The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views and position of the Executive Directors of the World Bank, the European Union, or the Government of Romania.

Project co-financed from the European Regional Development Fund through the Regional Operational Programme 2007-2013.

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An optimal Project Selection Model should also have a good Monitoring and Evaluation (M&E) system to facilitate continuous improvement.

While keeping in mind the need to ensure a stable and predictable playing field for all applicants and beneficiaries, the ROP 2014-2020 should feature flexible approaches, as needed.

**PROPOSALS for Project Selection Models**

- **Scenario 1** ("Status Quo+")
- **Scenario 2** ("Semi-Competitive")
- **Scenario 3** ("Competitive")
Romania has the opportunity to benefit from significant EU structural assistance through the Regional Operational Programme (ROP).

In preparation for the 2014 – 2020 ROP, a key task at hand is to enhance not only the absorption rate, but also the impact of ROP-funded investments. One critical component in this process is improved project selection models to help boost the quality of ROP investments, have a stronger linkage to strategic development priorities, and focus on getting the highest “value for money” projects. The proposed selection models for the ROP 2014-2020 should build upon the strengths and correct the weaknesses of the 2007-2013 framework, as well as incorporate best practices from other EU countries, appropriately tailored to the Romanian context and capacity.
The Regional Operational Programme (ROP) is one of seven operational programs (OPs) financed through EU funds during the 2007-2013 programming period.

The EU dedicated EUR 3.7 billion to the ROP to support Romania’s regional development in the post-accession period. This amounts to 19% of the total structural funds available through the National Strategic Reference Framework (NSRF) between 2007 and 2013, making the ROP the third largest program after transportation (23.7%) and environment (23.5%). In 2011, projects financed under the ROP accounted for nearly 27% of projects financed by external grants and more than 12% of total public investment. The total allocation of the 2007-2013 ROP is more than EUR 4.5 billion, of which the EU contributes nearly 82%.
It is important to note from the start that the ROP has been a top performer for Romania in terms of absorption rates, despite a complex and heterogeneous portfolio of projects.

Because of its broad focus on regional development issues, the ROP addresses a wide-ranging set of needs at the level of each region, from urban development to transport infrastructure, social infrastructure, business development, and tourism. In this context, the ROP has achieved the best absorption rates out of all structural programs (as of November 30, 2013), particularly when it comes to payments from the EC to Romania, which stand at 44% of the total available ROP allocation.

Source: Ministry of European Funds (www.fonduri-ue.ro)
The ROP has also performed relatively well when compared to similar Operational Programmes from other Member Countries.

As the table below indicates, although absorption rates were relatively lower compared to the other OPs at the end of 2013, the Romanian ROP had one of the highest commitment rates. This indicates that the ROP system functions relatively well up to the project implementation stage, where most delays in absorption are caused by systemic issues (e.g., an inefficient public procurement system, poor quality technical documentation, property rights issues, etc.).

<table>
<thead>
<tr>
<th>Operational Programme</th>
<th>Commitments by end of 2012</th>
<th>Absorption by end of 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROMANIA Regional Operational Programme</td>
<td>96%</td>
<td>34.5%</td>
</tr>
<tr>
<td>GERMANY Nordrhein-Westfalen ROP</td>
<td>95.1%</td>
<td>47.3%</td>
</tr>
<tr>
<td>ESTONIA OP for the Development of the Living Environment</td>
<td>87.7%</td>
<td>54.3%</td>
</tr>
<tr>
<td>SLOVENIA Strengthening the Regional Development Potential OP</td>
<td>86.6%</td>
<td>69.5%</td>
</tr>
<tr>
<td>UK West Wales and the Valleys Convergence Programme</td>
<td>103%</td>
<td>34%</td>
</tr>
<tr>
<td>POLAND Slaskie Regional Operational Programme</td>
<td>88.4%</td>
<td>48.5%</td>
</tr>
</tbody>
</table>
That said, the commitment and absorption rates should be neither the only, nor the most important indicators for the ROP’s success.

A high rate of absorption may be a sign that projects have been chosen for financing simply because they were ready to be implemented, rather than for their potential contribution to development objectives. In Romania and more broadly across the EU, policymakers and key stakeholders should pay increased attention to the impact of EU-funded investments in terms of achieving social and economic goals – which, after all, is the ultimate aim of such interventions.
LESSONS
from other Member States
One of the first steps in elaborating an improved selection model is to assess the approaches of other Member States.

This way, best practices can be collected and improved upon to generate even better outcomes for the ROP. In the full report, project selection models from 8 Member Countries (Germany, Poland, Estonia, Italy, Slovenia, the UK, Ireland, and Lithuania) are analyzed to identify potential suggestions for enhancing the ROP selection model for the 2014-2020 programming period. The operational programmes analyzed were chosen based on their similarities to the Romanian ROP.
Lessons from other Member states

A number of key lessons can be drawn from the analysis of these eight case studies:

1. Each Member State used unique approaches for project selection, with some focusing on the pre-selection of a number of large strategic projects (e.g., Lithuania), some focusing primarily on competitive calls (e.g., Ireland, Estonia), and yet others, particularly the larger countries (e.g., Germany, Italy, Poland), deploying a mix of methods.

2. The evaluation and selection systems used by these countries are by-and-large simpler than the system used under the ROP 2007-2013. For example, most countries did not use the Cost-Benefit Analysis (CBA) for evaluating projects. Germany was one of the exceptions, and it only used CBA for large strategic projects. Similarly, the ROP’s evaluation and selection grids appear much more granular and detailed than comparable frameworks in other Member States.

3. For the most part, the case studies analyzed revealed a keen focus on impact and also used weights for individual criteria to differentiate between more important and less important evaluation factors.
RECOMMENDATIONS for improving the ROP Project Selection Model
The improvement of the ROP 2007-2013 Project Selection Model, through a stronger focus on impact, can be achieved in a number of ways, keeping the following recommendations in mind:

1. **Do not sacrifice ABSORPTION for the sake of IMPACT.**

Having projects that generate development impact is the main underlying aim of the ROP. Projects that lack actual impact are equivalent to a waste of resources and may in fact lead to high operation and maintenance costs that will pose a burden on limited local resources. However, having a few impactful projects and low absorption rates is not an optimal situation either.

Romania showcases the poorest absorption rates of any Member State, as an average across all its Operational Programmes. In fact, Romania is some distance away (14 percentage points) from the second worst performer – Bulgaria. This is obviously not an ideal situation.

Low absorption means that substantial and critical resources are not used in a timely, effective manner, which also implies that resources are wasted. In some ways, this may be a worse situation than having an insufficient focus on impact. For example, even if the funds are not spent on the newest, most impactful projects, but on the rehabilitation of existing infrastructure (to a large extent, this is what ROP funds have been used for and will continue to finance in 2014-2020), this may decrease operation and maintenance costs for current infrastructure. Thus, even though the funds may not generate a significant development impact, they will help reduce costs and improve the quality of life for people – an important achievement in of itself.

There should be a purposeful focus on a number of strategic projects, with an appropriate allocation for such types of investments.

Currently, the ROP primarily focuses on small and medium-sized projects, with a total share of commitments for large projects of less than 4% of available funds. Of course, the fact that a project is large does not make it necessarily impactful. Also, there are very small projects that can have very large impact (e.g., well-targeted information campaigns). However, when it comes to infrastructure development, it is usually the larger projects that generate the most significant outcomes.

The longer preparation time that large projects entail can be countered by simplified application and selection procedures for small projects. For example, the ROP 2007-2013 processed over 1,800 small projects, which underwent similar evaluation and selection procedures as larger projects, but represented only 5.6% of allocated funds. Simply put, evaluation and selection procedures should reflect the value, complexity, and expected risks/costs/benefits of a particular investment. This should ensure that the overall evaluation and selection system remains functional and has enough capacity to accommodate peak-time demand.
Recommendations for improving the ROP Project Selection Model

3 Key strategic projects should be drawn from integrated development strategies.

Such strategies should represent the overall developmental vision for the area covered and should not be drafted for the sole purpose of attracting EU funds, but present needs, priorities, and projects regardless of the ultimate financing source. New strategies should only be drafted when addressing an area that is not already covered by an existing strategy (e.g., new metropolitan areas) and reflect, if available, the development vision set in the strategies of constituent administrative units. Where integrated development strategies already exist (as is the case of Growth Poles and Urban Development Poles), they should only be updated.

To ensure consistency in approaches across development strategies, a number of key items should be required (e.g., to have a clear vision and objectives, a list of projects to help achieve those objectives, and corresponding funding sources). Also, to ensure a proper prioritization of projects, tools such as Capital Investment Planning (CIP) could be used to ensure that limited budget funds are targeted at key strategic projects and are not spent in an opportunistic manner, while ongoing operations and maintenance (O&M) costs remain reasonable.

Integrated approaches also entail that EU and state-budget-funded projects are not treated differently or separately, but that they are part of a single, coherent development vision and help achieve the same overall goals. This means that similar evaluation and selection criteria and procedures should apply to such investments, regardless of the funding source (i.e., EU funds or state-budget financing).
The ROP 2014-2020 programmatic document can play a strategic role in steering beneficiaries toward a set of core types of investments.

While local and county authorities define priorities on their own, as they know well the needs of the communities they represent, the ROP can help guide them toward the type of investments that are likely to have the highest impact. The *Competitive Cities* report (World Bank, 2013) makes a number of recommendations in this respect, taking Romania’s current development level into consideration.

It is also important to keep in mind the main policy aims and thematic objectives set in the Europe 2020 Strategy. This is a key document that sets the priorities for the EU’s development as a whole, but obviously the needs of individual Member States may vary considerably. As such, priorities should be adapted to the Romanian context, with an enhanced focus on those objectives that are likely to be more relevant for Romania.
Principles of fiscal prudence should be applied for the ROP 2014-2020, ensuring that beneficiaries do not overburden their financial capacity to support projects.

For example, beneficiaries should ensure that, once they make capital investments, they also have the necessary budgetary resources to cover the associated operation and maintenance costs. The fiscal health of individual beneficiaries can be assessed with the help of the Glenday Indicator and/or the Giosan Indicator. These two indicators are explained in more detail in the full report.

For large strategic projects, which also require substantial co-financing from the state budget, it is important to have the Ministry of Public Finance (MoPF) involved, to ensure that funds are spent in an efficient and sustainable manner. The MoPF can ensure that basic fiscal prudence principles are followed and it could also set up a system for prioritizing and coordinating the development of large projects at the national level.

RECOMMENDATIONS
for improving the ROP Project Selection Model

Note: Territorial Administrative Units with a Glenday indicator above 50%, or a Giosan Indicator below 15%, may have problems covering operations and maintenance costs for infrastructure investments they are making now.
A proper M&E system with optimal feedback loops

An optimal Project Selection Model should also have a good Monitoring and Evaluation (M&E) system to facilitate continuous improvement.

A good M&E system serves several purposes. For one, it helps track the performance of a specific project and the extent to which this project has reached its output indicators – this is a mandatory task that the European Commission requires of all Operational Programmes. However, in addition to what the EC asks for, a good M&E system can help evaluate if projects, and the overall program that finances them, have achieved planned outcomes, and if they have had an actual development impact. In particular, it can provide information on whether the project selection model is appropriate and has delivered on its intended goals, making sure that the ROP finances investments that have the biggest impact – the same way a farmer selectively breeds crops using the strongest seeds from the last harvest. A comprehensive M&E framework can assess not only the degree to which impactful projects are selected and prioritized, but also whether the programme delivers optimal absorption rates, a functional system with appropriate capacity to process applications, and a high level of credibility among applicants and beneficiaries.

While keeping in mind the need to ensure a stable and predictable playing field for all applicants and beneficiaries, the ROP 2014-2020 should feature flexible approaches, as needed.

For example, even if most of the available funds will be pre-allocated (for strategic projects) or allocated using a First-In First-Out (FIFO) approach, the programme could adopt a competitive selection model for one priority axis or one key area of intervention (e.g., business infrastructure). For example, many Member Countries use competitive calls for private beneficiaries (e.g., SMEs) or for the development of business infrastructure. Another option is to enable the ROP’s shift to a competitive approach after a mid-term claw-back (e.g., if some beneficiaries have not used pre-allocated funds in due time).
PROPOSALS for Project Selection Models
With the above recommendations as key guidelines, three project selection models are proposed for the ROP 2014-2020.

The development of the scenarios followed a framework for assessing various options based on six fundamental requirements (efficiency, effectiveness, clarity, fairness, transparency, and feasibility) and four key objectives (absorption, impact, legitimacy, and capacity).

The figure across conveys precisely this message, making the case that an optimal project selection model for the next ROP will need to accomplish all four targets.

Put differently, a model may be great at promoting quick absorption of EU funds, but it may fail to deliver value for money and resources could be wasted on low-impact interventions. Similarly, if a model is not legitimate (i.e., with clear and transparent evaluation criteria and fair selection procedures), not enough ROP applicants will demonstrate interest in the program, so there will be an inherent limitation on what the ROP can accomplish. Last but not least, any proposed change needs to be more than just a theoretical framework that promises to deliver great results in the abstract; indeed, selection models have to work in practice, keeping in mind the system’s current and expected capacity constraints.
Three scenarios are worth considering in terms of the overall project selection model:

**Scenario 1**
(“Status Quo+”):

The main characteristics of the system remain unchanged, with a few tweaks (e.g., excluding the full Cost-Benefit Analysis from the formal assessment, making the Detailed Technical Design optional at the evaluation phase, etc.) to correct current weaknesses. This option capitalizes on the ROP system’s accumulated experience and leverages the benefits of predictability. Essentially, the two selection procedures remain the same: pre-allocation for growth poles and urban development poles (with the potential inclusion of all county seats as UDPs); and first-in-first-out for all other projects.

**Scenario 2**
(“Semi-Competitive”):

This variation applies different selection methods based on project size and beneficiary type. Project size tends to be a good proxy for both complexity and potential impact. Under this scenario, large regional projects (type 1) would enjoy dedicated funding. Medium-sized investments by counties, growth poles, and urban development poles (type 2) would be selected in two phases: (1) dedicated funding for a limited period of time; and (2) selection based on FIFO for the remaining pool of funding allocated to these types of beneficiaries. For other cities, as well as for private and non-profit applicants (type 3), the FIFO rule would apply, regardless of whether the project is small (under 1.5 million RON) or more significant (over 1.5 million RON). Ultimately, this is a “semi-competitive” model, as a “middle-of-the-road” type of option, although applications are not compared or scored against each other under either FIFO or the dedicated funding model, regardless of the type of project under consideration.
The three scenarios considered present a range of different adjustments to the status quo model.

### Scenario 3

(“Competitive”)

This scenario maintains the FIFO selection rule for a limited set of projects, namely the smallest ones under 1.5 million RON, while also setting aside dedicated funding for the largest regional projects. For counties, growth poles, and urban development poles, the funding would be allocated in two phases, much like for the previous scenario, with a key difference: the phase 2 reallocation is done on the basis of competitive ranking for projects under each axis.

The figure across summarizes the main features of the three options for each applicable type of project. As this report argues, choosing an optimal selection model is a challenging task and may involve several quintessential tradeoffs: between impact (effectiveness) and absorption (efficiency); between needed changes and predictability/continuity; and between ideal outcomes and practical feasibility given capacity constraints.
Importantly, the current work does not propose selection models that vary by sector. Instead, the size of a proposed intervention is the key variable that determines how a project should be evaluated, selected, and contracted. This is in line with broader thinking on integrated interventions (something the ROP is uniquely positioned to deliver on because of its focus on the broad field of regional development) and a move away from sector-specific procedures. In fact, there is value in putting forth standardized selection models and criteria that allow for easy comparisons across projects, regardless of their thematic focus.

Regardless of the MA’s ultimate choices in terms of the 2014-2020 ROP’s selection model and criteria, the fundamental aim of the programme should remain front and center – to promote Romania’s sustainable and inclusive development.

In that endeavor, the importance of the ROP, both as an indispensable source of funds and as a unique catalyst of administrative capacity building, can hardly be overstated. Some of this impact will continue to be very visible across the country, changing people’s lives in very concrete terms: a new road; a better equipped, modern hospital; a proper school with comfortable temperatures year-round; a new business center employing hundreds or thousands of people; a renovated museum, etc. Other types of impact, including the motivation of countless public servants, the shift in mentalities, and the improved capacity to deliver key services to citizens, may be harder to quantify, but no less important. Ultimately, this is the power of EU convergence at its best, and Romania’s ROP will continue to play a key role in this historic effort.

### Simplified comparative assessment of proposed Project Selection Models

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Absorption</th>
<th>Impact</th>
<th>Legitimacy</th>
<th>Capacity</th>
<th>To select this option for ROP 2014-2020, you would have to believe...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The current system is the best possible</td>
</tr>
<tr>
<td>“Status Quo”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The costs of any changes to the system are too high compared to the potential benefits (i.e., the system is extremely rigid)</td>
</tr>
<tr>
<td>Scenario 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Major changes to the system are not advisable, predictability is valuable in and of itself</td>
</tr>
<tr>
<td>“Status Quo+”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Marginal improvements are needed and sufficient (e.g., dropping the CBA requirement, adopting FIDIC, more rigorous evaluation of IDPs)</td>
</tr>
<tr>
<td>Scenario 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>FIFO is, ceteris paribus, preferable to a more competitive selection, even for larger projects</td>
</tr>
<tr>
<td>“Semi-competitive”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The balance between absorption and impact should still lean toward the former for 2014-2020</td>
</tr>
<tr>
<td>Scenario 3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Competitive selection is generally preferable to FIFO</td>
</tr>
<tr>
<td>“Competitive”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>The balance between absorption and impact can lean more heavily toward the latter</td>
</tr>
</tbody>
</table>

Note: A larger black-fill in the pie-charts indicates the degree to which each individual scenario fulfills a specific criterion.