit for Public Procurement Verification (UCVAP) for the services /works or supply of goods contracts presented in case of ROP, or the reimbursement schedule, compliance with the N+2/N+3 rules, the implementation plan etc. in case of ENV SOP). Moreover, in case of ROP, a clear timing was set for submitting the pre-financing request, so that the authorities would be able to process the requests in due time.

- *Setting clear provisions for use of the pre-financing*

The specific rules in ENV SOP provided for the granting of pre-financing in two or more instalments and defined spending thresholds before being able to access the subsequent tranches of pre-financing. This was done to speed up the pace of spending and encourage submission of reimbursement claims. Similarly, HRD SOP provided for annual tranches of pre-financing and set out clear limits for spending before receiving a second tranche of pre-financing.

- *Setting clear provisions for the recovery of unused pre-financing amounts*

Although the obligation to pay back the pre-financing amounts that were not used within six months from granting was provided in the national legislation and was taken over in the specific OP rules, no actual mechanism was defined until March 2012 to enforce such provisions. ROP was the only programme for which the specific regulations stated the obligation of the Beneficiaries to submit reimbursement claims within a certain period of time (six months or one year, depending on the project duration) otherwise the pre-financing obtained would have to be returned.

A detailed presentation of the approach used in the framework of each OP and the relation to the national regulations is presented in Section C below.



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Section C. Presentation on OP approach and set-up of the pre-financing mechanism

ROP

The conditions regarding the granting, use and recovery of pre-financing are clearly defined by the Applicant Guides within the ROP.

The rules in relation to the total amount of pre-financing granted follow the national legislation. All Applicant Guides include clear provisions regarding other aspects of pre-financing such as: time of submitting the pre-financing request, recovery method, and the use of pre-financing (to cover both the eligible expenses and corresponding Value Added Tax (VAT)). As regards the documents required for granting pre-financing, the specific OP level regulations include the obligation of the beneficiary to present the notification from ANRMAP or UCVAP for the services /works or goods supply contracts presented, with a view to support the assessment of the maturity of the project implementation process.

No obligation was set for a minimum amount of pre-financing to be spent in a certain period of time, until the definition in the national legislation of such a provision. Unlike other programmes, the specific rules in ROP provided for a maximum duration for submitting a first reimbursement claim (6 or 12 months, subject to the project duration), otherwise the pre-financing would have to be returned.

ENV SOP

The projects implemented under ENV SOP are mainly large or major projects, which were prepared with the help of EU or national assistance and which have clearly set management and implementation structures.

Up to 31 December 2009, the beneficiaries of this programme received direct payments from the CPA, on the basis of the financing contract concluded with the MA and according to the rules established at national level. Starting with 1 January 2010, the mechanism of indirect payments was extended to ENV SOP as well. The rules established by the MA followed the general guidelines established at national level, mainly as regards the maximum value of pre-financing.

Although the national legislation did not provide for the obligation to grant pre-financing in more instalments until March 2012 and did not set minimum thresholds for the amount of pre-financing to be spent before receiving the next instalment, the specific rules in ENV SOP included such limits from the beginning – pre-financing to be paid in two instalments, of 15% each, second instalment to be paid after the beneficiary has spent 60% /80% of the first one. Also, the beneficiary had the obligation to submit a series of documents (such as the reimbursement schedule, the compliance with the N+2 /N+3 rules, the implementation plan, etc.) prior to the submission of the pre-financing request.

Increase of Economic Competitiveness (IEC) SOP

Most of the projects implemented under this OP fall under the state aid regime, so according to the national legislation in force, they were eligible to receive pre-financing starting with March 2009. Some of the interventions in the field of research, and projects in



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the area of e-Government, e-Health or e-Education were outside the scope of the state aid rules and could benefit of pre-financing, starting with 2008.

The rules established at OP level followed the limits and the general conditions set by the national legislation. The guidelines for beneficiaries were not comprehensive at the level of the Applicant Guide and the standard Financing Contract. The references to the final Financing Contract to be concluded between the beneficiary and the MA were not detailed and in some cases (such as for PA 3) there were inconsistencies between the provisions of the Applicant Guide and the standard financing contract in regard to the maximum amount of pre-financing.

Significant differences can be seen in the use and recovery rules for pre-financing applied to different PAs. For example, in PA 2, dedicated to research and development of both public actors and private companies, the initial rules (applicable in 2007 and 2008) provided for a 50% amortisation rate of the pre-financing granted.

HRD SOP

The approach for pre-financing in the HRD SOP was slightly different to the others, as calls for proposals for several KAIs were launched in the same period under the same general terms. The conditions for accessing and using pre-financing were changed depending on the launching period (with the same provisions of the General Guide applicable), rather than on the specific PA or KAI. The rules on pre-financing generally followed the legislation at national level.

The Applicant Guide was not exhaustive in providing all the necessary details of the pre-financing mechanism. A particular issue was that the rules were spread among the General and Specific Guides, the Financing Contract model and the numerous Instructions for the beneficiaries and Decisions of the MA.

Similar to the ENV SOP, the rules provided for granting pre-financing in several (annual) instalments set out thresholds for minimum spending of the amount of pre-financing granted already before receiving a new tranche of pre-financing.

Administrative Capacity Development (ACD) OP

The provisions followed entirely the guidelines at national level. The analysis by PA and KAI shows some inconsistencies between the provisions of the Applicant Guide and the Financing Contract as regards the pre-financing amount payable.



4 INTRODUCTION TO THE ECONOMETRIC MODEL

In order to quantify the effects of the current pre-financing mechanism, the evaluation team proposed the development of an econometric model, which seeks to evaluate the relationship between the pre-financing mechanism and the absorption of the Structural and Cohesion Funds (SCF). The model is based on defined variables (indicators) that drive the observed effects of pre-financing and on establishing the different weights (coefficients) for each variable. The econometric model is useful for understanding the current experiences with pre-financing and to have some predictive capability for the range of policy choices available to Romania for the use of pre-financing in the next programming period.

This chapter presents the general characteristics of the model and the manner in which the model can be used to add to the presentation of the current situation of the use of pre-financing in Romania.

4.1 The Econometric model

4.1.1 Indicators (factors) that contribute to the impact of pre-financing

The purpose of the model is to measure the influence of the factors (indicators), on the achievement of the objective of pre-financing (as established by Evaluation Question 1).

The model concentrates on measuring the effect of the pre-financing granted so far by evaluating the influence of the following three indicators for different beneficiary/project combinations at micro and macro levels. The micro variables used are:

- **Absorption rate (AR_t) at the level of the beneficiaries**

The absorption rate at the level of the beneficiaries is defined as the ratio between the cumulative reimbursements paid (pre-financing confirmed through amortisation and additional payments made following the submission of RCs) and the total amount of the grant. The formula is:

$$AR_t = \frac{\text{Payments}}{\text{Grant}} - \text{Absorption rate at the level of beneficiaries;}$$

- **Rate of access to pre-financing at the level of beneficiaries;**

The access to pre-financing at the level of beneficiaries is defined as the ratio between the pre-financing amount actually granted to beneficiaries and the total “theoretically” available amount of pre-financing, according to the legal conditions set (what the beneficiaries could have obtained if they would have all asked for what they were entitled to, according to the law, aiming at the maximum ceilings set). The formula is:



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$$AccessRate = \frac{Prefinancing}{Maximum Prefinancing}$$

- **Rate of use of pre-financing at the level of beneficiaries;**

This indicator helps to assess how effective pre-financing was, by comparing the absorption at beneficiaries' level with the pre-financing granted. The formula is:

$$UR = \frac{Absorption}{Prefinancing}$$

4.1.2 The econometric model

The econometric model, which is a logarithmic model, has the following expression:

$$\ln AR_i = \beta_0 + \beta_1 \ln UR_i + \beta_2 \ln Pr_i + \beta_3 \ln Dif_pref_claim_i + \beta_4 \ln Dif_claim_ramb_i + \beta_5 \ln ACC_i + \varepsilon_i$$

where:

- AR_i is the absorption rate for beneficiary i (as a percentage, at beneficiary level);
- UR_i is the use of the pre-financing for beneficiary i (in percent, at beneficiary level);
- Pr_i is the average percent for pre-financing, according to the specific legislation;
- $Dif_pref_claim_i$ is the average difference (in working days) between the first pre-financing payment date and the date of the first registered claim.
- $Dif_claim_ramb_i$ is the average difference (in working days) between the date of the first registered claim and the date of the first reimbursement.
- ACC_i is the access to pre-financing (as a percentage, at beneficiary level).

4.2 Use of the model

4.2.1 Effect of pre-financing for different beneficiary /project combinations

The model is designed to be applied to homogeneous beneficiary/project clusters, such as:

- public infrastructure projects for which beneficiaries are local public authorities (roads, urban infrastructure, tourism infrastructure or historic monuments);
- projects for water or waste infrastructure;
- projects under state-aid schemes for which beneficiaries are local public authorities;



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- projects under state-aid schemes for which beneficiaries are SMEs, including micro-enterprises;
- projects under state-aid schemes for which beneficiaries are large companies;
- projects for which beneficiaries are NGOs.

The model is intended to provide a basis for studying the behaviour of the beneficiaries in reacting to the availability of pre-financing against the background of the other influencing variables incorporated in the econometric equation. The evaluation team is fully aware that there may be other internal factors, such as the implementation capacity of the beneficiaries, the economic and financial context at the beneficiaries' level, the real opportunity of the planned investments, etc., that may influence the actual rate of absorption. The model could be adjusted to consider these other relevant factors that influence the absorption rate of the funds but this involves more extensive collection and validation of underlying data.

The model provides an opportunity to study the influence of changes in single variables or combination of variables. In technical terms, this follows the approach of the Cobb-Douglas model for the production function, to evaluate the elasticity coefficients of the regression model.

For example, if β is the elasticity associated to the use of the pre-financing then: an increase by 1% of the use of the pre-financing will lead to an increase by $\beta\%$ of the absorption rate at the beneficiary level. Where $\beta > 1$, the absorption rate is more sensitive than the use of the pre-financing, so an increase by 1% of the use of the pre-financing is reflected in an increase more than 1% of the absorption rate.

The purpose of constructing the model is to facilitate this kind of analysis to inform decisions on the availability of pre-financing for the programming period 2014+.

4.2.2 Use of the model to quantify the cumulative impact of pre-financing on absorption

The following logarithmic expression was developed to capture the cumulative impact of pre-financing on the absorption rate at the beneficiary level:

$$\log SAR_{it} = \beta_0 + \beta_1 SUR_{it} + \varepsilon_{it}$$

In the above expression, the following notations are used:

SAR_{it} is the cumulated absorption rate for the beneficiary i at the moment t ;

SUR_{it} is the cumulated of the use of pre-financing for the beneficiary i at the moment t .

As with the main model, the variables are aggregated on a quarterly basis and their values are **cumulated** for each beneficiary in the dataset. In this model, the variables for interest



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rate, exchange rate and effect on economic growth were not used anymore, as the earlier model showed that these variables had not a significant influence on pre-financing.

This econometric model aims to capture the influence of the use of pre-financing on the absorption rate. By estimating the model for different temporal lags, the intention is to evaluate the optimal lag for the transmission mechanism between the use of the pre-financing and the absorption rate.

4.2.3 Use of the model to consider the impact on the national budget

The model can be used to establish the actual costs of pre-financing for the national budget, in relation to the mobilisation of additional resources beyond the payments received from the EC. This involves a quantification of the period of time the different amounts were in the beneficiaries account and the corresponding cost incurred to the state budget, considering the amounts received as pre-financing from the EU and a standard borrowing cost for the additional resources mobilised from state budget. This analysis is presented in section 6.7 of the report.



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5 OBJECTIVE OF THE PRE-FINANCING SCHEME AND POTENTIAL ALTERNATIVES

5.1 Objective of the pre-financing mechanism

The evaluation team has performed a review of the relevant EU directives and regulations and of the Romanian national legal provisions in order to establish the objective of pre-financing in the management and implementation of the SCF.

EU references

Article 76 of GR 1083/2006⁷ defines a set of payment modalities to the MS, which includes the role of pre-financing. The preamble of the document states: *“(69) payment on account at the start of operational programmes ensures a regular cash flow which facilitates payments to beneficiaries in the implementation of the operational programme.”*

The other provisions referring to pre-financing define the rates and pace of accounting for pre-financing payments to the MS, the applicable interest rates for pre-financing granted, the reimbursement method and clearance of the pre-financing balance.

Neither the Council Regulation (CR) 284/2009⁸, nor other Regulations amending GR 1083/2006, include additional information on the objectives of pre-financing. The only change implemented through CR 284/2009 refers to the increase in rates of pre-financing at OP level in order to help the MS during the crisis period.

Romanian legislation

- **The NSRF 2007-2013 and Operational Programmes**

The NSRF states that pre-financing is a tool meant to address the potential cash flow problems of projects implemented under SI:

“Romania intends to use part of the pre-financing from the European Commission [...] to pre-finance certain operations, for which the beneficiaries are central and local public authorities and NGOs.”

The GoR commitment to pre-financing was strong as it was stated that additional resources from the state budget would be provided in case EU pre-financing would not be enough to cover the needs.

⁷laying down general provisions on the ERDF, ESF and CF and repealing Regulation (EC) no. 1260/1999

⁸amending GR no. 1083/2006 laying down general provisions on the ERDF, ESF and CF concerning certain provisions relating to financial management



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In the same way, some of the OPs (ROP, SOP ENV, SOP TRANS) contain references to pre-financing and its role in ensuring a good project cash-flow at the level of the beneficiaries.

- **GO 29/2007, with subsequent amendments and modifications**

The provisions of GO no. 29/2007 give an important reference to the initial objective of pre-financing, as it was envisaged at the beginning of the implementation period:

“The aim of granting pre-financing is to ensure the necessary financial resources to commence the implementation of the contracts ...”

The objective of pre-financing is specifically broadened for the HRD OP, by Law no. 249/2007 for the approval of GO no. 29/2007, as follows:

“The aim of granting pre-financing is to ensure the necessary financial resources to commence the implementation of the projects, except for the projects financed by the Human Resources Development Sectoral Operational Programme, for which the pre-financing may be granted to the beneficiaries both at the beginning and during the project implementation [...]” (art. 13 (2))

EGO no. 220/2008 is also important in terms of defining the role of pre-financing. Through this act, a more technical definition of pre-financing is provided, stating that it is granted *“...usually in the initial implementation stage of the projects with a view to ensure adequate implementation of the projects.”* (art. 1)

- **GO 64/2009, with subsequent amendments and modifications**

GO no. 64/2009 regarding the financial management of the SI and their use for the Convergence Objective is more clear on the extended scope of the pre-financing scheme: *“for supporting the commencement of project implementation and /or during their implementation, with a view to ensure the adequate implementation of the projects financed within the operational programmes.”* (art. 2d).

The same act provides a commitment for the state budget to ensure the necessary financial resources for projects implemented by the beneficiaries fully financed from the state budget, the social insurance budget or the special funds budget. Full support is also provided for projects implemented by the beneficiaries subordinated to MT (National Company for Motorways and National Roads (CNADNR), National Company Romanian Railways (CFR)) and the MECC (National Company Romanian Waters). For these beneficiaries, the pre-financing provides support for the entire implementation period.



Agreement of objective with the relevant stakeholders

In order to support the evaluation findings with respect to the pre-financing objective, the evaluation team consulted the relevant stakeholders of the project, namely representatives from MFE, MPF, CPA, MAs. The stakeholders agreed that the pre-financing is intended to support projects throughout the implementation period, not only at the start up stage, as intended initially and confirmed through the relevant provisions in the NSRF. Moreover, the commitment of the state budget to fully support the projects whose beneficiaries are fully financed from the state budget confirms the pre-financing objective.

5.2 Conformity of the pre-financing mechanism with its objectives

This sub-section presents the synthesis of findings on pre-financing effectiveness based on the analysis of the legislation on pre-financing and the main characteristics underlying the set-up of the system (presented in Chapter 3 above).

From the study of EU and Romanian legislative provisions for pre-financing, we conclude that the Romanian legislation is in line with the EU regulations. From our review of other MS we conclude that the Romanian system is generally in line with practices in other MS but with the distinction that (a) there were more frequent changes to the Romanian regulations and (b) each OP has its own regulations, which makes it more complex for a beneficiary to manage SF operations from more than one OP (or PA).

Above OP level, the system has lacked an effective co-ordination function to ensure the fulfilment of the stated objectives. Although a Working Group for financial aspects, formed of representatives of MEF, MPF, CPA and MAs, has been established to oversee, inter alia, the effectiveness of the pre-financing system, its members did not have at their disposal sufficient data and information about the real functioning of the mechanism.

Data availability and reliability is highly variable from one OP to another and specific analysis of pre-financing has been on an ad hoc basis. This is a serious impediment when trying to assess the effectiveness of pre-financing on the whole absorption system. In the absence of full and reliable data, the Romanian pre-financing mechanism did not have an important pre-requisite to adapt to changing circumstances and better respond to its objective. The MAs and MEF should have at their disposal, on a permanent basis, reliable data sets containing all financial information concerning the implementation of SI, at project level, which is the level that has been correctly identified by this project's ToRs as being relevant for assessing behavioural patterns by types of beneficiaries and interventions. The SMIS has been designed to provide such information, but: (1) despite recent progress, data is still incomplete and especially for HRD SOP and IEC SOP the gaps between SMIS recorded data and reality are significant; and (2) the extraction of information is difficult, as the SMIS lacks friendly interfaces that would enable users to assemble the available data directly in the formats they would see fit for their analysis purpose.



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For instance, the type of data set that our project has built is an excel-type of file with around forty columns, which contains, on a single row, all the essential information concerning projects, beneficiaries, pre-financing payments and reimbursements, etc., in short the entire financial “history” of the projects. This should normally come automatically from SMIS without necessitating processing of various tables specific for different project phases. Further on, the type of analysis formats developed under this projects are easy to built and maintain and would provide, at NSRF or OP level, relevant information on pre-financing payments and reimbursement of expenditure to beneficiaries, duration of processing of RCs, etc.

From a strategic perspective, the pre-financing mechanism for the current programming period was designed with a view to support the commencement of project implementation. The requirement that a certain proportion of the pre-financing granted is recovered from the reimbursement claims (RC) submitted was introduced differently in the OPs, but the principle that all pre-financing is recovered before the last RC is submitted has been introduced in common for all OPs. The only OP for which there was a stated intention that the pre-financing is to be used throughout the implementation, the HRD SOP, made no exception from this rule.

The motivation for the recovery mechanism, which was fully in line with the initially defined objective of the pre-financing scheme (to support the commencement of implementation) was that the pre-financing funds needed to be recovered relatively fast to allow as many beneficiaries as possible to benefit from pre-financing funds, following the principle of revolving funding. In practice, an effect of recovering pre-financing before the last RC was that many beneficiaries were left with no resources to finance the final payments within the projects, which were usually significant in value. The most common (and worrying) situation is found in projects that presuppose works contracts, such as in ROP, where although the works were executed, the beneficiaries did not submit a final RC because they did not have resources to pay the contractors first.

The beneficiaries of the HRD SOP should have been theoretically the least affected by the principle of accelerated recovery of pre-financing. By law, the pre-financing was to be released in several tranches throughout the implementation period. For a significant period of time, the amortisation of pre-financing started only with the second RC. The capacity of the HRD SOP MA to enforce the provisions related to the use of pre-financing proved to be insufficient. The reality of poor data availability in the case of HRD SOP added to a clear situation of the misuse of pre-financing. Evidence from interviews with stakeholders and the very small amount of pre-financing returned in HRD SOP⁹ suggest that there could be many beneficiaries that did not respect the conditions for using pre-financing but who did not return it as they should have done. Actually, the real situation of pre-financing in the case of HRD SOP is the most “aligned” with the (revised) objective of pre-financing, namely to support the beneficiaries *throughout* the implementation period.

⁹ Approximately MRON 10 of the RON 2 billion+ pre-financing granted under HRD SOP



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Another key principle of the pre-financing scheme in Romania – payment of pre-financing funds to beneficiaries' accounts from the beginning of the projects – has proven to be counterproductive in practice. The majority of the projects involving infrastructure investments, hence more complex works contracts, needed a lot of time between the signature of the financing contracts and the start of the works, because (but not only) of the time taken by complex public procurement procedures. This means that a considerable part of the pre-financing funds paid to the beneficiaries of more complex projects were left unused, in their accounts, for a long period of time. The situation of the ENV SOP is relevant. More than MRON 640 of MRON 2,500 was returned by beneficiaries due to non-compliance to the conditions to use pre-financing. In terms of enforcement effectiveness, the ENV SOP MA benefited from the fact that there was a smaller number of beneficiaries, relative to the other OPs, and larger projects, usually more disciplined (being mostly local authorities and regional operators) than in other OPs.

With respect to the principle of “money paid in account from the beginning”, the HRD SOP beneficiaries were in a better position than other beneficiaries to benefit from pre-financing more rapidly, hence in according to the intended purpose of the scheme, as the “classic” spending pattern in this OP is conducive to such behaviour.

A separate case is represented by the beneficiaries of state aid-type projects, which in the majority of the cases were proposed by private beneficiaries, mostly companies, of various sizes. In their case, the requirement to produce guarantees, which in the vast majority of cases in Romania are issued by commercial banks, has proved to be a serious drawback of the pre-financing mechanism. The reason is straightforward: generally banks are not interested in only providing guarantees to companies, especially to smaller companies, but in providing credits, which diminished the chances of beneficiaries to obtain the guarantees required. Moreover, the procedure for obtaining a guarantee was similar to that of obtaining a credit from the bank issuing the guarantee, which raised both bureaucratic burdens for beneficiaries, but also difficulty in meeting the required conditions. That is because, for most of the companies benefiting of SI, guarantees or credits depend on collateral, which in practice means a “catch 22” situation.

5.3 Alternatives to the pre-financing mechanism

5.3.1 Other instruments /mechanisms that meet the same purpose as the pre-financing mechanism

The evaluation team concluded that the objective of pre-financing was to contribute to the successful implementation of SI projects and maximise the absorption of EU funds. With this in mind, the evaluators identified three potential alternatives to achieving the same objective, which are:

- The current system of payments settlement
- 100% financing of projects through the State Budget
- Use of financial engineering instruments (FEI)



A. The current system of payments settlement

GO no. 27/2013 (amending and adding to EGO no. 64/2009) named “reimbursement of the payment claims”, provides for the introduction of a new mechanism with a view to ease payments to contracted suppliers within SI projects. The mechanism aims to support projects’ implementation more directly according to funding needs and throughout the implementation period.

The mechanism is open to local public beneficiaries¹⁰ and allows for payments to be made prior to the approval of the reimbursement requests, based on claims (including appropriate supporting documents: invoices, proof of execution of work / supplier / services contracts) proving that the works have been executed. The beneficiary is obliged to make the payments to the suppliers on the same day when the amounts from the MA are received, including his own contribution and the non-eligible part of costs. Moreover, the beneficiary has to submit a RC for the effected payments within 10 days from receiving the money in his account. Such a provision aims at speeding up the pace of submission of RC and increasing absorption.

According to the information provided by MFP representatives, there is an intention for the system to be extended to private beneficiaries and to projects that include costs such as salaries, for which other supporting documents than invoices may be presented in the RC.

Advantages and disadvantages of the proposed alternative

Advantages

- Optimised cash-flow at the level of beneficiaries (and suppliers), for the entire project implementation period
- Delays in submitting reimbursement claims are eliminated
- Changing focus from ex-post expenditure verification to ex-ante at MA level
- Diminished cost for providing pre-financing at individual project level, as compared to “classic” pre-financing

Disadvantages

- Limited predictability, which may result in more significant cash flow gaps at the level of the state budget
- Less suitable for ESF-type of interventions due to increased administrative burden

B. 100% pre-financing through the state budget

¹⁰ after the cut off date of this report, the mechanism has been extended to cover also private beneficiaries, with effect from 29 July 2013.



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Such an approach is used by countries like Ireland, the Czech Republic, Poland or Lithuania for the infrastructure type investments (implemented through beneficiaries who are state institutions or agencies funded through the state budget), where the allocation of SI is moving more and more to a non-competitive basis. Examples of such investments include strategic road corridors and improvements to waste water management through the environment programmes.

The advantages and disadvantages of 100% pre-financing are presented below. The main disadvantage is the potential risk that the state budget could end up funding expenditure that is not eligible for reimbursement. This is not usually a relevant issue as the full cost of the investment is likely to exceed the amount of SI allocated on a project by project basis, so it is possible to substitute with other RC to avoid losing the EU allocation.

Advantages and disadvantages of the proposed alternative

Advantages

- Central management of projects selected
- Flexibility in submitting RC can maximise SCF absorption
- Beneficiary can treat the operations as national programmes

Disadvantages

- Requirement for state budget funds
- Potential effect on the public finances
- Risk of funding ineligible expenditure

C. Financial Engineering Instruments

Alternatives to the pre-financing mechanism may be found among the non-grant financial instruments that have been used more and more in European Cohesion Programmes. The so-called FEIs are considered to have a good potential to as an effective implementation mechanism to reach the policy objectives. Within the SCF framework, FEIs serve the beneficiaries through loans, guarantees and equity.

A major challenge for the use of FEIs is the compliance with the state aid rules, where the options are:

- To design measures so that *no* aid is involved
- To design measures that fit within the parameters of the General Block Exemption Regulation, so that measures can be implemented without prior EC approval
- To notify measures to the EC and await approval prior to implementation.



Advantages and disadvantages of the proposed alternative

Advantages

- Providing loans, equity or guarantees for revenue-generating (parts) of projects
- Revolving schemes that support increased budgetary efficiency & financial sustainability
- Possible leverage from public or private sector partners (at all levels)
- Providing finance to final recipients before actual project expenditure
- Offer a high degree of flexibility, tailor-made support and delivery structures

Disadvantages

- The set-up and operation of FEIs is administratively very complex, and requires detailed knowledge of SF regulations, state aid compliance and investment principles
- The goals of the various parties involved in implementing FEIs may not necessarily coincide
- There are tensions around the role of the European Investment Bank (EIB) and European Investment Fund (EIF)
- The state aid compliance remains a major issue
- FEIs are not always the optimal approach for small programmes and in less populated areas, where there are few SMEs and less developed capital markets
- The international economic crisis impacts on the strengths of the FEIs

More details on the EC provisions on FEIs (for both 2007-2013 period and for 2014+, as per draft Regulations) and on use of FEIs by the MSs in the current programming period is given in Section D below.

Section D: FEI and their use by MS

FEIs in the period 2007-2013

Provisions of EC regulations

Financial Engineering in Cohesion Policy: Innovative way of delivering CP support through revolving financing instruments (using new structures and processes) in preference to



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traditional dependence on non-repayable public support through grants. FEIs are generally referred to as venture capital funds, guarantee funds and loan funds

Article 44 of the GR enables support through FEIs in three thematic areas:

- Art 44 (a): Enterprises, including Small and Medium-sized Enterprises (SMEs) & micro enterprises
- Art 44 (b): Sustainable urban development
- Art 44 (c): Energy Efficiency & Renewable Energy Sources in the building sector, including existing housing

Use of FEI by the MSs

Research¹¹ shows that the FEIs used so far by the MSs include:

- FEIs dedicated to SMEs support, such as JEREMIE-type initiatives, loan funds, guarantee funds or regional co-investment/venture capital funds.
- FEIs dedicated to urban development, including JESSICA initiative

FEIs dedicated to SMEs support

Besides the overall encouragement by the EC towards such instruments, the rationales behind such initiatives were the lack of finance availability for SMEs, leverage of additional private funding, potential to speed up programme implementation.

- **The JEREMIE initiative** (Joint European Resources for Micro to Medium Enterprises) enables MS to set up market-oriented FEIs, tailored to the needs of each MS or region and may benefit of finance sources outside SF, including the EIB, the EIF and the private sector. The initiative was developed in France, Greece, Hungary, Latvia, Slovenia, Spain and UK.
- Most countries operating FEIs under ERDF are doing this through one or more **holding funds** and some operate both within and outside holding funds.
- **A Guarantee Fund** was established in Italy for the Italian convergence regions. Co-investment funds for SMEs have been developed in France, Sweden and UK.

FEIs dedicated to urban development

- **Jessica initiative** (Joint European Support for Sustainable Investment in City Areas). ERDF funds are allocated to Urban Development Funds, which invest them in public-private partnerships for sustainable urban development. Jessica supports sustainable urban

¹¹ *Between Scylla and Charybdis: Navigating Financial Engineering Instruments through Structural Funds and State Aid Requirements* - IQ-Net Thematic Paper No. 29(2) /European Policy Research Centre, Strathclyde University (www.eprc.strath.ac.uk/eprc/default.cfm)



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development and regeneration in urban infrastructure; heritage or cultural sites; redevelopment of brownfields; creation of new commercial floor space for SMEs, IT and/or R&D sectors; university buildings; energy efficiency improvements. Jessica initiatives were developed in Czech Republic, Poland, Portugal and UK.

FEIs in the period 2014+

There is an increased importance of FEIs in implementing budget resources in the future programming period. The SCF may be used to support FEI under a programme, including when organised through funds of funds, in order to contribute to the achievement of specific objectives set out under a priority, based on an ex ante assessment which has identified market failures or sub-optimal investment situations, and investment needs. FEIs may be combined with grants, interest rate subsidies and guarantee fee subsidies. In this case, separate records must be maintained for each form of financing.

Legislative EC proposals for the 2014-2020 period provide for:

- A clear set of rules, building on existing guidance
- Capturing synergies with other forms of support such as grants
- Ensuring compatibility with financial instruments at EU level.

The EC's current approach is thus to further increase the role of FEIs and possible routes were envisaged for the next programming period¹².

- A centralised debt and equity platform set up at EU level, for which there would be national discretion about participation
- Off-the-shelf standardised instruments, with very simple design. These could potentially be for loans, loan guarantees and co-investment models, with terms and conditions established such that the model could be ready-to-use, with, for example, state aids pre-cleared. This could reduce complexity and provide for a 'quick start' model
- Tailor-made solutions
- Use of existing structures.

In Romania, out of the existing FEIs, only the JEREMIE initiative has been implemented during the current programming period, under SOP IEC. It has started from zero and, though it took quite some time to design and approve the instruments, the practical results were rather rewarding. More details on the application and results of JEREMIE in Romania can be found in Section E below.

Section E: JEREMIE in Romania

¹²http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm



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The total allocation of M€ 100 for the initiative counts as EU funds 100% absorbed. Two main instruments were implemented: loan guarantees and risk capital. The guarantees are managed by three banks (BCR, Raiffeisen and Unicredit), selected through calls for proposals. They operate since 2011 /2012 under *de-minimis* state aid schemes. Their target is a total portfolio of M€ 340 until 2015 and the current estimated value attained is M€ 157, from 1,500-1,600 loans. The guarantee covers up to 80% of the loan and it is free of charge, which leads to a lower interest rate for the beneficiary. The multiplier effect of the product is x5.

For the risk capital product two operators were selected. Only one of them (Catalyst) could raise the required 30% co-financing from private sources. It has already invested into one project (avocat.net portal).

The data available on the final recipients indicate a total number of about 1,500 beneficiaries and an average loan value of € 90,000 mainly intended to be used as working capital. Investments were the initial destination intended for the loans, but the interest from SMEs was low and the rules were amended to allow also for working capital loans. The final recipients are not SI beneficiaries. In terms of regional distribution, the Region Centre was more active, but overall, the spread is rather balanced. Most SMEs operate retail or service businesses, but again, the spread is balanced.

5.3.2 Pre-financing system in other MSs

The evaluation team discussed the practices of pre-financing in the following MS: Ireland, France, Czech Republic, Poland, Lithuania and Bulgaria. The discussions were held with officials working in MAs or IBs and were facilitated through the European Training Centre in Paris. A short set of questions was used to collect information about the pre-financing practices in these countries. Information was collected about the following OPs:

- Ireland: ESF (HRD) and 2 Regional ERDF OPs
- France: Regional ERDF OPs
- Bulgaria: ESF HRD; ERDF Competitiveness
- Lithuania: CF Economic Growth OP
- Latvia: all OPs
- Poland: ERDF
- Czech Republic: ERDF

The experiences of these MSs is summarised below.

Use of pre-financing

A distinction can be made between two different types of pre-financing practices: (1) Infrastructure investments and (2) support to SMEs /NGOs /small public entities /Municipalities).



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- *Infrastructure investments*

The infrastructure-type of investment operations are generally implemented through beneficiaries who are state institutions (ministries) or agencies funded through the state budget. This is the case in all countries. In these cases, the allocation of SF is moving more and more to a non-competitive basis where the full amount of the investment (i.e. 100%) is pre-financed through the state budget (Ireland, Czech Republic, Poland, Lithuania, Romania).

Examples of these investments include strategic road corridors and improvements to waste water management through the environment programmes. The advantages and disadvantages of 100% pre-financing were already presented in the previous section.

- *Support to SMEs or smaller entities*

This type of support is typically allocated on a competitive selection basis and is found in both ERDF Economic Competitiveness programmes and in ESF HRD OPs. The most common rate of pre-financing offered was 20% and it was offered from the start of the implementation period, in 2007. In some countries different rates were offered to different types of beneficiaries. In Poland the size of the project was a determining factor for the amount of pre-financing offered. In Latvia, public bodies could get up to 100% of the expected expenditure for the next year, based on their budgetary situation.

Changes of the defined pre-financing schemes

After the pre-financing arrangements were put in place in 2007, all of the countries made fewer changes to the rules and regulations than is seen in Romania, though many of the countries have had similar experiences to Romania. For example:

- In Ireland and France there were no changes at all and most other countries have not changed at all the rate of pre-financing available
- After 2009, in response to the effect of the economic crisis on the ability of SMEs to access the necessary own funding, the rate of pre-financing made available was increased in some cases (Bulgaria, Lithuania). For example, when additional funds were provided by the EC to MS, Lithuania increased the percentage of pre-financing available to 35% in some cases, but this appears to be an exception.
- More recently, there is a trend to reduce the availability of pre-financing to as low as 10% (Czech Republic). This was done to maintain the flow of repayments of pre-financing through reimbursement process so that the funding available for pre-financing did not run out.

The other reasons for adjusting the regulations for the eligibility or access to pre-financing were of a practical nature, in particular the requirement to provide bank guarantees or other sureties in exchange for the pre-financing provided. The financial crisis has made these requirements impractical and at least two countries (Lithuania, Poland) have relaxed the requirements. In Poland, a surety (guarantee) was required for funding in excess of M€



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25, while a promissory note was used for pre-financing below this amount. The MAs made the final decision on these matters. In Lithuania the original requirement was for public bodies to submit a bank guarantee in exchange for the pre-financing. After 2009, this requirement was eased and only applies to private sector beneficiaries, where the maximum pre-financing allowed is capped at 20%.

Source of funds for pre-financing

There are two general approaches to the provision of funds for pre-financing, both of which are known to Romania. The two approaches represent opposite ends of a spectrum.

- The first approach is for the state budget to provide the full funding for the eligible operations. In these cases the reimbursement from the EC is a credit back to the state treasury. This is the prevailing approach in Ireland, which is copied in many Eastern European countries.
- The second approach (as followed in Romania) is to use the advance funds received from the EC for pre-financing allocated per OP. Bulgaria and Lithuania have faced similar problems to Romania, where the requests for reimbursement that would include a proportionate repayment of pre-financing were submitted late and /or took longer to process. The effect was that the money available for pre-financing was quickly used up and the offer of pre-financing was required to be suspended.

There are some initiatives to follow the idea of the financial engineering approach by creating a special revolving fund for pre-financing. This has worked well in the Czech Republic in the sense that pre-financing was available for most of the current programming period. In Poland, pre-financing of 16% is paid to beneficiaries through funding from a Polish state owned bank (BKP). The basic principle in these “hybrid” models is to have an intermediate fund between the state budget and the beneficiary. The advantage is that the payments may not be included in the calculation of the state deficit.

Effect of the availability of pre-financing

The respondents had a common perception that the availability of pre-financing was essential to support small entities (SMEs, NGOs, small municipalities) to access SF for their development needs. The specific comments made were unanimous:

- *“Availability of pre-financing contributes to timely project implementation and possibility of ensuring payments to subcontractors and verification (Bulgaria ERDF).*
- *Some beneficiaries are NGOs and their financial capacity is not good enough to start implementation and absorb the rest of the money (Bulgaria HRD).*
- *Small NGOs and municipalities providing social services do not have the capacity needed (Bulgaria HRD).*
- *Small enterprises and NGOs do not have enough capital for social activities (Bulgaria HRD).*



- *Often beneficiaries do not have enough money to start to implement the project (Lithuania Cohesion Fund).*
- *We buy eco-buses for public transport. Manufacturers don't want to start production without pre-financing (Lithuania ERDF)''*

The respondents were asked how important pre-financing was in decision making of the beneficiaries to apply for funding. For Bulgaria, Latvia and one Lithuanian OP it was considered the most important factor, while in Poland and other Lithuanian OPs it was important but not the most important factor. None of the respondents felt that pre-financing accelerated SF' absorption, instead there was a common view that the pre-financing was needed to provide capital to get the operations started.

Effect of the economic crisis

There was only limited awareness of the increased availability of funds for pre-financing from the EC in 2009. All the respondents reported very similar stories about the effects of the economic crisis, which are reflected in the specific comments noted above. It is clear that the main effect of the crisis was to prevent approved operations from starting, rather than slowing down operations that had already started. In the Bulgarian Competitiveness OP, some 30% of contracts with SMEs were cancelled due to lack of private financing. One Lithuanian respondent remarked that the real effect of the crisis was to increase the necessity to manage more carefully the risks to project implementation.

There was a good understanding that the solution to the slowdown in reimbursement (and repayment of pre-financing) was to accelerate the processing of reimbursement claims and to encourage more frequent submission of claims. For example, In France, a guarantee time limit to process and pay a reimbursement claim within 35 days was introduced.

5.4 Conclusions

According to the EU regulations, the purpose of pre-financing payments to the MS is to contribute, by ensuring the necessary resources, to an adequate implementation of the OPs.

No specific objectives are set for pre-financing mechanisms to be further established by MS, at the national level. From the Romanian perspective, the objective of pre-financing was initially to support the commencement of the projects' implementation, which was expected to lead to an overall satisfactory implementation of the projects. Further on, as result of the slow progress in terms of projects' implementation and low absorption achieved, the objective of the scheme was widened to support both commencement and implementation of the projects financed by SI. Pre-financing is expected to contribute to the satisfactory implementation of the projects throughout the entire implementation period and consequently to the maximisation of the absorption of the EU funds available.



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Concerning the conformity of the pre-financing scheme (design) with its objective, the pre-financing scheme is fully in line with its initially defined objective – to support commencement of project implementation – but has not evolved in line with the wider objective of supporting beneficiaries throughout project implementation.

In terms of the management arrangements for pre-financing, the mechanism lacks an effective co-ordination approach and there is no results oriented monitoring of its use at OP level. The quality and quantity of data available about pre-financing is inadequate and does not meet the needs of decision makers to adapt the scheme according to real implementation experience and changing circumstances.

For most projects entailing infrastructure investments, the principles of accelerated recovery and transferring money directly in bank accounts from contract signature has proved to be an obstacle in achieving the objective of the pre-financing scheme. For private beneficiaries, the requirement to provide guarantees was also a serious obstacle in making use of the intended support from the scheme. Also helped by some ineffective administrative actions by the HRD SOP MA /IBs, the pre-financing scheme seems the most suitable to its objective – providing support throughout implementation - for the HRD SOP beneficiaries.

The main three alternative options to the current pre-financing system are:

- the current payment settlement system
- the provision of 100% state funding for SI projects
- the use of FEIs for specific types of beneficiaries and interventions

The report presents advantages and disadvantages for each of these alternatives in a further discussion on alternative scenarios in Chapter 8 of the report.

Experience of other MSs shows that pre-financing in itself was not always an effective measure to improve financial management at the level of beneficiaries and absorption of EU funds and that pre-financing measures need to be applied in conjunction with **other types of financial management measures**. The most common measures applied in other MSs consist of:

- Use of simplified cost options, such as the use of flat rates for expenditure
- Guaranteed reimbursement within a fixed period of time after submission of RCs
- Mandatory submission of RCs within a fixed period
- Special fast track for reimbursement of expenditure for large projects



6 REAL USE OF THE PRE-FINANCING SCHEME BY BENEFICIARIES

This chapter, which is the largest of the report, is structured following the sub-questions to the evaluation question 2, as presented in the ToRs. The evaluation conclusions concern the use of pre-financing at national level, the main trends and behavioural patterns with respect to pre-financing seen from the perspectives of the principal categories of beneficiaries and the main types of interventions.

The chapter also seeks to explain, with help from the econometric model introduced in Chapter 4, the influences that the use of pre-financing has had over the absorption of structural instruments at the level of beneficiaries. Details of the use of pre-financing at OP level are presented in sub-section 6.3.

6.1 Overview of the use of pre-financing in Romania

The following two tables present an overview of the access to and use of pre-financing by OP. For better understanding of the overall situation at national level, the Transport SOP has been included in the tables, even though the projects contracted under it were not eligible under the “classic” pre-financing scheme, which is the core subject of this evaluation.

The situation represented in the tables is mainly based on data from the SMIS, but complemented with data supplied directly by MAs and IBs, especially in the case of HRD SOP and IEC SOP. It excludes projects cancelled (financing contracts terminated) but includes both projects under implementation and projects finalised. In Table 8, pre-financing reimbursed refers to the amortisation of pre-financing, through the RCs approved by MAs up to the cut-off date (31 March 2013). Pre-financing returned refers to amounts recovered by MAs due to breaching contracting obligations concerning the use of pre-financing by beneficiaries. The pre-financing balance means the amounts of pre-financing in the accounts of beneficiaries at the evaluation cut-off date.

The evaluators are aware that the data set underlying the analyses made contains some errors¹³ but consider that these errors do not affect the main trends and behavioural patterns identified. At the same time, the overall situation of data availability uncovered by the evaluation must remain a concern for the management of SI in the future, as efficient management decision can only be based on reliable data available.

¹³The main source of verification with respect to pre-financing granted by OP is the official monitoring situation of MEF which is public on www.fonduri-ue.ro



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Table 7: Pre-financing granted by OP

OP	No. of projects			Eligible value (RON)			Pre-financing granted	
	Contracted	Eligible projects for Pre-financing	%*	Contracted	Eligible value for Pre-financing	%*	Value (RON)	%**
ROP	3,405	1,241	36.4	20,820,557,014	11,472,733,576	55.1	2,492,543,402	32.1
ENV SOP	330	175	53.0	23,633,377,829	20,990,601,645	88.8	2,521,185,612	32.5
HRD SOP	2,288	1,813	79.2	13,849,717,380	10,715,591,480	77.4	2,026,786,042	26.1
IEC SOP	2,923	374	12.8	10,470,677,108	3,050,943,949	29.1	689,746,342	8.9
Trans OP	80	0	0	19,075,337,458	0	0	0	0
ACD OP	361	188	52.1	1,101,845,365	153,956,446	14.0	22,683,439	0.3
TA OP	106	12	10.4	576,969,103	23,564,217	4.1	5,296,744	0.1
Total	9,493	3,803	40.1	89,528,481,258	46,407,391,313	51.8	7,758,241,580	100

*calculated compared to contracted no. of projects /eligible value of contracted projects at OP level

**calculated compared to total pre-financing granted for all OPs

Table 8: Use of pre-financing by OP

OP	Pre-financing granted		Pre-financing reimbursed		Pre-financing returned		Pre-financing balance		Use of pre-financing	
	Value (RON)	%*	Value (RON)	%**	Value (RON)	%**	Value (RON)	%**	Absorption (RON)	%***
ROP	2,492,543,402	32.1	1,915,255,289	72.6	123,220,040	4.9	454,068,073	18.2	2,492,543,402	222.4
ENV SOP	2,521,185,612	32.5	776,916,326	30.8	640,182,672	25.4	1,104,086,614	43.8	2,521,185,612	124.8
HRD SOP	2,026,786,042	26.1	1,086,396,498	53.6	10,753,412	0.5	929,636,131	45.9	2,026,786,042	187.0
IEC SOP	689,746,342	8.9	391,989,319	56.8	19,400,906	2.8	278,356,117	40.4	689,746,342	164.8
Trans OP	0	0	0	0	0	0	0	0	0	0
ACD OP	22,683,439	0.3	22,047,112	97.2	0	0	636,327	2.8	22,683,439	413.9
TA OP	5,296,744	0.1	4,386,678	82.8	0	0	910,066	17.2	5,296,744	107.4
Total	7,758,241,580	100	4,196,991,221	54.1	793,557,031	10.2	2,767,693,328	35.7	7,758,241,580	176.8

* calculated compared to total pre-financing granted for all OPs

**calculated compared with pre-financing granted at OP level

***calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)



Tables 7 and 8 provide an overview of the availability and use of pre-financing in the Romanian OPs. Table 7 shows that 3,803 projects with a value of RON 46.4 billion were eligible for pre-financing. This represented 40.1% of projects and 51.8% of the value of contracted operations. The HRD SOP and ROP account for 3,054 projects and over RON 22 billion of eligible pre-financing. An amount of RON 7.7 billion was granted as pre-financing and this represented 16.7% of the amount eligible. The actual implementation of pre-financing cycle is represented in Table 8. It shows that 54.1% of pre-financing granted has been recovered, 10.2% was returned and 35.7% remains with the beneficiaries.

6.2 Main categories of beneficiaries and types of interventions

One of the main tasks required in the evaluation ToRs was to identify behavioural patterns with respect to pre-financing, by categories of beneficiaries and by types of interventions. This has proved to be a complex task. The result is based on the analysis of data from SMIS and from MAs, on the interviews held and the survey applied to beneficiaries and on the experience of the evaluators.

Categories of beneficiaries

In the case of the main categories of beneficiaries, the classification used in SMIS, which identifies 26 different categories of beneficiaries, was the starting point of the analyses¹⁴. This long list was too large and not sufficiently defined to be used as such for the purpose of our analysis. The evaluation found that the data set extracted from SMIS contains many errors concerning the assignment of information to specific categories of beneficiaries. These were corrected, to the extent possible, on a case by case basis. Based on the analyses made, **eight discrete groups of beneficiaries** emerged which can be considered to form a suitable basis for the study of pre-financing behaviour, as follows:

- Central public authorities: include central public authorities and their subordinated and coordinated units
- Local authorities: include local public authorities and their subordinated and coordinated units and associations of local authorities, such as ADIs
- Regional operators
- State companies
- Companies: refers to all types of companies, including SMEs, micro-enterprises, large enterprises and entities referred to as 'legal entities of private nature'
- NGOs: includes both classical type of NGOs (classified as such in the SMIS) and the 'legal entities of private nature and public utility', 'legal persons of private nature, non-profit' and Regional Development Agencies (RDA).
- State universities /research institutes

¹⁴There is a significant number of data wrongly associated to categories in the SMIS, making an analysis based solely on this source less reliable. Additional manual corrections were carried out by the evaluation team in order to get robust data sets.



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- Others: the category includes beneficiaries in the following categories: religious institutions, museums, international financial institutions, trade unions, employers' organisations, chambers of commerce and custodians /administrators of natural protected areas and suppliers of professional training services (eligible under HRD SOP), whose legal statute can vary from an NGO to a company.

Categories of types of interventions

The task of identifying the main types of interventions, relevant for analysing pre-financing behaviour, proved to be even more challenging. The aim was to identify the smallest possible number of relevant types of interventions, relevant to the type of support provided in the framework of different KAIs and to the categories of beneficiaries concerned and from a state aid perspective¹⁵. The evaluators accept that it is impossible to make a precise split on types of interventions due to the diverse nature of the planned operations in the Romanian OPs and the elaborate structure of the OPs /PAs /KAIs. If a large list of intervention types was proposed this would necessarily reduce the usefulness of the analysis. Accordingly, following our analysis and observation of pre-financing behaviour, the main types of interventions considered are the following:

- Public infrastructure: includes projects under ROP (PA 1, PA 2, PA 3, PA 5–KAI 5.1), ENV SOP (except for PA 6) and Transport SOP (except for PA 4)
- Investments: includes projects under ROP (PA 4, PA 5-KAI 5.2), IEC SOP (except for PA 1-KAI 1.2 and PA 5)
- Soft type interventions: includes all TA interventions (all OPs and TA OP) and HRD SOP, ACD OP, IEC SOP (PA 1–KAI 1.2), ROP KAI 5.3

Within the three selected categories of interventions, there are several specific defining characteristics that increase their relevance with respect to pre-financing behavioural patterns, as follows:

-For the first category: beneficiaries are **public entities**, be it central public authorities, local authorities, state companies or regional operators; and the projects are **not state aid-type**.

-The second category is mostly formed of **private beneficiaries** and the projects are mostly **under the state aid regime**.

-The third category is **mixed** from the perspective of **beneficiary types**, and with some exceptions, the projects are not under the state aid regime but have **similar** implementation characteristics, including **financial management and pre-financing patterns** (in the sense that they include mostly repetitive type of activities, implying expenses of salary type, training courses).

¹⁵The reference to state aid is a general reference point for considering aspects related to pre-financing.



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Analysis of pre-financing by beneficiary and by types of interventions

The following tables present an overview of the access to and use of pre-financing, by OP, by main categories of beneficiaries and by type of interventions, as identified by the evaluation team. In the cases where lead beneficiaries are central public authorities pre-financing has been requested and granted for their partners, mostly in the case of HRD SOP.

Overview

The data assembled (Tables 9 and 10 below) show that for the period under evaluation some RON 89.5 billion was contracted through 9,493 contracts for the seven OPs. The ROP (3,405); SOP IEC (2,923) and HRD SOP (2,288) had the highest number of contracts, while ENV SOP (RON 23.633 Billion); ROP (RON 20.820 Billion) and SOP Trans (RON 19.075 Billion) had the largest contracted values.

In terms of the overall number of projects, when considering all SI beneficiaries, the analysis shows that the majority of projects were contracted by companies (51.2%), followed by local authorities (18.8% of the total number of projects). Some 87% of the projects implemented by companies were contracted in two OPs: SOP IEC (50%) and ROP (37%).

In terms of eligible value, the situation is more balanced. The local authorities, state companies and the regional operators account together for around 65% of the contracted funds. Companies, on the other hand, which count for the highest number of contracted projects, account for only approximately 14% of the total eligible value contracted.



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Table 9: Projects contracted by types of beneficiaries (no. of projects)

Type of beneficiary	ROP	ENV SOP	IEC SOP	HRD SOP	Trans SOP	OP ACD	TA OP	All OPs	%
Central Public Authorities	33	121	153	301	29	150	88	875	9.2%
Local Authorities	1,290	58	93	143	2	194	3	1,783	18.8%
Regional operators	0	42	0	1	0	0	0	43	0.5%
State Companies	0	1	0	0	41	0	0	42	0.4%
Companies	1,802	0	2,430	617	8	0	0	4,857	51.2%
NGOs	241	57	95	727	0	9	15	1,144	12.1%
State universities /research institutes	7	12	151	368	0	8	0	546	5.8%
Others	32	39	1	131	0	0	0	203	2.1%
Total	3,405	330	2,923	2,288	80	361	106	9,493	100%

Table 10: Projects contracted by types of beneficiaries (eligible value - RON)

Type of beneficiary	ROP	ENV SOP	IEC SOP	HRD SOP	Trans SOP	ACD OP	TA OP	Total
Central Public Authorities	503,175,381	823,910,100	736,834,615	3,419,630,480	204,172,792	973,321,039	530,419,503	7,191,463,909
Local Authorities	16,166,518,098	4,845,401,319	616,936,367	377,955,276	169,937,950	105,867,214	779,928	22,283,396,151
Regional operators	-	17,417,134,693	-	1,861,832	-	-	-	17,418,996,525
State Companies	-	124,656,192	-	-	18,155,538,031	-	-	18,280,194,223
Companies	3,104,278,712	-	7,359,663,532	1,794,684,615	545,688,685	-	-	12,804,315,543
NGOs	527,195,193	160,181,399	24,033,187	4,280,879,931	-	12,901,540	45,769,673	5,050,960,922
State universities /research institutes	170,709,692	106,309,781	1,368,029,408	3,109,197,098	-	9,755,573	-	4,764,001,551
Others	348,679,938	155,784,347	365,180,000	855,243,008	-	-	-	1,724,887,294
Total	20,820,557,014	23,633,377,829	10,470,677,108	13,839,452,240	19,075,337,458	1,101,845,365	576,969,103	89,518,216,118



Analysis of projects that received pre-financing

The situation is slightly different when analysed with respect to projects that received pre-financing (Tables 11 and 12 below). Although local authorities account for the highest number of projects (31.4%), the overall situation is more balanced, with companies and NGOs each implementing around 23% of the pre-financed projects.

Projects implemented by regional operators account for only 1.1% of the total number of projects that received pre-financing but they represent about 37% of the total eligible value of pre-financed projects. In second place, the local authorities display a good balance between the share of projects contracted (31.4%) and the corresponding share of total eligible value (31.1%). NGOs and companies, though significant in terms of number of projects implemented, count for only 9% and respectively 8.1% of the eligible value of the pre-financed projects.

The tables show the distribution of pre-financing by beneficiary across the OPs. This shows that the regional operators were mainly involved with one OP, the ENV SOP, while local authorities availed of pre-financing in five of the seven OPs.

When comparing the information in Tables 11 and 12 to the overall contracted picture shown in Tables 9 and 10, it can be seen that 40.1% of projects representing 51.8% of eligible expenditure availed of pre-financing.



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Table 11: Projects pre-financed by types of beneficiaries (no. of projects)

Type of beneficiary	ROP	ENV SOP	IEC SOP	HRD SOP	Trans SOP	ACD OP	TA OP	Total
Central Public Authorities	5	0	2	177	0	6	0	190
Local Authorities	827	39	52	110	0	167	0	1,195
Regional operators	0	41	0	1	0	0	0	42
State Companies	0	0	0	0	0	0	0	0 -
Companies	221	0	199	462	0	0	0	882
NGOs	160	55	0	655	0	8	12	890
State universities /research institutes	4	11	121	293	0	0	0	429
Others	24	29		115	0	0	0	168
Total	1,241	175	374	1,813	0	188	12	3,803

Table 12: Projects pre-financed by types of beneficiaries (eligible value - RON)

Type of beneficiary	ROP	ENV SOP	IEC SOP	HRD SOP	Trans SOP	ACD OP	TAOP	Total
Central Public Authorities	14,382,419	0	775,000	2,182,211,647	0	45,192,377	0	2,242,561,443
Local Authorities	10,204,379,941	3,580,264,984	304,276,724	275,463,017	0	89,411,986	0	14,453,796,652
Regional operators	0	17,125,762,694	0	1,861,832	0	0	0	17,127,624,526
State Companies	0	0	0	0	0	0	0	0
Companies	642,110,282	0	1,563,158,951	1,545,117,948	0	0	0	3,759,387,181
NGOs	330,153,506	144,231,248	0	3,670,840,069	0	12,637,050	23,564,217	4,181,426,089
State universities /research institutes	116,849,403	49,283,784	1,182,733,274	2,282,624,798	0	6,715,033	0	3,638,206,291
Others	164,858,027	91,058,936	0	753,786,262	0	0	0	1,009,703,225
Total	11,472,733,576	20,990,601,645	3,050,943,949	10,711,905,574	0	153,956,44	23,564,217	46,403,705,407

Examination of the pre-financing rate applied to the projects funded under the Structural Instruments

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Pre-financing granted

As shown in Table 13, almost 37% of pre-financing was granted to local authorities, followed by regional operators (with 24.8% of the total pre-financing granted). Companies and state universities /research institutes account each for about 10% of the total pre-financing granted, while NGOs were slightly above that level with almost 12% of the pre-financing granted.

The entire pre-financing granted to state companies and almost 98% of the pre-financing granted to central public authorities was under HRD SOP. In case of NGOs, this share is slightly lower (90.8%), as they were also active under ROP and ENV SOP. The entire pre-financing granted to regional operators was under SOP ENV and about 76% of pre-financing for local authorities was granted under ROP. The division is slightly more balanced for the other categories of beneficiaries.

Table 13: Pre-financing granted by types of beneficiaries and by OP (RON)

Type of beneficiary	ROP	ENV SOP	IEC SOP	HRD SOP	Trans SOP	ACD OP	TA OP	Total
Central Public Authorities	3,954,691	0	232,500	265,395,831	0	2,344,692	0	271,927,715
Local Authorities	2,159,196,180	549,175,747	86,729,295	40,633,028	0	16,914,857	0	2,852,649,107
Regional operators	0	1,920,983,732	0	186,183	0	0	0	1,921,169,915
State Companies	0	0	0	42,023,563	0	0	0	42,023,563
Companies	198,185,504	0	278,622,810	310,537,031	0	0	0	787,345,345
NGOs	56,265,891	20,195,148	0	835,380,744	0	2,528,752	5,296,744	919,667,279
State universities /research institutes	35,644,256	12,835,138	324,161,737	412,155,965	0	895,138	0	785,692,234
Others	39,296,880	17,995,847	0	120,473,696	0	0	0	177,766,423
Total	2,492,543,40	2,521,185,61	689,746,342	2,026,786,04	0	22,683,439	5,296,744	7,758,241,580



Pre-financing by type of intervention

From the perspective of the types of interventions (Table 14), pre-financing proved most attractive in the case of projects aimed at developing and modernising public infrastructures and soft-type of investments, with more than 66% of such projects accessing pre-financing. The share of these categories in the total eligible value of the projects (54.2% and respectively 64.6%) is also similar. In terms of pre-financing granted, public infrastructure projects lead with almost 61% of the total pre-financing granted in Romania and the soft-type of interventions follows with more than 27%.

The analysis of the use of pre-financing by types of interventions (Table 15) shows a similar pattern for the three categories analysed, with an average of 54% of the rate of pre-financing reimbursement, slightly higher in case of investment projects (58.5%).

When analysing the pre-financing returned, it is observable that the corresponding share is significantly higher in case of projects aiming at developing and modernising public infrastructures (15%), while reaching only about half in case of investment projects (7.6%) and being relatively insignificant in case of soft-type of interventions (0.6%).

The analysis of data on the pre-financing balances shows that the soft-type of interventions (with more than 44% of pre-financing still in the beneficiaries' accounts) "leads", which is in line with the low share of pre-financing recovered (as shown above).



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Table 14: Pre-financing granted by types of interventions (RON)

Project type	No. of projects (all OPs)			Eligible value of projects (all OPs)			Pre-financing granted	
	Contracted	Pre-financed	%*	Contracted	Pre-financed	%*	Value (RON)	%**
Public infrastructure	1,420	940	66.2	57,698,976,914	31,285,756,774	54.2	4,721,933,855	60.9
Investments	4,663	606	13.0	14,425,011,370	3,871,993,844	26.8	923,509,356	11.9
Soft -type interventions	3,410	2,257	66.2	17,404,492,974	11,249,640,695	64.6	2,112,798,370	27.2
Total	9,493	3,803	40.1	89,528,481,258	46,407,391,313	51.8	7,758,241,580	100

*calculated compared to the total no. /eligible value of projects contracted from each category

**calculated compared to the total pre-financing granted

Table 15: Use of Pre-financing by types of interventions

Type of intervention	Pre-financing granted		Pre-financing reimbursed		Pre-financing returned		Pre-financing balance		Use of pre-financing	
	Value (RON)	%*	Value (RON)	%**	Value (RON)	%**	Value (RON)	%**	Absorption (RON)	%***
Public infrastructure	4,721,933,855	60.9	2,496,928,490	52.9	711,320,153	15.1	1,513,685,212	32.1	1,495,277,580	161.9
Investments	923,509,356	11.9	540,531,235	58.5	70,611,804	7.6	312,366,316	33.8	8,132,854,114	172.2
Soft -type interventions	2,112,798,370	27.2	1,159,531,496	54.9	11,625,074	0.6	941,641,800	44.6	4,086,816,792	193.4
Total	7,758,241,580	100	4,196,991,221	54.1	793,557,031	10.2	2,767,693,328	35.7	13,714,948,486	176.8

* calculated compared to total pre-financing granted for all OPs

**calculated compared with pre-financing granted at OP level

***calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

Examination of the pre-financing rate applied to the projects funded under the Structural Instruments

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6.3 Use of pre-financing at OP level

Accessing the pre-financing

A. Regional Operational Programme

In ROP, pre-financing proved to be the most attractive for projects implemented by local authorities, where no state aid was involved, such as those under PA 2 on building and extending transport infrastructure where 88.6% of the projects accessed pre-financing. This was followed by KAI 3.1 (77.6%), KAI 3.2 (72.1%), KAI 3.4 (86.7%) and KAI 5.1 (75%). At the opposite end of the scale, micro-enterprises found the pre-financing the least attractive (only 10.6% of the projects), because of the conditions that had to be met, in terms of the need to provide guarantees. A low interest was recorded also for PA1, where implementation started late, so it may be that pre-financing was not asked for up to the evaluation cut-off date.

Table 16: ROP - Pre-financing granted by PA and KAI

PA /KAI	No. of projects		Eligible value (RON)		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	445	212	6,321,250,742	2,758,414,177	339,611,345	13.6
PA 2	140	124	4,686,305,190	4,324,437,323	1,193,883,789	47.9
PA 3	475	376	3,070,430,836	2,350,734,162	472,358,815	19.0
KAI 3.1	67	52	903,422,902	632,608,818	118,993,905	4.8
KAI 3.2	183	132	425,529,627	307,106,678	55,966,605	2.2
KAI 3.3	14	9	407,383,367	345,090,305	87,072,785	3.5
KAI 3.4	211	183	1,334,094,940	1,065,928,361	210,325,520	8.4
PA 4	1752	197	2,715,524,867	410,046,355	133,606,601	5.4
KAI 4.1	70	19	1,337,409,522	264,656,859	79,139,450	3.2
KAI 4.2	7	0	218,833,672	0	0	0
KAI 4.3	1675	178	1,159,281,674	145,389,494	54,467,151	2.2
PA 5	529	296	3,475,312,709	1,428,232,832	313,529,994	12.6
KAI 5.1	71	53	1,199,768,479	861,569,467	194,894,294	7.8
KAI 5.2	107	35	1,756,359,367	411,003,541	100,156,413	4.0
KAI 5.3	351	208	519,184,863	155,659,824	18,479,287	0.7
PA 6	64	36	551,732,670	200,868,728	39,552,859	1.6
KAI 6.1	37	16	504,028,644	187,315,163	37,312,943	1.5
KAI 6.2	27	20	47,704,027	13,553,565	2,239,916	0.1
Total	3405	1,241	20,820,557,014	11,472,733,577	2,492,543,402	100



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B. Environment SOP

Pre-financing proved attractive for the beneficiaries of this OP, especially in case of PA 1 (where the beneficiaries are regional operators), for which all projects, with one exception, accessed pre-financing. The rate is high across the entire OP, in terms of number of projects that accessed pre-financing, with the exception of KAI 2.2 (with a rate of only 40%).

Although on average only 53% of the projects in ENV SOP accessed pre-financing¹⁶, in terms of eligible value, the share of projects that accessed pre-financing raises to almost 89%, leading to an overall pre-financing of around 2.5 billion RON.

Table 17: SOP ENV - Pre-financing granted by PA and KAI

PA /KAI	No. of projects		Eligible value (RON)		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	42	41	17,417,134,693	17,125,762,694	1,920,983,732	76.2
PA 2	26	19	3,213,979,261	2,233,339,473	366,808,223	14.5
KAI 2.1	21	17	2,846,312,317	2,181,821,961	363,719,158	14.4
KAI 2.2	5	2	367,666,944	51,517,512	3,089,065	0.1
PA 3	7	6	1,634,015,000	1,316,627,468	177,766,300	7.1
PA 4	143	109	626,731,730	314,872,010	55,627,357	2.2
PA 5	17	-	515,262,831	-	-	-
KAI 5.1	16	-	492,288,379	-	-	-
KAI 5.2	1	-	22,974,452	-	-	-
PA 6	95	-	226,254,315	-	-	-
KAI 6.1	84	-	207,578,665	-	-	-
KAI 6.2	11	-	18,675,650	-	-	-
Total	330	175	23,633,377,829	20,990,601,645	2,521,185,612	100

C. Increase of Economic Competitiveness SOP

The attractiveness of pre-financing is modest across the entire OP (12.8% on average). Exceptions are seen in KAI 2.2 and KAI 2.1 dedicated to development of public research infrastructure and creation of Research & Development partnerships, with 78%, respectively 50%.

¹⁶no pre-financing was available for projects under PA5 and PA6, for which the beneficiaries were central public authorities



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The lowest interest for pre-financing can be observed in PA 1 (KAI 1.1), where the beneficiaries were companies. In this case only 6.3% of the projects accessed pre-financing. The share is higher when analysed in terms of eligible value due to the higher value projects eligible under this KAI, especially those promoted by large companies.

Table 18: SOP IEC - Pre-financing granted by PA and KAI

PA /KAI	No. of projects		Eligible value		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	1623	103	4,846,615,620	901,057,478	160,559,300	23.3
KAI 1.1	1514	103	4,476,051,784	901,057,478	160,559,300	23.3
KAI 1.2	1	0	365,180,000	0	0	0
KAI 1.3	108	0	5,383,836	0	0	0
PA 2	420	194	2,469,972,483	1,582,101,013	419,552,885	60.8
KAI 2.1	86	43	297,747,606	190,047,769	53,901,768	7.8
KAI 2.2	127	99	1,324,603,140	1,167,728,825	319,676,749	46.3
KAI 2.3	207	52	847,621,737	224,324,419	45,974,368	6.7
PA 3	708	66	1,002,890,795	153,789,990	40,480,092	5.9
KAI 3.1	514	-	170,619,412	-	-	0
KAI 3.2	106	42	777,512,080	138,457,465	37,177,240	5.4
KAI 3.3	88	24	54,759,303	15,332,525	3,302,852	0.5
PA 4	54	11	1,998,828,239	413,995,468	69,154,065	10.0
KAI 4.1	27	5	568,670,682	131,005,420	20,607,078	3.0
KAI 4.2	27	6	1,430,157,557	282,990,048	48,546,987	7.0
PA 5	118	-	152,369,972	-	-	0
KAI 5.1	90	-	126,175,417	-	-	0
KAI 5.2	28	-	26,194,555	-	-	0
Total	2,923	374	10,470,677,108	3,050,943,949	689,746,342	100

Human Resources Development SOP

The interest for pre-financing is high across the entire programme (79% average rate at OP level), with lower rates of around 50% for PA 1 (KAIs 1.1 – 1.4) and KAI 4.1. Higher rates can be observed across very different PAs (even with 100% for KAI 3.3), which shows that the attractiveness seems to depend on the type of beneficiaries eligible for the different interventions, rather than the type of intervention per-se. The lowest rate is registered for KAI 1.3, both in terms of number of projects that accessed pre-financing (45.1%) and eligible value of these projects (34.3%).



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Table 19: SOP HRD - Pre-financing granted by PA and KAI

PA /KAI	No. of projects		Eligible value		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	404	243	4,282,449,016	2,543,535,111	410,336,009	20.2
KAI 1.1	51	29	558,457,099	454,447,581	63,698,081	3.1
KAI 1.2	88	55	958,567,210	573,575,588	123,998,298	6.1
KAI 1.3	122	55	1,133,856,319	388,961,377	72,899,073	3.6
KAI 1.4	17	11	144,238,053	96,434,840	20,394,582	1.0
KAI 1.5	126	93	1,487,330,335	1,030,115,725	129,345,976	6.4
PA 2	531	468	2,410,748,359	2,002,994,919	411,253,400	20.3
KAI 2.1	182	175	848,184,512	811,527,413	167,597,889	8.3
KAI 2.2	77	54	704,810,717	431,102,248	99,292,631	4.9
KAI 2.3	272	239	857,753,129	760,365,258	144,362,880	7.1
PA 3	442	332	2,380,709,085	2,130,998,833	431,661,689	21.3
KAI 3.1	113	106	832,817,684	790,303,355	155,473,640	7.7
KAI 3.2	306	203	1,330,722,076	1,123,526,152	223,956,137	11.0
KAI 3.3	23	23	217,169,326	217,169,326	52,231,912	2.6
PA 4	54	32	673,427,436	527,901,913	46,405,175	2.3
KAI 4.1	37	19	447,730,548	309,216,146	21,088,549	1.0
KAI 4.2	17	13	225,696,888	218,685,768	25,316,626	1.2
PA 5	673	592	2,161,007,966	1,824,651,071	331,827,052	16.4
KAI 5.1	410	377	1,153,529,123	1,064,271,735	210,168,543	10.4
KAI 5.2	263	215	1,007,478,843	760,379,336	121,658,510	6.0
PA 6	173	146	1,900,853,829	1,685,509,632	395,302,716	19.5
KAI 6.1	48	31	519,634,886	376,448,894	102,530,411	5.1
KAI 6.2	64	59	689,984,357	676,898,828	138,683,257	6.8
KAI 6.3	55	51	632,252,642	586,945,337	139,706,987	6.9
KAI 6.4	6	5	58,981,944	45,216,573	14,382,061	0.7
PA 7	11	-	40,521,689	-	-	-
KAI 7.1	7	-	37,118,492	-	-	-
KAI 7.2	4	-	3,403,197	-	-	-
Total	2,288	1,813	13,849,717,380	10,715,591,480	2,026,786,042	100

D. Administrative Capacity Development OP

The share of projects that accessed pre-financing is relatively evenly distributed across the OP (around 50-60%), with the exception of KAI 1.2, where the number of projects is small and for which only 10% of the projects received pre-financing. The data reflects closely the structure of beneficiaries eligible under the different KAIs, divided between central public authorities, which benefited of financing from the state budget and other types of beneficiaries, directly eligible for the pre-financing mechanism.



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In terms of the number of projects that accessed pre-financing, the interest seems reasonable at OP level, but the eligible value is a very small share of the overall committed value (14%), showing that pre-financing was mainly accessed by projects with a low eligible value.

Table 20: OP ACD - Pre-financing granted by PA and KAI

PA /KAI	No. of projects		Eligible value (RON)		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	225	117	687,342,061	112,865,719	15,751,425	69.44
KAI 1.1	109	60	277,549,664	31,531,980	6,077,390	26.79
KAI 1.2	20	2	142,570,345	5,504,977	232,498	1.02
KAI 1.3	96	55	267,222,052	75,828,762	9,441,536	41.62
PA 2	119	71	371,460,057	41,090,727	6,932,014	30.56
KAI 2.1	10	5	32,793,728	10,833,161	879,842	3.88
KAI 2.2	109	66	338,666,329	30,257,566	6,052,172	26.68
PA 3	17	0	43,043,247	0	0	0
KAI 3.1	14	0	36,383,354	0	0	0
KAI 3.2	3	0	6,659,893	0	0	0
Total	361	188	1,101,845,365	153,956,446	22,683,439	100

E. Technical Assistance OP

Within this OP, only RDAs were eligible for pre-financing and the number of projects that accessed this mechanism reflects clearly this structure (11% of the total number of projects, counting for 22.5% of the total eligible value). More than 99% of pre-financing was granted under PA 1, corresponding to around 83% of the total number of projects that received pre-financing.

Table 21: OP TA - Pre-financing granted by PA and KAI

PA /KAI	No of projects		Eligible value (RON)		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
PA 1	84	10	529,869,074	23,410,709	5,265,691	99.4
1.1	70	10	443,720,132	23,410,709	5,265,691	99.4
1.2	6	0	23,950,704	0	0	0
1.3	5	0	27,250,640	0	0	0
1.4	3	0	34,947,599	0	0	0
PA 2	20	2	25,560,139	153,508	31,053	0.6
2.1	2	0	2,655,456	0	0	0
2.2	2	0	3,412,668	0	0	0
2.3	1	0	6,242,371	0	0	0
2.4	15	2	13,249,644	153,508	31,053	0.6
PA 3	2	0	21,539,891	0	0	0
3.1	1	0	11,017,871	0	0	0
3.2	1	0	10,522,020	0	0	0

PA /KAI	No of projects		Eligible value (RON)		Pre-financing granted	
	Contracted	Pre-financed	Contracted	Pre-financed	Value (RON)	%
Total	106	12	576,969,103	23,564,217	5,296,744	100

The analysis clearly shows that the dominant variable that explains the access to pre-financing is the type of beneficiary rather than the type of project. Project size is also not a determining factor as high rates of pre-financing are seen for very large projects in ENV SOP while equally high rates for low value projects are seen in HRD SOP and ACD OP.

Use of pre-financing

A. Regional Operational Programme

With around 48% of the total pre-financing granted at OP level, PA 2 is the largest user of the pre-financing within ROP. At the opposite end, PA 6 and PA 4 account for the smallest amounts of pre-financing granted, with only 1.6%, respectively 5.4% of the total pre-financing at OP level.

The rate of reimbursement of the pre-financing granted is good for all PAs, with an average of around 77%. This is a good surrogate indicator of a healthy project implementation pace. The only exception is PA 4, with only 55.2% reimbursement rate. PA 4 also reveals the highest rate of pre-financing returned, with 29% of the total pre-financing granted under this PA. This again might be attributed to the beneficiary types under this PA. The other PAs have return rates ranging in between 1.9% and 4.9%, with an overall weighted average of 4.9% at OP level.

Table 22: Use of pre-financing by PA in ROP

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
1	339,611,345	269,563,111	79.4	113,649	69,934,585	339,611,345	297.8
2	1,193,883,789	909,014,694	76.1	59,066,589	225,802,506	1,193,883,789	201.5
3	472,358,815	384,297,683	81.4	10,544,453	77,516,679	472,358,815	242.2
4	133,606,601	73,750,050	55.2	38,774,087	21,082,463	133,606,601	128.0
5	313,529,994	240,536,046	76.7	13,965,501	59,028,446	313,529,994	207.1
6	39,552,859	38,093,703	96.3	755,761	703,394	39,552,859	409.5
Total	2,492,543,402	1,915,255,289	76.8	123,220,040	454,068,073	2,492,543,402	222.4

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)



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In terms of use of pre-financing, the highest levels are registered for PA 4 dedicated to business support and PA 6, dedicated to TA support.

B. Environment SOP

With 76.2% of the total pre-financing granted at OP level, PA 1 counts for the largest beneficiary of pre-financing under ENV SOP, followed at a large distance by PA 2, with 14.5% of total pre-financing.

When considering the reimbursement rates of the different PAs as an indicator of implementation progress, the situation of the different PAs appears more balanced, with an average reimbursement rate of 31%. PA 4 displays the highest reimbursement rate (43%). The pre-financing return ratio is among the highest of all OPs (25.4%), with the highest returns being registered for PA 2 (close to 30%) and the lowest for PA 4 (11.2%).

Table 23: Use of pre-financing by PA in SOP ENV

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
1	1,920,983,732	582,427,790	30.3	489,298,243	849,257,699	1,920,983,732	124.4
2	366,808,223	110,175,334	30.0	108,593,275	148,039,614	366,808,223	119.2
3	177,766,300	60,396,456	34.0	36,061,037	81,308,807	177,766,300	130.2
4	55,627,357	23,916,746	43.0	6,230,117	25,480,494	55,627,357	158.9
5	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0
Total	2,521,185,612	776,916,326	30.8	640,182,672	1,104,086,614	2,521,185,612	124.8

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

In terms of use of pre-financing, the highest levels are registered for PA 4 dedicated to support for biodiversity, where the types of beneficiaries are very diverse.

C. Increase of Economic Competitiveness SOP

More than 60% of the total pre-financing granted at OP level was accessed by projects contracted under PA 2 (Research, Development and Innovation), which had both public and private beneficiaries. PA 1, dedicated to private investments in the productive sector accounted for 23.3% of the total pre-financing granted, followed by PA4 (dedicated to investments in the energy sector), with 10% of total pre-financing.

The overall rate of reimbursement is relatively good at OP level, but there are significant variances between the PAs. Thus, while the most progress can be observed for PA 1 (70.3% reimbursement rate), PA 2 and PA 3 are around 52-55% and PA 4 remains significantly behind (with 37.2% reimbursement rate). PA 4 also counts for the highest rate of return of the pre-financing granted (16.8%), while the rates for the other PAs are less than 2.2%. The overall rate of pre-financing returned in the total pre-financing granted is 2.8% at OP level.

Table 24: Use of pre-financing by PA in SOP IEC

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
1	160,559,300	112,948,062	70.3	3,219,177	44,392,062	160,559,300	170.6
2	419,552,885	231,973,890	55.3	3,684,802	183,894,194	419,552,885	174.7
3	40,480,092	21,333,863	52.7	877,093	18,269,136	40,480,092	183.8
4	69,154,065	25,733,505	37.2	11,619,835	31,800,725	69,154,065	80.2
5	0	0	0	0	0	8,286,989	
Total	689,746,342	391,989,319	56.8	19,400,906	278,356,117	689,746,342	164.8

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

In terms of use of pre-financing, the highest levels are registered for PA 1 dedicated to support for productive investments.

D. Human Resources Development SOP

Pre-financing is relatively evenly distributed among the PAs of this OP, with the exception of PA 4, which absorbed only 2.3% of the total pre-financing granted at OP level. The rate of reimbursement is modest across the programme, reflecting a slower pace of implementation at the level of the entire OP. Higher reimbursement rates can be observed for PA 3 and PA 5 (68%, respectively 64%).

Table 25: Use of pre-financing by PA in SOP HRD

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
1	410,336,009	156,544,555	38.2	10,148,856	243,642,598	410,336,009	117.9
2	411,253,400	188,980,123	46.0	604,556	221,668,721	411,253,400	155.3
3	431,661,689	293,408,275	68.0	0	138,253,414	431,661,689	241.0
4	46,405,175	27,755,826	59.8	0	18,649,349	46,405,175	192.4
5	331,827,052	211,529,116	63.8	0	120,297,936	331,827,052	251.6
6	395,302,716	208,178,603	52.7	0	187,124,113	395,302,716	177.6
7	0	0	0	0	0	0	0
Total	2,026,786,042	1,086,396,498	53.6	10,753,412	929,636,131	2,026,786,042	187.0

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

In terms of use of pre-financing, the highest levels are registered for PAs 3 to 4, where beneficiaries are of diverse types and NGOs are well represented.



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E. Administrative Capacity Development OP

Almost 70% of the pre-financing was absorbed by PA1, reflecting the distribution of projects' eligible value, rather than indicating a higher interest for pre-financing. The rate of reimbursement is high across the entire OP (97% on average) and the highest across all OPs. However, the amounts of pre-financing are smaller and projects are usually soft and have reduced implementation periods. No pre-financing was returned at the level of ACD OP.

Table 26: Use of pre-financing by PA in ACD OP

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
1	15,751,425	15,433,385	98.0	0	318,040	15,751,425	430.6
2	6,932,014	6,613,727	95.4	0	0	6,932,014	376.1
3	0	0	0	0	0	0	0
Total	22,683,439	22,047,112	97.2	0	636,327	22,683,439	413.9

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

F. Technical Assistance OP

Pre-financing was only available for RDAs and the amount of pre-financing depends on the structure of interventions where this category of beneficiaries was eligible. Consequently, more than 99% of the total pre-financing granted was accessed under PA1. The rate of reimbursement is high, especially for PA 2 (100%). No pre-financing was returned in case of this OP and only around 17% of the total pre-financing granted is still to be reimbursed.

Table 27: Use of pre-financing by PA in TA OP

PA	Pre-financing granted (RON)	Pre-financing reimbursed (RON)	%	Pre-financing returned (RON)	Pre-financing balance (RON)	Use of pre-financing	
						Absorption (RON)	%*
PA 1	5,265,691	4,355,625	82.7	0	910,066	5,265,691	105.7
PA 2	31,053	31,053	100	0	0	31,053	395.5
PA 3	0	0	0	0	0	0	0
Total	5,296,744	4,386,678	82.8	0	910,066	5,296,744	107.4

* Calculated as a ratio between pre-financing granted and absorption at beneficiaries level (Same indicator as in the macro-econometric model)

The study of the pre-financing cycle gives a relatively good perspective of the overall pace of implementation of the OPs and the progress towards absorption of the EU funding. It suggests that the overall co-ordination of the management of the SF in the next programming period should include the basic indicators of the pre-financing cycle as an element of programme monitoring.



Main categories of beneficiaries

The analysis of the categories has been carried out at OP level. For each OP, the most relevant categories of beneficiaries were identified. (These are different from the eight groups of beneficiaries as defined in the previous chapter but can be mapped to the groups).

1. Regional Operational Programme

Local councils are the leader in terms of pre-financing accessed for PA1 (growth poles, urban development poles, urban centres) and the county councils for PA2 (county roads), with 99.45%, respectively 80.54% of the total pre-financing accessed. In PA3 the pre-financing is shared between county and local councils for the development of health, education and social centres. PA4 was focused on micro-enterprises support (grant scheme) and this is reflected by the results of the analysis of the main beneficiaries of pre-financing. PA5 addresses tourism infrastructures and approximately 65% of the pre-financing was accessed by local authorities. PA6 represents TA funding for RDAs.

2. Environment SOP

Pre-financing is dominated by regional operators for PA1 and Local authorities (County and Local Councils) for PA2 and PA 3. For PA4 the pre-financing was balanced between NGO's, Administrators of protected areas and State universities. It can be noticed that no pre-financing was granted under PA5 and PA6.

3. Increase of Economic Competitiveness SOP

The pre-financing is dominated by large companies in PA1, as the SME's have a very small rate of accessing pre-financing (approx. 16.25%). For PA2 Research institutes and State universities have close shares in respect to the pre-financing granted. For PA3 the pre-financing was equally distributed between all the beneficiaries. Large companies accessed massively pre-financing for PA4.

4. Human Resources Development SOP

The pre-financing is heterogeneously distributed between the beneficiaries within all PAs, except PA4, where it can be noticed that pre-financing was granted for almost all beneficiaries (94.2% out of all the Subordinated units to central public authorities) and to some extent, PA 1, with 60.9% of the pre-financing being granted to state universities.

5. Administrative Capacity Development OP

Pre-financing is more heterogeneously distributed among the different types of beneficiaries, especially in case of PA 1. PA 2 shows a stronger concentration towards Local Councils (63.6%), but other categories, such as County Councils and subordinated or coordinated units of local public authorities are well represented as well.]

6. Technical Assistance OP

The only beneficiaries of the pre-financing are the RDAs.

Table 28: Beneficiary share of pre-financing in the Romanian OPs

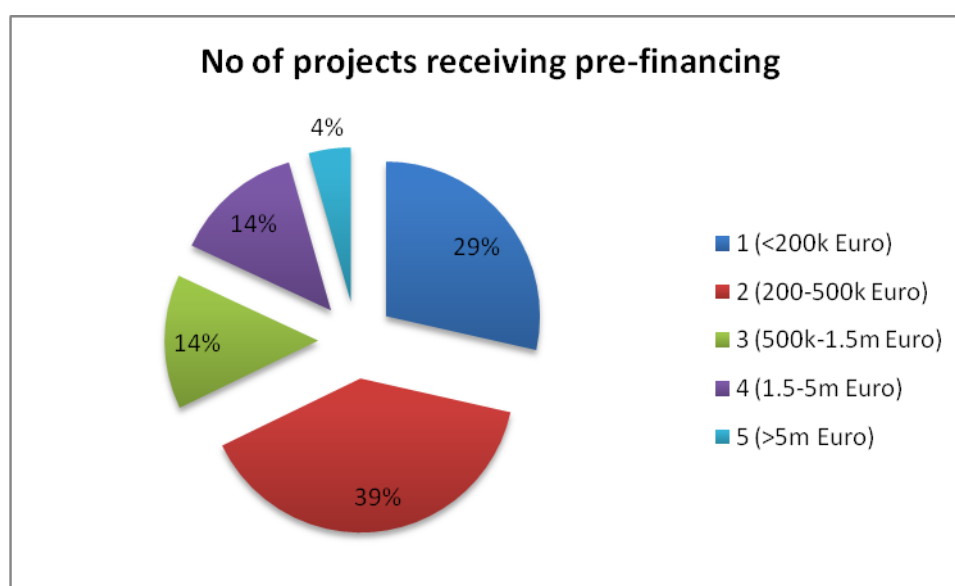
ROP Beneficiary /Share of pre-financing	PA1	PA2	PA3	PA4	PA5	PA6	
Local councils	99.5%	-	39.2%	-	34.4%	-	
County councils	-	80.5%	29.9%	-	30.6%	-	
Micro-enterprises	-	-	-	91.9%	-	-	
ADIs	-	-	18.5%	-	-	-	
RDAs	-	-	-	-	-	100.0%	
ENV SOP	PA1	PA2	PA3	PA4	PA5	PA6	
Regional operators	100.0%	-	-	-	-	-	
County councils	-	99.2%	-	-	-	-	
Local councils	-	-	98.9%	-	-	-	
NGOs	-	-	-	33.9%	-	-	
Administrators of protected areas	-	-	-	31.3%	-	-	
State universities	-	-	-	20.4%	-	-	
IEC SOP	PA1	PA2	PA3	PA4	PA5		
Local councils	-	-	21.6%	-	-		
County councils	-	-	21.6%	-	-		
Large companies	67.1%	-	-	86.3%	-		
Medium companies	16.2%	-	-	-	-		
Small companies	16.5%	-	-	-	-		
Research institutes	-	35.8%	-	-	-		
State universities	-	39.2%	23.0%	-	-		
Public sanitary units	-	12.5%	25.6%	-	-		
HRD SOP	PA1	PA2	PA3	PA4	PA5	PA 6	PA 7
Central public authorities	12.0%	-	-	-	-	-	-
Subordinated units to central public authorities	16.6%	--	-	94.2%	-	8.8%	-
Companies	-	17.1%	23.5%	-	24.7%	13.6%	-
NGOs	-	45.4%	38.6%	-	60.8%	66.5%	-
State universities	60.9%	15.5%	12.6%	-	-	-	-
ACD OP	PA1	PA2	PA3				
Local councils	27.2%	63.6%	-				
County councils	20.5%	14.3%	-				
NGOs	14.5%	-	-				
Central public authorities	12.9%	-	-				
Subordinated units of local public authorities	-	17.7%	-				
TA OP	PA1	PA2	PA3				
RDAs	100%	100%	-				

Pre-financing based on project value

The analysis of pre-financing from the perspective of project value was made by defining five ranges of projects' (eligible) value. As would be expected, higher value projects (over 1,500,000 EUR) count for the highest share of pre-financing in the case of all OPs, except for the ACD OP, where most pre-financing was granted to projects with a value in the range 200,000 – 500,000 EUR. This reflects the specific nature of the operations for that OP.

In terms of the number of projects that accessed pre-financing there is relatively even distribution among the five value ranges defined, with the largest number of projects (though not the majority) in the range 200,000 – 500,000 EUR. For the smaller OPs around 73% of the projects are below 200,000 EUR in ACD OP and almost 42% of the projects in TA OP had a value between 500,000 EUR and 1.5 million EUR. The detailed data for each OP is presented in the tables below.

Figure 1: Number of projects receiving pre-financing by project value



The analysis shows that the relative size of a project (in terms of value) is not a major factor in the pre-financing system as there is a good spread of demand across the OPs for each value band.



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Table 29: Pre-financing by value of projects

Project value	ROP	ENV SOP	IEC SOP	HRD SOP	ACD OP	TA OP	All OPs
No. of pre-financed projects							
<200,000EUR	112	27	80	141	138	4	502
200,000-500,000EUR	436	47	114	944	43	3	1,587
500,000-1,500,000EUR	347	25	100	279	4	5	760
1,500,000-5,000,000EUR	224	10	47	448	3	-	732
>5,000,000EUR	122	66	33	1	-	-	222
	1,241	175	374	1,813	188	12	3,803
% in total no. of projects contracted							
<200,000EUR	9.0%	15.4%	21.4%	7.8%	73.4%	33.3%	
200,000-500,000EUR	35.1%	26.9%	30.5%	52.1%	22.9%	25.0%	
500,000-1,500,000EUR	28.0%	14.3%	26.7%	15.4%	2.1%	41.7%	
1,500,000-5,000,000EUR	18.0%	5.7%	12.6%	24.7%	1.6%	-	
>5,000,000EUR	9.8%	37.7%	8.8%	0.1%	-	-	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% in total pre-financing granted							
<200,000EUR	0.5%	0.1%	1.1%	1.0%	47.4%	1.3%	
200,000-500,000EUR	4.0%	0.4%	5.4%	11.9%	36.4%	32.0%	
500,000-1,500,000EUR	9.7%	0.6%	16.6%	16.7%	7.5%	66.8%	
1,500,000-5,000,000EUR	29.8%	0.7%	24.1%	70.4%	8.7%	-	
>5,000,000EUR	55.9%	98.1%	52.7%	-	-	-	
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

6.4 Limiting factors and issues faced by the beneficiaries in accessing and using pre-financing

The evaluation addressed the question of limiting factors in accessing and using pre-financing by considering the situation of the different beneficiary groups and the types of projects. When considering different types of projects, the distinction between state aid-type of projects and non-state aid-type of projects has been used to reflect the significant difference between the conditions imposed to beneficiaries for accessing pre-financing. Several information sources were used, including documentary analysis, survey and interviews with beneficiaries, interviews with authorities and financial institutions. Most of the findings derived from the documentary analyses (such as the National Strategic Evaluation Report for the NSRF and Annual Implementation Reports) were further confirmed by the beneficiaries' survey and by the interviews carried out.



Limiting factors for accessing pre-financing

The main limiting factors in accessing pre-financing are similar for beneficiaries of funding with and without state aid, with one exception. These are:

- Limiting factors for the state aid beneficiaries
 - the guarantee requested in order to grant the pre-financing
 - the low size of the pre-financing
 - the accelerated rhythm of recovery imposed
- Limiting factors for non-state aid cases
 - the low size of the pre-financing
 - the accelerated rhythm of recovery imposed

In addition to these factors, it is worth to note that according to a significant number of survey responses, beneficiaries of both state aid and non-state aid type of projects have mentioned among the limiting factors “the difficult administrative requirements for obtaining pre-financing”. This has not been confirmed by other sources.

The bank guarantee required to obtain the pre-financing has led to non-access to pre-financing and has been a reason for beneficiaries to postpone their pre-financing requests. In order to issue a guarantee, banks perform the same type of analysis in terms of duration and requirements as for granting loans. SMEs and especially micro-enterprises usually do not qualify to obtain bank guarantees.

Beneficiaries consider that the pre-financing rates currently applied are rather low. This, combined with the bureaucratic effort to access pre-financing, which is perceived as significant, has acted as a disincentive for them to apply for pre-financing.

The accelerated rhythm of recovery meant that some beneficiaries did not request pre-financing in order to avoid returning it if they were unable to comply with requirements regarding the submission of RCs. For example, beneficiaries could not always comply with the administrative requirements to present supply or service contracts in order to obtain pre-financing.

Other limiting factors identified were:

- the quality of the information available regarding pre-financing
- the frequency of amending regulations and terms on pre-financing

The quality of the information available on pre-financing influences the beneficiaries' capacity to plan the cash flows of the projects. This appears to be a cause for both non access to pre-financing and postponing the request for pre-financing. The frequent changing of the regulations and terms on pre-financing appear to discourage beneficiaries to apply.

From the (eight) main groups of beneficiaries defined, local authorities complained the least about the limiting factors in accessing the pre-financing.



Limiting factors for using pre-financing

The main limiting factors identified in using pre-financing are:

- the poor performance of the contractors
- the complexity of the public procurement procedure
- the changes of the economic environment (since the submission of the financing application)
- poor quality of the technical projects.

The performance of the contractors is often too much below expectations, leading to delays in implementation and difficulties for the beneficiaries to submit RCs on time. The public procurement process usually does not fit with the initial planning of the projects, in many instances causing significant delays that impede the timely submission of the RCs.

The changes of the economic environment (since submission of the financing application) were significant for many projects submitted at the beginning of the programming period, when the time gap between submission of projects application and start of implementation was measured in years. Consequently, project costs and cash flows were no longer in line with the initial planning.

The poor quality of project design is widely acknowledged, even by the beneficiaries themselves. The implementation of projects with low quality technical design often becomes a real challenge, which impacts also on the use of pre-financing.

Other limiting factors identified in using pre-financing are:

- Changing regulations and terms on pre-financing (pre-financing rate, approval of 60% of first tranche, etc.);
- Delays in payments of pre-financing by MA/IBs.

The changing regulations and terms on pre-financing sometimes happen during project implementation thus affecting cash flow planning. The delay in the payment of pre-financing by MAs was repeatedly mentioned in the answers to the open questions of the beneficiaries' survey as affecting significantly the projects' cash flow.

The problems and limiting factors identified were also discussed during the interviews with the relevant authorities. The factors behind the problems in using pre-financing are mainly

- (1) the poor financial and administrative capacity of the beneficiaries;
- (2) the low quality of the technical projects; and
- (3) the instability of the normative and legal framework set for the SI.



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The discussions with financial institutions (CEC Bank, Unicredit Tiriac Bank, National Fund for Credit Guarantees for SMEs (FNGCMM), European Investment Fund) revealed specific issues regarding the co-financing of EU funded projects. From the banks perspective, the main disruptive element for the efficient functioning of the pre-financing mechanism is the bank guarantee required from the state aid-type of beneficiaries in order to obtain the pre-financing. The evaluation of the credit worthiness of the beneficiaries and of the bankability of their projects allows banks to get an insight of the SI implementation processes. The interviewed banks indicated that the financial capacity of the beneficiaries is the main issue but the quality of the projects and the public procurement procedures are also weighing as significant risk factors. In spite of their interest to be involved in the process, banks tend to look for solutions to address default risks by all means rather than supporting clients to access SI.

FNGCMM expressed their willingness to support in the future smaller-sized beneficiaries of SI, who have fewer chances to bank loans, by proving guarantees including those needed for accessing pre-financing. This was not allowed for SCF under the current legislation, but it appears that under National Rural Development Programme it has been a real success factor for absorption.

6.5 Effect of misuse of pre-financing

The analyses made and interviews conducted have confirmed that the misuse of pre-financing is limited to cases of not using pre-financing according to conditions set through financing contracts. The most common issue was not observing the assumed schedule for submitting RCs, hence the obligation of the beneficiaries to return pre-financing to MAs. An analysis was made of the situation of pre-financing returned by OP, and by PA /KAI.

Several aspects of pre-financing returned are worth highlighting. Most of the pre-financing returns started in 2011. From a legal point of view, the enforcement mechanism was unclear until 2012, so it can be argued that returns are generally less than they should have been according to conditions set. Legal and operational provisions for adjusting the pre-financing value to the real value of the project (in many cases lower than the contracted value, such as in the case of HRD SOP) are still not in place. As a principle, pre-financing returned has been used to pre-finance other beneficiaries but the same beneficiaries who were obliged to return pre-financing could also re-apply for it. Finally, the reporting on pre-financing returned in the case of HRD SOP, one of the main pre-financing “consumers” among the OPs and for which the corresponding amount returned is very low in value must be considered unreliable.



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Table 30: Pre-financing returned analysis

ROP /Share of pre-financing	OP level	PA1	PA2	PA3	PA4	PA5	PA6
Pre-fin granted	2,492,543,402	339,611,345	1,193,883,789	472,358,815	133,606,601	313,529,994	39,552,859
Pre-fin returned	123,020,040	113,649	59,066,589	10,544,453	38,774,087	13,965,501	755,761
Percentage	4.9%	0.03%	4.95%	2.23%	29.02%	4.45%	1.91%
ENV SOP	OP level	PA1	PA2	PA3	PA4	PA5	PA6
Pre-fin granted	5,521,185,612	1,920,983,732	366,808,223	177,766,300	55,627,357		
Pre-fin returned	640,182,672	489,298,243	108,593,275	36,061,037	6,230,117		
Percentage	25.4%	25.47%	29.60%	20.29%	11.20%		
IEC SOP	OP level	PA1	PA2	PA3	PA4	PA5	PA6
Pre-fin granted	689,746,342	160,559,300	419,552,885	40,480,092	69,154,065		
Pre-fin returned	19,400,906	3,219,177	3,684,802	877,093	11,619,835		
Percentage	2.8%	2.00%	0.88%	2.17%	16.80%		
HRD SOP	OP level	PA1	PA2	PA3	PA4	PA5	PA 6
Pre-fin granted	2,026,786,042	410,336,009	411,253,400	431,661,689	46,405,175	331,827,052	395,302,716
Pre-fin returned	10,753,412	10,148,856	604,556				
Percentage	0.5%	2.47%	0.15%				
ACD OP		PA1	PA2	PA3			
	No pre-financing returned						
TA OP		PA1	PA2	PA3			
	No pre-financing returned						



The highest share of pre-financing returned in the case of ROP can be found in PA 4 (KAI 4.1, with almost 35% and 4.3 with more than 20%), concerned with private beneficiaries developing business support structures and investments for micro-enterprises. These KAIs are followed by KAI 5.2, with mixed types of beneficiaries implementing state aid-type of projects aiming at developing tourism infrastructures.

Local authorities and regional operators are responsible for most of the pre-financing returned in ENV SOP, which is also the most effective OP in terms of enforcement of the contractual obligations related to the use of pre-financing.

IEC SOP generally exhibits low rates of pre-financing returned, below 5%, with the exception of PA 4 and notably of KAI 4.1, with an overall rate of 17% and a particular rate of 56% at the level of KAI 4.1.

In the case of the HRD SOP, the rates of pre-financing returned are generally very low, which suggest either incomplete data or a low enforcement capacity. An exception seems to be KAI 1.1, with almost 7% of the pre-financing granted being returned.

6.6 The impact of the pre-financing mechanism on its defined objective

The econometric model was used to assess the impact of the pre-financing granted and of the other factors on the absorption rate at the level of the beneficiaries. The following function was used:

$$\ln AR_i = \beta_0 + \beta_1 \ln UR_i + \beta_2 \ln Pr_i + \beta_3 \ln Dif_pref_claim_i + \beta_4 \ln Dif_claim_ramb_i + \beta_5 \ln ACC_i + \varepsilon_i$$

where:

- AR_i is the absorption rate for beneficiary i (in percent, at beneficiary level);
- UR_i is the use of the pre-financing for beneficiary i (in percent, at beneficiary level);
- Pr_i is the average percent for pre-financing, according to the specific legislation;
- $Dif_pref_claim_i$ is the average difference (in working days) between the first pre-financing paid date and the date of the first registered claim.
- $Dif_claim_ramb_i$ is the average difference (in working days) between the date of the first registered claim and the date of the first reimbursement.
- ACC_i is the access of pre-financing (in percent, at beneficiary level).

The data for the model was established according to the following steps:

The SMIS and MA data were aggregated and for every pre-financed project the following values were calculated:

- o $A_t - \text{Absorption} = \text{Per_auth_amount} + \text{Amortisation_amount}$;



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- Dif_pref_claim - the average difference (in working days) between the first pre-financing paid date and the date of the first registered claim.
- Dif_claim_ramb - the average difference (in working days) between the date of the first registered claim and the date of the first reimbursement.
- π_t - the maximum percent for pre-financing, according to the specific legislation.
- MP_t – Maximum pref-financing = π_t *Eligible Budget;
- AR_t – Absorption Rate = Absorption/Non Reimbursable Budget;
- UR_t – Use of the Pre-financing = Absorption / Pre-financing granted.
- ACC_t - Access of Pre-financing=Pre-financing/Maximum pre-financing.

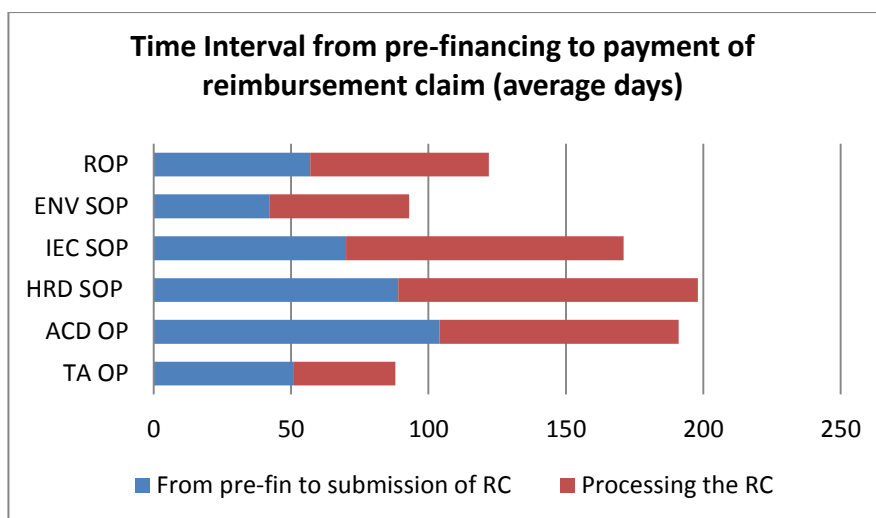
Time intervals between pre-financing and RC

The Table shows the calculated number of days between (a) the first pre-financing payment and submission of the first RC and (b) the submission of the first RC claim and the payment of the RC claim.

Table 31: Average time intervals (in working days) by OP for the reimbursement cycle

OP	Dif_pref_claim (a)	Dif_claim_ramb (b)	Total Time interval
1. ROP	57	65	122
2. ENV SOP	42	51	93
3. IEC SOP	70	101	171
4. HRD SOP	89	109	198
5. ACD OP	104	87	191
6. TA OP	51	37	88

Figure 2: Time intervals for reimbursement



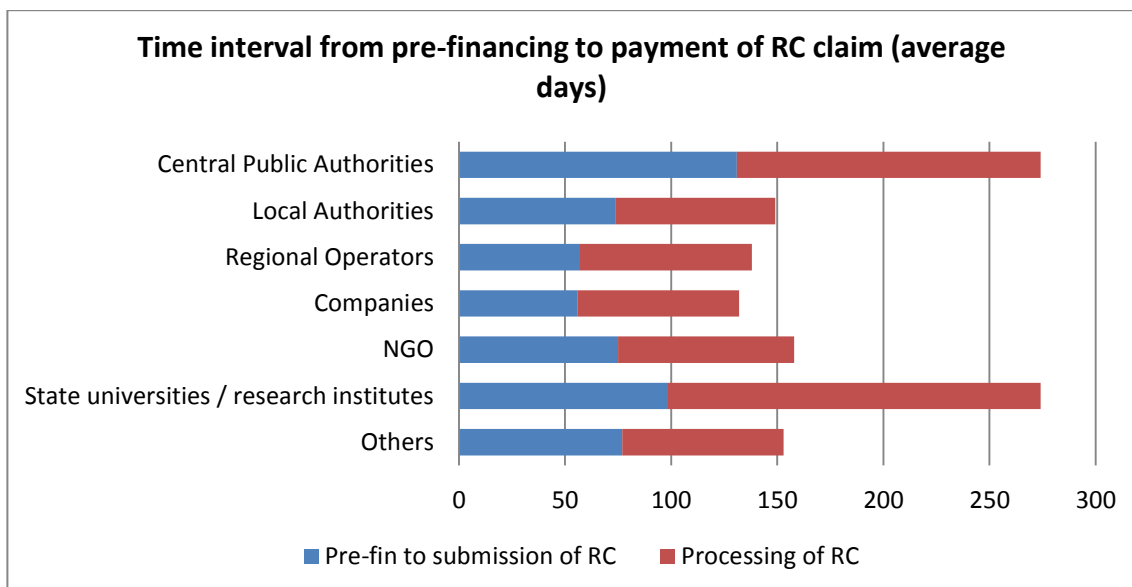
The data and graph show that for two large OPs (IEC SOP, HRD SOP) the time interval between the receipt of pre-financing and the receipt of payment for the first reimbursement claim is approaching 200 days. The data also shows that the time required for the authorities to process a reimbursement claim is longer than the time interval on the beneficiary side from receiving a pre-financing to submitting the first reimbursement claim. This was an unexpected result and reflects a poor efficiency rate for the processing of RCs.

The same analysis was made by type of beneficiary, with the following results.

Table 32: Average time intervals (in working days) by type of beneficiary in the reimbursement cycle

Beneficiary	Pre-fin to submission of RC	Processing of RC	Total time interval
Central Public Authorities	131	143	274
Companies	56	76	132
Local Authorities	74	75	149
NGO	75	83	158
Regional Operators	57	81	138
State universities and research institutes	98	176	174
Others	77	76	153

Figure 3: Reimbursement time intervals by type of beneficiary



The data reveals that Central Public Authorities¹⁷ and State Universities have the longest time intervals, both in excess of 250 days between the payment of pre-financing and the payment of the first RC. Again, for both groups it takes considerably longer to process the RC claim. The data could indicate systemic problems in the preparation of the RC claims by these two beneficiary groups.

In order to explore this further, the number of days for these two beneficiary groups by OP was further analysed.

Time intervals for Central Public Authorities

Table 33: Reimbursement time intervals – Central Public Authorities

OP	Dif_claim_ramb	Dif_pref_claim
ROP	47	55
IEC SOP	55	92
HRD SOP	157	146
ACD OP	83	80

As the above table shows, there are differences in the behaviour of beneficiaries in terms of the distance in time between the first pre-financing, the first registered claim and the first reimbursement. The highest delay is registered for HRD SOP, with 157 days between the

¹⁷ this category is not eligible for pre-financing as such and they have applied and were recorded as pre-financing beneficiaries in the cases when they have acted as association leaders on behalf of their partners, being either NGOs or other type of beneficiaries.



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first claim and the first reimbursement and 146 days between the first pre-financing and the first claim.

Table 34: Reimbursement time intervals - State universities /research institutes

OP	Dif_claim_ramb	Dif_pref_claim
ROP	47	65
ENV SOP	49	100
IEC SOP	104	81
HRD SOP	368	125
ACD OP	109	74

As the above table shows, there are differences in the behaviour of State universities and research institutes in terms of the time interval between the first pre-financing payment, the registration of the first reimbursement claim and the first reimbursement. The highest delay is documented for HRD SOP, with 368 days between the submission of the first reimbursement claim and the first reimbursement¹⁸ and 125 days between the first pre-financing payment and the first reimbursement claim.

¹⁸ This is due to a combination of factors, such as temporary lack of funding, insufficient institutional capacity for processing the RC, etc., but whose more detailed investigation was not under the remit of this evaluation.

Table 35: Indicators of absorption and use of the pre-financing (averages)

OP	Beneficiary	Absorption Rate	Use of pre-financing	Access to pre-financing
ROP	Central Public Authorities	77%	243%	90%
ROP	Companies	78%	197%	97%
ROP	Local Authorities	50%	314%	67%
ROP	NGO	57%	501%	65%
ROP	Others	80%	472%	81%
ROP	State universities and research institutes	52%	167%	100%
SOP ENV	Local Authorities	29%	183%	64%
SOP ENV	NGO	43%	230%	77%
SOP ENV	Others	45%	198%	89%
SOP ENV	Regional Operators	18%	174%	50%
SOP ENV	State universities and research institutes	57%	398%	67%
SOP IEC	Central Public Authorities	100%	398%	100%
SOP IEC	Companies	74%	237%	78%
SOP IEC	Local Authorities	68%	334%	87%
SOP IEC	State universities and research institutes	72%	300%	91%
SOP HRD	Central Public Authorities	36%	354%	58%
SOP HRD	Companies	61%	364%	70%
SOP HRD	Local Authorities	38%	291%	59%
SOP HRD	NGO	51%	306%	72%
SOP HRD	Others	48%	435%	60%
SOP HRD	Regional Operators	30%	238%	50%
SOP HRD	State universities and research institutes	30%	200%	59%
OP ACD	Central Public Authorities	43%	692%	47%
OP ACD	Local Authorities	75%	400%	65%
OP ACD	NGO	74%	363%	75%
OP ACD	State universities and research institutes	76%	756%	52%
OP TA	NGO	49%	197%	85%

In terms of the three relevant indicators related to absorption and pre-financing, there are differences among OPs and also among beneficiaries of the same OP. For instance, for HRD SOP, the NGO's had an average absorption rate at the level of the beneficiaries of 51% (amortisation of pre-financing and net payments compared to the grant contracted), use of pre-financing of 306% (the amount absorbed was almost three times higher than the pre-financing granted), while access to pre-financing was 72% (the pre-financing granted was 72% from the maximum pre-financing amount possible to be accessed according to legislation).

Table 36: Indicators for absorption and use of pre-financing by OP

OP	Absorption Rate	Use of the pre-financing	Access to pre-financing
ROP	57%	315%	73%
SOP ENV	35%	209%	69%
SOP IEC	73%	273%	84%
SOP HRD	50%	319%	68%
OP ACD	74%	421%	65%
OP TA	49%	197%	85%

From the point of view of effectiveness of pre-financing, the most successful was ACD OP, where the use of the pre-financing was 421%, so for every RON granted as pre-financing, ACD OP received 4.21 RON as absorption.

Table 37: Indicators for absorption and pre-financing – type of beneficiary

Beneficiary	Absorption Rate	Use of the pre-financing	Access to pre-financing
Central Public Authorities	40%	369%	59%
Companies	69%	281%	80%
Local Authorities	54%	323%	67%
NGO	52%	327%	71%
Others	52%	411%	66%
Regional Operators	19%	179%	50%
State universities /research institutes	46%	249%	70%

In terms of the three relevant indicators related to absorption and pre-financing, there are differences among beneficiaries. For instance, companies had an average absorption rate of 69%, in the context of having a use of pre-financing of 281% (the absorption amount was 2.81 higher than the pre-financing granted), while access to pre-financing was 80% (their pre-financing granted was 80% from the maximum pre-financing amount possible according to legislation).

The regression model was estimated for the entire database, for all the OPs, but only for the finalised projects.

The results of the regression model

Analysis of Variance					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	5	510.99	102.19	3145.83	<.0001
Error	1083	35.18	0.03		



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Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Corrected Total	1088	546.18			

R-Square 0.93

Adj R-Sq 0.93

Parameter Estimates				
Variable	Parameter Estimate	Standard Error	t Value	Pr > t
Intercept	0.145	0.079	1.830	0.068
ln_ur	0.929	0.020	45.530	<.0001
lnpr	0.844	0.035	23.850	<.0001
ln_acc	0.995	0.013	79.360	<.0001
Indif1	-0.019	0.009	-2.110	0.035
Indif2	-0.024	0.009	-2.690	0.007

Based on the estimated regression model, the main findings are the following:

- The model is valid, and the influence of the explanatory variables on the absorption rate is high (93%).
- There is a significant, positive relationship between the level of use of the pre-financing and the absorption rate: if the use of the pre-financing increases by 1%, then the level of absorption increases by 0.92%.
- The rate of pre-financing and the access to pre-financing have a positive influence on the absorption rate, while the distance in time between pre-financing payment, submission of RC and reimbursement have a negative influence on the absorption rate.
- If the access to pre-financing increases by 1%, the absorption rate at beneficiary level increases by 0.99%.
- A 1% increase in pre-financing rate is reflected in 0.84% increase in the absorption rate.



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- The influence of the period between the first pre-financing payment and the submission of the first RC is smaller than the period between the submission of the first RC and the first reimbursement

The econometric model was also estimated at OP level, in order to identify structural differences among operational programs and to detect the influence of each factor on the absorption rate.

Table 38: Elasticity coefficients from the regression model - OPs

OP	Intercept	Access to pre-financing	Use of the pre-financing	Dif_claim_reimbursement	Pre-financing rate
1	0.051	1.221	0.963	-0.086	0.585
2	-0.467	1.039	0.989	*	0.656
3	-1.087	0.385	0.950	-0.043	0.108
4	0.222	1.001	0.962	-0.040	0.946
6	-0.554	1.097	1.010	*	0.507
7	0.607	1.183	1.112	*	1.306

* the impact is not significant

If the analysis is done by OP, then in some cases the results are significantly different than the results obtained for the entire database (all OPs). Thus the main findings are the following:

- The difference between the first pre-financing and the first registered claim is not statistically significant at 95% probability.
- The distance between the first registered claim and the first reimbursement is significant only for SOP HRD, SOP IEC and SOP ROP, and the influence is negative, being a sign of system vulnerability.
- For SOP IEC the access to pre-financing has the lowest impact on the absorption rate, only 0.38, while the highest impact is recorded for ROP, with 1.22.
- The impact of the use of the pre-financing is evenly distributed among OPs.
- The impact of the pre-financing rate is low for SOP IEC (0.1), while the highest impact is estimated for OPTA (1.30).

The econometric model by type of beneficiaries

The elasticity coefficients at beneficiary level, as resulting from the econometric model applied to the entire database, are presented below:

Table 39: Elasticity coefficients by type of beneficiary

Beneficiary	Access to	Use of	Dif_pref_clai	Dif_claim_	Rate of pre-
-------------	-----------	--------	---------------	------------	--------------

	pre-financing	Pre-financing	m	reimbursemen t	financing
Central Public Authorities	1.001	0.991	*	*	0.762
Companies	1.231	0.861	-0.047	-0.048	0.699
Local Authorities	1.077	0.997	*	*	0.823
NGO	1.025	0.982	0.028	-0.018	0.916
Regional Operators	0.990	1.003	*	-0.027	1.032
State universities /research institutes	0.985	1.000	0.025	*	0.825
Others	0.952	0.941	*	*	0.869

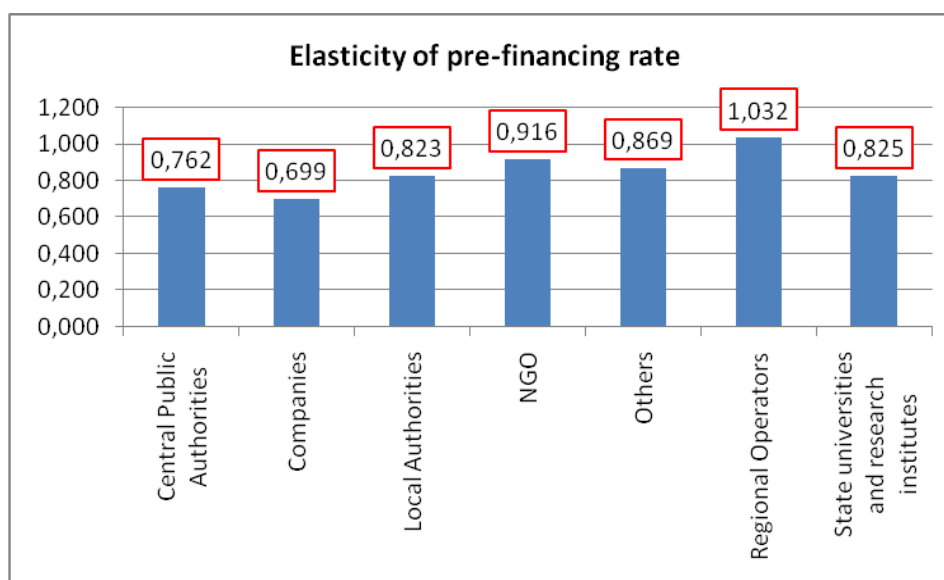
* the impact is not significant

From the analysis of the estimated models, the main findings are the following:

- The highest impact of the pre-financing rate on the absorption rate is for Regional Operators (1.03), while the lowest impact is for Companies (0.69).
- The period between the date of submission of the first RC and the first reimbursement is significant only for three types of beneficiaries: regional operators, companies and NGOs.
- For companies, the influence of the access to pre-financing on the absorption rate is the highest, with an elasticity coefficient of 1.23, so a 1% increase of the access to pre-financing is reflected in a 1.23% increase in the absorption rate.

These results and the comparison among them are depicted in the graph below.

Figure 4: The elasticity coefficient of pre-financing rate by type of beneficiary



The econometric model by type of projects

The elasticity coefficients by type of projects, as resulting from the econometric model applied to the entire database, are presented below:

Table 40: Elasticity coefficients by type of projects

Project	Intercept	Access to pre-financing	Use of Pre-financing	Dif_pref_claim	Dif_claim_reimbursement	Rate of pre-financing
Public infrastructure	-0.20	1.08	1.00	*	*	0.81
Investments	-0.62	0.75	0.94	-0.03	-0.08	*
Soft type interventions	0.04	1.01	0.97	*	-0.03	0.90

* the impact is not significant

From the analysis of the estimated models, the main findings are the following:

- For the investments projects the pre-financing rate has no significant impact on the absorption rate.
- The highest impact of the pre-financing rate on the absorption rate is for soft type interventions (0.90), while the lowest impact is for public infrastructure (0.81).
- The period between the date of submission of the first RC and the first reimbursement is significant only for investments projects and soft type interventions.
- For public infrastructure, the influence of the access to pre-financing on the absorption rate is the highest, with an elasticity coefficient of 1.08, so a 1% increase of the access to pre-financing is reflected in a 1.08% increase in the absorption rate.

6.7 The implications of the use of pre-financing on the state budget

In order to assess the effects of the pre-financing scheme on the state budget, the following data set per quarter was constructed, based on the data set at project level built by the project team. By adding the data on the advance payments received from the EC in the period 2007-2010¹⁹ (last column of the table) to the existing data set we calculated the “net” effect of the pre-financing on the state budget.

Table 41: Pre-financing and absorption by quarter in RON millions

¹⁹Romania has received cumulated advances from the EC amounting to approximately €2.1 billion



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Year/ Quarter	Pre- financing granted	Net Pre- financing	Pre- financing returned	Absorption	Amortisation	Pre- financing balance	Advances from EC
2007/2		0		0	0	0	513
2007/3		0		3	2	-2	605
2007/4		0		3	2	-2	269
2008/1		0		7	5	-5	1960
2008/2		0		1	1	-1	404
2008/3		0		5	5	-5	23
2008/4	95	95	0	11	11	84	0
2009/1	97	97	0	8	7	90	3,316
2009/2	196	196	0	14	13	183	0
2009/3	226	226	0	37	28	198	0
2009/4	353	353	0	202	152	201	0
2010/1	289	289	0	192	121	168	0
2010/2	466	465	0	248	165	301	0
2010/3	847	847	0	367	237	610	1,185
2010/4	1,511	1,508	3	712	451	1,057	42
2011/1	992	884	108	882	581	303	0
2011/2	529	526	4	947	604	-78	0
2011/3	474	318	156	847	537	-219	0
2011/4	478	247	231	1,328	684	-437	0
2012/1	368	175	194	2,170	1,346	-1,171	0
2012/2	306	243	63	1,842	1,170	-927	0
2012/3	230	213	17	1,002	596	-383	0
2012/4	154	134	20	1,383	885	-751	0
2013/1	507	503	4	2,041	1,371	-868	
Total	8,117	7,318	799	14,255	8,974	-1,656	8,317

The following graphs demonstrate that there was no “net” effect of the pre-financing mechanism on the state budget. The figures show that the overall pre-financing balance has been constantly “behind” the cumulated advances received from EC, even considering the reimbursements made in the meantime. This is the answer to the relevant sub-question of the ToRs.

Based on the model constructed, one can calculate the “stand alone” effect of the pre-financing scheme (that is the effect if there was no interest free advance received from the EC) and the precise distribution of “influence” within the advances received, of the amounts representing reimbursements to beneficiaries, in the period of time, based on the assumption applied that the advances were primarily used for pre-financing to be paid to beneficiaries.

Figure 5: Pre-financing and Amortisation (million RON)

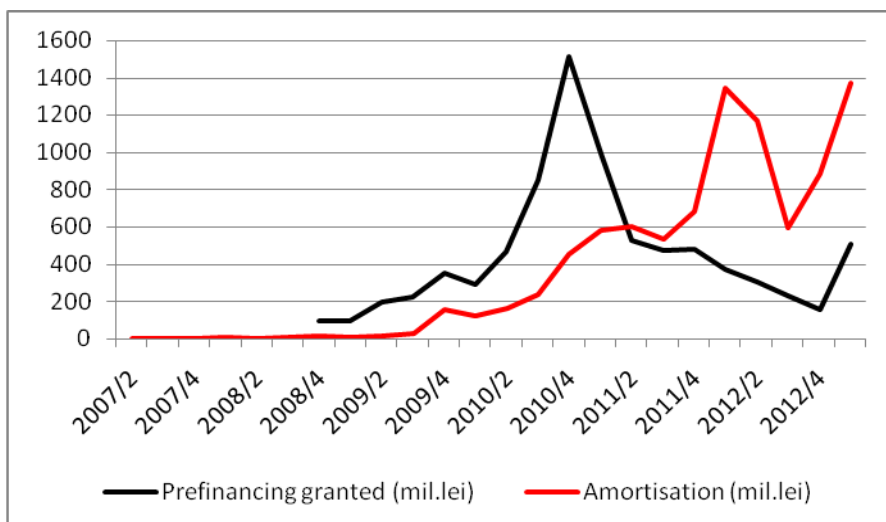
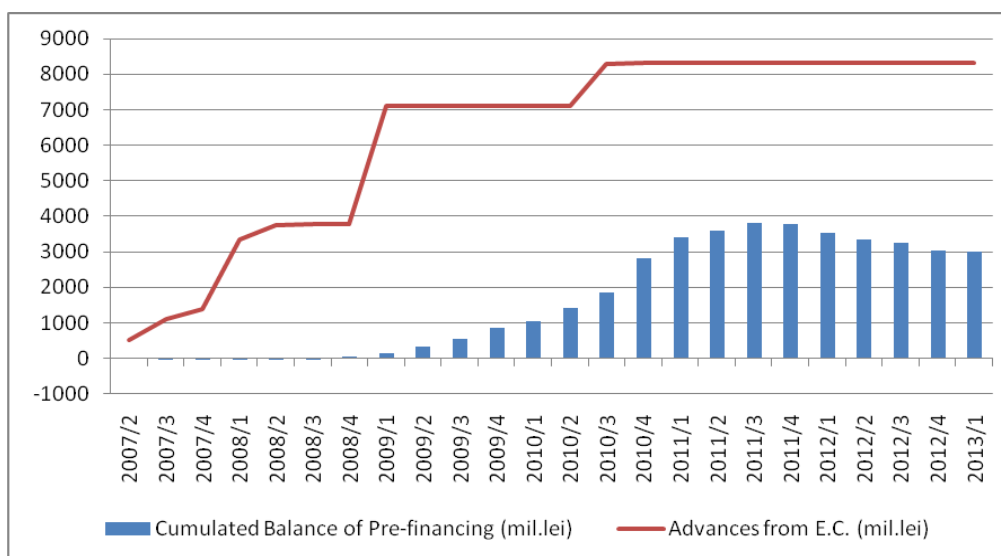
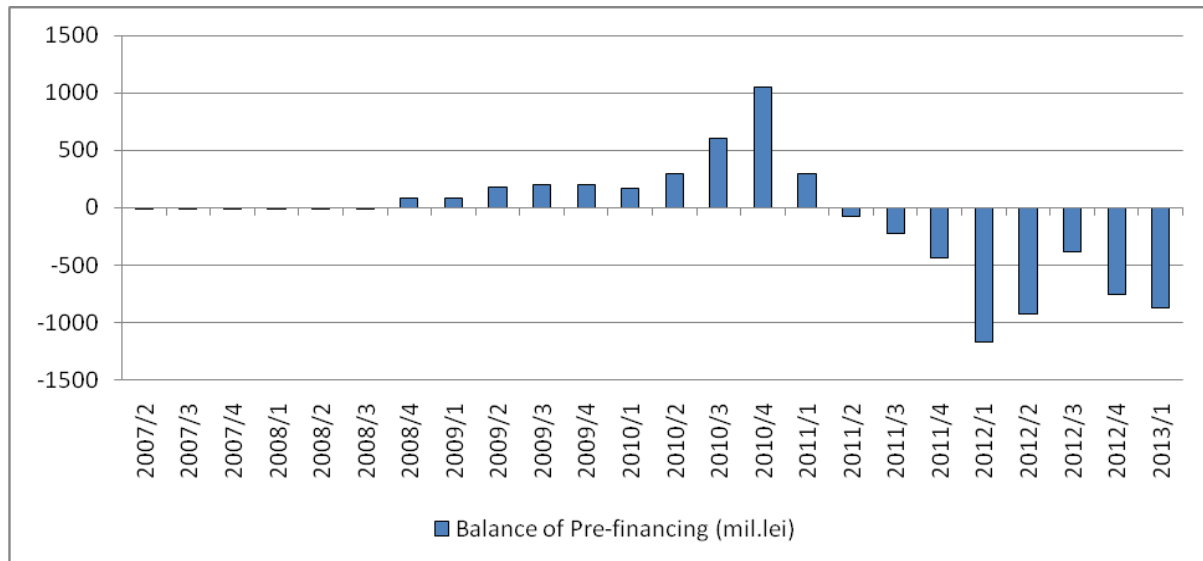


Figure 6: Balance of pre-financing (pre-financing in the accounts of the beneficiaries)



The graph shows that the maximum “exposure” of the mechanism consisting of pre-financing in the accounts of the beneficiaries was registered in quarter 3 of 2011 (approximately 4 billion RON) and that since then the amount of money tied up in pre-financing balances with beneficiaries has been falling. This is captured in the following graph.

Figure 7: Balance of pre-financing, on quarterly basis



Considered on a quarterly basis, as a stand alone “in-out” cash flow to the state budget, the balance of pre-financing had a maximum in the last quarter of 2010 and a minimum in the first quarter of 2012.

6.8 Conclusions

The factual basis shows that the actual use of pre-financing is not optimised, that is it has not operated to the maximum extent consistent with its objectives. Three OPs (ROP, ENV SOP and HRD SOP) account for approximately 90% of pre-financing granted at national level. IEC SOP follows with 8.9%. In overall terms, only 40% of projects supported accounting for 51.8% of eligible amounts benefited from pre-financing. It is interesting to note that central public authorities and state companies together account for 28.5% of the eligible value of SI projects contracted and the GoR committed itself to pre-finance these projects entirely by providing funds for project implementation directly in the budgets of the beneficiary institutions, respectively the budgets of MT and MECC.

The trend in reimbursement of pre-financing through amortisation for the three Ops is that the ROP has a good 72.6% rate of reimbursement, followed by HRD SOP (53.6%) and ENV SOP (30.8%). ACD OP and TA OP have high reimbursement rates (97.2%, respectively 82.8%) but the pre-financing granted is comparatively very small.

ENV SOP exhibits the highest level of pre-financing returned due to misuse (25.4%), followed by ROP with 4.9%. The HRD SOP, which accounts for 26.1% of the pre-financing granted at national level, has only 0.5% of the pre-financing returned.



For the OPs most relevant in terms of pre-financing use, the current pre-financing balance (pre-financing funds in the accounts of the beneficiaries) varies between 40% and 46% in the case of IEC SOP, ENV SOP and HRD SOP and 18.2% in the case of ROP.

The highest demand for pre-financing can be observed for HRD SOP, where more than 79% of the projects accessed pre-financing. The ENV SOP is the second, with 53% in terms of numbers of project, but almost 89% of the contracted eligible value. This is almost double the eligible value of the HRD OP pre-financed projects. These figures reflect the different nature of both beneficiary types and project types. The projects under Trans SOP were not eligible for pre-financing under the “classic” pre-financing scheme, but they were de facto pre-financed 100% by the state budget by including the necessary financial resources in the annual budgets of the MT.

Companies were the largest category of SI beneficiaries in terms of **total number of projects** implemented, with more than half of the total number of projects contracted (51.2%) followed by local authorities (18.8%) and NGOs (12.2%). From the perspective of the eligible value of contracted projects, local authorities are the largest category, with almost 25% of the total eligible value, followed by state companies and regional operators with 20.4%, respectively 19.5%.

When considering the **projects that received pre-financing**, local authorities lead in terms of number of projects, but in terms of eligible value they are in second place (with 31.1% of total eligible value), being outranked by the regional operators (36.9%).

Almost 37% of the pre-financing has been granted to projects where beneficiaries are local authorities. Together, regional operators and local authorities account for more than 60% of the pre-financing granted. These categories are followed by NGOs (11.9%), State universities /Research institutes and companies, each with 10.1%. From the perspective of the type of intervention pre-financed, public infrastructure projects received 60.9% of the pre-financing granted, followed by soft-type projects (27.2%) and Investments (11.9%).

In the case of the four OPs that count for approximately 99% of the pre-financing granted (ROP, ENV SOP, IEC SOP and HRD SOP), a percentage in between 70% (HRD SOP) and 98% (ENV SOP) of the pre-financing has been granted to projects with an eligible value in excess of 1,500,000 EUR.

For both state aid and non-state aid-type of beneficiaries, the main limiting factors for accessing pre-financing are:

- (1) the low size of the pre-financing;
- (2) the accelerated rhythm of recovery imposed;
- (3) the difficult administrative requirements for obtaining pre-financing.

Apart from and ahead of these, for state aid projects, the bank guarantee requested remains the main obstacle.

From the beneficiaries’ perspective, the main limiting factors in using pre-financing are:

- (1) the poor performance of the contractors;



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- (2) the complexity of the public procurement procedure;
- (3) the changes of the economic environment (since submission of the financing application to actual implementation)
- (4) the poor quality of the technical projects.

Interviews with main stakeholders within the SI administrative system (MAs) have confirmed only the last factor and indicated as principal limitations (1) the poor financial and administrative capacity of the beneficiaries and another main factor as being the instability of the normative and legal framework set for the SI.

The misuse of pre-financing was considered in terms of a failure to observe the contractual obligations on pre-financing amortisation, through RCs. This was mainly the result of the slower progress than planned with projects' implementation. For some OPs, there were significant amounts granted as pre-financing blocked and that could not be used for reimbursements.

The unreliability of data continues to be a problem, especially in the case of HRD SOP. SOP ENV has the highest level of pre-financing returned (25.4%) reported; many beneficiaries applied for the maximum amount of pre-financing which could not be used within the six months timeframe assumed due to the complexity and size of the projects. The initial 30% pre-financing rate combined with the provision to recover pre-financing starting only with the second reimbursement claim resulted in significant funds taken out of service and eventually in a lack of funds for pre-financing in 2011, when a shortage of funds to continue "feeding" the pre-financing system became the main driving factor for recovery of pre-financing.

From the application of the econometric model on the data concerning finalised projects, in order to evaluate the influence of the pre-financing over the absorption rate at the level of the beneficiaries, the main conclusions are the following:

- (1) there is a significant, positive relationship between the level of use of the pre-financing and the absorption rate;
- (2) the rate of pre-financing and the access to pre-financing have a positive influence on the absorption rate, while the distance in time between pre-financing payment, submission of RC and reimbursement have a negative influence on the absorption rate;
- (3) the "system-related" problems have a higher impact on the absorption than the "beneficiary-related" problems. This is reflected by the fact that the influence on absorption of the period between the first pre-financing payment and the submission of the first RC is smaller than the period between the submission of the first RC and the first reimbursement.

Several conclusions by OP and by types of beneficiaries have also been drawn (please see section 6.6 of the report); the main lessons learnt for the future, in order to maximise the benefits from the pre-financing mechanism, may be summarised as follows:

- (1) increase the attractiveness of pre-financing mechanism, especially for private companies;
- (2) increase the pre-financing rate, especially for regional operators, companies and NGOs;



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(3) decrease the time between the submission of the first RC and the first reimbursement (processing time by the system).

The analysis of the data to determine the effects of the pre-financing mechanism on the state budget shows that there was no “net” effect so far, due to the adjustments to the pre-financing scheme operated in 2011. The advances received from the EC in the period 2007-2012 cover entirely the pre-financing granted to beneficiaries.

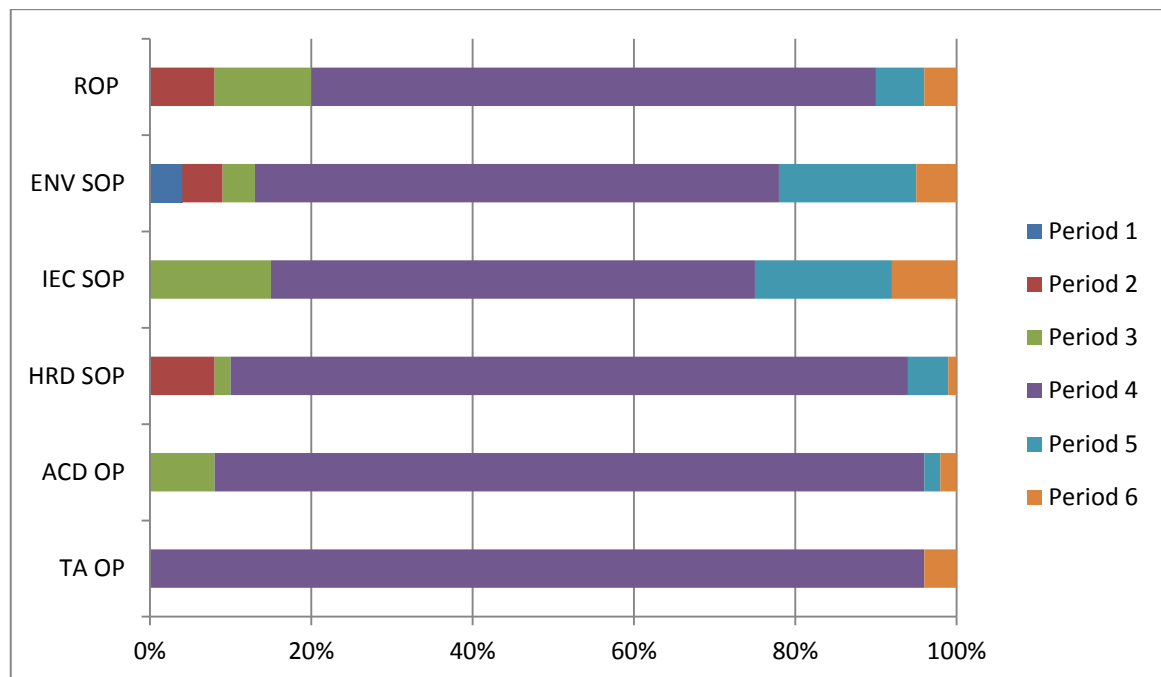
7 DIFFERENCES AND CHANGES IN THE USE OF THE PRE-FINANCING SCHEME. INTERNAL AND EXTERNAL FACTORS THAT INFLUENCED THE USE OF THE SCHEME

7.1 Evolution of access to pre-financing

The analysis of the legislation applicable to the pre-financing mechanism has shown that there are six distinct time periods with specific characteristics for the pre-financing regime. The following graphs and tables present: (1) the evolution of the access to pre-financing by beneficiaries, by OP and by the six periods; and (2) a comparison between the number of financing contracts signed and the number of projects with financing contracts signed that have requested pre-financing, by the six periods²⁰.

The analysis shows that for all OPs, most of the pre-financing was granted to beneficiaries within period no. 4, i.e. from 14th July 2009 to 25th July 2011.

Figure 8: Percentage access to pre-financing by time period – by OP



²⁰The date when pre-financing was requested by beneficiary was not available in SMIS /other databases, therefore it was approximated by the evaluators as being 30 days prior to the (first) pre-financing payment



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Table 42: Time period analysis – projects with contracts signed

OP	Time Period						Total
	1	2	3	4	5	6	
ROP	27	85	216	1,446	929	626	3,329
ENV SOP	13	8	3	179	46	81	330
IEC SOP	2	187	407	1,392	558	377	2,923
HRD SOP	72	107	55	1,671	313	70	2,288
ACD OP	0	10	27	254	33	37	361
TA OP	74	0	1	0	2	29	106
Total	188	397	709	4,942	1,881	1,220	9,337

Table 43: Projects requesting pre-financing

Periods	1	2	3	4	5	6	Total
ROP	1	18	41	671	252	231	1,214
ENV SOP	3	4	4	78	31	55	175
IEC SOP	0	0	20	277	55	22	374
HRD SOP	1	87	74	1,136	436	79	1,813
ACD OP	0	0	17	162	5	4	188
TA OP	0	0	0	7	1	3	11
Total	5	109	156	2,331	780	394	3,775

Table 44: Pre-financing granted (RON)

OP	1	2	3	4	5	6	Total
ROP	8,305,235	201,830,433	302,393,901	1,754,260,122	137,321,971	88,431,740	2,492,543,402
ENV SOP	103,054,425	128,036,706	90,829,108	1,649,428,141	428,049,541	121,787,691	2,521,185,612
IEC SOP	-	-	105,043,015	409,869,660	118,165,433	56,668,234	689,746,344
HRD SOP	2,478,710	159,160,022	29,661,685	1,709,742,971	103,180,464	22,562,190	2,026,786,042
ACD OP	-	-	1,923,235	19,993,011	404,392	362,801	22,683,439
TA OP	-	-	-	5,086,595	9,480	200,669	5,296,744
Total	113,838,370	489,027,162	529,850,944	5,548,380,499	787,131,281	290,013,324	7,758,241,580



7.2 Internal and external factors that influenced the use of pre-financing

The evaluation ToR required us to investigate the role of certain potential influencing factors on the behaviour of beneficiaries in accessing the pre-financing mechanism and using the funds received as pre-financing. The significance of the factors below was explored through data analysis at the level of each OP, the inventory of the legislation applicable to the pre-financing mechanism, the survey applied to beneficiaries and the interviews with the main actors involved. The factors considered were:

- The interest rate
- The exchange rate
- Taxation legislation
- The available public funding for providing guarantees in favour of the SI beneficiaries
- The forecasted effect of the financial crisis and its impact on banks/lending policies

The evaluation established that none of these factors were confirmed by beneficiaries or by other relevant stakeholders as being relevant as having a direct influence on their decision to access the pre-financing available through the mechanism in place. The analysis at OP level in Section 7.1 reveals that most beneficiaries accessed pre-financing during the fourth pre-financing period. This period was the longest of all six periods and was characterised by a combination of favourable terms for beneficiaries, including the highest available pre-financing rates, between 30% and 40%. The immediate conclusion is that the *stability of the regulations regarding pre-financing* and the *level of the pre-financing rate* were among the relevant internal factors for the access to and use of the pre-financing.

Apart from the list of potential factors from the ToRs, the evaluation identified other internal and external factors, which were discussed during the interviews with the MAs and CPA. The stakeholders' opinions were verified through the survey to beneficiaries and through further interviews. The most relevant **internal factors** that influenced the access to and the use of pre-financing and which have an impact on the performance of the OPs were identified as being the pre-financing conditions, respectively:

- The pre-financing rate
- The conditions for use of pre-financing, mainly reimbursement terms
- The definition of eligible beneficiaries

The main **external factors** include:

- the financial capacity of the beneficiary
- the administrative capacity of the SI system
- the administrative capacity of the beneficiary, including quality of project preparation
- the stability of the general legal framework
- the public procurement legislation
- the performance of the contractors

The survey did not identify any one single influencing factor, but several factors had close ratings suggesting that a combination of favourable factors is needed to ensure successful and timely project implementation. According to the survey, beneficiaries considered the impact of the external factors as being less significant than that of the internal factors.

Given the nature of the factors identified and the fact that there are no studies or data series available related to these factors, their impact on the pre-financing mechanism cannot be quantified. The scores resulting from the survey capture only the perceptions of the respondents and could not be used as ground for statistical quantification.

7.3 Impact of pre-financing on absorption by legislation periods

The econometric model was used to study the impact of pre-financing on the funds absorption rate at beneficiary level for different time intervals. The data model was established for every period when the legislation has changed, in order to capture the differences and changes in the use of the pre-financing scheme in these periods.

Table 45: Elasticity coefficients by legislative period

Period	Start date	End date	Access to pre-financing	Use of pre-financing	Dif_claim_reimb	Pre-financing rate
1	2/28/2007	11/2/2008	1.01	0.99	*	*
2	11/3/2008	3/23/2009	1.06	0.99	*	*
3	3/24/2009	7/13/2009	1.01	0.91	*	*
4	7/14/2009	7/25/2011	1.04	0.95	-0.02	0.76
5	7/26/2011	3/22/2012	1.23	1.01	-0.08	0.86
6	3/23/2012	3/31/2013	1.12	1.02	*	1.14

* impact not significant

The results show some significant differences among the six periods in terms of the impact of explanatory variables on the absorption rate at the beneficiary level.

- The use of the pre-financing has a uniform impact across the periods, all the coefficients being almost equal to 1.
- The impact of access to pre-financing is not uniform across the periods: for period 6 an increase of the access to pre-financing by 1% is reflected in 1.12% increase of the absorption rate, while for the period 1 the increase is only 1.01%.
- For periods 1, 2 and 3 there was no influence of the pre-financing on the absorption at beneficiary level. For the following periods and especially for periods 5 and 6, the pre-financing rate had a significant impact on absorption. The model indicates a positive multiplier effect. If the pre-financing rate increased by 1% then the absorption rate would increase by 0.86% for projects contracted in period 5 and by 1.14% for projects contracted in period 6.

Table 46: Elasticity coefficients by legislative period and by type of projects

Type of project/Period	Access to pre-financing	Use of Pre-financing	Dif_pref_claim	Dif_claim_reimbursement	Rate of pre-financing
Investments					
2	0.70	1.00	***	-0.03	***
3	0.55	0.54	***	-0.09	***
4	0.62	0.93	-0.06	-0.06	***
5	1.37	0.99	***	-0.04	***
6	***	1.00	***	***	***
Public infrastructure					
1	0.83	1.01	***	-0.14	***
2	1.08	0.88	-0.06	***	***
3	1.02	1.02	***	-0.06	***
4	1.07	0.99	***	0.00	0.78
5	1.05	1.00	***	-0.01	0.83
6	1.00	1.02	***	-0.09	***
Soft type intervention					
1	1.03	0.99	***	***	***
2	1.09	1.01	***	***	***
3	0.95	0.80	***	***	***
4	0.99	0.95	***	-0.04	0.88
5	1.00	1.00	***	-0.03	0.82
6	0.98	0.98	***	-0.02	1.06

*** - impact not significant

The results show some significant differences among the six periods in terms of the impact of explanatory variables on the absorption rate at the beneficiary level by type of projects.

- The use of the pre-financing has a uniform impact across the periods, all the coefficients being almost equal to 1, for all the projects, with one exception: for investments projects, in period 2, the elasticity of the use of pre-financing is 0.54, meaning that an increase of the use to pre-financing by 1% is reflected in 0.54% increase of the absorption rate.
- The pre-financing rate had a significant impact on absorption only for soft type interventions (periods 4, 5, 6) and public infrastructure projects (periods 4 and 5).



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7.4 Conclusions

Most of the pre-financing – respectively 5.54 billion RON, which represents 72% of the total - was granted to beneficiaries in the period from July 2009 to July 2011 (period no. 4). Within this period the pre-financing regime was the most favourable for beneficiaries in terms of pre-financing rates across the OPs²¹. In this period, TA OP and ACD OP display the highest shares of pre-financing granted, 96%, respectively 88%. HRD SOP follows, with 84% and for the remaining three OPs the share of pre-financing granted in the period varies from 60% (IEC SOP) and 70% (ROP).

The most relevant internal factors for the use of the pre-financing scheme are the conditions for granting pre-financing, mainly the pre-financing rate and reimbursement terms. The most relevant external factors for the use of pre-financing (which is actually a synonym for successful project implementation) are: (1) the financial capacity of the beneficiary; (2) the administrative capacity of the SI system; (3) the administrative capacity of the beneficiary, including quality of project preparation; (4) the stability of the general legal framework; (5) the public procurement legislation; and (6) the performance of the contractors.

The analysis of the impact of pre-financing on absorption (at the level of the beneficiaries) based on the econometric models, shows that there was no effect in periods 1 to 3 and a consistently minor effect in period 4. For periods 5 and 6, the pre-financing rate had a significant impact on absorption. The model indicates that there is a positive multiplier effect. If the pre-financing rate increased by 1% then the absorption rate would increase by 1.23% for projects contracted in period 5 and by 1.12% for projects contracted in period 6. In view of the large take-up of pre financing in period 4 this follow-on effect on absorption is perhaps disappointing. It suggests that there is only a weak link between pre-financing and absorption.

²¹For non-state aid projects, pre-financing rate was 30% of the eligible value for all OPs, except for HRD SOP-PA6, where the rate was 40%; for state-aid projects the pre-financing rate was 35% of the grant value.



8 OPTIMAL PRE-FINANCING RATES. IMPACT OF THE NEW PROPOSALS ON THE NATIONAL BUDGET

8.1 Optimal pre-financing rates for increasing absorption (current pre-financing system maintained)

In order to respond to evaluation question no. 4 of the ToRs, the econometric model constructed for providing answers for evaluation question no. 2 has been employed further for assessing potential options for modification of the pre-financing scheme with a view to maximising the absorption rate at the level of the beneficiaries.

The key assumptions used when building the following scenarios are:

- The main principles of functioning of the pre-financing mechanism are maintained, namely: (1) money placed from the beginning of project implementation directly in the accounts of the beneficiaries; and (2) accelerated recovery of pre-financing.
- The future behaviour of the beneficiaries when using pre-financing is similar to that observed in the past.

From a broader perspective, providing answers to this evaluation question can only be done in consideration of other aspects relevant to the objective of the pre-financing mechanism (please see conclusions from Chapter 5) and the optimisation of the cash flows at the level of the beneficiaries. This is why apart from building scenarios by applying the econometric model on the existing setup and principles of the pre-financing mechanism, the evaluators have analysed the cash flows for different types of projects, using different implementation scenarios for the pre-financing mechanism. The conclusions of the analyses are presented in Section 8.3.

According to the econometric model developed, the variables that can be modified in order to obtain optimum values for the absorption rate at the level of the beneficiaries are the following:

- the pre-financing rate
- the level of accessing pre-financing (how much of the pre-financing available for beneficiaries, according to legal conditions, is actually paid to beneficiaries)
- the period between the payment of the first pre-financing instalment and the submission of the first RC (how fast the implementation advances or “the performance of the beneficiary”)
- the period between the submission of the first RC and the first reimbursement to beneficiaries (how fast the administrative system processes the RC or “the performance of the system”)



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By using these variables, the following scenarios have been considered:

Scenario 1

In order to estimate the maximum absorption rate, according to the above econometric model, the following non-linear optimisation problem with constraints was solved:

$$\left\{ \begin{array}{l} \max\{ AR = \exp(\beta_0 + \beta_1 \ln UR + \beta_2 \ln Pr + \beta_3 \ln Dif_pref_claim + \\ + \beta_4 \ln Dif_claim_ramb + \beta_5 \ln ACC) \} \\ 0 < AR \leq 0.8 \\ 0 < Pr \leq 0.7 \\ 0 < ACC < 1 \end{array} \right.$$

Based on the limits for the model variables, the optimal pre-financing rates for the different beneficiary groups to maximize the absorption rate were computed. The hypotheses for this scenario are the following:

- The expected absorption rate at beneficiary level is 80%.
- The average time interval between the first registered claim and the first reimbursement decreases by 50%.
- All the other independent variables (use of pre-financing, access to pre-financing, interval between payment of pre-financing and payment of first RC) remain constant.

Table 47: Optimal pre-financing rate by type of beneficiaries according to Scenario 1

Beneficiary	Expected Dif_claim_ramb	Optimal pre-financing rate	Actual pre-financing rate ²²	Expected absorption rate
Central Public Authorities	72	36%	28%	80%
Companies	38	24%	24%	80%
Local Authorities	38	37%	27%	80%
NGO	42	32%	24%	80%
Regional Operators	41	60%	24%	58%
State universities /research institutes	88	50%	29%	80%
Others	38	28%	24%	80%

Table 48: Optimal pre-financing rate by type of projects according to Scenario 1

Type of project	Optimal pre-financing rate	Actual pre-financing rate	Expected absorption rate
Public infrastructures	40%	25%	80%
Investments	25%	26%	74%
Soft type interventions	36%	26%	80%

²²Calculated by weighting the pre-financing rate over the six legislative periods, against eligible project value in all cases.

Scenario 2

In order to estimate the maximum absorption rate, according to the above econometric model, the following non-linear optimisation problem with constraints was solved:

$$\begin{cases} \max\{AR = \exp(\beta_0 + \beta_1 \ln UR + \beta_2 \ln Pr + \beta_3 \ln Dif_pref_claim + \\ + \beta_4 \ln Dif_claim_ramb + \beta_5 \ln ACC)\} \\ 0 < AR \leq 0.8 \\ 0 < Pr \leq 0.7 \end{cases}$$

Based on the limits for the model variables, one can estimate the optimal values for the rate of pre-financing in order to maximize the absorption rate. The hypotheses of this scenario are the following:

- The expected absorption rate at beneficiary level is 80%.
- The access to pre-financing increases by 20%.
- All the other independent variables (use of pre-financing, distance in time between pre-financing payment and submission of first RC, average distance in time between the submission of first RC and the first reimbursement) remain constant.

Table 49: Optimal pre-financing rate by type of beneficiaries according to Scenario 2

Beneficiary	Expected Access to pre-financing	Actual Access to pre-financing	Actual pre-financing rate	Optimal pre-financing rate	Expected absorption rate
Central Public Authorities	71%	59%	28%	28%	80%
Companies	97%	80%	24%	18%	80%
Local Authorities	81%	67%	27%	29%	80%
NGO	86%	71%	24%	26%	80%
Regional Operators	60%	50%	24%	70%	80%
State universities /research institutes	84%	70%	29%	40%	80%
Others	79%	66%	24%	23%	80%

Table 50: Optimal pre-financing rate by type of projects according to Scenario 2

Type of project	Optimal pre-financing rate	Actual pre-financing rate	Expected absorption rate
Public infrastructure	31%	25%	80%
Investments	25%	26%	81%
Soft type interventions	30%	26%	80%



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Scenario 3

In order to estimate the maximum absorption rate, according to the above econometric model, the following non-linear optimization problem with constraints was solved:

$$\begin{cases} \max\{ AR = \exp(\beta_0 + \beta_1 \ln UR + \beta_2 \ln Pr + \beta_3 \ln Dif_pref_claim + \\ + \beta_4 \ln Dif_claim_ramb + \beta_5 \ln ACC) \} \\ 0 < AR \leq 0.8 \\ 0 < Pr \leq 0.7 \end{cases}$$

Based on the limits for the model variables, one can estimate the optimal values for the rate of pre-financing in order to maximize the absorption rate. The hypotheses of this scenario are the following:

- The expected absorption rate at beneficiary level is 80%.
- The access pre-financing increases by 20%.
- The average time interval between the submission of the first RC and the first reimbursement decreases by 50%.
- The average time interval between the first payment of pre-financing and the submission of the first RC decreases by 50%.
- Use of pre-financing remains constant.

Table 51: Optimal pre-financing rate by type of beneficiaries according to scenario 3

Beneficiary	Actual pre-financing rate	Optimal pre-financing rate	Expected absorption rate
Central Public Authorities	28%	28%	80%
Companies	24%	16%	80%
Local Authorities	27%	29%	80%
NGO	24%	26%	80%
Others	24%	23%	80%
Regional Operators	24%	68%	80%
State universities /research institutes	29%	41%	80%

Table 52: Optimal pre-financing rate by type of projects according to Scenario 3

Type of project	Optimal pre-financing rate	Actual pre-financing rate	Expected absorption rate
Public infrastructure	31%	25%	80%
Investments	25%	26%	87%
Soft type interventions	29%	26%	80%

8.2 Impact of the proposed scenarios on the national budget (current pre-financing system maintained)

Based on the optimal pre-financing rates estimated for each of the three scenarios, the impact on the national budget can be quantified by estimating the total amount needed for pre-financing. The algorithm for estimating the impact is the following:

- Estimate the maximum pre-financing available, using the formula MP (Maximum pre-financing) = Opt*Eligible Budget, where Opt is the optimal pre-financing rate identified;
- Estimate the pre-financing granted, based on the access to pre-financing for each scenario;
- Aggregate the estimates at OP level.

Table 53: Pre-financing granted in the three scenarios

OP	Actual pre-financing granted (baseline scenario)	Scenario 1	Scenario 2	Scenario 3
	RON Billions	RON Billions	RON Billions	RON Billions
1	2.45	2.58	2.44	2.44
2	2.45	5.14	6.83	6.66
3	0.59	0.58	0.55	0.55
4	1.64	1.93	1.86	1.86
6	0.02	0.03	0.03	0.03
7	0.01	0.00	0.00	0.00
TOTAL	7.15	10.26	11.72	11.53

The results show that under the current pre-financing scheme, in order to increase absorption rate at beneficiary to the level of 80%, the amount available for pre-financing needs to be increased as well as follows: by 3.11 billion in Scenario 1, by 4.56 billion in Scenario 2 and by 4.38 billion in Scenario 3. The model allows for the calculation of both the “exposure” of the state budget with respect to pre-financing granted (the balance of pre-financing or the funds in the accounts of the beneficiaries) and the cost for employment of the mechanism, by using a reference interest rate.



8.3 Optimised pre-financing mechanism by types of projects in 2014+

The previous section has provided a sample of scenarios based on current pre-financing principles and the project has delivered training to stakeholders on how to use further such econometric models in decision making processes. This was in line with the ToRs' requirements and the scenarios developed were based on the key assumption that the core principles of the current pre-financing system will be maintained. But from the beneficiaries' perspective, which in the case of public beneficiaries extends to country's perspective from our view point, there are several serious limitations of the current pre-financing scheme. Two of the main ones are the rate of the pre-financing granted and the condition imposed to gradually deduct pre-financing from reimbursement claims before the final reimbursement claim.

In other words, pre-financing is too small, but more importantly, it is not available to beneficiaries as a permanent cash flow support throughout project implementation and especially in the final stages of the project. This has resulted often in the situation that beneficiaries postpone final payments to contractors (and submission of final reimbursement claims) due to lack of cash.

HRD SOP was in a way an exception, in the sense that pre-financing was made available in a more balanced way, in order to support the implementation for a longer period. But the overall reduction of the pre-financing rate in 2011 and especially the reduction of the first instalment to 5% of the project's eligible value, have reduced significantly the comparative advantages of the beneficiaries of this OP.

In order to assess what would be an optimum level of pre-financing support for the financial implementation of different types of projects, we have divided the projects into 3 main groups, as follows:

- Infrastructure projects
- Investment projects, usually implemented by private sector (SMEs)
- ESF (or soft)-type of projects

We have analysed corresponding project cash flows using several scenarios: (1) current setup, where the "classic" pre-financing mechanism is used in combination with the new payment settlement system introduced by GoR in April 2013, for public beneficiaries; (2) pre-financing mechanism in place, without payment settlement system (using the current conditions for granting pre-financing); (3) payment settlement system with no pre-financing; (4) an optimised, from the beneficiaries' perspective, pre-financing mechanism using fixed instalments and pre-defined pre-financing rates and maintaining the other conditions similar to the ones in place.

Even before making this analysis, intuitively it was quite obvious that the new payment settlement system, which is in fact a different type of pre-financing mechanism, is the best option from the beneficiaries' perspective. This is in the first place because it provides them financial resources for the entire implementation period, not only for the commencement of



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the operations. By doing so, the only potential remaining “gap” in cash flow is the initial project expenses, which are usually made before the conclusion of the main contracts. But these types of expenses are normally much less significant in value and anyway they may be recovered through the “classic” RC, prior to the commencement of the implementation of the main contracts.

Cash flows analysed are presented, in a shortened version, in Annex 10.4 to this report. The key issue remaining: what is the combined effect of such a mechanism over the state budget? Is it sustainable, from the “exposure” and cost perspective to the state budget? A critical factor to take into account is that uncontrolled exposure might lead to overcoming the deficit limits imposed at EU level. Our conclusions are the following:

1. Infrastructure projects

The best option remains the payment settlement mechanism, both from beneficiaries and from State budget perspectives. For example, for the analysed cases, the cost of such support for the state budget is approximately 0.33% of the grant value²³, whereas in any other option it would be at least double. The exposure of the state budget²⁴ is, on average of 16% of the grant value and not for a period exceeding 3 months, on average.

The main factor that may influence this assessment is the discipline in implementation from the beneficiary. The exposure of the state budget depends to a large extent on the size of the payments claimed by the beneficiary (in other words how “balanced” the rhythm of works, for instance, is) and by the manner in which the beneficiary respects the deadlines assumed for submitting RCs.

A key assumption used for determining the estimated cost for pre-financing was that beneficiary’s liability for the amount pre-financed through the mechanism ends when the corresponding RC is approved by the MA.

2. Investment projects by private sector

From the cash flow’s perspective, the conclusion is largely the same as for the infrastructure projects – payment settlement mechanism would work best. The question in this case is: should the state budget provide such (extensive) financial support to private operators, in the first place? On the one hand, if the current request for guarantees is maintained, for a significant part of the beneficiaries, this will still be prohibitive. For the beneficiaries for which guarantees are affordable, there is a general argument that they will enter or are already in business relations with the banking sector, therefore providing “free of charge” credit through pre-financing becomes strictly a method for diminishing (not removing) financial costs. The real advantages of such support are debatable compared to the opportunity costs for the state budget. Notably, decision to provide pre-financing to the private sector, under the circumstances of limited resources available, would divert a

²³ As if there is no “free of interest” advance from the EU and the state budget needs to find money on the market and pay interest for it

²⁴ The amount needed to be mobilised, at a certain moment, by the state budget in order to pay pre-financing to beneficiaries according to the mechanism in place, in other words money “in the accounts of the beneficiaries



significant part of the state resources from supporting the projects implemented by public beneficiaries.

In this case, relevant alternatives to the current or improved pre-financing mechanism (through the extension of the payment settlement mechanism to covering this type of projects) are: (1) providing free-of-charge guarantees or other type of FEIs for grant schemes; and /or (2) replacing grant schemes with credit and grant schemes, case in which the entire issue of pre-financing is diverted to commercial banks.

3. ESF-type of projects

The analysis of cash flows shows that also in this case the payment settlement system would be the most efficient. But there are pragmatic reasons for which pre-financing paid regularly, under the form introduced by the payment settlement system, would be very difficult to implement in practice. Payments for salaries for instance, which would have to be effected monthly, would entail counter-productive processing for the administrative system. Estimations show that 15 % of the grant value should be enough to support cash flows in the majority of cases by using the “classic” pre-financing mechanism, with the condition that the pre-financing funds are left at the disposal of the beneficiary for the whole project duration.

8.4 Conclusions

This question was addressed through the econometric model. The model was used to assess the potential options for modifying the pre-financing scheme in order to maximise the absorption rate at the level of the beneficiaries. The key assumptions used when building the following scenarios were that the main principles of functioning of the pre-financing mechanism are maintained, namely: (1) money placed from the beginning of project implementation directly in the accounts of the beneficiaries; (2) accelerated recovery of pre-financing; and that (3) the future behaviour of the beneficiaries when using pre-financing is similar to that observed in the past.

The analysis considered that the four variables that could be modified to obtain optimum values for the absorption rate at the level of the beneficiaries were the pre-financing rate, the level of accessing pre-financing (how much of the pre-financing available for beneficiaries, according to legal conditions, is actually paid to beneficiaries), the period between the payment of the first pre-financing instalment and the submission of the first RC (how fast the implementation advances or “the performance of the beneficiary”), and the period between the submission of the first RC and the first reimbursement to beneficiaries (how fast the administrative system processes the RC or “the performance of the system”).

Three scenarios were developed for consideration:

Scenario 1: The expected absorption rate at beneficiary level is 80%; The average time interval between the first registered claim and the first reimbursement decreases by 50%; All the other independent variables (use of pre-financing, access to pre-financing and



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distance in time between payment of pre-financing and payment of first RC) remain constant.

Scenario 2: The expected absorption rate at beneficiary level is 80%; The access to pre-financing increases by 20%; and all the other independent variables (use of pre-financing, distance in time between pre-financing payment and submission of first RC, average distance in time between the submission of first RC and the first reimbursement) remain constant.

Scenario 3: The expected absorption rate at beneficiary level is 80%, The access to pre-financing increases by 20%, the average time interval between the submission of the first RC and the first reimbursement decreases by 50%, the average time interval between the first payment of pre-financing and the submission of the first RC decreases by 50%, use of pre-financing remains constant.

The same expected absorption rate (80%) was used in the three scenarios. The model computed the optimal pre-financing rate needed to reach the target (expected) absorption rate for each type of beneficiary and type of intervention. The results shown below indicate that higher levels of pre-financing would be needed for scenario 1 than for the other two where the rates needed were similar.

Table 54: Optimum pre-financing rates by type of beneficiary

Beneficiary	Scenario 1	Scenario 2	Scenario 3
	Optimum pre-financing rates		
Companies	24%	18%	16%
Local Authorities	37%	29%	29%
NGO	32%	26%	26%
Regional Operators	60%	70%	23%
State universities /research institutes	50%	40%	68%
Others	28%	23%	41%

Table 55: Optimum pre-financing rates by type of intervention

Intervention	Scenario 1	Scenario 2	Scenario 3
	Optimum pre-financing rates		
Public infrastructures	40%	31%	31%
Investments	25%	25%	25%
Soft-type interventions	36%	30%	29%



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The effect of the required pre-financing rates on the State Budget for each of the three scenarios was also calculated and compared against the current amounts of pre-financing granted (RON 7.75 Billion). The analysis showed that for each scenario, pre-financing of between RON 10.26 billion and RON 11.72 billion would be needed. Pre-financing at current levels would be sufficient for ROP, and SOP IEC. An increase in pre-financing would be needed mostly for SOP ENV and partly for SOP HRD.

The previous scenarios for optimising pre-financing rates are based on the key assumption that the core principles of the current pre-financing system will be maintained in the future. Our conclusion, which is largely in line with the opinion of the beneficiaries, is that there are several serious limitations of the current pre-financing scheme. Two of the main ones are the rate of the pre-financing granted and the condition imposed to gradually deduct pre-financing from reimbursement claims before the final reimbursement claim. In other words, pre-financing is too small, but more importantly, it is not available to beneficiaries as a permanent cash flow support throughout project implementation and especially in the final stages of the project. This has resulted often in the situation that beneficiaries postpone final payments to contractors (and submission of final reimbursement claims) due to lack of cash.

Based on the analysis of the cash flows of the three main types of projects identified by the evaluation, respectively (1) Infrastructure projects, usually implemented by public sector; (2) Investment projects, usually implemented by private sector (SMEs); and (3) ESF (or soft)-type of projects. The conclusion is that for all three types of projects, the current payment settlement mechanism would work best by replacing the current pre-financing system, both in terms of “exposure” of the state budget (the total amount paid from the budget to beneficiaries until the approval of the reimbursement claims) and in terms of cost (the cost registered by the budget as if the State would have to pay interest for the entire amount paid to beneficiaries, until reimbursement claims are approved). However, in the case of categories (2) Investments by private sector and (3) ESF-type of projects, there are other factors than cash flow and costs that constitute relevant arguments for employing alternative methods of financial support, such as providing free-of-charge guarantees or other type of FEIs for grant schemes and /or replacing grant schemes with credit and grant schemes, in the case of the former, respectively using the “classic” pre-financing mechanism, but with the condition that pre-financing is left at the disposal of the beneficiary for the whole duration of the project, in the case of the latter.

9 RECOMMENDATIONS

The evaluation recommendations are set out below.

Management of pre-financing

1. GoR should ensure an efficient coordination of pre-financing at central level, by MEF and MPF and harmonise the applicable norms and legislation at NSRF level.
2. The relevant MEF department charged with management of pre-financing or the Working Group for financial aspects (pending on decision in response to Recommendation no. 1) should be supported by a central TA expert resource, capable to provide continuous assistance in the areas of financial management, EU fund regulations, state aid and FEIs.
3. MEF /MAs should commission the necessary improvements to the SMIS in order for the system to be capable of delivering tailor-made data sets concerning financial implementation, at project level.

Pre-financing in 2014+

4. For all public infrastructure projects (central and local), future 2014+ advance payments from the EC capitalise a dedicated pre-financing fund, managed directly by MEF /MPF (considering the argument that usually the state can borrow cheaper than anyone else) or co-managed by MEF /commercial bank(s), with a view to secure pre-financing resources throughout project implementation, by using the current payment settlement system. Limitation to payment claim value (such as 15% or 20% of the grant) should be imposed in order to limit the exposure of the fund and in order to strengthen implementation discipline.
5. For ESF-type of projects, a special fund to secure pre-financing should be set up, by using advance payments from EC and /or other GoR /private sources and pre-financing should be granted to beneficiaries, by using the “classic” pre-financing method (15% of grant), in order to be used for the entire implementation duration.
6. MEF /MAs should setup dedicated FEIs to provide free-of-charge guarantees to private beneficiaries and /or should consider designing credit and grant schemes that would involve commercial banks in SI projects’ implementation, as an alternative to pure grant schemes.

Complementary financial management measures

7. For the next programming period, MEF should ensure that necessary improvements to the management of submission and processing of RCs are implemented in line with the best practices from other MSs, such as:
 - Use of simplified cost options, such as the use of flat rates for expenditure
 - Guaranteed reimbursement within a fixed period of time after submission of RCs
 - Mandatory submission of RCs within a fixed period
 - Special fast track for reimbursement of expenditure for large projects



10 Annexes

10.1 Methodology used

10.2 List of interviews

10.3 Report on the beneficiary survey

10.4 Cash flow models

10.5 Minutes of the expert panel consultation