EUROPEAN UNION

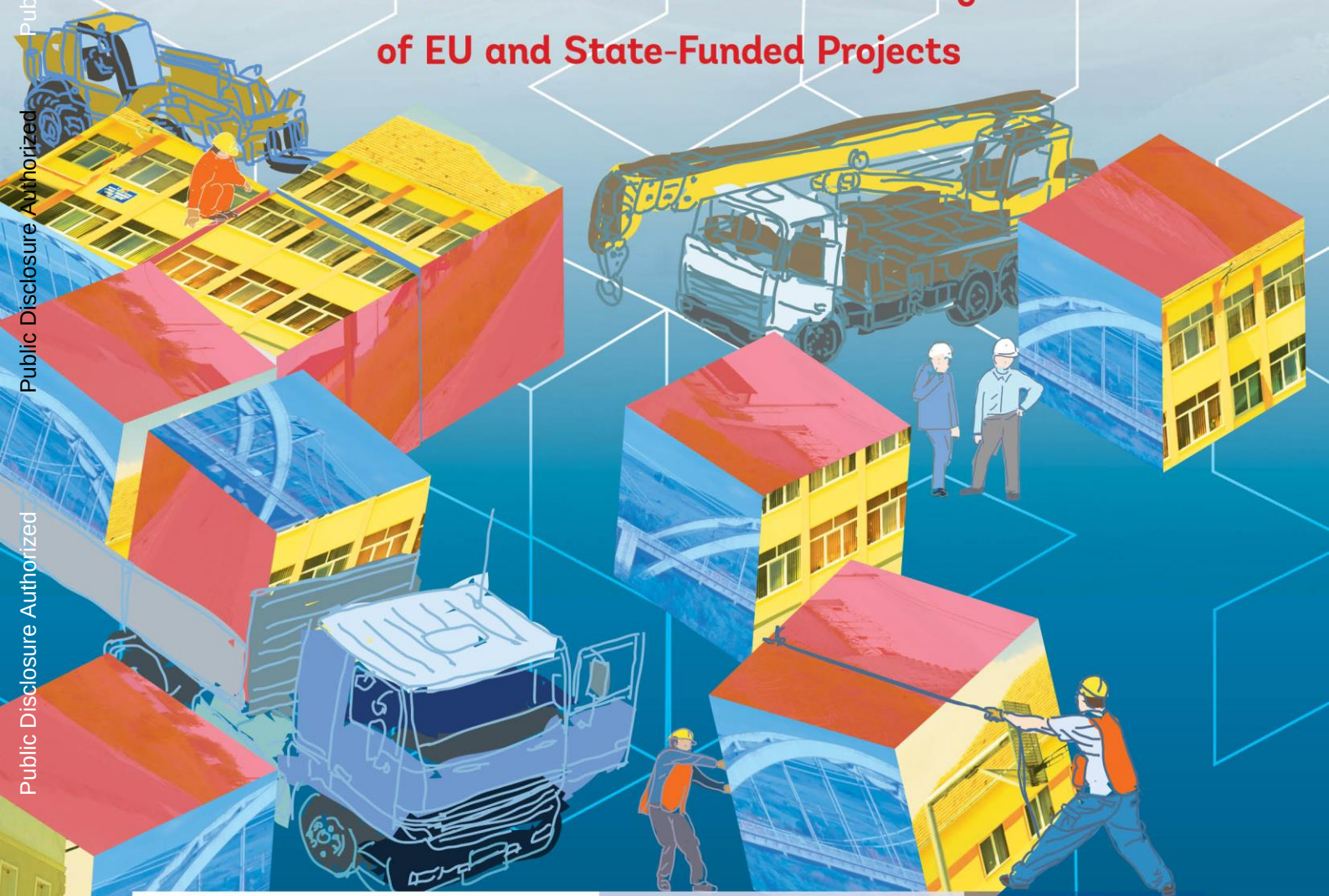
GOVERNMENT OF ROMANIA

MINISTRY OF REGIONAL DEVELOPMENT AND PUBLIC ADMINISTRATION

Instrumente Structurale 2007 - 2013

# Harmonization of Selection Criteria

## for Enhanced Coordination and Prioritization of EU and State-Funded Projects



WORLD BANK GROUP

Romania
Regional Development Program 2

Agreement for Harmonizing EU and State Funded Investments Program

Dated **August, 2015**

1 COMPONENT

UNIUNEA EUROPEANĂ
FONDUL EUROPEAN PENTRU DEZVOLTARE REGIONALĂ

GUVERNUL ROMÂNIEI

Instrumente Structurale 2007-2013

Project co-financed from the European Regional Development Fund through the Operational Programme Technical Assistance (OPTA) 2007-2013

Agreement for Advisory Services on assistance
to the Romanian Ministry of Regional Development and Public Administration
on Harmonizing State and EU Funded Projects in Regions
Dated May 27, 2014

# Component 1:

# Prioritization Strategy for State-budget and EU-funded Investments, according to Harmonized Selection Criteria pursuant to EU-funded projects

# - Final Report -

**August 26, 2015**

WORLD BANK GROUP

Romania
Regional Development Program 2

*This report was prepared by a core team comprised of Sebastian Burduja, Marcel Ionescu-Heroiu, Marius Cristea, Manuela Moț, Ciprian Moldovan, Raularian Rusu, Titus Man, Radoslaw Czapski, Antonio Nunez, Nolin Huddleston, and Rado Piontek. It also benefited from thoughtful comments and suggestions by the following peer reviewers: Mohammed Dalil Essakali, Victor Giosan, Keith McLean, Sanjay Pahuja, Cătălin Păuna, and Fernando Rojas. The report and corresponding missions have had exceptional administrative support provided by Adina Vințan, Alexandra Călin, and Cristina Zirimis.*

*The team thanks Elisabeth Huybens, Elisabetta Capannelli, Jean-François Marteau, and the Romania Portfolio Team for the continuous advice, support, and guidance provided throughout this work. The team acknowledges the productive collaboration with the Ministry of Regional Development and Public Administration counterparts, who provided timely feedback and offered strong support at critical stages of the process.*

*The team thanks several institutions for providing access to essential data for the purpose of this analysis: the Romanian National Institute of Statistics; the Ministry of European Funds; the Managing Authorities of the Regional Operational Programme, the Environment Operational Programme, and the Transport Operational Programme; county and local authorities. Special thanks also go to all the key actors who participated in interviews at the national, regional, and local level.*

# Table of Contents

**List of Figures** ..... v
**List of Boxes** ..... v
**List of Tables** ..... v
**List of Acronyms** ..... vii

**Executive Summary** ..... 1
Financing Criteria ..... 3
Multiyear Budgeting ..... 8
Territorial Contracts ..... 12
Next Steps ..... 13

**Introduction** ..... 15
Context ..... 17
Objective, Scope, and Methodology ..... 20
Audiences ..... 26
Report Structure ..... 27

**Chapter 1: The Case for Coordinating Public Infrastructure Investments** ..... 29
Why Invest in Public Infrastructure? An Economic Case for the PNDL ..... 31
Coordination of Public Infrastructure Investments ..... 33
What Is Coordination? ..... 33
Why Coordinate Public Investments? ..... 34
How Can Governments Coordinate Public Investments? ..... 37
Financing Criteria: Eligibility, Evaluation, Prioritization, and Selection ..... 39
Equivalency vs. Complementarity for Enhanced Coordination ..... 42

**Chapter 2: Diagnostic of Current Financing Criteria as Coordination Tools** ..... 45
Overall Diagnostic ..... 45
The PNDL Project Cycle ..... 54
Good Practice Examples from the Education Sector ..... 60

**Chapter 3: Building a Strong Foundation for Harmonized Criteria and Enhanced Coordination** ..... 65
Precondition #1: Focus Explicitly on Coordination ..... 67
Precondition #2: Anchor Programming and Projects in Clear Needs and Priorities ..... 67
The Efficient Use of National Public Funds: Core Principles and Sources ..... 68
Identifying Investment Needs ..... 72
Predictable Investments for Clearly Identified Needs in Each Sector ..... 74
Predictable Funds for Unpredictable Needs ..... 77
Precondition #3: Adopt a Set Implementation Timeline and Multiyear Budgeting ..... 78
Precondition #4: Establish Harmonized Rules and Procedures ..... 80
Precondition #5: Engage Citizens in Local Public Investment Projects ..... 85
Public Consultations in France ..... 85
Public Consultations in Norway ..... 87

Citizen Engagement in World Bank (WB) Operations ..... 88
Citizen Engagement in Romania ..... 89
Citizen Engagement through the PNDL..... 92

**Chapter 4: Coordinating and Harmonizing PNDL Road Projects..... 93**
County Roads..... 93
Investment Needs..... 93
Coordination and Harmonization..... 94
Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects ..... 96
Communal Roads .....101
Investment Needs.....101
Coordination and Harmonization.....102
Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects .....103

**Chapter 5: Coordinating PNDL Water and Wastewater Projects.....107**
Investment Needs.....107
Coordination and Harmonization.....110
Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects .....113

**Chapter 6: Coordinating PNDL Social Infrastructure projects .....119**
Investment Needs.....119
Coordination and Harmonization.....120
Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects .....121

**Chapter 7: From Theory to Practice: The PNDL 2015.....131**
Multiannual Implementation Timeline and Budgeting.....131
Budget Allocation for 2015.....132
Budget Allocation by Counties .....132
Funding Allocation by Priorities .....134
Prioritization of Projects .....135

**Chapter 8: Spotlight on Multiyear Budgeting as a Tool for Coordinating Investments.....139**
Multiyear Budgeting: A Theoretical Case.....140
Recent Developments in Romania.....146
Current Challenges of Multiyear Budgeting in the Romanian Context.....150
A Multiyear PNDL: Between Necessity and Feasibility .....152
Recommended Action Steps for the MRDPA.....161

**Chapter 9: Spotlight on Territorial Contracts as a Tool for Coordinating Investments .....167**
Good Practices of Regional Agreements in Europe.....169
1. Convenios de colaboración in Spain.....169
2. Accordi di Programma Quadro (APQs) in Italy .....171
3. Regional Development Programs and Regional Growth Programs in Sweden.....173

4. Contrat de Plan d'Etat-Région in France (State-Region Planning Contract).....175
5. National Regional Policy in Switzerland.....181
The Polish Model for Deploying Territorial Contracts.....183
Regional Contracts.....183
Territorial Contracts.....185
Case in Point: The Podlaskie Voivodship.....187
Adapting and Adopting Territorial Contracts in Romania.....190
Piloting Territorial Contracts in Romania.....192
Recommended Action Steps for the MRDPA.....193

**Annex 1. Input-Output Analysis to Assess the Impact of the PNDL 2014-2020.....195**

**Annex 2. Assessing Investment Needs Generated by Climate Change Risks.....207**
Risk assessment.....207
Measuring frequencies/probabilities.....207
Assessing damage.....208
The climate change risks maps.....209
The combined climate change effect risks.....212

**Annex 3: GEO 88/2013 Selection Criteria for New and Ongoing Investments.....213**

**Annex 4: Territorial Contract for Podlaskie Voivodship.....215**

**Annex 5: Territorial Contract for Wielkopolskie Voivodship.....243**

# List of Figures

Figure 1. Investment priorities differ across leading and lagging areas in Romania ..... 18
Figure 2. Key players responsible for the coordination of public investments in Romania .. 20
Figure 3. This report focuses on a number of critical coordination mechanisms ..... 22
Figure 4. Efficiency of capital spending in EU-28 countries ..... 30
Figure 5. The costs and benefits of coordination ..... 35
Figure 6. Examples of vertical and horizontal coordination mechanisms ..... 38
Figure 7. The process of choosing investments for financing involves multiple steps ..... 39
Figure 8. Fundamental requirements and objectives of project selection/financing criteria ..... 40
Figure 9. Total yearly climate change risks, by county ..... 78
Figure 10. There is little coordination of ROP 2007-2013 and PNDL county road investments ..... 95
Figure 11. Coordination of PNDL and PNDR communal road projects ..... 103
Figure 12. Funding gap in the Water and Wastewater Sector (in 1,000 Euro) ..... 107
Figure 13. EBRD Estimates on Funding Gap to meet EU Water and Wastewater Targets . 110
Figure 14. Hypothetical example of a RON 500 million multiannual appropriation ..... 157
Figure 15. Proposed PNDL monitoring framework ..... 163
Figure 16. Examples of vertical and horizontal coordination mechanisms ..... 167

# List of Boxes

Box 1. The PNDI showed clear gaps in coordination with EU funds ..... 19
Box 2. Allocation criteria for the PNDL budget ..... 56
Box 3. The Arches Project - Open Source Heritage Inventory & Management System ..... 80
Box 4. Setting sector allocations and ceilings in Sweden ..... 142
Box 5. Good practices at different levels of the MTEF ..... 143
Box 6. Chile's simple model for arriving at macroeconomic forecasts ..... 145
Box 7. The Romanian Fiscal Council (Law 69/2010) ..... 149
Box 8. The Canadian system for monitoring expenditures is based on clear mechanisms 151
Box 9. The dual appropriations system ..... 156

# List of Tables

Table 1. Investment needs vs. supply of EU funds (2014-2020) ..... 30
Table 2. Proposed allocation of PNDL budget (in EUR millions) for 2014-2020 ..... 31
Table 3. The potential impact of the PNDL 2014-2020, as measured through the Input-Output Analysis ..... 32
Table 4. Snapshot of investment programs and relevant intervention areas in roads, water and wastewater, and social infrastructure ..... 46
Table 5. Prioritization criteria for rehabilitation and infrastructure development of kindergartens ..... 61
Table 6. Prioritization criteria for rehabilitation of schools ..... 63
Table 7. Prudent Capital Expenditure Margins for 2014-2022, by type of sub-national administrative unit ..... 68

Table 8. Revenues and Profits for Romanian Firms (in EUR) ..... 70
Table 9. Scenarios for the growth of firm revenues and profits (in EUR) ..... 70
Table 10. EU Programmes Allocation for 2014-2020 (in EUR)..... 71
Table 11. Central Government Yearly Capital Expenditures ..... 72
Table 12. Estimates for Government Capital Expenditures for 2014-2022 (in Euro) ..... 72
Table 13. Potential funding sources for capital investments 2014-2022 (in EUR)..... 72
Table 14. Investment needs in key infrastructure sectors and sub-sectors in Romania..... 73
Table 15. Budget allocated by Ministry of Regional Development for various investment programs (in RON, thousands) ..... 74
Table 16. Investment needs for county roads, by county ..... 93
Table 17. Prioritization criteria for allocating funding between counties (for county roads) 97
Table 18. Prioritization criteria for county road projects..... 98
Table 19. Investment needs in communal roads, by county (in EUR) ..... 101
Table 20. Prioritization criteria for allocating funding between counties (communal roads) ..... 104
Table 21. Prioritization criteria for communal roads projects, by territorial-administrative unit ..... 105
Table 22. Key requirements for the Urban Wastewater Directive ..... 109
Table 23. Prioritization criteria for allocating funding between regions (for water projects) ..... 113
Table 24. Prioritization criteria for allocating funding between regions (wastewater projects) ..... 114
Table 25. Prioritization criteria for water projects, by locality ..... 115
Table 26. Prioritization criteria for wastewater projects, by agglomerations ..... 116
Table 27. Investment needs for social infrastructure, by county (in EUR) ..... 119
Table 28. Prioritization criteria for allocating funding between counties (educational infrastructure) ..... 122
Table 29. Prioritization criteria for allocating funding between counties (health infrastructure) ..... 123
Table 30. Prioritization criteria for allocating funding between counties (cultural infrastructure) ..... 123
Table 31. Prioritization criteria for allocating funding between counties (sports infrastructure) ..... 124
Table 32. Prioritization criteria for educational infrastructure projects, by territorial administrative unit (TAU) ..... 125
Table 33. Prioritization criteria for health infrastructure projects, by territorial administrative unit (TAU) ..... 126
Table 34. Prioritization criteria for cultural infrastructure projects, by territorial administrative unit (TAU) ..... 127
Table 35. Prioritization criteria for sports infrastructure projects, by territorial administrative unit (TAU) ..... 129
Table 36. Comparison of PNDL 2015 county allocation and proposed WB allocation ..... 133
Table 37. Comparison of PNDL allocations by sector..... 134
Table 38. A breakdown of PNDL 2015 priority projects ..... 136
Table 39. Proposed allocation of PNDL budget (in EUR millions) for 2014-2020 ..... 162
Table 40. Example of a (partial) list of projects from one Territorial Contract in Poland .. 187

# List of Acronyms

| | |
|---|---|
| CNADNR | National Highways and National Roads Company |
| DG RDI | Directorate General for Regional Development and Infrastructure |
| EC | European Commission |
| EU | European Union |
| FSI | Financial Sustainability Index |
| GOR | Government of Romania |
| IDA | Intercommunity Development Association |
| IFI | International Financial Institution |
| IMF | International Monetary Fund |
| LHDI | Local Human Development Index |
| LIOP | Large Infrastructure Operational Programme |
| MARD | Ministry of Agriculture and Rural Development |
| MEF | Ministry of European Funds |
| MRDPA | Ministry of Regional Development and Public Administration |
| OP | Operational Programme |
| PNDI | National Program for Infrastructure Development |
| PNDL | National Program for Local Development |
| PNDR | National Rural Development Programme |
| PPP | Public-Private Partnerships |
| RDA | Regional Development Agency |
| ROC | Regional Operating Water Company |
| ROP | Regional Operational Programme |
| SOP | Sectoral Operational Programme |

# Executive Summary

1. **Romania faces today the critical need to enhance the coordination of public investment programs and projects in order to "do more with less," maximizing development impact given limited financial resources available.** Examples of persistent challenges abound in the country and are hard to miss (e.g., deficient roads infrastructure, at all territorial levels; lack of access to water and sanitation in many rural areas; inadequate social infrastructure; governance and public administration challenges, etc.). At the same time, the need for infrastructure investments in Romania is considerable and the corresponding costs far exceed what EU funds alone can cover, even if the government was successful at driving the absorption close to 100%. Estimates by the World Bank show that, in addition to EU funds, Romania would need to contribute around EUR 30 billion through 2020 to cover needs in three key sectors: county and communal roads, water and wastewater, and social infrastructure.[1] In water and wastewater alone the gap exceeds EUR 20 billion, and Romania could face serious sanctions after 2018 if it does not achieve EU-level targets on coverage and service quality.

2. **In this context, "value for money" is the key guiding principle of public investments, making this final report is both critically important and timely**. Romania's preparations for the 2014-2020 EU programming period are in full swing, with multiple operational programmes recently approved. In parallel, the Government is working on revamping instruments financed entirely from the state budget. The core focus is on the National Local Development Program (PNDL), the main state-budget-funded investment program for local infrastructure development, though findings and recommendations may be extrapolated to other state-budget-funded instruments (e.g., the Environment Fund) and, indeed, as decentralization and regionalization may evolve in the future, subnational governments may also apply the lessons of this work.

3. **The main client of this work is the Ministry of Regional Development and Public Administration (MRDPA), which manages the PNDL.** Other key stakeholders include the Center of Government (CoG), the Ministry of Public Finances, the Ministry of European Funds, other central authorities in charge of EU and/or state-funded investment programs, Regional Development Agencies, and county and local councils. In particular, this assessment covers the following types of public infrastructure investments: county roads; communal roads; water; wastewater; and social infrastructure (in education, health, culture, and sports).

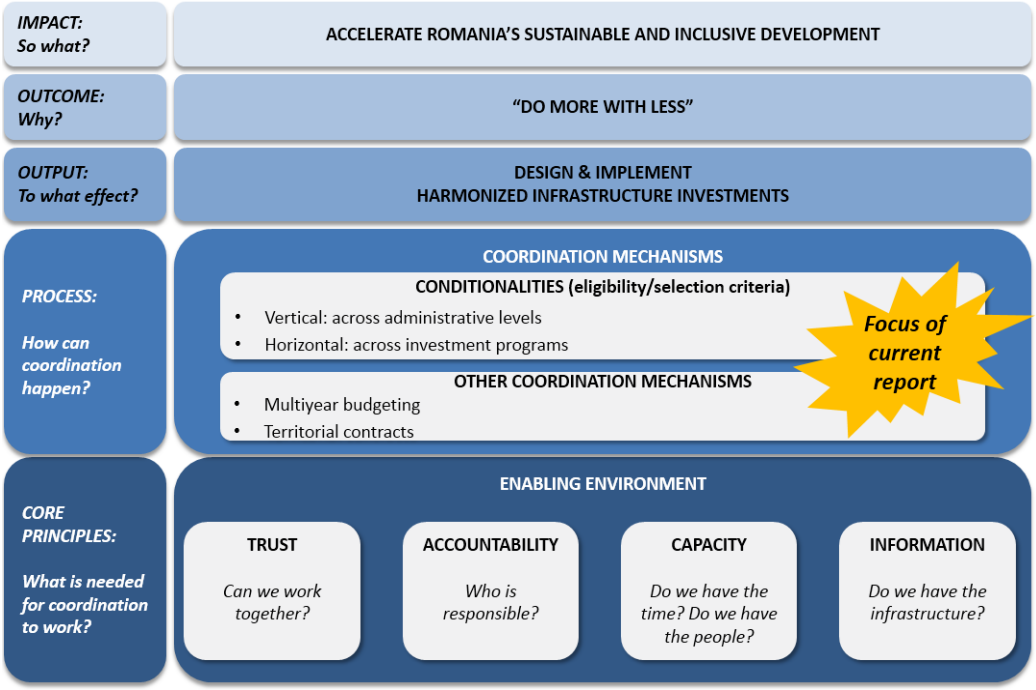
4. **The main goal of this work is to recommend and facilitate the adoption of prioritization and selection criteria that enhance coordination at the level of infrastructure programs and the projects they finance.** Especially in comparison to EU funds and particularly in the Romanian context, a core issue that has plagued state-budget-funded instruments is the lack of clarity and rigor in selecting investments. Stakeholders across the public, private, and nonprofit sectors perceive such programs as "black boxes,"

[1] Investment needs are estimated for each sector according to a World Bank methodology. For full details, *see* the report on "Improving Prioritization Criteria for PNDL Projects," World Bank, 2015

wondering how and why some projects receive funding while others do not. By adopting a set of clear, coordinated criteria and a transparent methodology for applying them to a portfolio of new and ongoing proposed investments, state-budget-funded programs like the PNDL would boost their impact and credibility among interested applicants. There would thus be less room to question decisions regarding funding allocations, as these would be grounded in a defined, more objective, and transparent methodology. This is the intent of this report, along with contributing to the harmonization of procedures across EU and state-budget-funded programs. If investments follow the same rules, a pipeline of projects can be created with state-budget funding and then transferred to EU-funded programs, as needed/as feasible, thereby helping boost absorption going forth (as of July 2015, Romania still ranks last in the EU for overall absorption of 2007-2013 funds).

5. **In addition to criteria *per se*, this report evaluates two additional instruments for enhancing coordination: multiyear budgeting and territorial contracts.** These are included here based on the interest expressed by the MRDPA and taking into account their potential for generating improvements to the way public investments are planned and implemented in Romania. Multiyear budgeting would allow a program like the PNDL to function on a framework spanning a time horizon longer than a single year, much like EU-funded programs, which would enhance predictability and enable the government to finish projects in a timely and fiscally sustainable fashion. Territorial contracts between sub-national and national authorities are currently used in other EU member states to ensure a more stable implementation framework for investment programs, across all types of financing sources (EU and state budget), along with setting aside the funding required for the completion of an agreed set of infrastructure projects.

**The current report assesses several coordination mechanisms**




*Note: The report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," submitted in April 2015, covers the "Enabling Environment" and other types of coordination mechanisms (e.g., dedicated platforms).*

6. **Coordination refers to the capacity of different stakeholders to work together for achieving specific goals**. From a *bottom-up perspective*, coordination is needed when local governments do not have the financial and human resources needed to address the basic infrastructure needs of their communities, so higher-level authorities (i.e., regional and/or national governments) have to intervene to fill the gap. Communes in Romania can, on average, only afford to rehabilitate, say, one road and one school during the 2014-2020 programing cycle.[2] From a *top-down perspective*, coordinated infrastructure investments promise to be cheaper and deliver greater benefits. If two different authorities are implementing investment programs that have the same goals and target the same beneficiaries, it is likely that they are duplicating their efforts and, hence, missing out on cost-saving opportunities. Coordination can also generate more impact, making the whole greater than the sum of the parts. If a new school or hospital gets built, the road connecting to it should also be rehabilitated; if a county rehabilitates a county round, the neighboring county may also consider rehabilitating a segment that connects to that investment. Last but not least, coordination helps avoid many of the pitfalls of projects designed and implemented separately, without proper sequencing. There are countless examples across Romania of paving roads before introducing or rehabilitating water/sewage/gas networks; soon after the road work is done (sometimes within a matter of days), utility providers come in and, with the permit in hand from the local authorities, destroy the pavement to get to the utility networks.[3]

7. **The scope of the current report is centered primarily on the PNDL and several related instruments for enhancing coordination of public investments at the local and county level.** A broader discussion of coordination issues within and across sectors and covering the entire project cycle (planning, financing, execution, monitoring and control) is included in the report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure" (World Bank, 2015), delivered as part of the same technical assistance. The same report also discusses the potential pitfalls of "over-coordination," particularly in the context of low capacity in Romania's public sector.[4]

## Financing Criteria

8. **There are two main approaches to enhanced coordination through financing criteria: equivalency and complementarity.** On the one hand, harmonized criteria can be *equivalent* across investment programs. This is appropriate particularly when the needs in the sector far outweigh the supply of funds and there are also clear requirements to fund particular investments. On the other hand, harmonized criteria can be *complementary* across investment programs. That means that in a given sector one may define from the start of a programming period the list of eligible types of investments for each fund.

[2] For an explanation of this estimate and for the full methodology on prudent capital expenditure margins, *see* report on "Improved Prioritization Criteria for PNDL Projects," World Bank, 2015
[3] The other report prepared under Component 1 of this technical assistance includes additional examples of the inefficiencies caused by lack of coordination. *See* "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, April 2015
[4] Ibid.

Together, these lists should be "MECE" – mutually exclusive, comprehensively exhaustive. In other words, there would be no overlaps and, as a whole, the funds would serve the full range of needs in a sector.

9. **The optimal approach varies by sector; there is no one-size-fits-all answer.** For example, in the roads sector, the EU-funded Regional Operational Programme (ROP) 2014-2020 will focus on county roads connecting to the TEN-T network; the PNDL could take on county roads that *do not* connect directly to TEN-T, but remain a priority based on a number of other criteria (e.g., located in the area of a major urban center, high number of beneficiaries, etc.). By contrast, for the water and sanitation sector, the PNDL should maintain the EU requirements of focusing on localities over 50 people for water and over 2,000 p.e. for sewage systems, in accordance with Water and Wastewater Master Plans. Why not focus on localities that are not eligible for EU funds through the Large Infrastructure OP or the PNDR 2014-2020? The answer is simple: the priority lists have already been established by the Master Plans based on clear criteria, and Romania still needs to fulfill EU-level commitments in the water and wastewater sector. Finally, for social infrastructure, the PNDL should make sure that it evaluates and prioritizes investments based on criteria similar to those used by EU funds – these are sensible criteria for making sure that the investments have the desired impact (e.g., sufficient number of students or /patients, adequate focus on marginalized and/or low-income communities, etc.).

10. **The diagnostic assessment of current financing criteria under EU and state-budget-funded investment programs confirms that there are critical and persistent differences between the two types of funding.** Criteria applicable to EU-funded programs are defined in a complementary manner, with a conscious effort to coordinate interventions, while state-budget-funded programs reviewed make no attempt to coordinate among themselves and with other EU instruments, but instead finance a long list of investments, causing significant overlaps with other programs. This creates a competitive dynamic among funds, with state-budget-funded instruments typically crowding out EU investments because they finance the same types of interventions under more flexible rules and monitoring. Moreover, there is no attempt to leverage synergies across programs.

11. **Fortunately, Romania's experience with EU funds provides plenty of examples of good practices that should be replicated for state-budget-funded programs like PNDL:**

- *A purposeful focus on coordination*: Each EU Member State is required to explain how it will ensure complementarities across structural funds, starting with the programming documents approved by the EC before implementation can begin. For instance, the Romania-EU Partnership Agreement 2014-2020 clearly notes: "The complementarities identified among European Structural and Investment Funds require an effective coordination during planning and implementation […] in order to avoid the overlaps between actions."[5]
- *Programming anchored in real needs and priorities*: EU-funded programs draw from and correlate with relevant strategic documents, both cross-sectoral (e.g., the

[5] Romania-EU Partnership Agreement, p. 209

Romania-EU Partnership Agreement, the Convergence Programme, etc.) and sectoral (e.g., the General Transport Master Plan, the National Health Strategy, etc.). These priorities are generally stable across time, so stakeholders know what to expect and can plan accordingly: what programs finance which types of interventions, under which eligibility conditions, in what timeframe, etc.

- *A predictable and stable timeline, with multiyear budgeting and an effective IT infrastructure*: The seven-year EU programming cycle (e.g., 2007-2013, 2014-2020) maintains the same strategic objectives, planning documents, and implementation procedures throughout. Even if political power alternates in that timeframe, no changes occur to EU operational programmes and their corresponding funding once these are agreed with the EC in the first year. Stability fosters opportunities to coordinate for enhanced impact. In all this effort, it is critical to rely on a functional and effective data collection and data sharing system.

- *A common legal and procedural framework across all EU-funded programs*: The Common Provisions Regulation No. 1303/2013 were adopted to: establish a clear link with the Europe 2020 strategy; improve coordination; ensure steady implementation; and facilitate potential beneficiaries' access to the funds.[6] All programs have similar application procedures and a rigorous, transparent selection process, explained in depth in their respective Applicant Guides.

- *Increasingly effective citizen engagement* throughout the entire process: from designing a community's strategy to individual project cycles (from pre- to post-implementation). The new Community-Led Local Development (CLLD) instrument is a testimony to the increased focus on citizen engagement in EU-funded operations.

12. **All these elements are critically important for establishing a solid foundation for coordination and, indeed, they all affect the choice of financing criteria for the PNDL and other state-budget-funded instruments.** A purposeful focus on coordination means that from the start investment programs are designed to have financing criteria that are equivalent or complementary, depending on the sector. Financing criteria can also encourage coordination by prioritizing (e.g., through "bonus points' in the evaluation process) integrated interventions – i.e., proposals that prove to be coordinated across sectors and/or across administrative levels. This was the approach of the EU-funded PNDR 2007-2013, and it is the new approach of the ROP 2014-2020 with respect to strategic county roads investments in each region. When programming is anchored in real needs, it enables the design of financing criteria that deliver high potential impact and still demonstrate financial sustainability (more on this below). In addition, a multiyear timeline and budget enables managing authorities of EU and state-funded programs to coordinate interventions over a longer time horizon, reducing the risk of cannibalization between the two types of funding. Finally, a common procedural framework for all state-budget-funded programs – harmonized with EU-funded instruments – requires transparent, clear, and specific selection criteria. This would deliver added credibility and broader appeal for state-funded programs like the PNDL and would also enable projects to move between different

[6] *See* http://ec.europa.eu/contracts_grants/funds_en.htm

pipelines more easily. Whenever there is sufficient room under EU funds, projects should always be financed through such resources, which are nonreimbursable (and, hence, much cheaper than state-budget funds).

13. **There is one important caveat to the principle that state-budget-funded programs should replicate fully the practices of EU-funded instruments – in one word: *capacity***. In truth, resources available to process applications and oversee projects are much lower in departments responsible for state-budget-funded programs versus Managing Authorities of EU structural funds (fewer staff, lower wages, etc.). Compared to the ROP, for instance, a program like the PNDL is characterized by a larger portfolio of smaller investments (the investments financed through the PNDL 2014 were on average three times smaller than similar projects financed through the ROP 2007-2013 and the PNDR 2007-2013), which calls for simpler yet equally rigorous procedures throughout the project cycle. Over 700 people are involved in the management and implementation of the ROP, which also benefits from a dedicated budget for technical assistance, whereby it can afford to also hire external evaluators. The PNDL relies on only around 20 people in the MRDPA and has virtually no budget allocated for hiring external consultants. This also means that a competitive grant approach whereby beneficiaries across a region/across the country have to compete for available funds is not feasible under the current PNDL's capacity constraints. Equally important, previous assessments of EU funds, including by the World Bank,[7] have noted signs of excessive bureaucratization in how the Romanian Government implements EU regulations, so it is important to adopt only elements that work well and err on the side of simplicity.

14. **This final report recommends in chapters 4, 5, and 6 detailed sets of criteria for prioritizing and selection projects in each of the following sectors: county and communal roads; water and wastewater; and social infrastructure.** The methodology deployed to revamp the PNDL's prioritization and selection criteria is straightforward: (i) estimate investment needs in a particular sector (e.g., based on statistical data, available cost standards, etc.); (ii) decide on a formula for allocating funds *across* counties; and (iii) decide on a formula for selecting/ranking projects within a county; (iv) identify projects that can be financed by EU funds and guide them to the relevant operational programme; and (v) arrive at the final pool of projects proposed for PNDL financing. Of course, ongoing and new investments are treated differently: the former should receive priority and new investments should only be started if there are sufficient budgetary resources to cover their full costs (not just in the first year, but in every year through completion).

15. **While each of sector calls for its own financing criteria to match its specificities, there are multiple common categories that these criteria "test for."** The following are in line with previous Bank proposals to the Government (as reflected in Emergency Ordinance 88/2013 for the prioritization of significant projects at the national level).

- First, the criteria proposed in this report test for *actual needs on the ground* and, by the same token, seek to estimate *potential impact* of proposed interventions, both in terms of numbers and in terms of quality of improvement. Potential measures

[7] *See* the reports on "ROP 2.0: MA-IB Coordination and Beneficiary Support," World Bank, 2014

include: technical status (e.g., paved/unpaved road); demand (e.g., traffic levels, number of potential beneficiaries, level of development of a particular locality, number of inhabitants/physician, school-aged population, etc.); and opportunity (e.g., a road's proximity to a major urban center).

- Second, the criteria test for *strategic alignment* of a proposed project with existing sectoral strategies: for example, for water and wastewater, the intervention should be included in the regional Water and Wastewater Master Plans.
- Third, the criteria also include a measure of *financial sustainability*. This seeks to correct the current issue of local authorities disregarding operations and maintenance (O&M) costs related to infrastructure projects financed by an EU grant or another form of support from the national government. The Financial Sustainability Indicator (FSI) looks at whether a local authority can afford to spend on operations and maintenance related to new infrastructure investments given their budgetary standing and trends.
- Fourth, to the extent possible, selection criteria should also factor in each projects' readiness level. As a general rule, the more advanced an investment in its implementation, the higher priority it should receive. The are important caveats to this, however: (i) some of the projects should not receive any more funding, despite the sunk costs, as they were poorly designed from the start (e.g., wastewater treatment plants in very small localities); and (ii) the data on project completion rates (as a proxy for "readiness") are insufficient, unreliable, and variable over the course of a year (since the PNDL functions on an annual basis, a project may have one completion rate when funding is allocated, and another completion rate when funds actually make it to the beneficiary, as localities often fund projects from their own sources). Project readiness can be deployed by the MRDPA as a selection criterion – in addition to the criteria mentioned above – only after rationalizing the current project portfolio (i.e., eliminating all projects that should not receive any financing) and after developing a functioning system for data collection and analysis regarding project implementation status and completion rates.
- Fifth, proposed criteria under each sector seek to enable *coordination of PNDL projects with other investments funded by the EU and/or the state budget*. At a basic level, projects eligible for EU funds should be "redirected" from the PNDL pipeline to an EU operational programme (e.g., ROP, Large Infrastructure, National Rural Development Programme) by checking whether the proposed project has been submitted for nonreimbursable financing before granting PNDL funding. Moreover, for particular interventions, bonus points can be awarded in the scoring process if the applicant demonstrates coordination with other funding sources, other sectors, and other (local) governments.
- Finally, integrated planning should be encouraged by prioritizing projects included in an Integrated Development Strategy, following the model of the EU-funded ROP 2007-2013 (with Integrated Development Plans under Axis 1) and of ROP 2014-2020 (with Integrated Urban Development Strategies – SIDU – under Axis 4).

16. **The MRDPA had access to a draft version of the criteria recommended by the World Bank team in time to rethink the design of the PNDL for 2015, and Chapter 7 provides a review of the extent to which these proposals were already adopted.** With respect to the PNDL's funding allocation by counties, by and large, the PNDL 2015 follows the World Bank proposals, with some notable exceptions.[8] The key point is that the MRDPA still needs to adopt a clearly defined, transparent formula for allocating funds between counties. As for allocation by sectors, the 2015 split is closer to the Bank team's proposals than in the previous year. The MRDPA has triaged communal road projects, with a focus on works with a high completion degree, based on interview data. Also, the program finances more social infrastructure projects (particularly new educational infrastructure projects).

17. **The Bank team compared the 2015 PNDL portfolio with the priority lists resulting from the application of criteria proposed in this report.** Of the PNDL projects financed in 2015, about 46% (worth about half of the total allocation) were also on the Bank's list. But the program also financed 979 "non-priority" projects (i.e., in the initial project portfolio of around 4,000 interventions there were other proposals that should have received funding before these 979 projects). Around 14% of PNDL 2015 represent investments in non-priority *sectors*, i.e., sectors that, in the opinion of the World Bank, should not be the focus of the PNDL. These include investments in tourism infrastructure, city hall buildings, communal markets, or other hard infrastructure for which it is difficult to devise clear prioritization criteria (e.g., investments in bridges and investments in local roads, usually determined on a case-by-case basis like in the aftermath of a flood). Finally, there are also 367 investments in the 2015 portfolio (roughly 15%) that should probably not be financed. These are typically water and wastewater projects inherited from previous investment programs and are either too small in scale (e.g., wastewater systems in localities with less than 2,000 people equivalent) or could be eligible for EU funds (e.g., Large Infrastructure OP).

## Multiyear Budgeting

18. **The full adoption of multiyear budgeting in Romania holds great promise for enhancing the coordination and impact of PNDL investments.** The main advantages of a multiannual PNDL would include: (i) strategic focus over a longer time horizon, meaning more stable policy priorities; (ii) manageable project portfolios, in line with available resources (i.e., no new projects can begin in the absence of required resources for the full implementation period); (iii) enhanced predictability across the entire value chain, from the MRDPA to program beneficiaries and project-level contractors; (iv) improved correlation with current multiannual instruments (EU structural funds); and (v) simplified procedures and reduced bureaucracy by signing truly multiannual contracts. Indeed, the successful adoption of multiannual budgeting for investment programs like the PNDL requires a substantial effort from many players, with the Center of Government and the Ministry of Public Finance (MPF) playing leadership roles, though the MRDPA can act as a key driver of needed reforms. Keeping in mind the need to triage and rationalize its large and

[88] For example, Botoșani and Cluj received significantly less funds than what was proposed by the Bank (around RON 11-12 million) less. By contrast, counties like Bistrița-Năsăud, Constanța, and Iași received significantly more – around 11-16 million RON more.

unsustainable project portfolio, as well as the broader benefits of multiannual budgeting in Romania, the MRDPA has the potential to become a key driver of needed reforms.

19. **It is also true that the culture of annual budgets is strong in Romania – partly because of legal and regulatory limitations, partly because of mentalities, and partly because of capacity reasons.** The Constitution stipulates, under Article 138, paragraph 2, that "the Government develops the draft of the budget annually […] and submits it for the Parliament's approval." During field interviews, interlocutors in certain institutions, including in the Ministry of Public Finance, have noted that this particular article is an important constraint against adopting a full-fledged multiyear budgeting framework. In practice, for an investment spanning multiple years such as a new bridge in a city, the City Hall writes up a contract with the contractor and, annually, signs an addendum stipulating the sums available for that given year. In addition, there are three key capacity constraints worth noting: high unpredictability on the revenue side due to frequent changes in taxes and unstable (and generally low) collection levels; weak ability of the Ministry of Public Finance to provide sound economic and fiscal forecasts; and strongly fragmented, rudimentary IT systems that makes it very hard to track programs and projects.[9]

20. **On the question regarding the feasibility of a multiannual PNDL given current legislative and policy constraints, there are more arguments in favor than against.** For one, EU-funded interventions currently "run through" the national budget and expenditures get subsequently reimbursed; this suggests that it is possible to have multiyear infrastructure investment projects even under the status quo constraints of annual budgeting, provided that there is firm commitment to a clear annual budget allocation. Moreover, the Romanian Law on Public Finances (Law 500/2002), even under its current form, appears to permit multiyear budgeting. Article 4 (5) provides that the budget may include "multiannual commitments," with these commitments defined by Article 2 (14) as "amounts allocated to certain programs, projects, subprojects, objectives and the like, which are carried on for a period longer than a year and give rise to commitment credits and budgetary credits." As for the annuality provision of the Romanian Constitution, there is nothing stopping the Government or the Parliament from adhering to multiyear targets, which is essentially what happens under the Fiscal Responsibility Law (though room for improvement definitely exists). To follow the letter of the law, the Government would develop and approve a multiyear budget annually, rolling it forward every year (as it happens in other countries too).

21. **What should then be the key elements of a truly multiannual budgeting system for investment programs like the PNDL?**[10] First, the multiannual appropriation reserved for

[9] Over the few last years, an important IT project is under implementation (the FOREXEBUG system). But this does not solve all problems, as it does not cover public investment projects or the investment programs.

[10] The World Bank has an ongoing technical assistance project with the Ministry of Public Finance on the topic of public investment management, including the prioritization of infrastructure projects at the national level. Several of the key recommendations made in this report are adapted to the PNDL and to investments at the subnational level from the "Draft Report on Strengthening the Link

a particular investment has to only go to that investment; otherwise, the same problems will continue: "drip funding," delays, inefficient expenditures, and diverting money from one investment to another. Second – and related to the first condition – is to have a solid project monitoring system, tracking at all times what the projects' total cost is, what contracts are signed, and when. Third, the total value of multiannual appropriations for a spending agency must be clearly and credibly defined. This would require the fiscal-budgetary strategy (Law 69/2010) and the corresponding laws on approved ceilings to define limits specifically for multiannual appropriations for each major ministry/spending agency (this is not the case, currently). Under such a system, no new projects could be pursued unless extra budgetary room becomes available for current and future years, equal to the new projects' total cost. It would thus be impossible to reshuffle projects within a ministry's portfolio (or program, like the PNDL), since each investment would have a clear, dedicated multiannual appropriation. Last but not least, the system requires strong monitoring and evaluation functions from both within and outside the MRDPA. The MPF and other audit and control institutions like the Court of Accounts and the Audit Authority should monitor project allocations and, respectively, corresponding expenditures, while the Center of Government should regularly evaluate the performance of investment programs.[11]

22. **For its part, the MRDPA can take several steps to facilitate the full adoption of multiannual budgeting in Romania.** For one, the MRDPA should ask to be included in the fiscal-budgetary strategy from 2016 onward. Currently, it is not one of the ten ministries that is covered by this framework, which means that there is virtually no multiannual financial planning and no ceilings defined for the main categories of expenditures (including the PNDL). Moreover, the MRDPA should work with the MPF to promote the establishment of ceilings and multiannual appropriations for *baseline capital expenditures* (for the current project portfolio) and *new investment projects*. Again, the current system does not make this distinction, which is critical for having a functional model of strategic prioritization of a limited number of projects.

23. **More specific to the PNDL, the MRDPA should consider pursuing the following measures for turning the program into a *de facto* multiannual instrument:**

- *Conceptualize what the PNDL could look like through 2020 – essentially the time interval matching the EU programming period.* This is a first step to greater internal discipline in allocating resources to PNDL projects and, in fact, does not depend on the Ministry of Finance formally adopting the model presented above. All that is needed is sufficient commitment by the MRDPA to stick to a certain split in the funding allocated to the main sectors under the PNDL. Assuming the PNDL budget

between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015

[11] For detailed proposals on M&E mechanisms, *see* the report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, April 2015

will be at least at 2014 levels, the total envelope through 2020 would be RON 13 billion RON – or EUR 2.8 billion.[12]

- *Next, the MRDPA should rationalize the PNDL portfolio based on budget constraints.* The current portfolio would take over 15 years to complete, assuming that 2014 funding levels would hold going forward. The rationalization should therefore be done for each sector by: (i) deploying the sector-specific criteria (e.g., those listed in chapters 4-6 of the current report); and (ii) considering project completion status, with more advanced works taking priority. Some investments will have to be put on hold, others will have to search for alternative funding (e.g., EU funds), and others will have to be canceled.

- *The MRDPA should further set the PNDL baseline (for the budgeted year and for the programming period).* This would cover all ongoing investments that passed the test (i.e., remained in the portfolio) in the previous step. All these projects should be finalized according to their implementation timeline (without intervening on the portfolio of ongoing investments to exclude some projects and/or introduce new ones), budgeting properly based on costs expected for each year.
- *The MRDPA should consider new investments separately from ongoing projects and only when allowed by the available budget envelope.* New investment projects should be funded exclusively by the difference between the total PNDL budgetary allocation (budgeted year and programming period) and the PNDL baseline (as defined above). These projects would be prioritized according to the sector-specific criteria in this report. For all new projects accepted, the corresponding planned budget allocations must be included in the PNDL baseline for future years.

- *The MRDPA should develop its IT systems for tracking how projects are performing.* This is needed to monitor the large number of projects in the PNDL portfolio and know, at all times, which stage they are at, how much money they are absorbing, and whether they are on track or face delays. The same database would also capture the multiannual requirements of each project in the portfolio, making sure that the total costs are properly reflected in the available budgetary envelope.

- *The MRDPA should strengthen overall monitoring and evaluation (M&E) mechanisms to make necessary corrections in the financing and implementation of the program promptly.* The PNDL should have performance indicators for the entire program (e.g., number of projects, total beneficiaries, absorption rates, etc.) and for each sector (length of rehabilitated roads, number of additional people with access to water and sanitation, etc.). This would enable measuring actual results, in line with the principles of performance-based budgeting (the most advanced form of multiannual budgeting, virtually nonexistent in Romania). The MRDPA should also rely on third parties for unbiased evaluations of the PNDL's efficiency and effectiveness, both during and post implementation.

[12] *See* the report on "Improved Prioritization Criteria for PNDL Projects" (submitted by the World Bank team as part of the same technical assistance for the MRDPA – Component 2) for an in-depth discussion of sector-by-sector allocation under the PNDL

## Territorial Contracts

24. **Based on the experience of other countries, territorial contracts (TCs) between national and sub-national entities hold the potential to become a very powerful tool for the coordination of investments in Romania**. At the same time, it is important to recognize that adoption of TCs would be much harder than adoption of multiyear budgeting, for which a starting point (albeit insufficient) does exist. TCs involve stakeholders from public, private, and nonprofit sectors, usually at a regional level. They include a vision for that particular territory, with goals, activities (projects), and performance indicators (for output, outcome, and impact). They can be *transactional*, shaping financial allocations through a series of positive incentives and/or sanctions; or *relational*, trust-based. Most importantly, territorial contracts have the potential to account for both state-budget and EU funds, setting priority projects and "dividing them up" between financing sources of various kinds.

25. **In the Romanian context, territorial contracts would help mitigate the high volatility of strategic investment priorities.** First, territorial contracts would offer an opportunity to bring stakeholders together – across party lines and across sectors (public, private, and nonprofit) – and establish a list of priority projects for an entire programming period. Second, they would be perceived as stronger accountability mechanisms compared to existing documents (e.g., development strategies). They could have specific sanctions for potential breaches, penalizing those parties that decide to deviate unilaterally from set priorities. Third, territorial contracts would follow a clear format, requiring subnational and national authorities to think through a list of priority projects, but also decide early on regarding funding sources and parties accountable for implementation. This framework would help define, from the start, who is responsible for what. Fourth, by setting a more stable list of priorities, territorial contracts would reduce the risk of "drip funding" and starting more projects than financially sustainable. Finally, this tool would enable authorities across administrative levels to nurture a culture based on partnership and collaboration, which is very valuable in a context where ever-more-complex projects require public actors to be increasingly creative and collaborative – not just across administrative levels, but also across sectors.

26. **In addition to strong political commitment, several key principles should be followed for an effective deployment of TCs in the current Romanian context and, in fact, several of these recommendations hold regardless of whether TCs ultimately materialize**. The first is to integrate – not duplicate – existing planning documents at all relevant administrative levels (development strategies, spatial plans, programming documents for EU and state-budget funds, national sectoral strategies, etc.). Ideally, Romania should also should have a specific legislation regulating TCs, either as a new law on (regional) development (per the Polish model of the 2006 Act the principles of development policy) or as an amendment to the Law on Public Administration as to allow signing and enforcing agreements between national and sub-national authorities. Moreover, if one party breaches the TCs, there need to be clear sanctions, while on the positive side projects included in a TC could be rewarded with bonus points during evaluation processes (whether under EU or state-budget-funded programs) or, in the aggregate, regions that manage to maintain the same TC priorities for an entire programming period may receive additional transfers from the national budget. To the full extent possible, the TCs should have the

same timeline as EU funds (i.e., seven plus two-three years) and state-budget funds should also be able to operate in a multiannual framework.

27. **The MRDPA, as the ministry in charge with public administration affairs in Romania, should take on the main role in the adoption of TCs and in creating the aforementioned conditions for their success.** Specific steps would include:

- *Create a technical task team responsible for evaluating in-depth the opportunity of adopting territorial contracts in Romania*. This internal team could also collaborate with outside experts from other Member States and IFIs.

- *Assemble a group of legal experts and explore requirements, needed changes, etc.* This is important to determine what can be done under the current legal framework and what changes are needed, if any. It would be particularly critical to establish the type of sanctions and positive rewards that could be tied to the adoption of territorial contracts.

- *Launch a consultation process with subnational governments to test the idea and decide on the optimal structure*. This could be done through a series of events in each region, enlisting the help of Regional Development Agencies. Of particular important would be to decide who the parties to the agreement could be: for example, the MRDPA and county councils, or the MRDPA and Regional Development Councils (i.e., the body that includes county and local authorities in a particular region), etc.

- *Prepare a full action plan and timeline for implementation*. This will depend on generating sufficient momentum and buy-in from all stakeholders involved.

- *Launch pilot territorial contracts in a number of jurisdictions.*

- *Monitor and evaluate pilot results and adapt, launch, and implement the model for the national scale.* External experts should be involved to assess the results of TCs, covering a series of critical areas: legal; technical; policy design; and monitoring and evaluation (M&E).

## Next Steps

28. **As noted in the introductory chapter below, this final report is submitted along with Investment Guides for county roads, water and wastewater, and local-level infrastructure (communal roads and social infrastructure)**. These additional outputs include: an introductory section; sectoral overviews (investment needs and coordination principles); a set of proposed criteria; and a visual prioritization of potential investments based on those criteria. Because these guides are meant to be standalone, ready-to-use, and practical prioritization tools, the first three parts (introduction, sector overview, and proposed criteria) match various sections of the current report. The final part, however, is entirely new: an atlas of prioritized investments at the level of each county/region. This is meant to provide a quick reference guide for both subnational authorities (potential beneficiaries) that are seeking to apply for EU and/or state-budget funding, and for national

Managing Authorities of different investment programs that make financing decisions. Put differently, the guides answer in a dual top-down/bottom-up approach the key question of where limited resources should go, in a coordinated manner, to maximize impact.

29. **In the following months, the findings of both the current final report and of the Investment Guides will be disseminated at the local and regional level through a series of workshops.** In line with the provisions of the Advisory Agreement between the World Bank and the MRDPA, these activities will be organized in the fall of 2015 and will cover all eight regions in Romania. Targeted audience members will include: staff of the PNDL and of various operational programs; local/county authorities, as potential and actual beneficiaries of EU and state-budget financing for infrastructure projects; staff of Regional Development Agencies (RDAs); experts from civil society and the academia; private-sector representatives; and other stakeholders. At one level, it is hoped that participants to these workshops will make informed decisions in the 2014-2020 programming period, choosing to submit impactful projects for financing and coordinating their efforts better. Equally important, their direct feedback can help refine current findings and recommendations.

30. **With respect to the timing of this report, it is critical to note that some key aspects of EU-funded programs for 2014-2020 are still work in progress as of July 2015.** While programming documents have been validated, by and large, by the European Commission, various line ministries in charge of the future operational programs still need to approve final versions of Applicant Guides. These guides go into the specifics of different financing axes, defining eligibility and financing criteria. As such, the current final report and the investment guides submitted together with this output may require some adjustment upon the publishing of final versions for the Applicant Guides. To the extent possible given time and resource constraints, the Bank team may make the necessary changes over the coming months to reflect the latest information available.

31. **Finally, in parallel with the aforementioned knowledge dissemination activities, the Bank team looks forward to working with MRDPA counterparts in advancing the recommendations made in this report.** These include adopting a new set of financing criteria for the PNDL specifically, as proposed here, as the result of extensive consultations with the MRDPA and other key stakeholders (local/county authorities, Regional Development Agencies, other ministries, etc.). To enhance transparency and encourage a wider debate on the methodology presented in this report, the MRDPA should consider publishing the recommendations and the results of applying the criteria to the current PNDL portfolio and beyond, at the level of each county. The aforementioned Investment Guides would provide an accessible and easy-to-use platform for debating which projects could be prioritized and which sources of funding could be leveraged by local/county authorities. It is critical to note that the MRDPA should take ultimate ownership over proposed evaluation and selection criteria, as well as over other potential reforms like multiannual budgeting and territorial contracts. The Bank team stands ready to provide further guidance on all these aspects, noting that their adoption and implementation depends on the MRDPA and on other key stakeholders that the ministry should engage directly.

# Introduction

32. **The World Bank has agreed to support the Government of Romania (GoR) with the harmonization of public investments financed by the European Union and the state budget, with the wider aim of promoting the country's sustainable and inclusive growth.** This work is a follow-up to the World Bank's Regional Development Program in Romania (November 2012-March 2014), which provided recommendations primarily targeted at EU-funded instruments. In turn, the current engagement seeks to encourage effective coordination among all types of funding sources for a variety of local infrastructure investments. Overall, stronger development impact will result from reducing inefficiencies and leveraging synergies across projects. The current technical assistance with the Ministry of Regional Development and Public Administration (MRDPA) includes four components, as follows:

- ***Component 1*** *– Assistance with the coordination of strategies and plans for EU and state-funded investments in infrastructure;*
- **Component 2** – Advisory services related to the existing portfolio of investment projects in MRDPA, including their optimal prioritization and preparation of potential EU-funded investments for the 2014-2020 programming period;
- **Component 3** – Assistance with improving the use of efficient designs and technologies in investments overseen by the MRDPA;
- **Component 4** – Assistance with the design of a Housing and Infrastructure Development Strategy.

33. **This Final Report corresponds to the first component mentioned above – i.e., support for the correlation and coordination of strategies and plans for EU and state-funded infrastructure investments**. This component in turn includes two sub-activities:

a. Analysis of infrastructure investment strategies, including ways to improve their coordination and correlation;

*b. Harmonized selection criteria for enhanced coordination between EU and State-funded projects.*

The current work covers the latter sub-component (in *italics*), making a set of specific proposals for selection criteria that facilitate the proper coordination of projects financed by the state budget and, respectively, by EU structural funds. The focus of this work is on the National Local Development Program (PNDL), the main state-budget-funded investment program for local infrastructure development, though findings and recommendations may be extrapolated to other state-budget-funded instruments (e.g., the Environment Fund). In particular, this assessment covers the following types of public investments: county roads; communal roads; water infrastructure; wastewater infrastructure; and social infrastructure (in the education, health, culture, and sports sectors).

34. **There are strong linkages between this final report and the Bank's broader ongoing technical assistance for "Harmonizing State and EU-Funded Projects in Romania's Regions."** In parallel, the Bank team has submitted intermediary and final reports on

"Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure" (also under Component 1). The outputs under this component cover a set of key common aspects, in accordance with the Advisory Services Agreement between the Bank and the MRDPA, also reflected in the current report:

- State-funded interventions carried out under the supervision of the Directorate General for Regional Development and Infrastructure (DG RDI) under the MRDPA, primarily through the National Local Development Program (PNDL) since 2012 and other programs (before 2012);
- State-budget-funded interventions carried out by other ministries (e.g., the Environment Fund under the Ministry of Environment and Climate Change); and
- EU-funded instruments supporting infrastructure investments in relevant sectors, most notably the Regional Operational Programme (ROP) 2007-2013 and 2014-2020, the National Rural Development Programme (PNDR) 2007-2013 and 2014-2020, the Sectoral Operational Programme Environment (SOP Environment) 2007-2013, and the Large Infrastructure Operational Programme (LI OP) 2014-2020.

Beyond these commonalities, the current report focuses only on selection criteria as *one* tool to ensure coordination, while the other output reviews a much broader set of instruments that serve a similar purpose.

35. **This work is also correlated with findings and recommendations from other components of the current engagement with the MRDPA.** In particular, the final report on "Improved Prioritization Criteria for the PNDL" (under Component 2), submitted in December 2014, provides a list of proposed criteria for the enhanced selection of state-budget-funded investments in county and local roads, water and wastewater, and social infrastructure. This report proposes some updates to those criteria based on two considerations: (i) recent data have become available in the meantime (e.g., emerging priorities for EU operational programmes for 2014-2020); and (ii) financing criteria can facilitate enhanced coordination – an aim specific to the current report (and to Component 1). In addition, this final report covers two additional topics that would help enable coordination in the Romanian context: multiannual budgeting and territorial contracts. The MRDPA, as the primary audience of this technical assistance, has expressed interest in both instruments and their potential adaptation to the Romanian context generally and to PNDL specifically.

36. **In short, this report is about practical ways for enhancing coordination across investment programs – particularly across the PNDL and corresponding EU-funded instruments – through improved criteria for optimal prioritization and selection.** The current analysis goes a significant step beyond simply formulating criteria that could theoretically be applied to PNDL projects; indeed, it applies the set of proposed criteria to the potential investments in county and local roads, water and wastewater systems, and social infrastructure. The results are presented in the following chapters and in a set of atlases, with a series of maps that are meant to assist local, county, and national stakeholders in prioritizing public infrastructure investments at the county level. The atlases are submitted separately to the MRDPA, in electronic form only. It is hoped that these can serve as useful tools for both managing authorities and beneficiaries of EU and state-

budget-funded programs as they define investment priorities for the 2014-2020 programming period.

## Context

37. **The context for this report is the same as for the Bank's overall technical assistance to the MRDPA: essentially, Romania faces a critical need to enhance coordination of investment projects in order to "do more with less."** The country today displays a complex picture of great hopes and remarkable development potential, in the context of persistent challenges in many vital sectors. It is beyond any doubt Romania still has a long way to go in terms of providing its citizens – *all* citizens, including the poor and the marginalized – the infrastructure and public services they need to share and add to the benefits of development. Examples of gaps abound and are hard to miss (e.g., deficient transport infrastructure, lack of access to water and sanitation in certain rural areas, governance challenges, etc.), particularly in comparison to the situation in other EU Member States. But it is also true that Romania has taken important steps toward sustainable and inclusive growth in recent years. Positive results, particularly in large urban centers – with Bucharest surpassing cities like Madrid, Lisbon, and Athens in terms of GDP per capita (PPP)[13] – demonstrate Romania's growth potential. If citizens become truly enabled to pursue opportunities and maximize their productivity, there are strong prospects for the country's sustainable and inclusive development.

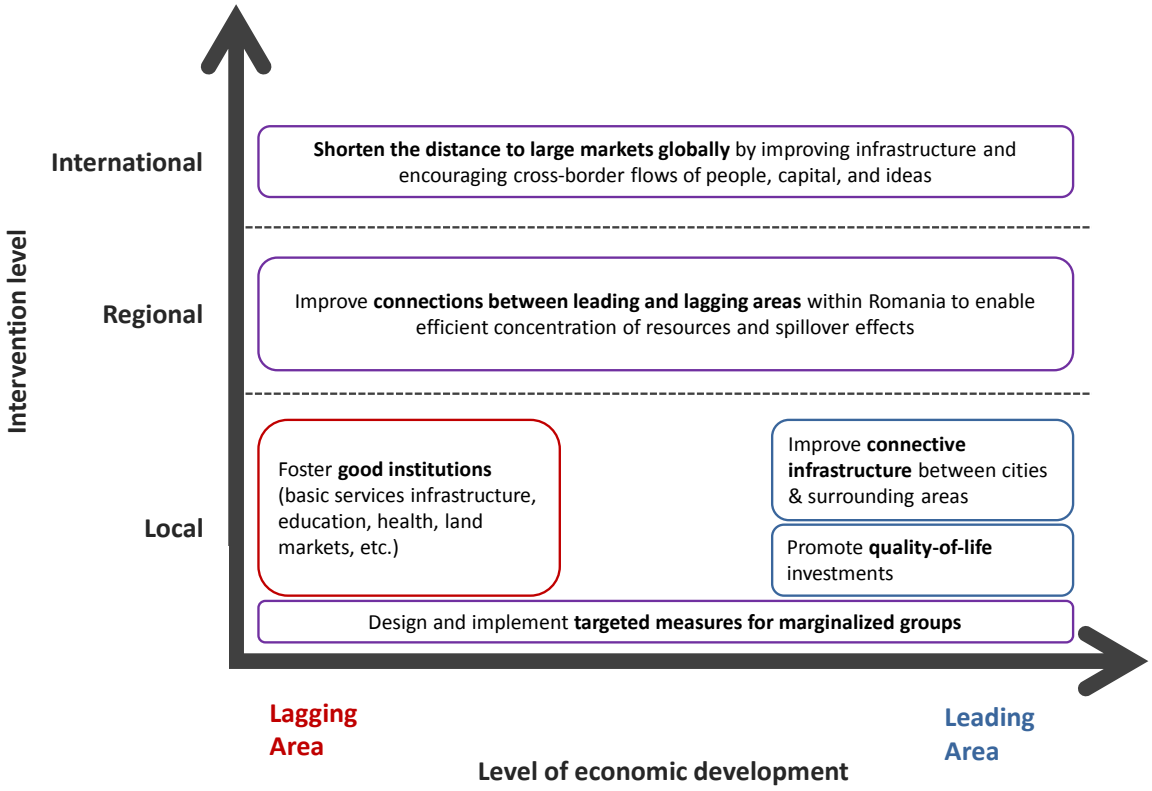
38. **The World Bank's 2013 "Competitive Cities" report argues that the key to unlocking Romania's growth potential involves interventions customized to the needs of leading and lagging areas.** The first priority is to invest in improved connectivity and accessibility (both within leading areas and between leading and lagging regions), enabling people to take advantage of opportunities in Romania and abroad. Second, particularly in lagging areas, the government should invest in functioning institutions that ensure basic living standards for communities – essentially, the same start in life for all citizens (including running water, sewage, electricity, good schooling, effective land and housing markets, healthcare, etc.). Finally, marginalized communities require targeted efforts to address the specific obstacles they face (e.g., discrimination, exclusion, etc.). The chart below is a snapshot of recommended types of interventions for leading and lagging areas.

39. **The basic condition for addressing Romania's development needs – required, though not sufficient – is access to financial resources for critical investments.** In particular, infrastructure projects like roads and water and sewage networks are typically very costly and complex, putting a significant strain on local, county, and national budgets. Because of strict targets with respect to annual budget deficits, Romania does not have much leeway to expand significantly infrastructure development programs from its own budget sources. In this context, non-reimbursable funds from the European Union (EU), amounting to around EUR 40 billion for the 2014-2020 programming period, are an essential source of investment money. But past experience suggest that Romania faces significant constraints that have limited its capacity to absorb such funds, for a variety of

[13] Based on 2014 Eurostat data

reasons: incomplete alignment with EU legislation and best practices, particularly in the area of public procurement; lack of resources for co-financing and running costs of EU-funded projects; local public authorities' weak capacity to prepare, implement, monitor, and evaluate complex interventions; heavy bureaucracy and excessive audits, etc.[14] As of January 31, 2015, Romania's absorption rate – despite significant progress made in 2013 and 2014 – remained the lowest in the EU at 51.87%.

**Figure 1. Investment priorities differ across leading and lagging areas in Romania**




*Source: Competitive Cities (World Bank, 2013)*

40. **The need for infrastructure investments in Romania is considerable and the corresponding costs far exceed what EU funds alone can cover, even if the government was successful at driving the absorption close to 100%.** For example, by 2018, around EUR 20 billion need to be invested in the water and wastewater infrastructure to increase the share of Romanians with access to such infrastructure to at least 70% (from 52% in 2004), in line with Romania's commitments made through the EU Accession Agreement upon joining in 2007. However, only around EUR 3.3 billion have been allocated for such investments under SOP Environment 2007-2013.

[14] For a more complete review of challenges faced by beneficiaries of EU funds, *see* "ROP 2.0: MA-IB Collaboration and Communication and Beneficiary Support for the Regional Operational Programme, 2014-2020," World Bank, 2013

41. **While the causes for current challenges may be complex, the overall message is simple: Romania faces significant development needs but has limited financial resources, making *value for money* a principle of paramount importance for its public investments.** The government should pursue an agenda focused on maximizing impact for the given funding available for investment programs, from the EU and/or from the state budget. In this endeavor, it is critical to ensure that investment funding is allocated based on clear, fair, and effective selection criteria and goes toward interventions that are designed and implemented in a coordinated fashion. If such principles and procedures are largely upheld in the disbursement of EU funds, including through the Regional Operational Programme (ROP),[15] state-budget-funded interventions have shown weaknesses in the past.

42. **This is where the issue of coordination of public investments comes into play – and, hence, the coordination of criteria for selecting projects becomes a key ingredient to maximizing the development impact of every leu, euro, or dollar spent on infrastructure.** The current lack of coordination means that EU and state-budget-funded investment programs overlap and often "compete" for the same pool of beneficiaries. This issue is not new to the current Romanian context. The 2011 World Bank Functional Review of Romania's regional development sector recommended that programs funded 100% from the state budget "[should] avoid duplication with EU-supported [interventions]."[16] The example below is included as a cautionary tale of what can happen when investment programs and their criteria are not properly coordinated.

**Box 1. The PNDI showed clear gaps in coordination with EU funds**

The now-defunct *National Program for Infrastructure Development (PNDI)*, a EUR 4 billion program supported by the GOR, could have effectively crowded out EU-funded structural instruments like the ROP, OP Environment, and the National Rural Development Programme (PNDR). First, the PNDI targeted similar types of infrastructure investments (e.g., county roads, water and sewage networks, etc.). Second, it lacked rigorous and transparent selection processes, and staff in the then Ministry of Regional Development and Tourism (MRDT) became quickly overwhelmed with funding requests and technical documentations (e.g., prefeasibility and feasibility studies, detailed technical designs, etc.) submitted by public beneficiaries from across the country. There was no system for the independent assessment of projects (unlike the requirement to have external evaluators of EU-funded projects) and a programming document defining financing criteria was completely lacking (unlike the extensive programming documents corresponding to EU-funds, which are prepared by different OPs and approved by the European Commission). In the absence of clear selection criteria and prioritization measures, the state-budget-funded PNDI project portfolio expanded quickly. The change in government of July 2012 brought the PNDI to a complete halt, in recognition of the multiple issues that were plaguing the program.

43. **Several insights are worth highlighting at this point.** First, Romania has to address the gap between supply/funding and demand/need of public investments quickly and

[15] *See* World Bank's 2014 report on "ROP Project Selection Models"
[16] "Functional Review of Regional Development and Tourism," World Bank, 2011, p. xvi

effectively. Second, this requires increased coordination of public infrastructure investments. Third, the criteria that shape the prioritization and selection of projects to be financed play a critical role in enhancing/hindering coordination efforts. It follows that decision-makers should carefully design, implement, and review the criteria applicable to programs that support investments in infrastructure. This report seeks to help in that effort, primarily through actions that the MRDPA can lead directly, but also with a series of recommendations targeting other stakeholders. The chart below summarizes the potential role of key actors involved.

**Figure 2. Key players responsible for the coordination of public investments in Romania**

| Level | Key Player* | Description / role as related to the coordination of public investments in Romania |
|---|---|---|
| National | Center of Government (Prime Minister's Chancellery) | • Has the full perspective on government activity<br>• Has the potential legitimacy to coordinate across ministries and across administrative levels<br>• Has the potential to evaluate the performance of investment programs (state-funded ones in particular) and decide on whether to adjust/expand/cancel them |
| | Minister of Regional Development and Public Administration | • Manages and implements the PNDL and the ROP<br>• Leads public administration reform efforts in Romania (including for a potential new framework on territorial contracts)<br>• Maintains a key role in liaising with local/county authorities |
| | Ministry of Public Finance | • Plays the leading role in all budgeting processes, including in proposed reforms toward multiyear and performance budgeting<br>• Oversees the portfolio of large investment projects of a national scale (based on GEO 88/2013)<br>• Ensures that budgets allocated are timely disbursed by line ministries |
| | Ministry of European Funds | • Manages the Large Infrastructure Operational Programme<br>• Is responsible with the coordination of EU-funded investments<br>• Leads a working group on the coordination of all investments (both EU and state-funded), based on the Romania-EU Partnership Agreement |
| | Audit Bodies Court of Accounts / Audit Authority | • Verifies public expenditures at all levels<br>• Conducts auditing of all EU operational programs, verifies expenditures, etc. (Audit Authority reports to the EU on how EU-funded programs are implemented) |
| Regional | Regional Development Council | • Regional, partnership-based structure meant to coordinate regional development policies as well as oversee and support RDAs<br>• Includes County Presidents and representatives of different rank cities |
| | Regional Development Agencies | • 8 non-profit, public utility bodies as executive arms of RDCs<br>• Act as intermediary bodies under the ROP and coordinate the Regional Development Plans |
| County/Local | County/Local Councils | • Design, implement, and coordinate investment projects at the county/local level<br>• Can engage in partnerships with each other for specific financing or for providing joint services |

*Note: This list is not comprehensive. There are a range of other players that affect the coordination of investments (e.g., utility providers, inter-community associations, etc.

## Objective, Scope, and Methodology

44. **The main objective of the Bank's overall engagement with the MRDPA is to support the strategic coordination of infrastructure strategies and investment projects financed by the EU and by the state budget in regions, counties, and municipalities.** This hopes to contribute to ensuring a coherent, integrated, and impactful approach to public investment management, and to increasing the efficiency and effectiveness of spending EU and state-budget funds for the 2014-2020 programming period. Optimal prioritization of investments is critical in this endeavor.

45. **The current report aims to facilitate the adoption of prioritization and selection criteria that enhance coordination at the level of infrastructure programs and at the level of the projects they finance.** This is a fundamental precondition for ensuring harmonized infrastructure investments: in the absence of optimal criteria, as is typically the case with current state-budget-funded programs in Romania, investments may overlap, generating inefficiencies, or they may fail to exploit potential synergies. If the desired outcome is to "do more with less" and therefore accelerate inclusive and sustainable development, decision makers should give proper thought to the need for ensuring coordination and to choosing financing criteria that are harmonized across different sources of investment funding.

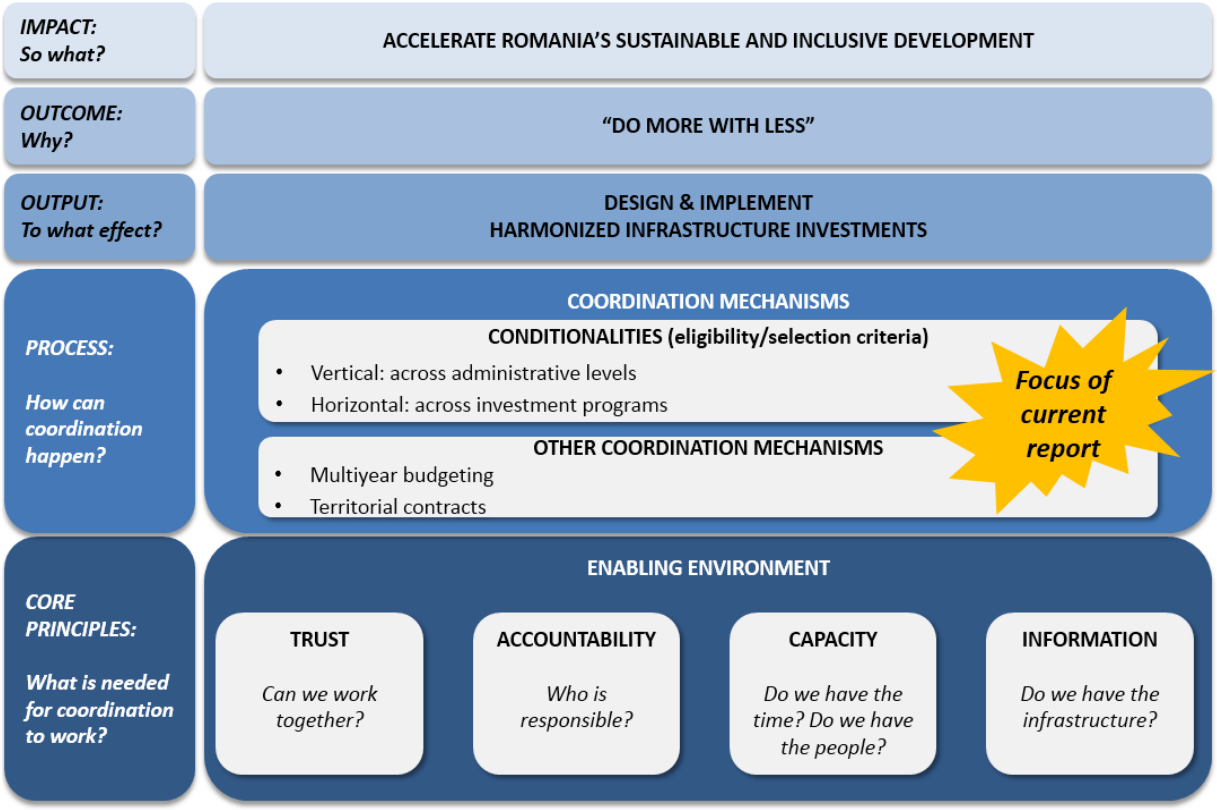
46. **In addition to enhancing coordination, harmonized criteria hold the promise of ensuring a more rigorous design and implementation of investment programs and greater "interoperability" across financing sources.** Especially in comparison to EU funds, a core issue that has plagued state-budget-funded instruments is the lack of clarity and rigor in selecting investments. The general perception is that such programs are like a "black box" that leaves potential applicants and other stakeholders wondering how particular projects receive funding to the detriment of others. By adopting a set of clear, coordinated criteria and a transparent methodology for applying them to a portfolio of new and ongoing proposed investments, state-budget-funded programs like the PNDL would boost their impact and credibility among interested applicants. While more projects would come through the pipeline, there would actually be *less* room to question decisions regarding funding allocations, as these would be grounded in a defined and more objective methodology. This is the intent of this report, along with contributing to the harmonization of procedures across EU and state-budget-funded programs, which can also contribute to maximizing absorption of EU funds. If investments follow the same rules, a pipeline of projects can be created with state budget funding and then transferred to EU-funded programs, as needed/as feasible.

47. **A related goal for the current report is to determine appropriate sources of funding for various project proposals, with the hope of turning projects in the MRDPA's pipeline into EU-funded investments for 2014-2020.** Currently, PNDL management and staff, county councils, and local authorities applying for funding do not have clear, institutionalized mechanisms for determining whether a certain proposed investment should apply for EU or state-budget funding. Criteria for the PNDL should take into account first whether proposed projects could receive funding from an EU-funded program for the 2014-2020 programming period. As argued above, this would both help improve absorption rates of non-reimbursable funds (as of May 31, 2015, Romania is still the poorest performer in this respect for the 2007-2013 programming period) and allow limited state-budget resources to go to areas and projects where they are truly needed.

48. **In addition, this final report includes two "bonus" chapters on coordination mechanisms that were considered worthy of further exploration: multiannual budgeting and territorial contracts.** The former would allow a program like the PNDL to function on a multiyear framework, much like EU-funded programs, which would enhance predictability and enable the government to finish projects in a reasonable time horizon. Territorial contracts between sub-national and national authorities are currently used in other EU

member states to ensure a more stable implementation framework for investment programs, across all types of financing sources (EU and state budget). This would also help define a more stable list of strategic projects – and set aside corresponding funding. The goal would be to make sure that investments are properly selected and, once started, timely completed, regardless of potential political changes (in the past, such shifts have led to different priorities and new projects started to the detriment of ongoing investments).

**Figure 3. This report focuses on a number of critical coordination mechanisms**




49. **The main scope of the current assessment focuses on defining improved criteria for harmonized infrastructure projects.** As explained in the next chapter of this report, coordination is a multifaceted concept. It may be applied to several dimensions: *sector* (e.g., within a sector or between sectors); *administrative level* (e.g., between local, regional, and national levels); *phase of a program* (e.g., strategy/plan, investment program, and/or individual project); *phase* of an investment (planning, implementation, and post-implementation); and *type* (policy, financial, technical, legal, etc.). The final report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," submitted in April 2015, discusses all these various dimensions in depth. The current analysis, however, has a more narrow focus – namely on financing criteria, which in the specialized literature fit under the category of "conditionalities" in the typology of coordination mechanisms, as they impose certain requirements for how funds can be accessed by eligible interested applicants (e.g., local public authorities).

50. **This report presents a systematic way of prioritizing and selecting potential investments in county and communal roads, water, wastewater, and social infrastructure.** These are the key sectors targeted by the National Local Development Program (PNDL), the most important state-budget-funded instrument for supporting local infrastructure investments. A defined set of investments is covered under each of the three aforementioned sectors, in line with what the PNDL finances. For example, the program funds mainly water supply and wastewater management projects, with a range of other investments (e.g., flood management, environmental protection, recreational uses/ tourism, etc.) targeted by other instruments like the Environment Fund. Similarly, social infrastructure may include a wide array of options, but in the context of the PNDL it covers mainly schools, health centers, sport centers, and cultural buildings.

51. **While this report focuses primarily on the PNDL specifically, as requested by the main client of the work, the set of proposed criteria and the corresponding methodology may be applied beyond the PNDL.** For instance, state-budget-funded programs (e.g., the Environment Fund, the programs for upgrading school infrastructure, etc.) could follow the same recommendations. The criteria and procedures of EU structural funds for 2014-2020 inform this analysis, to the extent that such data are available at the time of this report's submission. Because Applicant Guides for EU-funded programs are still work in progress, some of the findings may need to be adjusted once the 2014-2020 framework is fully defined. Nonetheless, it is hoped that this analysis supports Managing Authorities, Intermediate Bodies, and other stakeholders currently involved in finalizing the criteria applicable to EU-funded instruments.[17]

52. **Several related reports under the same Bank technical assistance for the MRDPA inform and correlate with this study, as follows**:

- *Component 1 – Assistance with the coordination of strategies and plans for EU and state-funded investments in infrastructure;*
    - The Final Report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," submitted in April 2015, addresses the issue of coordination from multiple perspectives, as noted above. It focuses on coordinating strategies and investment programs, at all levels (supranational, national, and subnational). It also covers the four dimensions it defines for an "enabling environment" for coordination: trust, accountability, capacity, and information flows.[18]
- *Component 2 – Advisory services related to the existing portfolio of investment projects in MRDPA, including their optimal prioritization and preparation of potential EU-funded investments for the 2014-2020 programming period;*
    - The final report on "Prioritization Criteria for Improved PNDL Projects," submitted in December 2014, reviewed the full PNDL selection model, and

[17] As of early March 2015, programmatic documents for 2014-2020 EU funds in Romania are only in draft form, while applicant guides, which would include detailed eligibility and selection criteria and procedures, are not available yet – not even in draft form.
[18] *See* the next chapter for a more detailed discussion of these four factors

proposed improvements. The report also put forth a set of criteria for the prioritization and selection of investments in the key sectors targeted by the PNDL. These are the starting point for the current final report.

- *Component 3 – Assistance with improving the use of efficient designs and technologies in investments overseen by the MRDPA;*
    - This final report, submitted in June 2015, suggests improved technologies that may also help with the coordination of projects during the implementation phase. The choice of superior technologies (e.g., with lower operations and maintenance costs upon project completion) can be encouraged/rewarded through specific criteria.

53. **This report draws on observations and recommendations from extensive desk research and over 100 field interviews conducted from June 2014 through May 2015.** The main sources of data and the key documents reviewed include the following:

- *2013-2016 Governing Program*, which defines the current cabinet's priorities across and within key development sectors in Romania.
- *Legal framework for the PNDL's implementation*, including the text of the ordinance establishing the program, implementation norms, eligibility and selection criteria, and application templates. Other legislative provisions related to the implementation of EU and state-funded investment programs have been considered.
- *Programmatic documents and applicant guides corresponding to EU-funded instruments for 2007-2013* (e.g., the Regional Operational Programme - ROP, the Environment Sectoral Operational Programme, the National Rural Development Programme etc.) and for 2014-2020 (only in draft form as of mid-March 2015).
- *Regional Master Plans for Water and Wastewater* for 2007-2013 and 2014-2020 (only in draft form as of mid-March 2015), with a particular focus on proposed selection and prioritization criteria.
- *Regional Development Plans prepared for 2007-2013 (in final form) and for 2014-2020 (in draft form)*, for each of Romania's eight development regions.
- *Interviews with key stakeholders at the local, regional, and national level.*
- *Database of projects financed under the 2014 PNDL*.
- *Database of EU-funded infrastructure programs managed by the MRDPA,* i.e., the ROP 2007-2013.
- *Database of public infrastructure projects managed by other Ministries*, including the Ministry of Environment through OP Environment 2007-2013 and the Ministry of Agriculture and Rural Development (MARD) through the National Rural Development Program (PNDR). This was provided in draft form by the MRDPA.
- *Data provided by the National Institute of Statistics.*
- *Data provided by a variety of national and sub-national stakeholders* (e.g., Regional Development Agencies, County Councils, Local Councils, etc.).

54. **In addition, this report's findings and recommendations correlate with other ongoing and completed technical assistance work, as follows:**

- The 2011 *Functional Review of the Ministry of Regional Development and Tourism* (now the MRDPA), which called early on for enhanced harmonization across state-budget and EU-funded investment programs.
- *Competitive Cities: Reshaping the Economic Geography of Romania* (World Bank, 2013), delivered as part of the World Bank Romania Regional Development Program, which lays out a vision for the country's sustainable and inclusive growth, including key policy priorities for leading and lagging areas.
- *ROP 2.0: MA-IB Collaboration and Communication and Beneficiary Support Mechanisms for the Regional Operational Programme, 2014-2020* (World Bank, 2014) includes two reports that discuss the regional framework for planning and implementing public infrastructure investments, particularly through the Regional Operational Programme (ROP). The reports include an assessment of Regional Development Agencies (RDAs) and offer recommendations for support mechanisms to local and county-level applicants and beneficiaries of EU funds, including assistance for improved coordination of investments.
- *Enhanced Spatial Planning* (World Bank, 2013) evaluates the spatial planning framework in Romania and recommends solutions for enhancing coordination among lower and higher-level plans.
- *Strategic IDPs Assessment* (World Bank, 2013) is an in-depth review of 2007-2013 Integrated Development Plans (IDPs) in growth poles around Romania. IDPs are key tools for facilitating integrated planning at the level of localities. The study summarizes current gaps and proposes measures for improving the quality of such documents, and also assesses the role of Growth Pole Coordinators.
- *Harmonizing Strategic Planning and Budgetary Programming in Romania* (2015) reviews the national framework for developing, approving, and implementing strategies. The study is related to the potential establishment of a Strategy Unit (SU) at the Center of Government in Romania, a key proposal for ensuring coordination among strategies.
- *World Bank reports on CLLD and ITI Danube Delta* make a number of recommendations for facilitating integrated planning and project implementation through these two new instruments promoted by the EU for 2014-2020.
- The 2013 World Bank report on *Improving the National Framework for Preparing and Implementing Public Investment Projects*, prepared for the Ministry of European Funds.
- A 2015 internal World Bank report on *Romania's Decentralization and Local Governments*, which explores solutions for incentivizing the local level to mobilize and commit resources effectively, including through the mobilization of greater local resources (e.g., one candidate for increasing the share of local revenues is the property tax).
- Last but not least, the series of reports delivered in 2015 under the advisory services for *Strengthening Public Investment Management*.

## Audiences

55. **The primary audience of the current report is the staff of the Directorate General for Regional Development and Infrastructure (DG RDI) within the Ministry of Regional Development and Public Administration, which manages the PNDL.** The report puts forth a proposal for how PNDL investments could be better coordinated with investments made through other national programs, particularly EU-funded programs, through improved financing criteria.

56. **Other stakeholders who may benefit from this assessment include:**

- At the *national* level:
  - Ministries and agencies in charge of planning and implementing state-budget-funded investment programs (e.g., the Ministry of Environment for the Environment Fund);
  - Managing Authorities and Intermediate Bodies of EU-funded operational programmes for 2014-2020, particularly for infrastructure projects (the MRDPA, which manages the Regional Operational Programme, the Ministry of European Funds, which manages the Large Infrastructure Programme, and the Ministry of Agriculture and Rural Development, which manages the National Rural Development Programme).

- At the *regional* level: Regional Development Agencies (RDAs), which are in charge of regional-level planning and coordination (through the Regional Development Plans developed for each programming period) and also serve as IBs for the Regional Operational Programme (ROP) 2014-2020;

- At the *county and local* level: local communities and, more specifically, public authorities (Local Councils, County Councils, Intercommunity Development Associations), which prepare projects and submit applications to various EU and state-funded programs (including technical staff responsible for working with technical designers and other consultants).

- Finally, for its part, the *European Commission (EC)* may benefit from this study's findings and replicate recommendations in other Member States. Certainly, the issue of effective coordination and harmonization of criteria across EU and state-funded programs is relevant beyond the Romanian context.

## Report Structure

57. **Following this introduction, this final report is structured into eight distinct chapters.** The first chapter makes the case for enhanced coordination of public infrastructure investments in Romania. Chapter 2 looks at current financing criteria corresponding to the various programs that support public infrastructure projects at the local/county/regional level. Chapter 3 discusses key preconditions to a solid foundation for coordinating public investments. Chapters 4, 5, and 6 focus squarely on financing criteria and ways to harmonize them better in the roads, water, wastewater, and social infrastructure sectors. Chapter 7 assesses the PNDL 2015 based on the latest available data from the MRDPA, taking into account the MRDPA's decisions on funding allocation and project prioritization compared to recommendations previously made by the Bank team. Finally, chapters 8 and 9 focus on two instruments that could prove particularly useful to the MRDPA in the effort to improve the functioning of the PNDL: multiannual budgeting and territorial contracts.

58. **The detailed report structure is as follows:**

- *Chapter 1: The Case for Coordinating Public Infrastructure Investments*
    - The starting point is an economic argument for financing infrastructure investment programs based on the results of an Input-Output analysis – specifically applied to the PNDL as part of this report.
    - This chapter also reviews the main concepts of the current assessment: coordination, prioritization, and selection of infrastructure investments.
    - It summarizes the different types of coordination and discusses two approaches to the harmonization of financing criteria: equivalence and complementarity.
    - The same chapter presents the overall categories to be considered for the development of enhanced financing criteria (e.g., project relevance, applicant's capacity, etc.).

- *Chapter 2: Diagnostic of Current Financing Criteria as Coordination Tools*
    - This chapter provides a brief diagnostic of the status quo, evaluating current coordination efforts among and across EU operational programmes and state-budget-funded investment programs.
    - Findings cover the PNDL and include two good practice examples from the education sector in Romania.

- *Chapter 3: Building a Strong Foundation for Harmonized Criteria and Enhanced Coordination*
    - Before looking at criteria *per se*, this report discusses several preconditions for the effective coordination of infrastructure investments.
    - Even with fully coherent, harmonized financing criteria, investments may still show gaps in coordination unless they follow common rules and procedures in the design and implementation phases.

- The topics addressed include: a standard programming period; clear project implementation timeline; multiannual budget, etc.

- *Chapters 4, 5, and 6: Recommendations on Improved Financing Criteria for Enhanced Coordination of Public Investments*
  - These chapters assess investment needs, review coordination issues, and propose recommendations.
  - Each chapter is dedicated to one of the three main sectors: roads; water and wastewater; and social infrastructure.

- *Chapter 7: From Theory to Practice: The PNDL 2015*
  - This chapter evaluates several key features of the PNDL 2015, based on data made available by the MRDPA.
  - Topics covered include: budget allocation by counties; funding allocation by priorities; and prioritization at the project level. Actual outcomes are compared to the framework proposed in previous chapters.

- *Chapter 8: Spotlight on Multiyear Budgeting as a Tool for Coordinating Investments*
  - This chapter assesses the benefits of adopting a multiannual budgetary framework for the PNDL and more broadly in Romania's public sector.
  - It provides a diagnostic of the status quo regarding current budgeting practices at the central level and discusses challenges to moving toward multiyear budgeting.

- *Chapter 9: Spotlight on Territorial Contracts as a Tool for Coordinating Investments*
  - This chapter assesses the benefits of adopting a multiannual budgetary framework for the PNDL and more broadly in Romania's public sector.

# Chapter 1: The Case for Coordinating Public Infrastructure Investments

59. **This chapter defines this final report's theoretical framework, distinguishing between critical concepts like coordination, prioritization, and selection of public investments, including through a set of proposed criteria.** In principle, public investments include the full range of projects funded, in part or in full, by public funds (from the supranational and/or national and/or subnational level). In particular, this report only focuses on "hard" investments in physical infrastructure: roads (county and communal/local); water and wastewater systems (catchment, treatment, transport, etc.); and social infrastructure (schools, hospitals, cultural centers, sport venues, etc.).

60. **Before focusing on the topic at hand, the starting point is to ask: ultimately, why are investments in public infrastructure so important for Romania's development?** This question was answered in depth in the 2013 World Bank report on "Competitive Cities," which was mentioned earlier in the introductory chapter. Essentially, the key to sustainable and inclusive economic growth is enabling *all* people to reach their full productive potential. Public infrastructure investments ensure higher connectivity (in the case of roads) and higher living standards generally (e.g., water and sanitation services, proper schools, functional hospitals, etc.), but they can also have a significant economic impact. An analysis of the IMF has revealed that the absorption of EU funds allocated for the 2014-2020 programming period could help provide an additional boost to Romania's GDP of up to 5.3%. This only takes into consideration direct, indirect, and induced effects of completed investments, to which one may add the positive economic impact that is the result of unforeseeable economic decisions – e.g., the decision of a company to invest in Romania because of better highway connections, or higher overall productivity as a result of improved educational and health infrastructure. This added impact is practically impossible to quantify at this point.

61. **Beyond the premise that investing in public infrastructure is a positive thing, it is immediately apparent that there is a large infrastructure gap in Romania in the context of limited resources to cover massive current needs.** An early version of the 2015 General Transport Master Plan priced major transport infrastructure needs at around EUR 45 billion. Between 2014 and 2020, county roads and communal roads will require investments of roughly EUR 3.4 billion and EUR 4.7 billion, respectively. Regional Master Plans developed for 2007-2013 have estimated investment needs in water and wastewater infrastructure of around EUR 23 billion, of which around EUR 13 billion are required to meet Romania's required targets resulting from EU directives in the sector. Finally, the estimate for social infrastructure needs for 2014-2020 is roughly EUR 3.7 billion.

62. **Looking ahead to 2014-2020, allocations from the EU continue to fill only part of the financing gap, as shown in the table below.** To address all infrastructure needs related to county and communal roads, water and wastewater, and social infrastructure, Romania would need to contribute from other sources over EUR 30 billion through 2020 (in addition to available EU funds, assuming an absorption rate of 100% for 2014-2020). This is a huge burden for the national budget. The implication is that whatever funds are available should be channeled primarily to the highest impact investments, and projects should be developed in a harmonized

fashion. Both coordination and prioritization are critical in this endeavor, as argued throughout this report.

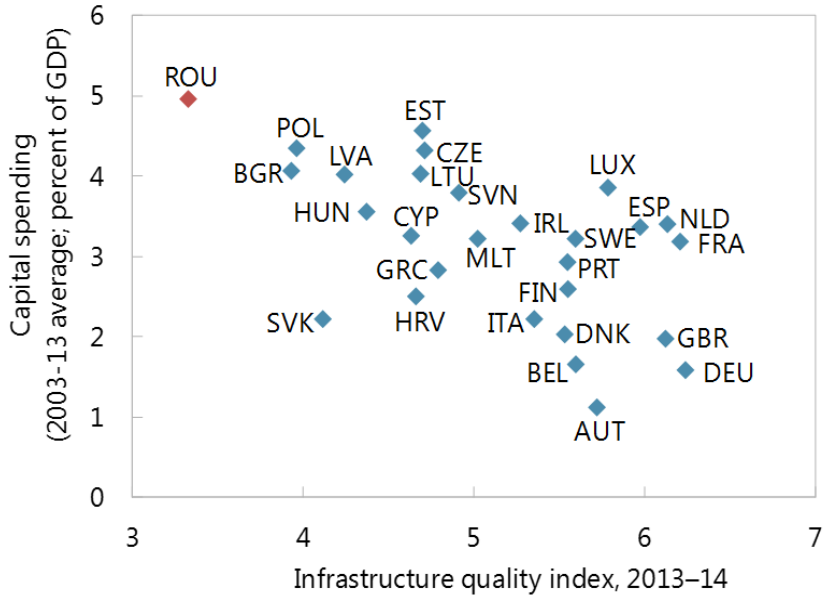
**Table 1. Investment needs vs. supply of EU funds (2014-2020)**

| Priority Sector | Investment Need* | Proposed EU allocations for 2014-2020** | Funding Gap |
|---|---|---|---|
| **County Roads** | € 3,412,193,664 | € 946,808,511 | € 2,465,385,153 |
| **Communal Roads** | € 4,728,319,110 | € 440,236,880 | € 4,288,082,230 |
| **Water & Wastewater** | € 23,804,837,000 | € 3,014,236,880 | € 20,790,600,120 |
| **Social Infrastructure** | € 3,705,110,000 | € 522,370,000 | € 3,182,740,000 |
| **TOTAL** | **€ 35,650,459,774** | **€ 4,923,652,271** | **€ 30,726,807,503** |

**Investment needs are calculated based on the World Bank methodology for each of the sectors. For details, see the final report on "Improving Prioritization Criteria for PNDL Projects," World Bank, 2015*
***Allocations proposed in the draft programmatic documents for the ROP, PNDR, and OP Large Infrastructure*

63. **While significant funds have been allocated for public infrastructure investments in recent years, Romania continues to have the worst quality infrastructure in the EU.** As the figure below highlights, between 2003 and 2013 Romania allocated to capital spending a higher share of its GDP than *any other country in the EU*. However, despite the proportionally large budgetary allocations for infrastructure investments, the country continues to lag behind its EU peers in terms of infrastructure quality. This means that limited resources have to be spent much more strategically to achieve desired targets in a reasonable timeframe. At the same time, this is not an argument for cutting investment funding; on the contrary, such data suggest that Romania will need to continue allocating significant resources for infrastructure investments to catch up to the other EU Member States.

**Figure 4. Efficiency of capital spending in EU-28 countries**




*Source: John Ralyea, Vahram Stepanyan, and Teng Teng Xu. 2015. "Benefits of Boosting Quality Public Infrastructure Spending in Romania." IMF presentation on January 27, 2015 at the National Bank of Romania.*

## Why Invest in Public Infrastructure? An Economic Case for the PNDL

64. **A key question posed in a recent World Bank report on the National Local Development Program (PNDL) is whether such an instrument should exist to begin with.**[19] The simple answer is "yes." Pragmatically, per the data presented above, EU funds are insufficient to cover existing infrastructure needs. More generally, a public investment should only be pursued if it is expected to generate positive economic impact, and policymakers should look for ways to maximize the good effects of public investments. In this vein, investments carried out through the PNDL should be sought where they can have the maximum impact.

65. **The baseline impact of PNDL investments can be estimated using a simple Input-Output analysis.** This tracks the direct, indirect, and induced effects of investments in a particular sector. For example, the direct effects of an investment in a new road include, among others, additional revenues generated by road construction companies. Indirect effects include benefits generated in related sectors, such as concrete or bitumen producing companies. Induced effects refer to additional goods and services that will be purchased by workers with the extra wages generated from their direct or indirect involvement in the road's construction.

66. **To properly assess the impact of PNDL investments, it is important to have a better understanding of the funds that will be channeled through the program.** Given that the PNDL is not a multiannual instrument, this is relatively hard to do. At the end of 2014, there were around 3,950 projects contracted under the PNDL, with a total estimated value of about RON 22 billion. However, as was discussed earlier, it will take more than 15 years to finish these projects with the financial allocation that the PNDL has received in previous years (assuming that no other new projects are financed in that time interval).

67. **The report on "Improved Prioritization Criteria for PNDL Projects" has proposed a multiannual budget for the 2014-2020 programming period of around RON 13 billion RON – or 2.8 billion Euro.** This budget takes current budget allocations into consideration and is correlated with the EU programming cycle. Furthermore, several scenarios were discussed for the proper allocation of this budget by individual sectors. The table below includes this proposed allocation. This sector-by-sector allocation also allows a better assessment of the impact of the PNDL through an Input-Output analysis.

**Table 2. Proposed allocation of PNDL budget (in EUR millions) for 2014-2020**

| Sub-programmes | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | 353.6 | 371.3 | 389.9 | 409.4 | 429.8 | 451.3 | 473.9 | **2,879.2** |
| County roads | 67.2 | 70.5 | 74.1 | 77.8 | 81.7 | 85.8 | 90.0 | **547.0** |
| Local/communal roads | 31.8 | 33.4 | 35.1 | 36.8 | 38.7 | 40.6 | 42.6 | **259.1** |
| Water and waste water | 183.9 | 193.1 | 202.7 | 212.9 | 223.5 | 234.7 | 246.4 | **1,497.2** |
| Social infrastructure | 70.7 | 74.3 | 78.0 | 81.9 | 86.0 | 90.3 | 94.8 | **575.8** |

*Source: "Improved Prioritization Criteria for PNDL Projects," World Bank, December 2014*

[19] *See* "Improved Prioritization Criteria for PNDL Projects," World Bank, 2014

68. **An Input-Output analysis was performed to assess the potential impact of the PNDL 2014-2020.** The Input-Output methodology was originally developed by Wassily Leontief, earning him a Nobel Prize in economics. The methodology starts from the simple fact that any investment in one sector will likely have repercussions on other sectors. Thus, the more inter-connected a particular sector, the higher the impact of growth in that sector. In this understanding and as was discussed above, any investment has a direct, indirect, and induced impact. Annex 1 presents the Input-Output analysis in more detail.

69. **An analysis of the direct and indirect effects of the PNDL on its general output in Romania indicates that for EUR 1 invested through the PNDL generates EUR 2.04.** Given that investments carried out through the PNDL are investments in construction works, and given that the construction sector is well inter-connected with other sectors, the PNDL will likely have a positive effect on the economy, providing an impulse to sectors such as: cement manufacturing; engineering activities; manufacturing of bricks; manufacturing of equipment; leasing of construction equipment; etc.

**Table 3. The potential impact of the PNDL 2014-2020, as measured through the Input-Output Analysis**

| Sectors | Investment sub-programs | Value of investment | Increase in output (Production) | Increase in value added (VA) | Increase in compensation of employees |
|---|---|---|---|---|---|
| Agriculture, forestry and fishing | | | 93.4 | 39.6 | 18.0 |
| Industry | | | 1295.7 | 311.6 | 107.1 |
| Construction | a) Country roads; b) Local and communal roads; c) Social infrastructure (education, health, culture, sports); d) Water and wastewater | 2879.2 | 3280.1 | 1160.3 | 287.4 |
| Services | | | 1202.3 | 586.2 | 267.8 |
| **Total impact** | | **2879.2** | **5871.57** | **2097.7** | **680.2** |

*Source: Authors' computations based on Eurostat data on the Symmetric Input-Output tables for Romania*

70. **The total increase in value added as a result of PNDL investments is also significant, at around EUR 2.1 billion.** This figure can be understood largely as the additional profits that can be generated in a sector as a result of specific investments. Some sectors, however, have a much higher value added than others. For example, the development of a software program may cost

as much as the construction of a tractor. However, the tractor may be sold only once, while the software program can be replicated *ad infinitum* with minimal expenses and can be sold just as many times. Consequently, the value added of the software sector is higher than the value added of the tractor production sector. Overall, the value added of the construction sector (where PNDL investments in public infrastructure fall into) is lower than the value added that could be generated through some services sectors, but the effect is still large.

71. **Moreover, PNDL investments could increase employee compensation by around EUR 680 million.** Given that the PNDL primarily focuses on construction activities that require relatively low-skilled labor, the impact on employee compensation is not as large as it could be in some higher value-added sectors – e.g., software development, financial services, media, etc.

72. **It is important to notice that the Input-Output analysis summarized above only captures estimated direct, indirect, and induced effects of additional sector investments and misses other potential benefits.** For example, it cannot measure the productivity gains that may be made possible by a public infrastructure investment – e.g., by enabling people in an area to spend less time commuting. Similarly, it cannot capture the gains that generations of school children may reap from studying in better-equipped buildings. Neither can the Input-Output analysis measure the synergy effects of coordinated investments – e.g., coupling a road investment made through the PNDL with an EU-funded road and thus lowering commuting time for a much larger population.

## Coordination of Public Infrastructure Investments

73. **Based on the arguments above, two basic insights are that public infrastructure investments (including through the PNDL) can be generally beneficial, but available resources are much lower than what current needs would require.** In this context, the question asked in the beginning of this report becomes critical: how can public authorities "do more with less"? The following sub-sections provide the theoretical foundation for answering this question in the subsequent diagnostic and recommendations chapters.

### *What Is Coordination?*

74. **As defined in the final report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," coordination refers to the capacity of different stakeholders to work together for achieving specific goals.** Coordination is never an end in of itself, but rather a means for reaching a specific purpose: in the context of this analysis, the aim is to design and implement projects that deliver maximum impact on Romania's sustainable and inclusive development. As noted in the previous chapter, the focus is on basic infrastructure investments – roads, water and wastewater, and social infrastructure – that can create the conditions for *all* people to reach their productive potential and hence generate economic growth.[20]

[20] For the full theoretical argument regarding the components of economic growth (people and productivity), *see* "Competitive Cities: Reshaping Romania's Economic Geography," World Bank, 2013.

75. **There are three core dimensions to coordination: *vertical* (across levels of government), *horizontal* (across different units at the same administrative level), and *functional* (across various phases).** This typology can be further explained as follows:

- *Vertical coordination* covers the relationships among the national, regional, and local administrative levels. At a minimum, each level needs to know what the others are doing or intend to do in terms of planned public investments.
    - For the current report, vertical coordination comes into play when designing financing criteria, which should take into account higher-level strategic documents. For example, roads connecting to an urban center, as proposed in the National Territorial Development Strategy (SDTR), can receive a higher score.
    - In addition, criteria should also test individual project proposals for their fit with strategic documents. This is usually considered under "project relevance," as detailed in subsequent chapters.

- *Horizontal coordination* includes relationships among actors at the same level – e.g., two ministries at the national level, two city halls at the local level, etc.
    - For the purposes of the current work, this includes coordination among investment programs managed by different units within a Ministry (e.g., the National Local Development Program and the Regional Operational Programme) or across Ministries. This is the main focus of the current report, particularly as it relates to the *coordination of financing criteria across investment programs funded by the EU and by the state budget*.
    - Financing criteria may also encourage horizontal coordination among local authorities by, for instance, awarding bonus points to project proposals submitted in partnership.

- *Functional coordination* refers to the specific mechanisms required at each stage of a cycle: i.e., from planning through implementation (execution) and post-implementation monitoring and evaluation.
    - For this particular assessment, the focus is on the early phases of the cycle – i.e., program planning and project prioritization and selection.
    - It is at the program planning phase when financing criteria are designed, though how they work in practice should be monitored throughout the entire program cycle. Based on the evaluation of such results, criteria could be adjusted later on in a program's implementation.

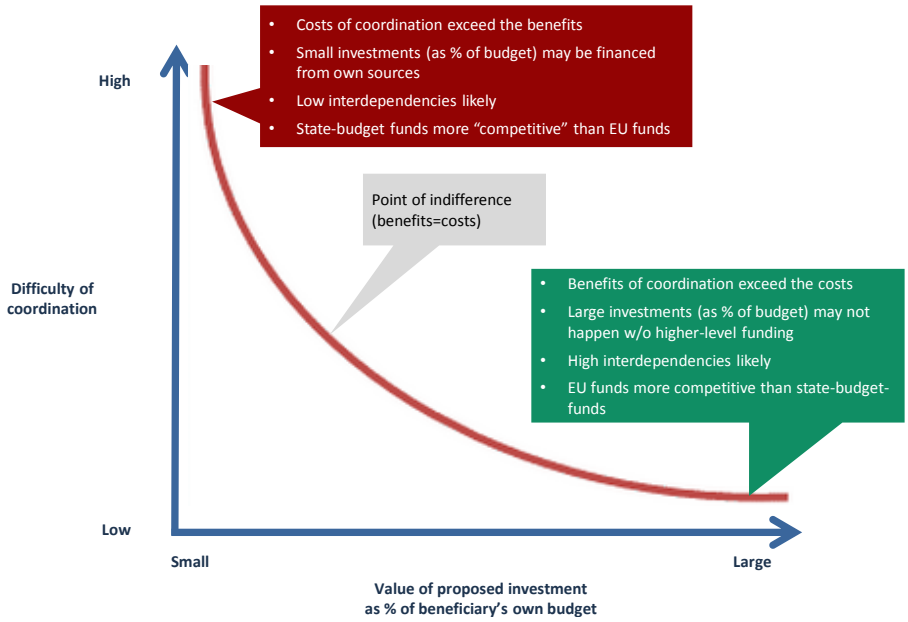
### *Why Coordinate Public Investments?*

76. **First, from a *bottom-up perspective*, coordination is needed when a local government's own resources are not sufficient to carry out a particular investment project.** In general, very few local governments have the capacity to support the major investments they need entirely from their own funds, especially in countries that have not decentralized fully. Based on prudent

capital expenditure margins, communes in Romania can on average only afford to rehabilitate one road and one school during the 2014-2020 programing cycle.[21] Local government units simply do not have the financial and human resources needed to address the basic infrastructure needs of their communities, so other actors need to intervene to fill the gaps – regional authorities (in countries where regions have formal administrative powers, which is not yet the case in Romania), the national government (through a variety of state-budget-funded programs), or supranational authorities like the European Union.

77. **In general, the beneficiary of a particular investment will *choose* to coordinate only when the perceived benefits will exceed the costs.** Coordination is challenging, time consuming, and potentially frustrating. In economic terms, coordination implies transaction costs. The figure below makes precisely this point: the larger (and the more important) an investment (as a percentage of the beneficiary's budget), the more its successful completion will depend on others, so the easier it will be to coordinate across administrative levels (vertically) and across sectors (horizontally).[22] It is also true that coordination is not always possible. For example, when the value of a proposed investment is small and can be fully covered from a local government's budget, higher administrative levels may have no options to incentivize coordination. For all other situations, however, the achievable goal for the Ministry of Regional Development and Public Administration (MRDPA) in Romania is, therefore, to push to the left the downward sloping curve represented in the figure, i.e., making it *easier* for stakeholders to coordinate with one another.

**Figure 5. The costs and benefits of coordination**




[21] *See* report corresponding to Component 2 of the current World Bank engagement with the MRDPA: "Improved Prioritization Criteria for PNDL Projects," World Bank, 2015

[22] It is also true that larger investments can be more complex to design and implement – so for particularly massive projects, coordination may in fact get harder. The figure is a simplified representation that does not factor in project complexity.

78. **Second, from a *top-down perspective*, there are two reasons why governments should put coordination at the core of their efforts: to reduce costs and to increase benefits of infrastructure investments.** In resource-constrained environments, particularly after the financial crisis, it has become vital to deliver the most impact possible with the least funds available. Especially when it comes to infrastructure projects, costs tend to run high – and, often times, much higher than what the typical tools estimate (e.g., cost-benefit analyses).[23] For example, if two or more different authorities are implementing investment programs that have the same goals and target the same beneficiaries, it is likely that they are duplicating their efforts and, hence, missing out on cost-saving opportunities through consolidation of operations. The same goes for beneficiaries who, for a variety of reasons, choose to finance their infrastructure projects through more expensive funding sources (e.g., state budget funds instead of EU structural funds).

79. **By the same token, lack of coordination implies failure to leverage synergies across different investments**. For instance, if a new school or hospital gets built, the road connecting to it should also be rehabilitated. If a county finances a particular county road, the neighboring authorities may want to consider financing a county road that connects to that investment. In some cases, it may make better sense to connect to the next commune's water and sanitation network than to build a new system from scratch. Another common situation refers to utility companies destroying a newly paved road to put in or replace different underground networks. The examples could go on and on, but the simple point is that coordination makes the whole greater than the sum of the parts. Put differently, any government that seeks to do more with less should strongly consider placing coordination of public investments front and center on its policy agenda.

80. **Ultimately, coordination entails great potential, and the need to coordinate is inescapable in many ways – vertically and horizontally**. Regarding the former dimension, very few local governments have the capacity to support the investments they need entirely from their own funds, especially in countries that have not decentralized fully. Based on prudent capital expenditure margins, more than three in four communes in Romania can only afford to rehabilitate one road and one school.[24] Local government units (LGUs) simply do not have the financial and human resources needed to fulfill the basic infrastructure needs of local communities, so other actors needs to intervene to fill the gap – regional authorities (in countries where regions have formal administrative powers, which is not yet the case in Romania), the national government (through a variety of state-budget-funded programs), or supranational authorities like the European Union. As for horizontal coordination, very few investments depend on a single sector: roads cross railroads and power lines, wastewater treatment plants influence the quality of water bodies, schools and hospitals function well only if there is sufficient demand for their services and hence proper connectivity with people in

[23] *See* Bent Flyvberg, "Survival of the Unfittest: Why the Worst Infrastructure Gets Built and What We Can Do about It," *Oxford Review of Economic Policy*, Volume 25, Issue 3, pp. 344-367.
[24] *See* report corresponding to Component 2 of the current World Bank engagement with the MRDPA: "Improved Prioritization Criteria for PNDL Projects," World Bank, 2015

surrounding areas, etc. The simple but important point is that proper coordination of public investments is a must in any policy context.[25]

### *How Can Governments Coordinate Public Investments?*

81. **There is a long menu of coordination mechanisms deployed in countries around the world – financing criteria are just one type and fit under the "conditionalities" category, as explained below.** Based on established practices in OECD countries, coordination mechanisms can be classified as follows:[26]

- *Dedicated platforms*: These are institutional structures, formal or informal, that explicitly target coordination and bring together multiple stakeholders – across administrative levels and/or across sectors. Dedicated platforms include not only bodies/committees/organizations that have coordination at the core of their mission, but also specific events that share the same purpose of enabling coordination (fora, conferences, online competition of ideas, etc.).

- *Co-financing mechanisms*: Used widely for both EU-funded and state-funded programs, these tools ensure that multiple stakeholders have a stake in particular infrastructure projects. The presumption is that if a local authority contributes some of its own funds toward the completion of an investment, it will more likely coordinate with higher-level funders – be it the national government or the EU.

- *Local-level procedures and practices*: At the project level, most of the coordination efforts need to happen under the leadership of the main "beneficiary" of investment funding – i.e., a local or county council in Romania. Different authorities have designed various coordination practices, some ad hoc (practices) and others systematic (procedures). An example is the mayor of a major city in the middle of Romania who brought around the table all providers of public utility services (gas, electricity, water, sewage, district heating) and established with a two year lead time a common program for sequencing investments. Such practices and procedures can help avoid inefficiencies resulting from, say, utility providers damaging a newly rehabilitated road to work on their distribution networks.

- *Conditionalities (main focus of current report)*: These include eligibility, evaluation, and selection criteria applied to particular funding sources (i.e., investment programs).
    - *Vertical coordination (across administrative levels)*: A common example is the requirement for a proposed (local) project to be included in a (higher-level) local/regional development strategy. In the water and wastewater sector, for instance, EU funds prioritize investments that are included in the Master Plans. This ensures that high-level policy goals are adopted by lower-level authorities and reflected in the projects they put forth. There is of course a tension between hard top-down conditionalities and the subsidiarity principle of

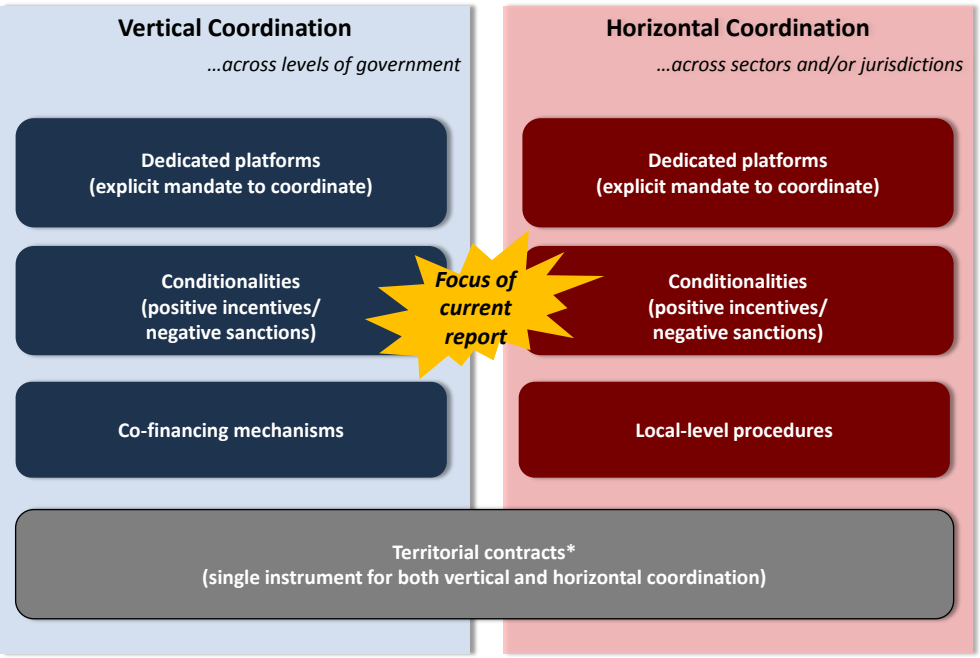
[25] For a more in-depth discussion of coordination, including specific examples of the negative consequences of the failure to coordinate, *see* the other report corresponding to Component 1 of this technical assistance, "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, 2015

[26] *See* "Investing Together: Working Effectively across Levels of Government," OECD, 2013

allowing local governments to address the needs on the ground they are presumed to know best. But there is still value in ensuring that local investments contribute to national and regional-level objectives set by the government. This is why consultations are critical in designing investment programs – including for financing criteria.

- *Horizontal coordination (across sectors/jurisdictions)*: Some investment programs are designed, ex-ante, to encourage integrated projects across multiple sectors and/or jurisdictions. In Romania, the National Rural Development Programme 2007-2013 funded many proposals that included both water and sanitation systems and road rehabilitation. The LEADER program required local authorities and other stakeholders to form Local Action Groups (LAGs) and submit projects jointly. The new EU instruments on Integrated Territorial Investments (ITI) and Community-Led Local Development (CCLD) are dedicated coordination instruments meant to encourage complementarities across sectors/jurisdictions.[27]

**Figure 6. Examples of vertical and horizontal coordination mechanisms**




*Note: Adapted based on "Investing Together: Working Effectively across Levels of Government," OECD, 2013*

82. **In principle, as noted earlier, coordination should happen early on in the cycle – in fact, the earlier the better.** When an investment program is in the design phase, it is much easier to adjust its key focus areas, procedures, and financing requirements taking into account the need to coordinate with other instruments targeting the same sectors or other complementary sectors. This is why it is a lot easier to coordinate across EU-funded programs, which are

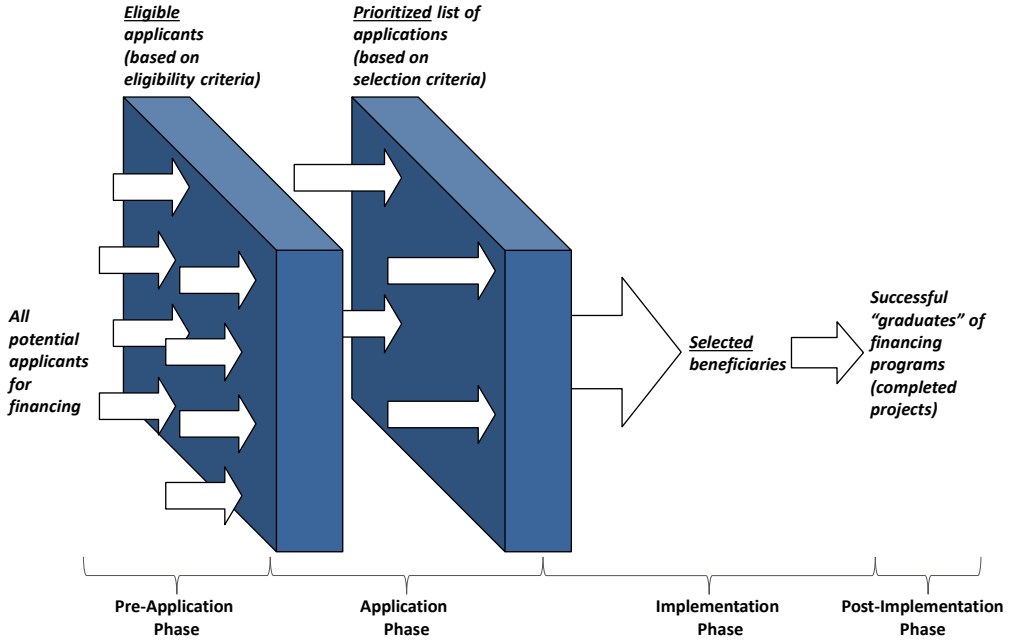
[27] Because there are already existing World Bank studies regarding both instruments and their applicability in Romania, this report does not cover ITI or CLLD in depth.

essentially planned at the same time and follow the same programming period, while state-budget-funded programs lack predictability over time and are often reprogrammed and re-budgeted every single year. Moreover, it is preferable to define *ex ante* what each investment program does and properly inform potential applicants about where each of their proposed projects would "fit." Otherwise, there is a risk in accepting a project for evaluation under the PNDL, for example, and later during the evaluation and selection phase figuring out that the proposed investment is actually eligible under the OP Large Infrastructure. The point is that time and cost efficiencies can be leveraged by coordinating early across investment programs and their corresponding Managing Authorities. Part of this "coordination" is also the process of sorting through project proposals and channeling them where they are eligible and where they contribute to higher-level goals, including for EU funds' absorption. Generally, if a project is eligible to receive EU grants, it should not be included under a state-budget-funded program unless the EU funds have run out and are not able to cover that particular investment.

### *Financing Criteria: Eligibility, Evaluation, Prioritization, and Selection*

83. **In the context of this work, financing criteria refer to the full set of conditions that shape the selection of a proposed investment for funding.** They include: (i) *eligibility criteria* that respond to the question of whether an investment *can* be funded from a particular source; (ii) *evaluation criteria*, which form the basis of the evaluation process and imply awarding scores (and maybe weights) for different categories for each proposed project; and (iii) *selection criteria*, which define how evaluated projects will get prioritized (e.g., first-in-first-out rule vs. competitive selection based on the highest scores received) and selected to receive financing. The figure below summarizes the various phases of a particular project, from pre-application through application, selection and contracting, implementation, and post-implementation.

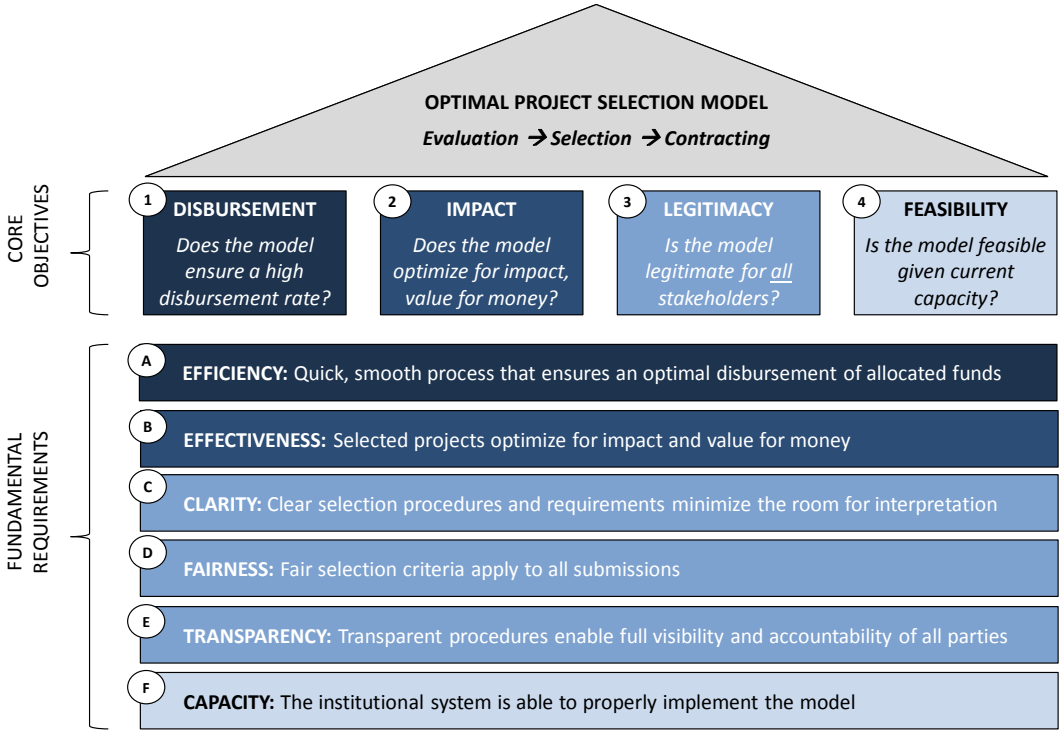
**Figure 7. The process of choosing investments for financing involves multiple steps**




*Note: Adapted based on "ROP 2.0: Facilitation of Direct and Proactive Support for Applicants and Beneficiaries of the Regional Operational Programme 2014-2020," World Bank, 2015.*

84. **Financing criteria can be effective in enhancing coordination across investment programs and projects, but why are they needed in the first place?** In theory, if the supply of funding far exceeded the demand, all projects should receive financing, without any of the bureaucratic steps – and delays – involved in a formal evaluation process. In practice, however, funds for investments are almost always limited and the supply of available financing is far lower than the demand (people's needs for improved infrastructure). Financing criteria are needed to sift through project proposals and allocate a limited amount of money to a select number of investments. The figure below summarizes the fundamental requirements and core objectives of an optimal project selection model – these also apply to the financing criteria, which are a fundamental part of the selection model.

**Figure 8. Fundamental requirements and objectives of project selection/financing criteria**




*Source: Adapted based on "Identification of Project Selection Models for the Regional Operational Programme 2014-2020," World Bank, 2014*

85. **In short, financing criteria are needed to guarantee that an investment program allocates funds toward the most impactful investments in an efficient, fair, and transparent way.** It is thus not only about maximizing available resources to the best possible use, but also about "proving" to all stakeholders involved that they can trust decisions about funds' allocation to be predictable and objective. Even if some local authorities may not like the fact that they are not eligible or receive a lower score under a particular program, it is critical for a managing authority to be able to justify the choices made and explain how it reached funding decisions. This is, in essence, what a prioritization process accomplishes: it ranks projects in the pipeline in accordance with the agreed set of criteria. Further, budget limitations lead to the selection of *a limited number* of interventions in a given year, in the set order of priorities.

86. **Keeping in mind the objectives and requirements listed above, evaluation criteria should take into account multiple dimensions for each proposed investment.** The following categories are based on multiple sources: evaluation grids from Applicant Guiders for EU-funded programs (e.g., the ROP 2007-2013, the PNDR 2007-2013, etc.), further adapted in the 2014 World Bank report on the ROP's project selection models; the World Bank methodology developed in consultation with the Romanian Ministry of Public Finance in 2013, which eventually led to GEO 88/2013; the methodology developed for the World Bank's final report on "Improved Prioritization Criteria for the PNDL" (December 2014). Subsequent chapters adapt these categories to each of the three targeted sectors: roads (county and local); water and wastewater; and social infrastructure).

- *Project relevance*:
  - Assesses whether a particular investment is in line with existing strategies in the corresponding sector or across multiple sectors.
  - This helps ensure vertical coordination by aligning proposed projects at the local/county/regional level with higher-level sectoral and cross-sectoral strategies.

- *Project need/impact*:
  - Evaluates the actual need for and expected impact of a proposed investment, typically estimating number of beneficiaries (quantity) and the degree of improvement in status quo conditions (quality).
  - The use of particular tools (e.g., cost-benefit analysis), in the Romanian context and particularly for small- and medium-sized investments (as is the case under the PNDL), is subject to much debate. A more reliable approach is to focus on a standard set of indicators (e.g., local human development index, number of children, etc.).
  - Appropriate indicators may vary by sector. For example, for assessing the need for a rehabilitated school building an application should reflect the number of children who attend classes, drop-out rates (and expected improvements under better studying conditions), overall demographic trends to estimate future demand, etc.; for roads, it would be important to look at the population numbers, the traffic levels, the current quality of the road; whether it connects to a major transport network, etc.
  - A project proposal that can demonstrate higher impact through a coordinated approach (e.g., new water and sanitation system, followed by road rehabilitation and upgrade of school on the same road) should be rewarded in the scoring process.

- *Project sustainability*:
  - This includes multiple dimensions: social/environmental; and financial.
  - A project proposal should demonstrate attention to social and environmental effects and include specific measures to address any potential negative externalities. Particular technical solutions may be preferable / "greener" and can be rewarded through special bonus points.

- The financial sustainability of any investment is critical – and often overlooked. Proposals should demonstrate that operations and maintenance (O&M) costs can be covered from the local budget or from the resources of the operator of the infrastructure, depending on sector-specific arrangements. There are specific indicators to assess the budgetary capacity of different stakeholders. At the household level, affordability for a particular service (e.g., water, wastewater, etc.) is important to track.

- *Project completion rate (only for existing investments)*:
  - For ongoing projects requiring prioritization, the completion rate can also be an important financing criterion.
  - All else equal, more advanced projects that have a higher likelihood of completion in a reasonable timeline should be prioritized.
  - By completing projects on time or as close to the initial forecast as possible, authorities can save on costs required to maintain existing works, update technical-economic documentation, etc.

Subsequent sections include proposed evaluation grids for the three sectors targeted by the PNDL, with specific criteria for consideration.

### *Equivalency vs. Complementarity for Enhanced Coordination*

87. **What does it mean to coordinate investment programs at the level of financing criteria?** First, the answer varies based on the type of criteria. Eligibility criteria play a straightforward role by defining the boundaries of what an investment program does and does not finance. They can be applied to types of projects (most commonly) and to types of beneficiaries. Evaluation criteria only apply to eligible projects under each program – ineligible investments should not enter the evaluation process at all – and help determine whether a particular proposal is worth financing. The selection method can shape how selection criteria are deployed: for example, in a competitive selection, criteria lead to a prioritization of proposals based on the scores received; under first-in-first-out, selection criteria only test whether a project exceeds a certain threshold.

88. **There are two main approaches to enhanced coordination through financing criteria**. On the one hand, harmonized criteria can be *equivalent* across investment programs. This is appropriate particularly when the needs in the sector far outweigh the supply of funds and there are also clear requirements to fund particular investments. On the other hand, harmonized criteria can be *complementary* across investment programs. That means that in a given sector one may define from the start of a programming period the list of eligible types of investments for each fund. Together, these lists should be "MECE" – mutually exclusive, comprehensively exhaustive. In other words, there would be no overlaps and, as a whole, the funds would serve all the needs in the sector.

89. **As such, the optimal approach varies by sector, as there is no one-size-fits-all answer: in some sectors, the first approach ("equivalency") is optimal; in others, the second approach ("complementarity") is needed.** For example, in the roads sector, the ROP 2014-2020 will focus on county roads connecting to the TEN-T network; the PNDL could take on county roads that *do*

*not* connect directly to TEN-T, but remain a priority based on a number of other criteria (e.g., located in the area of a major urban center, high number of beneficiaries, etc.). By contrast, for the water and sanitation sector, the PNDL should maintain the EU requirements of focusing on localities over 50 people for water and over 2,000 p.e. for sewage systems, in accordance with Water and Wastewater Master Plans. Why not focus on localities that are not eligible for EU funds through the Large Infrastructure OP or the PNDR 2014-2020? The answer is simple: the priority lists have already been established by the Master Plans based on clear criteria, and Romania still needs to fulfill EU-level commitments in the water and wastewater sector, as explained in Chapter 3. This is why it is best to go down the list of priority projects from the Master Plans, covering as many beneficiaries as possible with the limited funds available. Finally, for social infrastructure, the PNDL should make sure that it evaluates and prioritizes investments based on a set of criteria that are similar to those used by EU funds – these are sensible measures for making sure that the investments have the desired impact (e.g., sufficient number of students or patients, adequate focus on marginalized and/or low-income communities, etc.). Subsequent chapters further illustrate these two approaches to coordination (equivalency vs. complementarity).

# Chapter 2: Diagnostic of Current Financing Criteria as Coordination Tools

90. **This chapter briefly presents the status quo, focusing on the criteria – or lack thereof – that shape how state-budget-funded programs allocate available financing.** The chapter starts with an overall diagnostic of financing criteria deployed under various investment programs. Further, this section narrows in on the PNDL, discussing the main steps in its program cycle and anticipating potential ways to improve coordination. While the PNDL is at the heart of this technical assistance, many of these conclusions typically hold for other state-funded investment programs too. But positive exceptions are also present in the Romanian context, even strictly beyond EU funds. In fact, the final section of this chapter presents some good practice examples from two programs for improving educational infrastructure, both managed by the Ministry of Education and both benefiting from considerable lending from several International Financial Institutions.

91. **Overall, the conclusion remains sober: state-budget-funded programs typically lack strong financing criteria, hence missing out on coordination opportunities – both among themselves and with EU-funded programs.** The next two chapters take up some of these lessons and focus on avenues for enhancing coordination in each of the three main sectors targeted by the PNDL: roads (county and communal); water and wastewater; and social infrastructure (health, education, culture, and sports).

## Overall Diagnostic

92. **The following table summarizes the main priority axes and eligible investments under each of the key EU and state-budget-funded programs**. Two straightforward conclusions can be drawn by looking at this snapshot, even at this early point in the current analysis: (1) EU funds are defined in a complementary manner, with a conscious effort to coordinate interventions, as emphasized repeatedly throughout this report; (2) state-budget-funded programs reviewed here make no attempt to coordinate among themselves and with other EU instruments, but rather finance a long list of investments, causing significant overlaps with other programs. As noted in the previous chapter, this creates a competitive dynamic among funds, with state-budget-funded instruments typically crowding out EU investments because they finance the same types of interventions under more flexible rules and monitoring. Moreover, there is no attempt to leverage synergies across different programs.

**Table 4. Snapshot of investment programs and relevant intervention areas in roads, water and wastewater, and social infrastructure**

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| **ROP** | **<u>ROP Priority Investment 3.2</u>**<br>**Promotion of energy efficiency strategies, especially in urban areas, including promotion of sustainable urban mobility, and relevant measures for mitigating the changes**<br>• Purchasing of efficient rolling stock, including electrical and ecological vehicles, including pilot projects for implementing public transport projects in urban areas.<br>• Electric public transport routes.<br>• Development of infrastructure for electric transportation.<br>• Modernization/rehabilitation of depots for public transport and related technical infrastructure.<br>• Dedicated lanes for public transport.<br>• Improvement of public transport stations, including development of new inter-modal terminals.<br>• Development of bike networks and related technical infrastructure (such as docking stations).<br>• Development of pedestrian networks, including reducing traffic in certain areas.<br>• Development of video monitoring systems for traffic management. | | **<u>ROP Priority Investment 8.1</u>**<br>**Investments in social and health infrastructure to reduce inequalities with regard to health condition of people and to promote social inclusion by improving access to social, cultural, and recreation services, and transition from institutionalized services to community care services**<br>• Integrated socio-medical community care centers (in urban/rural areas).<br>• Infrastructure for ambulatory care centers, including those that are developed as a result of reorganization and rationalization of small, inefficient hospitals.<br>• Emergency care units.<br>• Endowment of emergency county hospitals.<br>• Development and endowment of three emergency regional hospitals in Cluj, Craiova, and Iasi.<br>• Social services infrastructure de service without residential component (day care centers, etc.).<br>• Family type housing and apartments, protected housing.<br><br>**<u>ROP Priority Investment 10.1</u>** |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | • E-ticketing and parking.<br>• Road infrastructure (public transport corridors) to increase traffic safety (development of bike lanes and pedestrian networks, whenever possible).<br>• Development of park and ride facilities.<br>• Development of sustainable urban mobility plans for projects funded through ROP 2014-2020.<br>• Shelterbelts and large trees alignments (with high retention capacity of CO2).<br>• By-passes in medium and small-sized cities (that are not part of major transport infrastructure networks) to deviate the cars and heavy traffic.<br><br>**<u>ROP Priority Investment 4.1</u>**<br>**Promotion of strategies targeting reduction of greenhouse gas emissions for all types of territories, especially urban areas, including promoting sustainable urban mobility plans and relevant measures for mitigating the adjustments**<br>• Reducing greenhouse gas emissions in county seats through investments based on sustainable urban mobility plans.<br>➢ Improvement of local urban public transport (e.g., purchasing of electrical and ecological vehicles, | | **Investments in education and training, including professional training and long-life training by development of educational and training infrastructure (in urban/rural areas)**<br>• Pre-preschool infrastructure (nurseries).<br>• Preschool education infrastructure (kindergartens).<br>• Primary and secondary education infrastructure (schools grades I through VIII).<br>• Professional and technical schools/ technological high-schools.<br>• University education infrastructure.<br><br>**<u>ROP Priority Investment 9.1</u>**<br><u>CLLD (in urban areas)</u><br>• Investments in housing infrastructure - development/rehabilitation/modernization of social housing<br>• Investments in health and social services infrastructure - medical-social integrated community services centers.<br>• Investments in educational infrastructure - pre-university education facilities (nurseries, kindergartens, primary and secondary schools).<br>• Investments in degraded urban space of the respective deprived community:<br>➢ Buildings for school, social, community, cultural, |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | modernization/rehabilitation / expansion of electrical transport, development of dedicated public transport lanes, etc.<br>➢ Electrical and non-motorized transport (e.g., development of electrical public transport infrastructure, development/ modernization of bike lanes and related infrastructure, pedestrian networks).<br><br>**<u>ROP Priority Investment 4.2</u>**<br>**Development of activities for improving urban environment, city revival, regeneration and de-contamination of industrial disused land, reducing air pollution, and promoting measures aimed at reducing noise**<br>• Urban areas – green areas, abandoned/unused land, plazas, pedestrian areas, non-modernized streets, including rehabilitation and modernization of public utility services etc.<br><br>**<u>ROP Priority Investment 4.3 (in connection to PI 9.1)</u>**<br>**Support for physical, economic, and social revival of deprived communities from urban and rural areas**<br>• Improving physical, economic, and | | entertainment activities, and sports.<br>➢ Urban public spaces (non-modernized streets, including rehabilitation/modernization of public utility services, green areas, pedestrian networks etc.).<br>➢ Development/ equipping infrastructure of insertion local social economic enterprises.<br><br>**<u>ROP Priority Investment 4.3 (in connection to PI 9.1)</u>**<br>**Support for physical, economic, and social revival of deprived communities from urban and rural areas**<br>• Improving physical, economic, and social regeneration of marginalized communities in county seats<br>➢ Investments in facilities meant for public use, such as green areas, sports and recreational facilities.<br>➢ Improving core public services by development/rehabilitation/modernization of educational, cultural, and recreational facilities.<br><br>**<u>Priority Investment 4.4</u>**<br>**Investments in education, training, including professional training to achieve life-long competences by development of** |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | social regeneration of marginalized communities in county seats<br>➢ Development/rehabilitation/ modernization of secondary streets, including sidewalks, bike and pedestrian networks.<br><br>**<u>ROP Priority Investment 6.1</u>**<br>**Stimulating regional mobility through connection of secondary and tertiary nodes to TEN-T infrastructure**<br>• Modernization of county roads that ensures connectivity, directly (county roads that are directly linked to) or indirectly (linked to the network via a modernized national road) to the TEN-T network, development of new county road segments to connect to highways or expressways.<br>• By-passes that hold the status as county roads to be part of the respective county road, development of roundabouts and other elements to increase traffic safety.<br>• Passages/road nodes to connect directly to TEN-T highways and county roads, and development of pedestrian bridges.<br>• Public transport stops for routes located on county roads.<br>• Investments aimed at increasing safety | | **educational and training infrastructure (in county seats)**<br>• Improving quality of infrastructure to increase access to early education and help parents participate on the labor market<br>• Increasing quality of educational infrastructure relevant on the labor market<br>➢ Development/ rehabilitation / modernization/ endowment of pre-preschool and preschool facilities (nurseries and kindergartens)<br>➢ Development/rehabilitation/expansion/endowment of infrastructure for professional and technical education and long-life training (technological high-schools and professional schools).<br><br>**<u>ROP Priority Investment 5.1</u>**<br>Conservation, protection, promotion, and development of cultural patrimony (in urban/rural areas)<br>• Restoration, consolidation, protection and conservation of historical monuments.<br>• Restoration, protection, conservation and execution of indoor painting, frescos, and mural external painting.<br>• Restoration and remodeling of facades.<br>• Indoor endowment (equipment and |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | for pedestrians (pedestrian networks and bike lanes, wherever possible), including vertical signaling with photovoltaic charging for pedestrians.<br>• Shelterbelts and protection walls, additional investments for protection of roads against bad weather conditions | | installations for heat/cooling, fire safety etc.).<br>• Endowment for exhibiting and protecting the mobile and non-mobile cultural patrimony.<br>• Marketing and tourism promotion of the restored cultural patrimony objectives. |
| **PNDL** | • Works to public roads that have been classified as county roads, roads of local interest, communal roads, and/or public roads within localities.<br>• Bridges and pedestrian bridges.<br>• Public plazas, markets, fairs, etc.<br>• Headquarters of local public administrations and of institutions that are under the local public authorities | • Water supply networks and water treatment plants.<br>• Sewage networks and waste water treatment. | • Medical facilities in rural areas - medical clinics, pharmacies and/or other medical facilities where medical clinics and/or pharmacies are located, development of new constructions for medical clinics and/or pharmacies.<br>• Pre-university education facilities: kindergartens, primary and secondary schools, high-schools, national colleges, professional high-schools etc.<br>• Cultural objectives of local interest, libraries, museums, multifunctional cultural centers, theaters (in rural areas).<br>• Sports halls. |
| **PNDR** | **<u>PNDR Sub-measure 7.2</u> Investments for development and modernization of small-scale basic infrastructure**<br>• Development, extension and improvement of local interest road network in rural areas. | **<u>PNDR Sub-measure 7.2</u> Investments for development and modernization of small-scale basic infrastructure**<br>• Development, expansion and improvement of the public water network in rural areas.<br>• Development, expansion and improvement of | **<u>PNDR Sub-measure 7.2</u> Investments for development and modernization of small-scale basic infrastructure**<br>• Investments related to medical services - development and/or modernization of rural medical dispensaries in rural areas. |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | | the public sewage network in rural areas. | • Investments in development, modernization or expansion of educational infrastructure in rural areas:<br>➢ Development and modernization (including endowment of kindergartens and nurseries.<br>➢ Development and modernization (including endowment) of after-schools.<br>➢ Expansion and modernization of agricultural profile high-schools.<br><br>**<u>PNDR Sub-measure 7.6</u>. Investments associated with protection of cultural patrimony**<br>• Restoration, conservation and ensuring access (to) of the cultural patrimony of local interest (Class B) in rural areas.<br>• Restoration, conservation and ensuring access (to) of monastic settlements in rural areas. |
| **Large Infra. OP (LIOP)** | **<u>LIOP 07</u> - Promotion of sustainable transport and cutting out bottlenecks from the major infrastructure network transport systems**<br>• 7a - investments in TEN-T to support a single European multimodal transport system.<br>➢ OS2.1 – Increasing mobility through development of road | **<u>LIOP 06</u> - Conservation and environment protection, and efficient use of resources**<br>• 6i - Investments in the water sector in order to meet the EU acquis with regard to environment and to respond to the needs identified by those EU states that exceed such requirements.<br>➢ OS3.2 - Increasing the waste water collection and treatment level in urban | |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | transport system along the TEN-T network.<br>• 7b - Stimulating regional mobility by connecting secondary and tertiary nodes to the TEN-T network, including the multimodal nodes.<br>➢ OS2.2 - Increasing regional access through connecting areas with less accessibility to the TEN-T.<br>• 7c - Development and improvement of environmentally friendly and low greenhouse gas emission transport systems, including interior waterways and maritime transport system, ports, multimodal connections, and airports in order to promote sustainable mobility at the regional and local level.<br>➢ OS2.3 - Increasing regional mobility through sustainable development of airports.<br>➢ OS2.4 - Increasing attractiveness of intermodal transport for using sustainable transport modes<br>➢ OS2.5 - Increasing safety and security for all transport modes and reducing the impact of transport on the environment.<br>➢ OS2.6 - Improving traffic flow at the border customs - points of entry.<br>• 7d - Development and rehabilitation of full, high-quality and inter-operable | areas, as well as the degree of providing drinking water to the population.<br>• 6e - Activities aimed at improving urban environment, city revival, regeneration and decontamination of disused industrial land, reducing air pollution, and promoting measures aimed at diminishing noise. | |

| | Transport Infrastructure and Other Urban and Rural Development Infrastructure | Water and Waste Water Infrastructure | Social Infrastructure |
|---|---|---|---|
| | railway systems and promotion of measures aimed at reducing noise.<br>➢ OS2.7 - Increasing sustainability and quality of railway transport through modernization of network and services.<br>• 7i - Support for a single European space of multimodal transport through investments in the TEN-T network<br>➢ 1.1. Increasing mobility through development of road transport on the TEN-T central road network | | |
| Environ. Fund | • Bike network development program<br>• National program for improving the environment through development of green areas in localities | • Program for improving the environment afforestation of degraded agricultural land, ecological reconstruction and sustainable management of the forests.<br>• Program regarding protection of water sources, integrated water supply systems, water treatment plants, wastewater treatment plants and sewage.<br>• Program regarding recovery of historically contaminated sites. | |

## The PNDL Project Cycle

93. **To begin with, there is no formal strategy specific to the PNDL.** At the time of its launch, the PNDL was an important expression of the new cabinet's commitment to the development of rural infrastructure, as reflected in the 2013-2016 Governing Program (as approved by Parliament through decision 45/2012). For example, one of the key objectives for Romania's regional development is defined as the financing of a basic package of services for rural areas, including roads, drinking water, sanitation, social infrastructure etc., "for achieving [at least] minimum standards of living."[28] The same document further emphasizes the need to prioritize public infrastructure projects to contribute to Romania's sustainable, balanced development.[29] Other than these broad commitments, there are no defined policy priorities and objectives for the PNDL. The program's strategic framework is broad enough to accommodate a variety of projects, without hard constraints around what to finance and in what proportion.

94. **The PNDL focuses primarily on roads, water, and sewage projects, but other types of investments (e.g., social infrastructure, cultural sites, sports centers, etc.) can also be eligible for financing**. Article 7 in the GEO describes the list of intervention areas (similar to "axes" of EU-funded programs):

- Water supply systems and drinking water treatment plant;
- Sewage systems (networks) and wastewater treatment plant;
- Education units (kindergartens, primary and secondary schools, high schools, etc.);
- Healthcare units in rural areas (clinics, pharmacies, etc.);
- Public roads (i.e., county roads, local interest roads, commune roads and/or public roads within localities);
- Bridges, culverts, and/or footbridges;
- Local cultural facilities, such as libraries, museums, multi-functional cultural centers, and theaters;
- Landfills;
- Public, commercial markets, fairs, cattle fairs, as applicable;
- Sports facilities; and
- Headquarters of local public authorities and other subordinated public institutions.[30]

The types of eligible works include construction of new infrastructure, as well as extension, rehabilitation, and upgrading of existing infrastructure. Essentially, through such broad conditions, the PNDL is able to cover the MRDPA's entire vast portfolio of projects – both previously-financed interventions (at various stages of completion) and brand new investments, by all types of local public beneficiaries (from local councils in communes and cities to county councils).

[28] *See* 2013-2016 Governing Program, Chapter 10 on "Development and Administration"
[29] *Ibid*.
[30] The last category (i.e., headquarters of public institutions) was introduced through GEO 30/2014

95. **Based on the budget allocation among ministries, as agreed at the government level and approved by Parliament, the MRDPA establishes the PNDL's total annual budget.** Next, the MRDPA allocates sums for each county, sub-program, and specific areas of intervention, based on a Ministerial Order. The criteria for allocating sums across counties are described in Annex 2 to the PNDL Methodological Norms.[31] In short, the three main types of criteria that shape the allocation of PNDL funds from the national to the county level are based on ongoing (unfinished) projects (number and funding needs), demographic data (county population and surface area), and financial capacity.

96. **While the PNDL norms include some indicators to decide on the funding allocation for each county, the methodology shows much room for improvement.** For one, the law is not clear which of the three main criteria are factored into the funding allocation, merely noting that "at least one of [them] should be considered."[32] Second, there are no defined weights for individual criteria or for sub-criteria within the main categories (e.g., number of ongoing projects vs. their funding needs). Third, it is unclear how certain indicators would be measured in practice, particularly the administrative-territorial units' capacity to co-finance investment projects. One proxy that could be used would be non-earmarked revenues as a share of total revenues,[33] in the absence of clear commitments (e.g., local/county council decisions to co-finance particular investments). Finally, other potentially relevant indicators are missing. For example, the PNDL does not seem to take into account a county's development level, measured as GDP per capita (as used for the Regional Operational Programme in deciding the split across Romania's eight planning regions).

97. **It is worth highlighting that final decisions regarding the PNDL's allocation of funding belong entirely to the MRDPA.** In this process, it is presumed that the Ministry makes use of county-level data, provided either directly by county/local authorities or by other central bodies (e.g., the Ministry of Finance). Once it makes a decision on the anticipated funding allocation, the MRDPA communicates it to county councils. Based on these expectations, county councils further interact with local authorities to begin making a list of investments that may be financed through the PNDL. Based on data available at this point, it is unclear whether at this stage the MRDPA decides only on the funding allocation per county or goes beyond that. Article 8 of GEO 28/2013 implies the latter: specifically, "the Ministry of Regional Development and Public Administration shall prepare and approve by order of the Minister of Regional Development and Public Administration the distribution of the amounts intended to the Program, per counties, per each sub-program, and per specific areas of intervention."[34] It is equally unclear if the MRDPA pre-selects investment projects to be included in the PNDL, as implied by Article 9 (3), as opposed to putting together the list of investments based on inputs from local and county authorities, as implied by Article 9 (4) and by the Methodological Norms.

---

[31] *See* Box 2
[32] Methodological Norms for applying GEO 28/2013, MRDPA Minister Order 1851/2013
[33] For a detailed explanation of this methodology, *see* the 2014 World Bank report on "Identification of Project Selection Models for the Regional Operational Programme 2014-2020"
[34] *See* GEO 28/2013

**Box 2. Allocation criteria for the PNDL budget**

"For the balanced distribution of funds to counties, *at least one of the following indicators* should be considered:

(1) Weight of *number of ongoing investment projects* for each county, based on:

- The *number* of ongoing investment projects for each county as a share of total ongoing investments at the national level;
- The *funding needs* for completing the investment projects started and not completed as a share of the total funding needs for completing the investment projects started and not completed at national level.

(2) *Demographic and administrative-territorial data* of counties, considering:

- The weight of the *number of administrative-territorial unit*s in the county as a share of the total number of administrative-territorial units at the national level;
- The weight of the county *population* as a percentage of the total population of the country;
- The weight of the county *area* as a percentage of the total area of the country.

(3) Administrative-territorial units' *financial capacity*, considering the share of units' capacity to participate with funds from the local budget for achieving investment objectives."

*Source: PNDL Methodological Norms (MRDPA Minister Order 1851/2013)*

98. **In any case, at the beginning of 2014, the (initial) funding allocation was roughly equivalent across counties – around EUR 5 to EUR 5.7 million.** On the one hand, this demonstrates the MRPDA's commitment to making the PNDL funds available to authorities in all parts of Romania. On the other hand, the outcome may suggest that there is no clear prioritization of investments based on counties' different characteristics. By contrast, the ROP 2007-2013 and 2014-2020 (in draft form, as of August 2014), for example, made specific commitments to less developed areas, allocating significantly larger shares of funding particularly to the North-East, South-East, and South Regions.

99. **Once the MRDPA decides on the indicative PNDL funding allocation for each county, county councils put together the list of projects proposed at the county and local level – both new and ongoing/unfinished investments.**[35] To this end, local authorities submit their proposals to county councils or, "in justified circumstances," directly to the MRDPA, as recently mandated by Article 3 of GEO 30/2014 and MRDPA Minister Order 919/2014. It is unclear what situation would qualify as "justified." The PNDL Methodological Norms include a clear template for project proposals, which applies to both new and ongoing investments.[36] This asks for: the name of the project; the name of the applicant/local authority; the location of the project; main physical characteristics; total

[35] *See* Article 9 (4).
[36] *See* Annex 2 of the PNDL Methodological Norms.

value of the investment; total value of eligible costs to be financed from the PNDL; data regarding the design contract (contract ID number, value, etc.); and, for ongoing investments, the data regarding the construction works, the percentage of the project completed to date, and the deadline for project completion.

100. **Next, county councils have 15 days to send to the MRDPA the list of proposed investments, based on Annex 3 of the PNDL Methodological Norms.** Essentially, this is a table listing the projects proposed for financing through the program in a particular year, divided up by new and ongoing investments, and further by sub-program (i.e., "the modernization of the Romanian village," "urban regeneration of municipalities and towns," and "county-level infrastructure"). The list of proposed investments has to be accompanied by a justification note explaining how each county council decided to prioritize projects submitted by local authorities.

101. **Under the current PNDL framework, county councils prioritize project proposals from local authorities within their jurisdiction based on four possible criteria, out of which "at least one should be used"**:

- Signing date of the goods/work/service contract, as applicable;
- Physical status (% complete);
- Population benefitting from the investment; and
- Local budget's percentage of co-financing.

102. **As with the PNDL's criteria for allocating funds *between* counties, the current prioritization criteria for selecting interventions *within* counties are broad and ambiguous.** This means that county councils have significant leverage to decide how to prioritize investments in their jurisdiction. In their current form, the methodological norms do not require county councils to use all four criteria, but merely to choose one out of the four listed above. This may mean that a county could decide solely based on the number of beneficiaries, while another could only look at the signing date of the contract. At the same time, it is unclear how a particular criterion should be deployed: for example, would a project with an older signing date take precedence over a newer one, or the other way around? Also, how should a local authority measure the population benefitting from a specific investment, say a local road that connects to a national road? It could be just the population of a commune or the population of a much larger area (e.g., within 20, 40, or even 60 minutes of the locality). Additionally, there are no defined weights among criteria. Interviews with county council representatives revealed that there is no standard approach to how investments are selected and prioritized – this flexibility is valued by local and county authorities, Most County Councils appreciate the flexibility, but it is also true that there are opportunities to enhance transparency and rigor by aligning PNDL procedures and criteria with those applicable to EU-funded programs.

103. **Based on the lists received from county councils across Romania, the MRDPA makes the final selection of projects that receive PNDL funding in a given year.** Once again, the methodological norms do not define a clear, transparent selection process. The

final selection is to be based on the proposals received from county councils, as well as on "[the Ministry's] own data and specialized assessments."[37] It is unclear what data are deployed in such evaluations. The same document notes that the selection is done exclusively by the MRDPA if county councils do not abide by the 15-day timeline or if they fail to prioritize investments based on at least one of the four criteria specified in the law. The finalized list of interventions is approved through the MRDPA's Minister Order, including an annex with the full set of projects (for each of them, the annex simply notes the name of the administrative-territorial unit, the name of the project, and the sum channeled from the state budget).

104. **There are slightly different requirements for applicants with ongoing vs. new projects.** For the former, local authorities need to send to the MRDPA the documents that show the project's current phase of completion, the updated value of remaining expenses to be incurrent for the finalization of the intervention, and public procurement contracts that have been signed previously, including addenda, if any. Upon verification of such documents, the process can move forward to the contracting phase.

105. **For new investment projects, beneficiaries are required to submit to the MRDPA the corresponding technical documentation.** In most cases, this refers to feasibility studies for new interventions or the documentation for approving intervention works (DALI[38]) for existing infrastructure. Feasibility studies and DALIs are not eligible for reimbursement through the PNDL and have to have been developed through the applicant's own resources, in accordance with the regulations set by GD 28/2008. GEO 28/2013 also notes that the documentation must prove that the proposed projects abide by the applicable cost standards. However, cost standards are provided only for county roads, communal roads, and for water projects. No cost standards are provided for wastewater projects, as these are considered to require quite different technical solutions from case to case.[39]

106. **It is worth noting that local authorities who seek to access PNDL funds do not submit formal applications that are comparable to the complex documents required by EU-funded programs.** The bulk of an "application" is the technical documentation corresponding to the proposed project – i.e., the feasibility study and/or the detailed technical design. In field interviews, PNDL beneficiaries express satisfaction with the current system's simplicity and relatively quick processing of applications. In effect, under the current system, requiring a formal form with categories similar to those included in applications for EU funds – e.g., "project relevance for strategic objectives," "economic impact," "technical features," "social/environmental impact," etc. – would not add much value. This is because the actual prioritization and, essentially, the "preselection" of projects happen at the level of county councils. The MRDPA only verifies that submitted proposals are in accordance with a set of criteria – it is more of an eligibility check than a

[37] PNDL Methodological Norms, Article 9 (8).
[38] "Documentație de Avizare a Lucrărilor de Interventii" (Documentation for the Approval of Intervention Works).
[39] In practice, MRDPA technical staff use a simple rule of thumb for benchmarking sanitation projects, namely that they should not exceed 1.5 times the cost of equivalent water projects.

thorough technical and financial evaluation. This is not to say that the technical-economic data related to the project is not assessed by MRDPA evaluators, but only that projects that make it thus far generally go through contracting. Even if a proposal initially fails the check, MRDPA staff recommends the necessary improvements to beneficiaries, enabling projects to move to the next phases (pending the successful resolution of suggested changes).

107. **More recently, changes were introduced to the PNDL's methodological norms to increase the efficiency of assessing and approving new project proposals.** Until June 2014, the technical documentation would be first assessed by DG RDI within the MRDPA and then sent to the Ministry's Technical-Economic Council (TEC). Without the TEC's formal approval, projects would not be eligible for financing. Citing the low capacity of the TEC to assess proposals and the long delays incurred in the process, the MRDPA eliminated this step through Ministry Order 1851/2013. Currently, new projects pre-approved for financing through the PNDL only go through an assessment by the technical unit of the DG RDI, which primarily evaluates the following:

- whether the technical documentation is complete and in accordance with GD 28/2008;
- whether the applicant's folder includes the local/county council's decision for approving the project's technical-economic indicators and for ensuring the required co-financing;
- whether the expenditures are properly presented and do not exceed current cost standards.

108. **Once the contract between the MRDPA and local authorities is signed, actual project implementation can commence.** The exact stages will depend on whether the project is new or ongoing. In the former case, the beneficiary of PNDL funds will have to organize public procurement procedures, in line with the applicable legislation (OUG 34/2006). In some cases, these procedures take a long time – due to challenges in court, lack of offers, or other reasons specific to each project – which may aggravate the risk of not using up the funds allocated for a particular year. This is because the PNDL is not a multiannual program like an EU-funded instrument, which creates inherent incentives for applicants to submit for consideration smaller, easier projects that can be carried out in 1-2 years. If the project is ongoing and construction work has already begun in a previous year (through the PNDL or a different program), depending on a case-by-case basis, the beneficiary may continue previous engagement with service providers and contractors.

109. **Payments and reimbursements are critical factors for a smooth, successful implementation.** Based on the methodological norms (Articles 16-17), beneficiaries submit reimbursement requests first to county councils, which then submit a consolidated request for each county to the MRDPA. This system was then changed to allow beneficiaries to request funds directly from the MRDPA, essentially simplifying the process by eliminating a step. Some county councils report, however, that local city halls sometimes fail to send them a copy of reimbursement requests sent to the Ministry, thus requiring repeated requests to keep them in the loop. According to county council staff interviewed, they want to remain involved to be able to coordinate and monitor the implementation process in their respective jurisdiction, as required by the PNDL implementation norms. Once it

approves the requests received, the Ministry channels the funds – within the set annual limits and based on the proofs/documents received ("situații de lucrări") – directly to beneficiaries. Finally, beneficiaries send back to the MRDPA the proof of payment of service providers (i.e., showing that the funds received were used for the intended purpose).

110. **In addition, beneficiaries are responsible for monitoring work progress and reporting updates to county councils and the MRDPA.** The flow of reports is similar to the initial one presented above for financing requests: local beneficiaries send all documents corresponding to PNDL investments to county councils; every quarter, county councils send to the MRDPA a consolidated update on the progress of construction works. Upon request, beneficiaries are required to send to the MRDPA any document related to the financed project. For its part, the MRDPA is responsible for the monitoring and controlling the program's implementation. In this capacity, the Ministry can appoint representatives who, together with counterparts from the State Inspectorate for Constructions, verify the accuracy of reported data and compare it to the reality on the ground.

111. **The current legal framework includes no details on requirements for the post-implementation phase – i.e., tracking the project's evolution upon completion.** At least based on the methodological norms, once the actual works are finished, the beneficiary sends a copy of the completion report to the Ministry. If and when the warranty period expires, the local authority again sends a copy of the formula documentation ("procesul verbal de recepție final") to the MRDPA. Beyond that, the two key post-implementation functions for ay investment program – i.e., ex-post monitoring and evaluation (M&E) and knowledge sharing – appear to be missing at this point in the PNDL's evolution. Put differently, there is no formal process for evaluating the impact of completed investments and there are no institutionalized efforts for communicating good practices among past, current, and future beneficiaries of PNDL funds. This is not surprising for a young program like the PNDL; still, going forward, it would be important to set-up ex-post mechanisms to ensure the continuous improvement of the instrument. Subsequent chapters provide more in-depth suggestions for monitoring and evaluation mechanisms, including through performance and impact indicators.

## Good Practice Examples from the Education Sector

112. **This section presents the main selection criteria used for project prioritization in the education sector for two programs implemented with loans from International Financial Institutions and financial support from the Romanian Government.** These are featured as positive examples for the main reason that they are less well-known than EU-funded structural instruments, which have been covered by many technical assessments. Also, this report does not argue that the examples described below are flawless, but merely that a more rigorous approach to project selection, based on clear criteria, can be beneficial to the coordination of infrastructure investments. The diagnostic of current practices with respect to project selection would not be complete without this brighter side of the story.

113. **A first program implemented by the Ministry of Education totals EUR 105 million and targets pre-school education reform**. The project started in 2006 and is to continue through 2016 with loans from the Council of Europe Development Bank and financial

support from the Romanian Government. Under this project, 750 kindergartens in rural and urban areas are rehabilitated, modernized, and endowed with furniture.

114. **The selection of the 750 units took into consideration primarily three categories of criteria – namely educational, social, and technical (building state)**. In terms of *educational criteria*, the prioritization is made based on the number of the children enrolled and the operating hours of the kindergartens. To this end, priority is given to communities with a large number of children enrolled. For example, facilities with more than 60 children would be awarded the highest score, particularly if they also had an extended schedule (e.g., from 8 AM to 8 PM). The location of the kindergarten and the poverty level of the area are crucial to determine the scoring of proposals against *social criteria*. Hence, priority is given to kindergartens located in the poorest rural areas, in an attempt to balance the level of educational activities and engagement between rural and urban communities. It is important to note that the education and social criteria account for 25% each in the selection process.

115. **Weighing 50% of the total score, *technical criteria* are based on the condition of the facilities (building state) and its access to utilities.** The building state is established based on technical assessments – in some cases, such evaluations can recommend urgent infrastructure consolidation in order to ensure building safety and stability. For example, if the level of damage to the building exceeds 80%, then the facility would be granted the highest score (15 points from a total of 100 points). If the damage level was very high, then the assessment could have recommended demolishing the kindergarten and building a new one. At the same time, priority is given to kindergartens that had not been endowed with basic utilities – e.g., running water, heating system, sewage, etc., and to those with improper spaces or lack of spaces for studying. A special attention is paid to kindergartens where the square meter per child is less than the standard as required per Romanian legislation, as well as to buildings that are subject to property restitution claims. The highest score is awarded to kindergartens that operate in buildings for which a property restitution claim had not been filed (25 points) and to facilities that operate in rented buildings (15 points).

**Table 5. Prioritization criteria for rehabilitation and infrastructure development of kindergartens**

| | Criteria | Max. points | *Weight* |
|---|---|---|---|
| **1.** | **Educational Criteria** | **25** | ***25%*** |
| 1.1 | Enrollment:<br>a. < 19 kids<br>b. Between 20 and 59 kids<br>c. More than 60 kids | <br>5 points<br>10 points<br>15 points | |
| 1.2 | Kindergarten operating schedule<br>a. Regular schedule (8 AM to 12 PM)<br>b. Extended schedule (8 AM to 8 PM) | <br>5 points<br>10 points | |

| | Criteria | Max. points | *Weight* |
|---|---|---|---|
| **2.** | **Social Criteria** | **25** | ***25%*** |
| 2.1 | Location of kindergarten<br>a. In rural area<br>b. In urban area | <br>10 points<br>5 points | |
| 2.2 | Level of poverty in the area<br>a. High level of poverty<br>b. Low level of poverty | <br>15 points<br>5 points | |
| 3. | **Technical Criteria** | **50** | **50%** |
| 3.1 | Level of damages to the building<br>a. More than 80%<br>b. Between 30% and 80%<br>c. Below 30% | 15 points<br>10 points<br>5 points | |
| 3.2 | Access to utilities<br>a. Only basic utilities - water, electricity<br>b. Utilities - natural gas, heating system, electricity | 10 points<br>5 points | |
| 3.3 | Space<br>a. The building is subject to property restitution<br>b. Inadequate space (rental)<br>c. Inadequate space for a large number of kids enrolled<br>d. Existing space to be divided according to norms | <br>25 points<br>15 points<br>10 points<br>5 points | |

116. **A second program focuses on the rehabilitation of nearly 1,400 schools and 16 university dorms with loans from the European Investment Bank and the Council of Europe Development Bank, with a total budget of almost EUR 350 million.** The prioritization criteria apply to two sets of aspects: priorities in connection to the project's components, on the one hand, and those for the selection of facilities, on the other hand. The former include a number of actions, such as completion of architectural and engineering design and rehabilitation works for which feasibility studies were prepared from a previous loan from the World Bank; replacement of clay bricks-made schools with new buildings; completion of state budget-funded works for 10 university student hostels that required immediate attention; modernization, rehabilitation, and development of high schools in both urban and rural areas; modernization/rehabilitation of school units that needed urgent work in rural areas; and rehabilitation and modernization works on camp buildings and student's clubs in very poor shape.

117. **In particular, the selection of schools was made based on three types of criteria, namely, educational, technical & functional, and cost efficiency.** The technical criteria account for 50% of the overall assessment, while the education criteria for 35%. The higher the number of students enrolled in the school, the higher the score awarded. Schools operating on only one shift would get fewer points than those operating on two or three shifts daily. The facilities providing special education would have priority as compared to schools for pupils from grade I to grade VIII. The technical criteria involved looking at

several aspects, including how old the building was; types of interventions needed; and whether the facility was connected to public utilities such as water, electricity etc. Schools built after 1970 would not get any points in the evaluation process, as priority was given to facilities built before 1920 and between the two world wars. Also, high priority would be given to pre-university education facilities that required consolidation and upgrading work, as opposed to those that did not need major repairs.

118. **Another technical criterion used in the prioritization process was the level of access to the neighboring localities by public transport.** In this way, the evaluation tried to determine if students could use public transport to go to another school located in the neighboring localities. Thus, if public transport would be available then no points would be awarded to the school. If the closest public transport service would be available beyond 1.5 km distance from the school, then the facility would get 10 points. The school's access to utilities is another important aspect. Education facilities that have access to only basic utilities (such as electricity and water) would get higher scores than those connected to all range of services (like water, sewage, district heating etc.). Finally, for cost efficiency criteria (15% of the overall assessment), the lower the cost of work intervention needed per square meter the higher number of points awarded. For instance, if the intervention work was estimated at less than $120 per square meter the applicant would receive the highest number of points in the given category (i.e., 15 points), compared to a school that would require work of more than $200 per square meter.

**Table 6. Prioritization criteria for rehabilitation of schools**

| | Criteria | Max. points | *Weight* |
|---|---|---|---|
| **1.** | **Educational Criteria** | **35** | ***35%*** |
| 1.1 | Number of students:<br>a. < 100 children<br>b. Between 100 and 300 students<br>c. More than 300 students | 5 points<br>10 points<br>15 point | |
| 1.2 | Number of shifts per day<br>a. One shift<br>b. Two shifts<br>c. Three shifts | 5 points<br>10 points<br>15 point | |
| 1.3 | Education program<br>a. Grades I-IV<br>b. Grades I-VIII<br>c. School with special education | 5 points<br>10 points<br>15 points | |
| **2.** | **Technical and Functional Criteria** | **50** | ***50%*** |
| 2.1 | Year of construction of the building | | |

| | Criteria | Max. points | *Weight* |
|---|---|---|---|
| | c. Before 1920<br>d. Between 1920 and 1945<br>e. Between 1945 and 1970<br>f. After 1970 | 15 points<br>10 points<br>5 point<br>0 points | |
| 2.2 | Transport and access to neighboring localities<br>a. Public transport access and minibuses available<br>b. Public transport access available within 1.5 km<br>c. Public Transport access available beyond 1.5 km | <br>0 points<br>5 points<br>10 points | |
| 2.3 | Types of interventions required<br>a. Demolition and new construction<br>b. Consolidation and upgrading<br>c. Consolidation and extension<br>d. Non-structural capital repairs | <br>20 points<br>15 points<br>10 points<br>5 points | |
| 2.4 | Access to utilities<br>a. Water, sewage, electricity, district heating, natural gases<br>b. Water, sewage, electricity<br>c. Electricity | <br>0 points<br><br>5 points<br>10 points | |
| 3. | **Cost Efficiency Criteria** | **15 points** | **15%** |
| 3.1 | Cost of work - $/square meter<br>a. >$ 200<br>b. Between $150 and $ 200<br>c. Between $ 120 and $ 150<br>d. < $120<br><br>Level of local community involvement | <br>0 points<br>5 points<br>10 points<br>15 points<br><br>8 points | |

# Chapter 3: Building a Strong Foundation for Harmonized Criteria and Enhanced Coordination

119. **Before discussing the harmonization of sector-specific criteria in the following chapters, this chapter focuses on a set of basic preconditions that must be met for coordination to work.** Fortunately for Romania, examples of good practices in this regard are easy to find and replicate – specifically, post-accession EU-funded instruments designed and implemented since 2007 feature a number of positive elements that should be adopted by state-funded programs. Indeed, without this strong foundation, selection criteria on their own – no matter how carefully thought-out they might be – cannot ensure a coordinated approach to public infrastructure investments in Romania.

120. **It is useful to review what works well with respect to the coordinated planning and implementation process among EU structural instruments.**

- *A purposeful focus on coordination* from the beginning: The EC has recognized from the start that it needs to ensure complementarity among funds and integrated investments. Each Member State is required to explain how it will ensure complementarities across structural funds. Specifically, each Partnership Agreement (PA) has a dedicated section on the topic of coordination. The Romanian PA clearly notes: "The complementarities identified among European Structural and Investment Funds require an effective coordination during the planning and implementation of the ESI Funds in order to avoid the overlaps between actions."[40] This purposeful focus also drives the choice of harmonized financing criteria across EU programs.
- *Programming anchored in needs and priorities*: EU-funded programs clearly draw from and correlate with relevant strategic documents, both cross-sectoral (e.g., the Romania-EU Partnership Agreement, the Convergence Programme, etc.) and sectoral (e.g., the General Transport Master Plan, the National Health Strategy, etc.). These priorities are generally stable across time, so all stakeholders know what to expect (i.e., what programs finance, under which eligibility conditions, etc.) and can plan accordingly.
- *A predictable and stable timeline, with multiyear budgeting, and a strong data collection and data sharing infrastructure*: The seven year programming cycle (e.g., 2007-2013, 2014-2020) maintains the same strategic objectives, planning documents, and implementation procedures throughout. Even if political power alternates between different parties within that timeframe, no changes occur to the EU operational programmes and their corresponding funding, once these are agreed in the beginning between a national government and the EC. Stability fosters opportunities to coordinate for enhanced impact. An effective IT infrastructure is critical.
- *A common legal and procedural framework*: This is ensured by the Common Provisions Regulation No. 1303/2013, which describes how all 5 European Structural

[40] Romania-EU Partnership Agreement, p. 209

and Investment Funds (ESIF) are to be designed, implemented, and monitored and evaluated. Common regulations were adopted in order to: establish a clear link with the Europe 2020 strategy (i.e., ensure coordination between the overall strategy and the financing instruments designed to accomplish it); improve coordination; ensure consistent implementation; and make access to the funds as straightforward as possible for those who may benefit from them.[41] All programs have similar application procedures and a rigorous, transparent selection process, explained in depth in the Applicant Guides.

- *Increasingly effective citizen engagement* throughout the entire process: from designing a community's strategy to individual project cycles (from pre- to post-implementation). The new Community-Led Local Development (CLLD) instrument is a testimony to the increased focus on citizen engagement in EU-funded operations.

121. **Very few, if any, of such good practices are present when it comes to national programs funded 100% from the state budget.** There is no conscious effort to coordinate such interventions, which is evident from the way they are planned through implementation and post-implementation. There are no standards for how to develop an infrastructure investment program. In the past, ministries have taken the liberty to propose such instruments through more or less elaborate government ordinances, some with criteria for allocating funding, and others without. Compared to EU-funded instruments:

- There is no mandate to coordinate across infrastructure projects, in none of the national cross-sectoral strategies (e.g., the Governing Program, the Fiscal Budgetary Strategy, etc.).
- The timeline and the budget are annual. There is a high level of unpredictability from one year to the next. Usually the list of financed projects is adopted every year through a Minister's order, as in the case of the PNDL. Priorities may change without warning along with political changes.
- There are no common procedures across programs for approving, selecting, and implementing projects. There are no monitoring and evaluation systems, and there is no independent stakeholder charged with looking at how these programs are performing.
- Finally, the level of citizens' engagement in programming and throughout a project's cycle is very low. This means that local authorities may miss out on what the community's needs are in reality, delivering suboptimal impact through the financed investments.

The following sections elaborate on the preconditions needed for building a strong foundation for harmonized criteria, focusing on where the main gaps continue to exist – i.e., among state-budget-funded projects.

[41] *See* http://ec.europa.eu/contracts_grants/funds_en.htm

## Precondition #1: Focus Explicitly on Coordination

122. **For coordination to happen, relevant stakeholders should adopt this as an explicit purpose.** Put simply, public sector employees responsible for the design and implementation of state-budget-funded investment programs that require a coordinated approach should first *want to coordinate*. Coordination with other authorities should be included in the list of legal responsibilities corresponding to each authority in charge of such investment instruments. For instance, each ministry has a law defining its mandate; there is also a Law of Local Public Administration that defines the tasks of county and local authorities. Both political and technical positions should assume the goal of coordination. Based on adjustments to the relevant legislative acts, coordination should further be adopted as a key goal in the bylaws (*Regulamentul de Organizare și Funcționare* – ROF) of each authority. Mission and internal strategy documents should also be adapted to reflect this renewed focus on coordination. Further, this should trickle down to the terms of reference (fișa postului) of each staff, particularly those in the units responsible for designing investment programs.

123. **This purposeful focus on coordination should also be reflected in the requirement to include a section on coordination in each programming document.** For example, in the case of the PNDL, DG RDI should cooperate with DG European Programs, which manages the Regional Operational Programme, to replicate best practices in designing a coordinated investment program, including in terms of financing criteria. This would ensure not only a superior correlation between the PNDL and the ROP, but also active learning in terms of developing a programming document (essentially missing in the case of state-budget-funded programs, as explained below) and with respect to potential coordination mechanisms.

## Precondition #2: Anchor Programming and Projects in Clear Needs and Priorities

124. **In order to coordinate properly, one has to first know what there is to coordinate.** When it comes to public investments financed by the state budget, proper coordination is hard to do because these programs are often changing, with priorities shifting from year to year. If EU-funded programs follow clear and stable priorities anchored in strategic documents, state-budget-funded programs modify their priorities from one cabinet to the next and even under the same administration's mandate. For example, water and wastewater investments have in the past been funded through the Government Ordinance 7/2006. Funding for these investments had not been predictable since the ordinance came into effect, and the rules of the game changed again once this Ordinance was rolled into the National Program for Local Development (PNDL) in early 2013.

125. **At the national level, a government's cross-sectoral priorities are usually set through a high-level strategic document.** The problem is that these priorities are not always carried over if there is a change in government and/or even at the level of a single ministry. This is also the main source of the unpredictability of state-budget-funded programs. To overcome this problem, it is important to identify national priorities that enjoy political and popular consensus – i.e., issues that most people in the country consider

to be of high importance – and keep moving a consistent agenda forward, regardless of political changes.

### *The Efficient Use of National Public Funds: Core Principles and Sources*

126. **Ideally, national funds should be allocated for public investments only when such projects cannot be financed efficiently by other administrative tiers or by the private sector.** Following the subsidiarity principle, whenever possible, infrastructure investments should be taken on by the administrative tier that is closest to the people that will benefit from this infrastructure. For example, the highway and railway network services the entire country, so its development and maintenance usually fall under the responsibility of the central government. At the same time, educational infrastructure is typically administered locally, where the needs are best understood and can be more easily targeted.

127. **Sub-national administrative units have some resources available for investments in public infrastructure, although there are stark differences between the richest administrative units and the poorest ones.** The report on "Improved Prioritization Criteria for the PNDL" presents a simple methodology for assessing the prudent capital expenditure margins for sub-national administrative units. In simple terms, this methodology uses budget execution data for all territorial administrative units in Romania to determine how much of their projected cumulative budgets for 2014-2022 – the programming and implementation timeline for EU-funded investments – could be allocated to investments in public infrastructure without incurring the risk of not being able to cover subsequent operation and maintenance costs.

128. **The table below synthesizes available data on prudent capital expenditures.** What becomes immediately evident is that over 55% of the total funds that could (prudently) be allocated for capital expenditures are generated by Bucharest (the General City Hall and the sector city halls) and the 102 municipalities in Romania. In particular, the 20 largest municipalities together generate about as much as Bucharest and its six sectors. All 2,861 communes in Romania generate about as many revenues for capital investments as Bucharest – for each commune, this is equivalent to around EUR 1.9 million on average for 2014-2022. This means that the average commune in Romania can finance from its own funds only, say, a communal road and a school's rehabilitation between 2014 and 2022. Around the same sum was obtained (around 24 billion Euro for 2014-2022) when the actual average yearly capital expenditures for 2009-2013 (around 2.3 billion Euro/year) were projected for 2014-2020. However, the Prudent Capital Expenditure methodology allows for a more reliable estimate of what individual territorial administrative units could spend on capital expenditures between 2014 and 2022.

**Table 7. Prudent Capital Expenditure Margins for 2014-2022, by type of sub-national administrative unit**

| Sub-national Administrative Unit | Prudent Capital Expenditure Margin for 2014-2022 | % of total | Number of administrative units | Average capital expenditure margin per administrative unit |
|---|---|---|---|---|
| County Councils | € 2,685,252,241 | 11.7% | 41 | € 65,493,957.10 |
| Municipalities | € 7,584,353,635 | 33.1% | 102 | € 74,356,408.18 |

| Sub-national Administrative Unit | Prudent Capital Expenditure Margin for 2014-2022 | % of total | Number of administrative units | Average capital expenditure margin per administrative unit |
|---|---|---|---|---|
| Towns | € 1,961,519,626 | 8.6% | 217 | € 9,039,260.95 |
| Communes | € 5,418,292,255 | 23.7% | 2861 | € 1,893,845.60 |
| Bucharest | € 5,250,942,558 | 22.9% | 7* | € 750,134,651.08 |
| **TOTAL** | **€ 22,900,360,314** | | | |

**Note: Includes Bucharest City Hall and the six sector city halls*
*Data Source: MRDPA*

129. **In essence, communes and towns in Romania have a very low self-financing potential and, at least over the short-to-medium term, are likely to remain heavily reliant on EU and central-budget funds for critical capital investments.** This does not mean that such administrative units should put off any effort to improve their basic infrastructure until they have their own funds to make such expenditures. Rather, the implication is that state-budget financing, when directed at the sub-national level, should target those administrative units that have the highest need and the lowest capacity to generate their own revenues for such investments. At the same time, it is important to ensure that operation and maintenance costs for new infrastructure are either paid for by a financially more potent entity (e.g., a regional water company), or can be sustainably covered from the budget of the beneficiary locality. When a choice has to be made between two poor localities, a preference should be given to the locality that can also cover future operation and maintenance costs. The report on "Improved Prioritization Criteria for the PNDL" includes both a ranking of the development level of territorial administrative units in Romania (based on the Local Human Development Index methodology developed by sociologist Dumitru Sandu) and a raking of their individual prudent capital expenditure margins (i.e., the Financial Sustainability Index).

130. **In addition to sub-national administrative units, there are also private companies that can contribute to necessary infrastructure investments.** Private companies often cover from their own budget costs related to the critical infrastructure (e.g., roads, water, wastewater, gas, electricity, broadband, etc.) that services their new investment. There are also companies that invest in business infrastructure (e.g., tech parks, office buildings, etc.) that may benefit an entire region. To the extent that critical infrastructure investments can be carried out by the private sector, public funds should not be allocated for such investments. These are situations where free markets can address the problem without government intervention, freeing up resources for those situations – such as the ones described above in poor localities – where public funds are absolutely vital.

131. **Companies in Romania have had growing revenues and profits over the past few years.** As the table below highlights, yearly revenues have grown from around EUR 163 billion in 2009 to around EUR 224 billion in 2013 – i.e., at an 8.25% compound annual growth rate (CAGR), which is significant by any measure. Profits were only a fraction of revenues, but they also registered a CAGR of 6.38%.

**Table 8. Revenues and Profits for Romanian Firms (in EUR)**

| | 2009 | 2010 | 2011 | 2012 | 2013 | *CAGR* |
|---|---|---|---|---|---|---|
| Revenues | 163,485,337,218 | 177,055,717,728 | 210,350,677,457 | 224,057,834,225 | 224,481,923,898 | ***8.25%*** |
| Profits | 9,902,718,649 | 9,743,640,150 | 11,626,792,278 | 11,848,564,093 | 12,681,044,891 | ***6.38%*** |

*Source: Listă Fime*

132. **Company revenues for 2009-2013 can form the basis for the estimation of revenues for 2014-2022.** Three scenarios have been considered in this respect. Thus, the optimistic scenario envisaged a growth of the private market in Romania in tune with what has happened over the past five years – i.e., a CAGR of 8.25% for revenues and a CAGR of 6.38% for profits. The average scenario envisaged a 5% annual growth, while the pessimistic scenario assumed a 1% growth. Considering these three options, we can estimate that firms in Romania will generate between EUR 2 and 3 trillion between 2014 and 2022, and between EUR 120 and 157 billion in profits. These are significant funds and at least a part of the generated profits will likely be reinvested in needed infrastructure. Given that firm revenue numbers include double-counting,[42] it is best to use profit numbers to estimate the potential involvement of the private sector in the development of business and other infrastructure.

**Table 9. Scenarios for the growth of firm revenues and profits (in EUR)**

| | Scenarios | 2014-2022 |
|---|---|---|
| **REVENUES** | Optimistic | **3,066,263,840,606** |
| | Average | **2,599,027,591,064** |
| | Pessimistic | **2,124,095,675,563** |
| **PROFITS** | Optimistic | **157,458,918,259** |
| | Average | **146,819,774,986** |
| | Pessimistic | **119,990,742,002** |

*Data Source: Listă Fime and authors' calculations*

133. **Assuming that a conservative 1% of firm profits are re-invested in infrastructure, it means that the private sector could allocate around 1.46 billion Euro for infrastructure investments.**

134. **In addition to companies, private households can also take on certain infrastructure investments.** For example, people often bear the costs of water, wastewater, gas, and road extensions to new neighborhoods. Similarly, individual households can take over financing of investments started with central government funds. For example, the thermal insulation program started by the Ministry of Regional Development has been quite successful. The program began with a 50-30-20 financing scheme, with 50% of funds

[42] For example, the grain that makes a loaf of bread will be reflected in the revenues of: the agricultural producer, the mill that grinds the grains and sells the flour, the bakery that prepared the bread, the retailer that sells the bread, and the restaurant that serves the bread with a meal to an end customer.

for the rehabilitation of an apartment block provided by the Central Government, 30% by local authorities, and 20% by end beneficiaries. Apartment blocks all over Romania have been rehabilitated in this way, and many people have eventually resorted to 100% private financing of thermal rehabilitation works.

135. **In 2013, the average salary in Romania was RON 2,163 (around EUR 490) and there were 4,443,554 employed people, according to the National Statistics Institute.** This means that households in Romania had a disposable income of around EUR 2.2 billion in 2013. Assuming a compound annual growth rate of around 3% in the average salary, we can estimate that households in Romania will generate revenues of around EUR 23 billion between 2014 and 2022. A fraction of those funds could be used for infrastructure investments, such as the thermal rehabilitation of apartment blocks or the extension of a water and wastewater system. Obviously, households in more dynamic economic centers (e.g., the largest cities in the country) have and will continue to have more disposable income for investments than people living in poorer areas.

136. **The Romanian National Institute of Statistics indicates that only 0.6% of household incomes in Romania goes to investments in infrastructure, such as the construction/rehabilitation of homes.** This is not a very large sum, but it is another potential source of investments – a source that may become larger, as incomes grow, and as people become less reliant on public authorities for certain infrastructure investments. However, assuming that not much will change over the next few years, we could estimate that *around EUR 0.14 billion* could be spent by households on infrastructure investments between 2014 and 2022.

137. **EU funds complement the sources mentioned above.** As the table below indicates, around EUR 30.7 billion in EU grants are available for infrastructure investments between 2014 and 2022, while national co-financing amounts to around EUR 6.2 billion – for a total allocation of around EUR 37 billion. For many public administration units, EU funds represent the main – and often the only – source for needed capital investments. EU Operational Programmes have clearly identified priorities, and funds allocated by priority axis help address identified needs. Ideally, a similar approach should be taken in the use of state-budget funds.

**Table 10. EU Programmes Allocation for 2014-2020 (in EUR)**

| OPERATIONAL PROGRAMME | EU Grants | National Co-financing |
|---|---|---|
| **OP Large Infrastructure** | € 9,418,524,484 | € 2,467,184,896 |
| **OP Human Capital** | € 4,326,838,744 | € 757,596,305 |
| **OP Administrative Capacity** | € 553,191,489 | € 97,622,027* |
| **OP Competitiveness** | € 1,329,787,234 | € 252,983,613 |
| **OP Technical Assistance** | € 212,765,960 | € 38,448,062 |
| **Regional Operational Programme** | € 6,700,000,000 | € 1,182,352,941* |
| **Rural Development Programme** | € 8,015,663,402 | € 1,347,000,000 |
| **Fisheries OP** | € 168,421,371 | € 29,721,418* |
| **TOTAL** | **€ 30,725,192,684** | **€ 6,172,909,263** |

138. **Finally, the state budget is one of the key sources for investments in needed public infrastructure, and it will likely continue to be so in future years too.** Estimating prudent capital expenditure margins is harder for the Central Government given the lack of budget data and because of the frequent changes in Government. However, one could estimate available funds by looking at budget executions in the past years and projecting average values in the future. The table below indicates that on average, the Romania Government has spent around 2.3 billion Euro on capital expenditures.

**Table 11. Central Government Yearly Capital Expenditures**

| YEAR | 2009 | 2010 | 2011 | 2012 | 2013 | Average 2009-13 |
|---|---|---|---|---|---|---|
| RON | 10,970,595,436 | 9,513,472,485 | 11,108,147,781 | 9,158,640,141 | 9,179,784,047 | 9,986,127,978 |
| EUR | 2,589,053,274 | 2,259,785,858 | 2,621,144,383 | 2,055,350,121 | 2,077,344,206 | 2,320,535,569 |

*Source:* ***World Bank BOOST Database***

139. **Assuming an optimistic, medium, and pessimistic growth in coming years, one can obtain rough estimates on Government capital expenditures for 2014-2022.** These estimates are included in the table below. Thus, in an average scenario, the Romania Government could allocate around 24 billion for capital expenditures between 2014 and 2022.

**Table 12. Estimates for Government Capital Expenditures for 2014-2022 (in Euro)**

| Scenarios | 2014-2022 |
|---|---|
| Pessimistic | € 21,957,400,758 |
| Medium | € 24,281,804,127 |
| Optimistic | € 26,866,911,437 |

140. **The table below provides an overview of the different funds that could potentially be leveraged for investments in needed infrastructure between 2014 and 2022.** Overall, one could estimate that around 85 billion Euro will be available for capital expenditures in Romania between 2014 and 2022.

**Table 13. Potential funding sources for capital investments 2014-2022 (in EUR)**

| | |
|---|---|
| Central Government | € 24,281,804,127 |
| Local Government | € 22,900,360,314 |
| EU Programmes | € 36,898,101,947 |
| Private Firms | € 1,468,197,750 |
| Households | € 140,000,000 |
| **TOTAL** | **€ 85,688,464,138** |

### *Identifying Investment Needs*

141. **One criterion for identifying priorities – although not the only one – is the assessed investment need in a particular sector.** Often, high-priority sectors are also areas where investment needs are significant. It is therefore important that when the government identifies a particular sector as a priority intervention area, it also has a clear understanding of the investments needs in that particular sector. Understanding

investment needs is required for the design of investment programs, and for the design of cooperation and coordination mechanisms. For example, the modernization of dirt and stone roads in Romania would cost around EUR 3.4 billion, while the rehabilitation and modernization of county roads reported by county councils to be in bad or average shape would cost around EUR 6.2 billion. To help address needs in the sector, around EUR 1 billion will be available through the Regional Operational Programme. In the report on "Improved Prioritization Criteria for PNDL projects" it was recommended that EUR 0.43 billion be allocated for county road investments through the PNDL, assuming future annual allocations to the program similar to the PNDL budget at the end of 2014. In addition, it was recommended that county councils allocate around EUR 2.7 billion for capital investments in 2014-2020 (part of which would cover investments in county road rehabilitation/ modernization). Thus, through the three different channels, in a coordinated and harmonized approach, a significant share of investments needs in county roads could be covered by 2022.

142. **The table below gives an overview of the investment needs in a number of key sectors in Romania.** Of course, this is not an exhaustive list of *all* investment needs, but it gives an order of magnitude of the funding gap that has to be covered from other sources than EU funds. A larger funding gap for a particular sector also means that the government has to identify alternative sources of funding and ways of coordinating different investment programs. A similar table was presented earlier, though the version below is more detailed.

**Table 14. Investment needs in key infrastructure sectors and sub-sectors in Romania**

| Priority Sector | Investment Need | Proposed EU allocations for 2014-2020* | Funding Gap |
|---|---|---|---|
| **County Roads** | € 3,412,193,664[1] | € 946,808,511 | € 2,465,385,153 |
| **Communal Roads** | € 4,728,319,110[2] | € 440,236,880 | € 4,288,082,230 |
| **Water and Wastewater** | € 23,804,837,000[3] | € 3,014,236,880 | € 20,790,600,120 |
| **Social Infrastructure** | € 3,705,110,000[4] | € 522,370,000 | € 3,182,740,000 |
| **Highways, expressways, national roads** | € 25,598,220,000[5] | € 5,132,463,679 | € 44,984,220,000 |
| **Railways** | € 14,382,550,000[5] | | |
| **Naval Infrastructure** | € 3,395,000,000[5] | | |
| **Airport Infrastructure** | € 1,327,000,000[5] | | |
| **Intermodal Infrastructure** | €281,450,000[5] | | |
| **TOTAL** | **€82,690,459,774** | **€ 10,056,115,950** | **€ 72,634,343,824** |

1) *Value estimated based on kilometers of dirt or stone county road requiring modernization. Another assessment of investment needs was done using the kilometers of county road in bad or average shape (as described by county councils), and the total investment need in that case amounted to 6.4 billion Euro.*
2) *Value estimated based on kilometers of dirt or stone communal roads requiring modernization.*
3) *Value estimated from 2007-2013 regional water and wastewater masterplans, and from the programmatic documents of the following investment programs: SOP Environment; PNDR; PNDL; Environment Fund.*
4) *Value estimated using a methodology explained in the report on "Improved Prioritization Criteria for PNDL Projects."*
5) *Values provided by the Ministry of Transport*

143. **A clear mapping of investment needs also enables an easier identification of coordination mechanisms.** For example, investment needs in the water and wastewater sector are quite large, and meeting the EU Water Directive and Wastewater Directives targets by 2018 requires a significant effort and an efficient coordination of different investment programs. For the 2007-2013 programming period, investments in the water

and wastewater sector have been done through: SOP Environment (to become part of OP Large Infrastructure 2014-2020), PNDR, PNDL (since 2013), the Environment Fund, credits contracted by regional water companies, and by county councils and local authorities themselves. This vast number of actors should ideally operate around the same rules. In particular, it is important that the investment plans proposed in the Regional Master Plans are taken into consideration by all those who invest in this sector to ensure a coordinated, systematic approach.[43]

### *Predictable Investments for Clearly Identified Needs in Each Sector*

144. **Once key national priorities are set by the Center of Government, individual line ministries should be tasked to take on the implementation of these priorities, with the appropriate budget allocation from the Ministry of Public Finance.** Unfortunately, when it comes to infrastructure investments funded from the state budget, there is very little predictability. One government may focus on one type of investment, while another may set other priorities. Worse even, almost any change of minister (frequent in Romania) comes with new investment priorities. The table below shows how this reality looks like for the MRDPA – a ministry with a large investment portfolio. For one, the total annual capital expenditure budget varies widely – from a high of around RON 3 billion in 2014 to a low of RON 0.2 billion in 2005. In addition, some investment programs have never received any funding since their launch, while others received generous funding for a few years (including through repeat additional allocations within a few months) and no funding at other times.

**Table 15. Budget allocated by Ministry of Regional Development for various investment programs (in RON, thousands)**

| | PROGRAM | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | PNDL - TOTAL **GEO no. 28/2013** | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 450,143 | 2,551,811 |
| 2 | 10,000 KM ROADS OF COUNTY AND LOCAL ROADS **GD no. 530/2010 Repealed by Ordinance no. 28/2013** | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | N/A |
| 3 | RURAL INFRASTRUCTURE DEVELOPMENT PROGRAME **GO no. 7/2006 Repealed by GEO no. 28/2013** | N/A | 197,508 | 740,083 | 984,772 | 813,967 | 411,703 | 495,371 | 0 | - | N/A |

[43] *See* the detailed Investment Guides for county roads, water and wastewater, and local roads and social infrastructure for a detailed mapping of needs and current endowment at the level of each county. These guides are delivered together with the current report in electronic form.

| | PROGRAM | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 4 | ROADS OF LOCAL AND COUNTY INTEREST, WATER SUPPLY, SEWAGE AND WASTEWATER IN VILLAGES, AND TOURIST AREAS; ROADS OF COUNTY AND LOCAL INTEREST SUBPROGRAM **GD no. 577/1997 Repealed by GEO no. 28/2013** | - | 112,812 | 154,745 | 99,147 | 360,420 | 411,346 | 533,721 | 356,800 | - | N/A |
| | GD 577 WATER SUPPLY SUBPROGRAM; **GD no. 577/1997 Repealed by GEO no. 28/2013** | - | 87,565 | 100,734 | 87,914 | 258,113 | 101,568 | 253,376 | 146,796 | - | N/A |
| | GD 577 SEWAGE AND WASTEWATER SUBPROGRAM **GD no. 577/1997 Repealed by GEO no. 28/2013** | - | 0 | 0 | 0 | 0 | 7,710 | 21,361 | 26,104 | - | N/A |
| 5 | THE YOUTH RENTAL HOUSING PROGRAM DEVELOPED THROUGH THE NATIONAL HOUSING AGENCY (NHA) **Law no. 152/1998** | 192,938 | 166,227 | 225,199 | 352,781 | 425,540 | 229,443 | 261,457 | 96,729 | 60,174 | 118,052 |
| 6 | THE SOCIAL CONSTRUCTION FOR THE ROMA COMMUNITY PROGRAM DEVELOPED THROUGH NHA **GD no. 1237/2008** | N/A | N/A | N/A | 0 | 0 | 121,131 | 8,482 | 0 | 0 | 6,500 |
| 7 | RENTAL HOUSING CONSTRUCTION PROGRAM, CONDUCTED BY ATTRACTING PRIVATE CAPITAL **GD no. 352/2012** | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 |
| 8 | THE "ROMANIAN VILLAGE RENAISSANCE - 10 HOUSES FOR PROFESSIONALS" PROGRAM **GD no. 151/2010** | N/A | N/A | N/A | N/A | N/A | 0 | 0 | 0 | 0 | 0 |
| 9 | THE SOCIAL HOUSING PROGRAM FOR THE TENANTS EVICTED FROM NATIONALIZED HOUSES **GEO no. 74/2007** | N/A | N/A | N/A | 65,741 | 110,000 | 36,000 | 45,826 | 25,000 | 9,000 | 31,500 |

| | PROGRAM | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 | THE SOCIAL HOUSING CONSTRUCTION PROGRAM **Law no. 114/1996** | 3,235 | 9,950 | 20,529 | 16,700 | 71,400 | 28,250 | 33,583 | 16,300 | 10,800 | 23,500 |
| 11 | HOUSING UNITS CONSTRUCTION PROGRAM **GO no. 19/1994** | 10,090 | 11,999 | 8,387 | 8,500 | 8,400 | 7,200 | 0 | 1,800 | N/A | N/A |
| 12 | THE PROGRAM ON INSURANCE PREMIUMS FOR STATE SAVING AND LENDING IN COLLECTIVE SYSTEM **GEO no. 99/2006** | N/A | 21,196 | 11,635 | 11,862 | 11,834 | 58,520 | 40,000 | 42,500 | 113,175 | 158,000 |
| 13 | NATIONAL PROGRAM FOR SUPPORTING THE CONSTRUCTION OF PERSONAL PROPERTY HOUSES **GEO no. 51/2006** | N/A | - | 162 | 1,358 | 10,297 | 5,000 | 0 | 4,545 | 0 | 10,000 |
| 14 | NATIONAL PROGRAM FOR INCREASING THE ENERGY EFFICIENCY IN RESIDENTIAL BUILDINGS **GEO no. 18/2009** | N/A | N/A | N/A | N/A | 159,992 | 149,482 | 136,986 | 18,530 | 12,283 | 58,000 |
| 15 | THERMAL REHABILITATION OF RESIDENTIAL BUILDINGS FINANCED BY BANK LOANS WITH GOVERNMENT GUARANTEE **GEO no. 69/2010** | N/A | N/A | N/A | N/A | N/A | 0 | 1,3 | 50 | 250 | 224 |
| 16 | HEATING PROGRAM 2006-2015 - HEAT AND COMFORT, REHABILITATION COMPONENT OF THE CENTRALIZED HEAT SUPPLY **GD no. 462/2006** | N/A | - | - | 103,633 | 43,449 | 54,012 | 42,812 | 39,460 | 33,371 | 73,300 |
| | **TOTAL (in RON thousands)** | **206,263** | **607,257** | **1,261,475** | **1,732,409** | **2,273,412** | **1,500,354** | **1,864,503** | **774,564** | **688,946** | **3,030,663** |

145. **Because of the unpredictability of funding under state-budget-funded programs, many projects get started and are never finished.** Since funding may be available one year and not available the next, there are thousands of open construction sites all over Romania. For example, the first layer of asphalt may be laid for a communal road and left as such until funding becomes available for the second layer. However, by the time the funds for the second layer become available, the first layer may be deteriorated beyond repair. In essence, this translates into a significant waste of resources. Similarly, investments in water piping may depreciate quickly if the water system does not become operational in due

time. There are also situations where a locality has invested in the wastewater system anticipating that it would also receive funds for the water system, only to find out that funding was no longer available.

146. **The poor performance of state-funded investment programs is itself among the causes for the poor absorption of EU funds.** Since public authorities in Romania have little experience with carrying out investment programs on multiannual budgets, they are often ill prepared to leverage funds through rigorously planned EU-funded investment programs. In essence, everything has to be learned more or less from scratch – everything from programmatic documents to clear evaluation and selection criteria and tight implementation schedules.

147. **Clearly established investment needs also help set specific indicators for individual investment programs.** Without a clear understanding of what targets need to be achieved, investment programs tend to meander aimlessly – financing projects here and there, and continuing for years on end. The MRDPA, for example, has a number of programs that have received funding every year since 2005, without a clear operational document at their foundation to identify the goals that need to be achieved. Many of them do not track any program-level indicators. One cannot manage what does not measure.

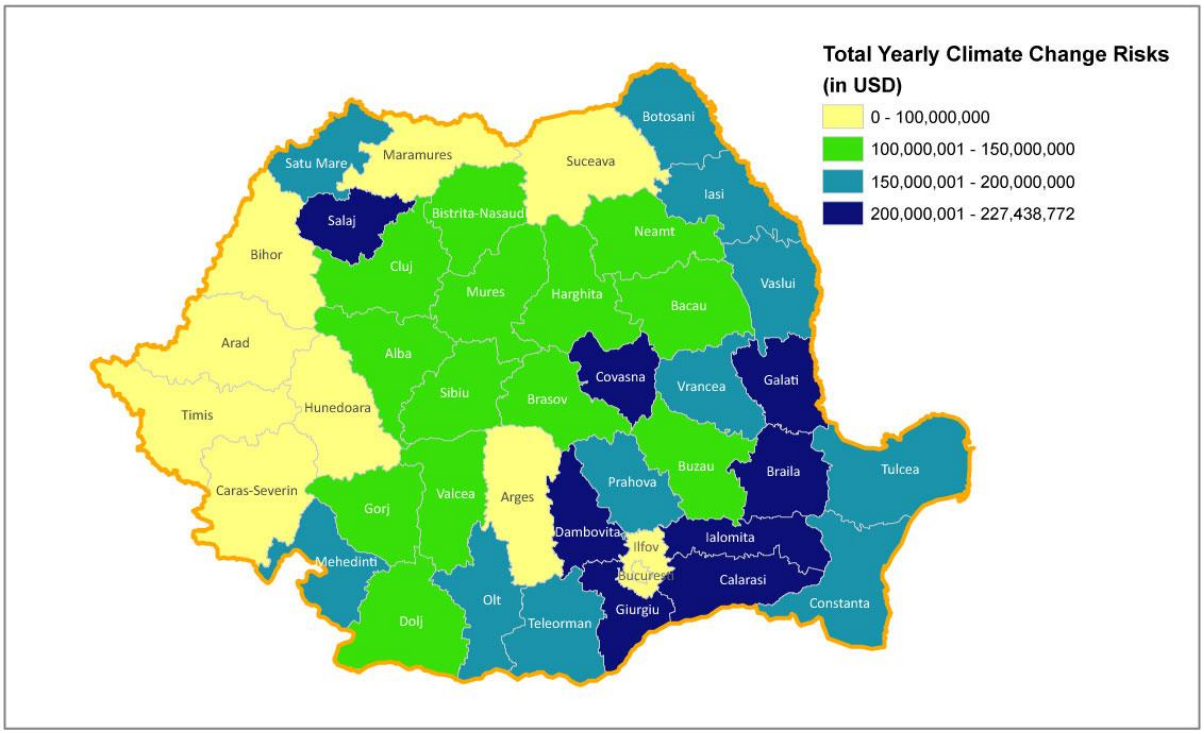
148. **Clearly identified needs also help with better budget planning.** If a multiannual budget program is agreed upon, it is also easier to secure the proper budget allocation from the Minister of Finance, and it is less likely to have investment programs be the victims of short-term budget adjustments or political changes. Whenever there is a national budget re-shuffling, it is usually the public investment programs that are first considered for a cut. However, this is less likely to happen if a clear investment program has been agreed upon.

### *Predictable Funds for Unpredictable Needs*

149. **Not all investment needs are set in stone.** There are always a number of unforeseeable events that may require funds to cover urgent needs. For example, the MRDPA has to regularly cover investment needs caused by unforeseeable weather events. Although severe weather events that cause public infrastructure damages reoccur almost every year, public authorities are often unprepared to handle these events.

150. **There are, however, ways to make unpredictable events a bit more "predictable."** For example, weather patterns can be studied over several years to determine trends and to assess the likelihood of their occurrence over a period of time. Such a methodology is discussed in Annex 2. It assesses the likelihood that extreme weather events (i.e., floods, droughts, snow storms, or freezes) will occur in different counties of Romania. These risks were then compounded to determine the probability of extreme weather events occurring in specific Romanian countries. The map below translates those risks into actual pecuniary estimates – i.e., the damages (in USD) that are likely to be caused by extreme weather events, per county. This can enable the MRDPA to better prepare for such unforeseen occurrences and ensure that emergency funds are available in such circumstances.

**Figure 9. Total yearly climate change risks, by county**




## Precondition #3: Adopt a Set Implementation Timeline and Multiyear Budgeting

151. **To be able to achieve investment targets in an efficient, coordinated fashion, it is critical to have predictability.** This requires further, at a minimum, to know the period over which an investment program will be carried out and to have a clear understanding of the resources available to finalize planned investments. Without clear deadlines it is practically impossible to determine whether set targets have been met, and without a clear budget it is practically impossible to clearly identify priorities. Basically, without set deadlines and without a clearly limited budget, almost everything becomes "a priority" and there is no pressure to finalize investments in due time.

152. **As recommended in the report on "Improved Prioritization Criteria for PNDL Projects," state-funded investment programs should follow EU programmatic periods – i.e., seven years plus three years for finishing project implementation.** This has multiple advantages. On the one hand, the EU provides grants for critical infrastructure investments and the impact of these investments should be enhanced through a strategic allocation of state-budget funds. Adopting the same programming period means that all investment programs follow the same overall development strategy (i.e., contribute toward the same goals), have coordinated evaluation and selection criteria, and lessons can more easily be transferred from one program to the other.

153. **A clear budget imposes discipline in the identification of priorities.** Ideally, one would need a legal framework for multiannual budgeting. However, this is not necessarily a pre-requisite. EU Operational Programmes function in Romania even without such a

framework in place. What is important is to have wide political consensus around a number of key goals. For example, if everybody agrees that the development of the highway network in Romania is a priority, then state-budget resources should complement the funds allocated through EU programmes and, even if there is a change in government, the new party in power should continue the investments started by the previous cabinet.

154. **The Ministry of Public Finance plays a critical role in this respect.** It is the Ministry of Public Finance that controls the budget allocation of every public administration in the country, and it is also the entity responsible for ensuring financial and fiscal discipline. In addition, the Ministry of Public Finance – together with the Center of Government, i.e., the Prime Minister's Chancellery, as recommended in the final report on "Coordination of Strategies and Programs" (World Bank, March 2015) – can play an important role in monitoring the performance of the different investment programs and can reallocate funds from poorly performing programs to well-performing ones. In this sense, the Ministry of Public Finance plays a critical role in the coordination of investments. With the assistance of the World Bank a special unit has been established for the prioritization of large infrastructure investments – those of over RON 100 million.

155. **In all this effort, it is critical to rely on a functional and effective data sharing infrastructure.** These frameworks and tools require an up-front investment in time and effort, but once instituted can greatly improve performance and quality of all stakeholder activities relating to infrastructure development. Modern data-sharing platforms and accurate data help development project applicants in site selection (including selecting potential sites in areas where environmental and other impacts may best be avoided, minimized, or otherwise mitigated) and support governmental decision-makers in making timely, informed decisions. This requires effective use of common regulatory workflows, as well as Geospatial Information Systems combined with scientific, environmental, and programmatic databases in standard data formats.

156. **To create such an environment for data sharing to facilitate infrastructure development processes, governments need to develop a set of policies around multiple elements.** These include: consistent data standards for infrastructure development; data Sharing Policies for grant reviews; common core IT and GIS Toolsets; paperless regulatory workflows; and online information portals for dashboard updates and public transparency. In the United States, the Partnership for Public Service has recently backed a call for customer-centered government in the digital age. This "One Government" approach toward data and services envisions a new cross-agency collaborative approach towards implementing customer-centered digital services: "Citizens interacting with government should not have to understand and navigate a complex hierarchy of departments, agencies and offices to receive benefits or services […] To the greatest extent possible, they should feel like they are interacting with a connected entity rather than a maze of divided and isolated organizations."

**Box 3. The Arches Project - Open Source Heritage Inventory & Management System**

Through an initiative with Jordan's Department of Antiquities, two international non-profit organizations, the Getty Conservation Institute (GCI) and the World Monuments Fund (WMF) spent several years creating the Middle Eastern Geodatabase for Antiquities (MEGA), a purpose-build GIS system to inventory and manage archaeology sites at a national level.

In June 2010, the GCI and WMF completed development of MEGA-Jordan, a web-based, bilingual (Arabic-English) GIS built with open source tools. The Department of Antiquities of Jordan deployed the MEGA-Jordan archaeological site inventory and management system nationwide in December 2010.

In April 2011, GCI and WMF made available a prototype of MEGA-Iraq for inventory and management of archaeological sites to the Iraq State Board of Antiquities and Heritage (SBAH). GCI and WMF had planned to expand the capabilities of MEGA-Iraq to document other types of immovable heritage. This project has been delayed due to administrative changes in Iraq.

During the development of the MEGA system, the GCI and WMF received many inquiries from heritage organizations around the world interested in using MEGA. This interest led the GCI and WMF to the decision to develop for the international heritage field a user-friendly, low-cost, web-based geospatial information system designed to help inventory and manage all types of immovable heritage, including archaeological sites, buildings, structures, landscapes, and heritage ensembles or districts. In June 2011, the GCI and WMF began to develop the new system, named "Arches" as an open source project.

Arches was designed as a generic platform, specifically built for managing information about immovable cultural heritage, and can be configured and customized to serve the requirements and needs of a variety of implementing organizations. The project was conceived as a response to the persistent need for a system that fits the inventory requirements of the heritage field without requiring onerous investment of time and resources by organizations to individually create systems to meet very similar needs. Equally important were the goals of promoting long-term preservation and interoperability of datasets that are maintained in Arches. These needs translated into the extensive use of existing standards. As a result, Arches is underpinned by two CIDOC standards: the revised International Core Data Standard for Archaeological and Architectural Heritage (CDS), which has been used as a basis to define the data fields in the generic version of the system, and the CIDOC Conceptual Reference Model (CRM), which has been used to provide the semantic framework.

## Precondition #4: Establish Harmonized Rules and Procedures

157. **There is significant room for improving state-budget-funded programs by establishing a common set of rules and procedures, aligned with those applicable to EU**

**funds.** The December 2014 World Bank final report on "Improved Prioritization Criteria for PNDL Projects" (Component 2) includes a full chapter (Chapter IV) on measures recommended to harmonize PNDL procedures with those applicable to EU structural funds, for each step of the program cycle: preparation of design and awareness-raising campaigns among potential applicants; development of project applications; evaluation and selection procedures (including field visits, the use of external evaluators, etc.); contracting and required training for actual beneficiaries; implementation (reimbursements, monitoring, etc.); and post-implementation M&E and knowledge exchange.

158. **Key recommendations applicable to the PNDL include the following list:**[44]

- ***Dedicated applicant guide.*** **Once the strategic framework is agreed upon, the next step is to develop the operational document for the PNDL – i.e., the Applicant Guide.** This draws the overall rules for implementing the program, offering in-depth descriptions of investment axes and eligible types of interventions, eligible expenditures, eligibility criteria (types of beneficiaries), and evaluation and selection criteria. For effective coordination, this too should be carefully aligned with EU-funded instruments.
- ***Harmonized evaluation and contracting procedures for all applicants.***
    - There should be a single system for applying for funds. The current PNDL framework notes that applicants may submit applications directly to the MRDPA under "special circumstances." The law leaves room for interpretation regarding "special circumstances" in which a local authority may bypass the corresponding county council and submit the documentation directly to the Ministry. This alternative was presumably introduced to allow local authorities that have divergent positions (politically) from a County Council to apply directly to the MRDPA. But this runs the risk of introducing double standards. All applicants should go through the same process: if the ministry does not think that county councils can treat all applications equally, then it should centralize all submissions to ensure a level playing field, along with measures to increase the transparency of the process. An appeal system may be considered, to enable applicants to contest certain decisions.
    - The PNDL should include a technical and financial evaluation (TFE) of proposed projects that are deemed to be eligible for funding. Projects that are not in full conformity with program rules should not make it to the TFE phase. EU-funded programs like the ROP and the PNDR provide good examples of what the TFE should consist of. Evaluation grids should be published along with Applicant Guides to ensure that there is full transparency regarding how proposed projects are reviewed. Importantly, this step in the process can be iterative: evaluators should ask for clarifications and applicants – with the help of their consultants and designers – should be allowed the opportunity to improve the submitted

[44] These are also featured in the final report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, March 2015

documentation. A maximum number of clarification rounds can be set to two, as is typical for the EU-funded programs. It may make sense to also explore the option of hiring external evaluators for this stage.

- For particularly large and/or complex projects, the MRDPA should conduct field visits to check the conditions on the ground for completing proposed works. This can also be done on a random sampling basis. The idea is not only to sanction applicants whose documents do not reflect the reality on the ground, but especially to assist them by drawing attention to particular technical and financial aspects. To maintain the objectivity of the process and also keeping in mind the limited internal resources at the MRDPA level, this phase could also be carried out with the help of external support.

- ***Stronger monitoring and evaluation (M&E) mechanisms at program level.***
  - First, the PNDL should set performance indicators for the entire program (e.g., number of projects, total beneficiaries, absorption rates, etc.) and for each sector (length of rehabilitated roads, number of additional people with access to water and sanitation, etc.)
  - Second, to enable the monitoring process to run smoothly, a Monitoring Committee could be established, including both staff of the MRDPA and representatives of the beneficiaries (e.g., one representative per county). Monitoring should also rely on County Councils and on local communities themselves.

- ***Stronger monitoring at the project level.***
  - A proper monitoring is the first step in enabling the MRDPA to correct issues promptly as they develop during the project implementation phase. Currently, the system is based on simple desk reviews of submitted documents, as there are no continuous mechanisms for verifying the works on the ground. This is critical in terms of providing a constant flow of information regarding how projects are advancing, how much funds they would require at different stages in their implementation, where delays are accumulating and why, etc.
  - For its part, the MRDPA should continue to have the overall program monitoring role, with specific project monitoring visits scheduled based on a defined methodology (e.g., as mentioned earlier, larger/more complex projects should be more carefully scrutinized). In addition, the MRDPA could rely on a more active involvement by county council representatives, as well as on independent auditors. It is highly recommended to implement a standard electronic reporting system, easily accessible by all local authorities, who should be incentivized to gradually move away from hard-copy report submissions. This would enable faster processing and real-time monitoring of progress.

- ***Adoption of harmonized procedures for the post-implementation phase, following the example of EU funds.***
  - The first step in establishing a proper M&E system for the post-implementation phase is to define and agree on a set of performance indicators for each financed project. Based on Romania's experience with

EU funds, PNDL applicants should be encouraged to select from a pre-defined list, customized based on type of investment, which would be easy to implement particularly through an e-application form. At a minimum, chosen indicators should abide by the "SMART" set of criteria: specific, measurable, attainable, relevant, and time-oriented. As an alternative, applicants could be free to choose their own targets, but evaluators should be allowed and instructed to correct these based on the principles enunciated above. These solutions would avoid instances of beneficiaries over-promising on the impact of their projects and would also save time when preparing the monitoring reports.

- There is also a need to continue monitoring visits in the field for a number of years after the completion of the investment. Again, this can be done with the support of county councils or independent auditors. The purpose is to see how the project is performing, if the indicators have been reached, and if there are any issues worth signaling in terms of operations and maintenance.
- Last but not least, the MRDPA should leverage the experience of beneficiaries who successfully complete PNDL projects and involve them in dedicated knowledge-sharing mechanisms. One simple option is to add to the ex-post monitoring reports submitted by beneficiaries a number of questions asking for suggestions for future beneficiaries. It should be easy to receive and collect this feedback at the level of each county in electronic form, and then send it to the MRDPA for further processing and analysis. Another option is to host in-person workshops with successful PNDL "graduates" acting as trainers and mentors for new beneficiaries. In some regions, successful EU-funded projects are featured in promotional materials and project managers are sometimes asked to give talks to various audiences, but this practice has not been institutionalized for all programs. The PNDL can replicate and improve these mechanisms.

- ***Development of Infrastructure Centers of Excellence (COEs) for the entire project cycle and for a wide range of stakeholders.***
  - Infrastructure development efforts often operate in a crowded landscape of various stakeholders, including financial and regulatory organizations, local governments, and the private development organizations required for PPPs. This creates a byzantine bureaucracy that can lose sight of the ultimate perspective of the end-user in infrastructure development, while also often making process improvement and organizational development initiatives seem uncoordinated or difficult to replicate. To more effectively work across these diverse stakeholders and turn cross-cutting infrastructure initiatives into sustainable programs that continuously improve and transform processes, government leaders are turning to teams of subject area business process professionals to establish centers of excellence (COEs). A COE should, at a most basic level, consist of a team of people that promote collaboration and using best practices around a specific focus area to drive business or customer-valued results. This team could be staffed with full- or part-time members.

- When implemented as a shared service, or distributed across functional units and cross-functional processes, COEs connect stakeholders with process experts, regulatory staff, and other public/private development stakeholders through five essential capabilities: clearly articulated portfolios of business process services; formalized relationships with local government, regulatory, and commercial stakeholders and suppliers; effective working structures for delivering the portfolio; efficient service management processes; integrated quality assurance.
- There is no single way to design a COE, and organizations should consider their specific needs closely when working on designing and deploying a new COE. At the core, however, all COEs should serve any or all of five basic needs for their area of focus. For the purposes of this report, these areas of focus could include infrastructure development financing/grants, PPP structuring, permitting, and/or regulatory oversight.
    - Support: For their area of focus, COE's should offer support to the business lines. This may be through services needed, or providing subject matter experts.
    - Guidance: Standards, methodologies, tools and knowledge repositories are typical approaches to filling this need.
    - Shared Learning: Training and certifications, skill assessments, team building and formalized roles are all ways to encourage shared learning.
    - Measurements: COEs should be able to demonstrate they are delivering the valued results that justified their creation through the use of output metrics (reflecting the voice of the customer in the process).
    - Governance: Allocating limited resources (money, people, etc.) across all their possible use is an important function of COEs. They should ensure organizations invest in the most valuable projects and create economies of scale for their service offering. In addition, coordination across other public interests is helpful to enable the COE to deliver value.
- For example, the Build America Transportation Investment Center (BATIC) was incorporated within the United States Department of Transportation (DOT) and designed as a one-stop shop for state and local governments, public and private developers, and investors seeking financing strategies for transportation infrastructure projects. The BATIC's goals are to provide:
    - 'One-Stop Shopping' for the Public and Private Sector: Offering hands-on support for states and local governments trying to access DOT programs and assemble public-private funding packages. Also offering tools and resources for private sector developers and infrastructure investors.
    - Improved Access to DOT Credit Programs: Focusing on key DOT programs that leverage credit to generate further financing, including Transportation Infrastructure Finance and Innovation Act

(TIFIA) loans, Private Activity Bonds (PABs), and Railroad Rehabilitation and Improvement Financing (RRIF) loans.

- Technical Assistance: Sharing best practices from states that are leading the way on private investment with states that have not yet adopted innovative financing strategies.
- Information to Reduce Uncertainty and Delays: Partnering with the DOT Infrastructure Permitting Improvement Center to help local and state governments, project sponsors, and investors ensure that projects are designed and financed to move expeditiously through permitting requirements.

## Precondition #5: Engage Citizens in Local Public Investment Projects

159. **Bedrock of democracy, citizen engagement is crucial for effective and inclusive decision-making processes, especially concerning issues at the local level.** As the main beneficiaries of public investments, citizens are the ones who know best what interventions are necessary in order to bring about development and improve the quality of lives in their respective communities.

160. **The PNDL is a prime candidate for higher citizen engagement for multiple reasons.** First, the program targets very specific interventions at the local level, primarily in small communities across Romania. This makes consultations both more easy to organize and anchored into very concrete proposals (e.g., a new water supply system and a new wastewater treatment plant vs. a rehabilitated school and a new park for the community, etc.). Second, citizens' inputs ensure a higher level of ownership in the community, so projects are better operated and maintained upon completion. Particularly for investments that require user fees when finished – for services that were "free" before, such as water and sanitation, albeit of very poor quality – it becomes critical to get citizens' buy-in *before* the project commences. Citizens can also help in the monitoring of the projects' execution, noting potential abuses in how the allocated funds are spent. Last but not least, citizen engagement in prioritizing projects reduces the weight of political factors in determining which investments should be pursued. When power changes hands between parties, it is expected that the investment priorities would not change, provided they are firmly based on the community's actual needs. This ensures that projects that get started are financed through completion and, moreover, generate a substantial actual impact on people's lives.

161. **In many countries, citizens get involved right from the planning phase, so they can decide from an early stage which projects should be developed.** Through formal or informal consultation sessions, people can provide meaningful inputs to the proposed projects/programs/strategies, as explained in the good practice examples included below. The final sub-section covers a few cases from the Romanian context, with direct applicability for a program like the PNDL.

***Public Consultations in France***

162. **France has a long tradition of involving citizens in community affairs, reaching out to people to express their views and provide feedback on future public investments.** For

instance, the planning contract between the government and the region (*Contrat de Plan d'Etat-Region* - CPER) covering key regional/local projects is presented to the public before the document is approved. Citizens have a month to send in their comments and suggestions on this long-term framework agreement. For example, the projects employing territorial policies as part of the 2015-2020 CPER for Ile-de-France region are implemented through *Contrat de Developpment Territoriale* (Territorial Development Contracts – CDT). There are 22 CDTs executing a EUR 26 billion large public transportation infrastructure investment in the Paris metropolitan area for the next 15 years, each contract dealing with specific issues in connection to the program. The CDTs signed between the state and local communities are submitted for public consultation, so citizens and interested parties can learn about upcoming projects in their neighborhood/community and provide their feedback.

163. **For instance, the CDT for the Paris-Saclay region covers territorial development projects for the communities of Versailles Grand Parc, Saint-Quentin-en-Yvelines, and Vélizy-Villacoublay.** The CTD is a partnership between the prefect of the region, on the one hand, and communities (communes) and intercommunal public associations, on the other hand. Both parties have joined hands to promote a strategic development of the industrial region in order to improve people's quality of life. This contract defines specific interventions with regard to urban and economic development, and protection of natural parks and natural resources.

164. **The public consultation for the CDT took place for a month between January and February 2015.**[45] The municipality of Versailles Grand Parc put the announcement on their website, together with a link to all documents in connection to the project. All relevant materials were submitted to public consultation under a well-organized legal framework.[46] People had access to over 20 documents approved by national, regional, and local authorities. These included the agreement, an explanatory note endorsing the need of the projects and main interventions, territorial plans, environmental assessments, and specific decisions by local and regional authorities.[47]

165. **Another type of public engagement in France was the Environmental Roundtable (Le Grenelle de l'Environment) in 2007, when French authorities reached out to citizens regarding the country's environmental and sustainable development policy.**[48] The public consultation was organized by the Directorate General for State Modernization within the Ministry of Budget, Public Accounts and Civil Service, the Ministry for Ecology, Energy,

[45] Available at: http://www.versaillesgrandparc.fr/quotidien/amenagement/enquete-publique-cdt-paris-saclay/
[46] Available at: http://www.versaillesgrandparc.fr/fileadmin/user_upload/siteAgglo/Quotidien/Amenagement/8_cadrejuridique.pdf
[47] Explanatory note available at: http://www.versaillesgrandparc.fr/fileadmin/user_upload/siteAgglo/Quotidien/Amenagement/1_Notice_explicative.pdf
[48] *Focus on Citizens - Public Engagement for Better Policy and Services (OECD Studies and Public Engagement-2009)*

Sustainable Development, and Town and Country Planning, and was held through dedicated websites and 18 regional meetings. The process was consistent with the Environmental Charter according to which every person must have access to information on environment-related meetings held by public authorities and get involved in decisions with an impact on the environment. People were asked to endorse or reject the proposals produced by five collegial working groups comprising employers, trade unions, NGOs, local authorities, and public sector representatives.

166. **The first part of the consultation included an internet-based engagement, public meetings, and workshops held in many regions and with Parliament, and rounds of negotiations on several issues**. Subsequently, the French president announced the key decisions and made over 200 commitments covering different areas in the field of environmental and sustainable development. In the second part of the public dialogue, significant measures were adopted effective immediately, such as variable insurance premiums for privately owned vehicles. More than 30 committees were established to design interventions in transport, construction, and waste, among other areas.

167. **Regional meetings gathered different stakeholders to ensure a debate at the local level and an appropriate representation in the decision-making process.** The meetings brought together 15,000 people from 17 cities in different regions, including large and average-sized towns and rural communities. Participants included members of economic and social communities, private citizens, and elected local representatives that put forward proposals by the working groups. The prefects (the government's representatives in the region) coordinated the process by managing the debates, engaging the mayors, identifying experts, and organizing the workshops in cooperation with other decentralized government departments. A person appointed by the State Council had to ensure transparency of discussions and that the follow-up briefs were not biased.[49] Citizens sent their proposals and amendments via an online forum held for more than two weeks, in which 14,000 people provided comments.

***Public Consultations in Norway***

168. **A more sophisticated public consultation model was applied in Norway in 2004 for an urban development project aimed at changing the Southern part of Trondheim City.** The Norwegian Board of Technology organized a civic consultation under a project on urban democracy and urban planning. Local politicians decided that the neighborhood should undergo radical transformation by developing 10,000 new white-collar workplaces, 1,500 new residential apartments, a new bridge over the river Nidelva, and local services connected to public transport, main roads, and attractive public spaces in the area. This form of public engagement aimed at actively involving ordinary, non-organized citizens in the urban planning process, in line with the Norwegian Planning and Building Act, and listening to what they have to say regarding the upcoming urban development interventions.

[49] The State Council (*Conseil d'Etat*) is a governmental body in France acting as legal advisor to the Government and as Supreme Court for administrative justice.

169. **Citizens were recruited via press announcements and invitations sent randomly out to 1,000 inhabitants, and then organized in panels of 14 people each.** At the end of the discussions, a statement with conclusions was handed over to the mayor, explaining the reasons why people did not agree with the municipality's proposals. For example, citizens believed that construction of new apartments was not compatible with the traffic issues; they also questioned the need of building more office buildings in the area. In 2005, the project was put on hold until a new master plan for the city was in place. The public consultation process cost EUR 12,500, which covered expenses for logistics and the financial compensation for participants, as each panel member received EUR 125 for their time.

170. **The examples presented above show how useful public consultations can be, and how important it is to have citizens engaged in determining the most appropriate policies and interventions for their communities**. The public consultation on environmental issues in France provided the platform for a productive regional dialogue and a debate around a host of issues that eventually helped shape up the national environmental policy of the country. However, the downside of this approach is the risk of achieving only a limited diversity among participants given the lack of real guidance, a vague selection process, and reliance upon self-selection. Turning to citizens regarding local projects employed in Norway enabled people to voice their opinions on shaping the future interventions in their community with an impact on their lives. But a shortcomings of this approach is that sometimes such a participative process can lead to major delays in project implementation.

***Citizen Engagement in World Bank (WB) Operations***

171. **The World Bank has a set of tools for promoting transparency and community participation.** The main instrument is the Community Driven Development (CDD) program implementing sustainable development and poverty reduction strategies. CDDs are local development platforms that help communities improve cost efficiency, service quality, and accountability of sector programs. They are based on the principles of transparency, local empowerment, and participation, in addition to greater downward accountability and stronger local capacity.[50] CDDs allow poor communities to get access to information and financial assistance to pinpoint to specific community priorities under a partnership between the community, local governments, and other institutions.

172. **The WB has provided USD 28 billion in financial assistance to more than CDD 600 projects in over 100 countries worldwide.** In recent years, the WB's portfolio on CDD programs has expanded to low-income, middle-income, and conflict-affected countries where it provides financial support for school, health, water supply and sanitation, nutrition programs for mothers and infants, roads in rural areas, and micro-enterprises. The CDD approach not only empowers local decision-making bodies, but also enables communities to exercise control over the necessary resources for delivering basic services.

[50] More information available at:
http://www.worldbank.org/en/topic/communitydrivendevelopment/overview#1

173. **CDD programs bring together multiple disciplines and sectors, in addition to a certain degree of decentralization of resources at the local level.** The WB's support to these programs comes in various forms, from research, development of knowledge products to operational guidelines for procurement, investment, capacity building, monitoring and evaluation. A good level of administrative and fiscal decentralization and existence of environmental policies can be an added value to CDDs. Unlike other programs that involve citizens only in the planning phase, CDDs are relying on citizen's contribution throughout the project life cycle.

174. **A successful CDD project is the Indonesia National Program for Community Empowerment, a USD 12 billion annual program over the past 15 years.**[51] The program covers all 72,000 villages and cities in the country, benefiting approximately 45 million poor people. The consumption gains for the households went up by 9% per capita and by 12% for the poorest households. Another CDD program that made a significant difference at the local level is the Second Azerbaijan Rural Investment Project (AZRIP) aimed at rehabilitating the critical infrastructure in the country and financing livelihood activities, reaching 3.5 million people from 1,800 poor rural communities. Road rehabilitation works have reduced travel time to schools by 47% and to markets by 26%, while school investment projects hiked enrollment in primary education by 25%. The next sub-section describes in detail how a CDD program works in the Romanian context.

175. **Ideally, the local community should not get involved in the design phase only, but throughout project implementation.** For instance, compulsory consultations on environmental assessments take place during project preparation, although they are not pursued during the implementation of the project. Transport projects should have ongoing feedback from citizens for an improved quality of road construction or a better system that should report and address road maintenance issues. At the same time, participation of citizens could mitigate project risk management, promote continuous learning, and enable corrections, whenever needed.

176. **Citizen engagement should not be limited to a specific project, but should go further by strengthening the national, regional, and sectoral processes for participation and feedback, whenever applicable.** For example, people's responses on the performance of public utility sectors should support utility-based engagement mechanisms, while existing institutions should enforce project monitoring performed by third party. For instance, the series of CDD projects targeting village investments in Kyrgyzstan built decentralized structures and increased capacity participation and engagement at the local/village level.

***Citizen Engagement in Romania***

177. **Community-Driven Development (CDD) projects implemented in Romania are a good example of factoring in citizen's preferences in choosing public infrastructure interventions**. For 15 years, Romania was a major recipient of CDD programs implemented

[51] Available at: http://www.worldbank.org/en/topic/communitydrivendevelopment/overview#3

by the Romanian Social Development Fund (RSDF) with financial support from the World Bank and the Council of Europe Development Bank, in addition to some contribution from the Romanian Government and project beneficiaries. The RSDF is a non-profit, autonomous entity that provides support to disadvantaged communities and groups through a participatory approach, a process in which community members identify what the local problems are and choose which priorities should be addressed. Between 1998 and 2013, the RSDF implemented more than 1,400 projects worth EUR 100 million aimed at improving the living conditions of disadvantaged and poor communities in urban and rural areas.

178. **Interventions covered mainly small road and water infrastructure projects endorsed by rural communities, revenue-generating entrepreneurship projects, and community social services centers promoted by intermediary organizations.**[52] Most projects tackled small road infrastructure and water supply, in addition to community social service centers. Overall, 1,438 projects were funded through grants between USD 20,000 and USD 195,000 per project. Nearly two-thirds of interventions covered small infrastructure projects. In addition, the program included 133 integrated projects directed at the social inclusion of Roma people, 150 community social services centers for disadvantaged groups, 219 entrepreneurship interventions, and 16 innovative projects.[53]

179. **The RSDF empowered people to be directly responsible for choosing the appropriate projects for their communities.** The RSDF would appoint a person as a facilitator to help the community identify and prioritize local needs, and subsequently provide support for project design. The community would establish an association of 10 members chosen through a participative method among the town's/commune's residents. With the support of the facilitator, the association would select the project to be financed. The facilitator would help prepare the project application and then submit it to the RSDF for approval. Based on an evaluation (partly conducted on the site), the RSDF would decide whether the project would be awarded the funding. The selection of local priorities would be done entirely by citizens through the community association, with no contribution from the local government.

180. **For its part, the EU has deployed a similar program since 1991, in the form of LEADER.** LEADER is an instrument that gives local actors the opportunity to develop an area by using its endogenous potential. LEADER proved to be a successful approach in supporting local development by offering local stakeholders a method to involve local partners in shaping the development of their communities. LEADER is an important component of Romania's 2007-2013 National Rural Development Plan funded from the EU and has evolved into the Community-Led Local Development (CLLD) instrument for the 2014-2020 programming period.[54]

---

[52] Law on establishing and functioning of the Romanian Social Development Fund available at: http://www4.pmb.ro/wwwt/pactivi/Doc%20legislatie%5CLEGE129%20FRDS.pdf
[53] More info about RSDF available at: https://www.facebook.com/FondulRomandeDezvoltare/info?tab=page_info
[54] Romania will use the CLLD program in the 2014-2020 programming period.

181. **LEADER/CLLD is implemented through Local Action Groups (GAL in Romanian), which are entities established under a partnership between public, private local actors, and civil society.**[55] Public stakeholders could be local and county authorities, while the private segment may include entities from the commercial and banking sector, entrepreneurship organizations, and agricultural groups and associations. Non-profit entities, social, cultural, religious associations, chambers of commerce, ordinary people, and non-registered groups of people can be among civil society representatives. Private and non-profit entities should make up for more than 50% of the GAL.

182. **The GALs design the local development strategy and select the priority projects.** Project selection has to take into consideration priorities identified in the local development strategies. Each GAL must set up the selection criteria for each type of project. It is important for the local groups to prove that they have the adequate capacity to implement the strategy and develop the projects. Local communities must identify the local issues and needs, how problems can be addressed, and how the endogenous potential of the region could be translated into actions benefitting local communities.

183. **Finally, a good example of citizen participation in decision-making at the local level is the drafting of the 2014-2020 Development Strategy for Cluj-Napoca**. This illustrates how a local strategy can be built entirely on the expanded expertise available within the local community. The document was produced through a complex process coordinated by the Faculty of Political, Administrative, and Communications Sciences from Babes-Bolyai University, in cooperation with the Cluj-Napoca City Hall. Twenty-five working groups were created for each relevant sector topic, gathering hundreds of experts from various areas and backgrounds, such as academics, private and public sector representatives, non-profit organizations, and professional associations. Examples of stakeholders involved include representatives from the Babes-Bolyai University, the Business Women Association, the Community Relations Foundation, the Music Academy, the Medical School, and the Romanian Order of Architects. Each working group was comprised of around 30 people, coordinated by 1-3 well-recognized experts. Overall, between 500 and 600 people participated in the drafting process.[56]

184. **The groups' coordinators established the action list, the debates and events for their groups, as well as relevant partners**. All groups acted autonomously. Each of them had to draft its own strategy that included a sectoral diagnosis and a maximum of five priority projects. Debates over main topics and local issues were organized, and people sent more than 600 comments via email. Eventually, a 1,100-page document was produced, pointing to 18 strategic directions centered on the key strategic concept of strengthening the human capital by increasing the quality of life.[57] The implementation of

[55] The 2007-2013 National Rural Development Plan available at: http://www.madr.ro/docs/dezvoltare-rurala/PNDR_2007-2013_versiunea-consolidata-nov2013.pdf
[56] More info available at: http://www.ziardecluj.ro/strategia-municipiului-e-gata-cultura-e-punctul-forte
[57] The Development Strategy for Cluj-Napoca available at: http://www.primariaclujnapoca.ro/userfiles/files/strategia2015.pdf

the strategy would further require a strong partnership between the community and the local administration.

***Citizen Engagement through the PNDL***

185. **The current PNDL has a long way to go in promoting citizen engagement in the prioritization of local and county investments.** As noted earlier, this promises to hold significant value-add in the attempt to reach a more impactful and informed project portfolio, insulated – to the extent possible – from purely political considerations. At a minimum, the local/county development strategies that should lie at the foundation of project proposals for the PNDL should be produced in a highly participatory manner. Where local/county authorities have sufficient capacity, citizen engagement actions should extend to the full project cycle, from design through implementation and post-implementation monitoring and evaluation. To encourage this approach, the evaluation and selection criteria presented in subsequent chapters could be refined to reward those subnational governments that can present credible evidence that citizens have been engaged in the design of the projects put forth for PNDL financing. This could be done relatively easily by adding a dedicated section in the application forms and asking applicants to describe how citizen preferences are factored into the project proposals. The program could further adapt and replicate some of the good practices presented above.

# Chapter 4: Coordinating and Harmonizing PNDL Road Projects

## County Roads

### *Investment Needs*

186. **Investment needs for county roads are easier to estimate then for other types of investments, as they are relatively straightforward and there are also cost standards prepared by the MRDPA.** The table below includes two cost estimates for the modernization/rehabilitation of county roads. The first method is the easiest to calculate, as it simply looks at the network of dirt and stone roads in each county and multiplies the length of the network with the standard cost for road modernization. The National Institute of Statistics collects data on dirt and stone roads every year, so this makes it easy for one to make estimates of investment needs in county roads, on a yearly basis. The second method requires the collection of more in-depth data from individual county councils. Basically, county councils know the situation on the ground better than any other authority, and can most easily indicate which roads require rehabilitation or modernization. For the current report, county councils "self-reported" which roads are in good, average, or bad shape. The length of the roads in bad or average shape made out of dirt or stone is then multiplied by the cost standard for road modernization. The length of the roads in bad or average shape that have some type of asphalt/concrete cover is multiplied by the cost standard for road rehabilitation.

187. **The first method is easier to calculate, the second is a more accurate portrayal of actual investment needs.** Ideally, national funds should primarily be allocated for the modernization of dirt and stone roads, with the responsibility of maintaining and rehabilitating modernized roads falling to the county councils themselves.

**Table 16. Investment needs for county roads, by county**

| COUNTY | Investment Needs (in Euro) | |
|---|---|---|
| | Modernization of Dirt and Stone Roads | Modernization/Rehabilitation of Roads in a Bad or Average State |
| ALBA | € 125,810,496 | € 129,973,598 |
| ARAD | € 85,204,992 | € 186,224,077 |
| ARGEȘ | € 143,450,592 | € 196,840,774 |
| BACAU | € 89,864,640 | € 153,130,427 |
| BIHOR | € 76,884,192 | € 239,782,322 |
| BISTRITA-NASAUD | € 117,489,696 | € 161,490,556 |
| BOTOȘANI | € 76,218,528 | € 137,406,521 |
| BRAILA | € 35,613,024 | € 128,821,346 |
| BRAȘOV | € 87,201,984 | € 135,780,980 |
| BUZAU | € 86,869,152 | € 113,814,343 |
| CALARAȘI | € 117,822,528 | € 121,767,705 |
| CARAȘ-SEVERIN | € 67,232,064 | € 220,448,220 |
| CLUJ | € 127,474,656 | € 205,391,926 |
| CONSTANTA | € 63,570,912 | € 218,213,024 |
| COVASNA | € 14,311,776 | € 65,102,937 |

| COUNTY | Investment Needs (in Euro) | |
|---|---|---|
| | Modernization of Dirt and Stone Roads | Modernization/Rehabilitation of Roads in a Bad or Average State |
| DAMBOVITA | € 53,918,784 | € 198,711,023 |
| DOLJ | € 62,239,584 | € 192,680,113 |
| GALATI | € 58,911,264 | € 125,179,517 |
| GIURGIU | € 54,584,448 | € 87,891,736 |
| GORJ | € 26,959,392 | € 149,171,500 |
| HARGHITA | € 115,492,704 | € 166,565,690 |
| HUNEDOARA | € 226,325,760 | € 331,878,605 |
| IALOMITA | € 37,277,184 | € 104,863,897 |
| IAȘI | € 164,419,008 | € 159,712,671 |
| MARAMUREȘ | € 86,869,152 | € 185,651,067 |
| MEHEDINTI | € 97,519,776 | € 131,401,721 |
| MUREȘ | € 45,265,152 | € 133,820,600 |
| NEAMȚ | € 76,551,360 | € 157,747,631 |
| OLT | € 64,902,240 | € 208,281,828 |
| PRAHOVA | € 32,617,536 | € 181,422,392 |
| SALAJ | € 60,575,424 | € 90,160,255 |
| SATU MARE | € 62,905,248 | € 225,170,917 |
| SIBIU | € 127,807,488 | € 140,644,110 |
| SUCEAVA | € 119,153,856 | € 194,764,055 |
| TELEORMAN | € 90,197,472 | € 38,264,758 |
| TIMIȘ | € 75,220,032 | € 174,284,617 |
| TULCEA | € 43,268,160 | € 122,248,016 |
| VÂLCEA | € 65,900,736 | € 181,817,542 |
| VASLUI | € 158,095,200 | € 171,781,745 |
| VRANCEA | € 78,548,352 | € 135,252,523 |

*Data Sources: National Institute of Statistics, MRDPA, and individual county councils*

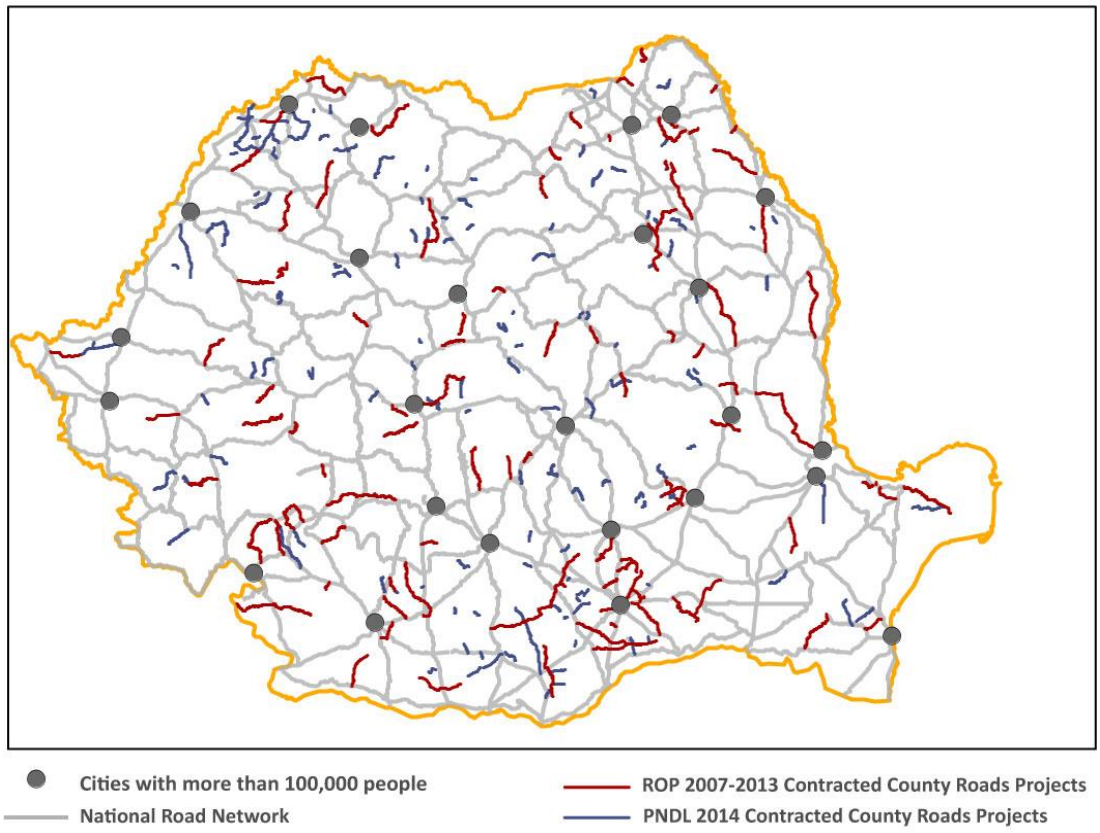
### *Coordination and Harmonization*

**Single beneficiary makes coordination easier**

188. **Investments in county roads are carried out and coordinated by county councils.** This in itself should make coordination easier. More specifically, a county council will know which roads to finance with EU funding, for which to request PNDL funding, and which roads to rehabilitate/modernize with their own funds or with the help of other grants or loans. Of course, in practice, such coordination at the beneficiary level does not always happen – at least not on a more strategic level. As can be seen in the map below, there are relatively few instances where a road link rehabilitated/modernized with ROP 2007-2013 funds has been complemented with another road link rehabilitated/modernized with PNDL funds. At a minimum, coordination is ensured if the exact same road link is not financed from two sources (in fact, this is formally not permitted under EU funds). However, it helps if one strives to do more than the bare minimum. A strategic outlook on the development

of the county road network is critical in this respect, with more attention paid to how different sources of funding can be leveraged to solve key development challenges at the county level.

**Figure 10. There is little coordination of ROP 2007-2013 and PNDL county road investments**




**Limited investment needs and only two major national sources of funding**

189. **Overall investment needs are manageable and could be tackled with the assistance of EU, central budget, and county budget funds.** If the first method of estimating investment needs is taken into consideration (i.e., the one that only looks at the modernization of dirt and stone roads), around EUR 3.4 billion are required to address needs in the sector. If the needs identified by each individual county are taken into consideration (i.e., roads reported in "bad" or "average" condition), then the total tally stands at around EUR 6.4 billion. Either way, both sums appear manageable and can be addressed using EU, state-budget, and county-budget funds. This also makes coordination of investments easier.

190. **The critical coordination will have to be done between projects financed through the ROP and projects financed through the PNDL.** The ROP focuses primarily, although not exclusively, on county roads connecting to the TEN-T network. As such, county councils should ideally apply for ROP funding if they intend to rehabilitate/modernize a county road that is connected to the TEN-T.

191. **However, the ROP 2014-2020 programmatic document was not fully finalized and approved by the EC at the time of the writing of this final report**. It is known at this point in time (June 2015), based on the April 2015 draft of the program, that there will be a fixed pre-allocation for each region for the rehabilitation/modernization of county roads of *strategic regional importance*. These will be Priority 1 projects, which help solve key connectivity issues at the regional level. At this point, only the North-East Region has an approved Priority 1 project list. To the extent that funding will become available after the contracting of the works (i.e., after savings from real vs. budgeted expenses as a result of the bidding and tendering procedures) there will be a possibility to finance Priority 2 projects.

192. **Priority should be given to ROP 2014-2020 projects, as these will be financed with EU grants.** Consequently, the list of PNDL projects should be coordinated with the list of ROP projects. First and foremost, PNDL funds should not be used to finance Priority 1 projects that have been identified for ROP funding. Second, to the extent that a county road connects to the TEN-T network, it should be considered for ROP funding. This does not mean that every road that connects to the TEN-T should only receive ROP funding. However, to the extent that ROP funds are available, county councils should first try to get ROP funding for such projects, and only afterward attempt to secure PNDL funding. Again, the ROP comes with EU grants (essentially "free" or very cheap), whereas the PNDL draws from limited state-budget resources.

**Ease of coupling individual investments**

193. **Investments in county roads are relatively easy to couple and relatively easy to embed in an integrated strategy.** For example, a road that is started with ROP or county-budget funding could be continued with funding from the PNDL. Similarly, an integrated approach that aims to improve connectivity to a growth pole or a county residence could tap into these three sources of funding to complete needed investments. Roads are relatively straightforward investments that enable the application of similar technical solutions to individual projects, making the coordination of individual county road projects easier.

***Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects***

194. **The report on "Improved Prioritization Criteria for PNDL Projects" proposes a number of steps for selecting higher impact county road projects.** The proposed criteria and concrete coordination steps are included below. Both the coordination steps and the prioritization criteria discussed here are subject to change by the MRDPA at a later date, keeping in mind that some of the EU programmatic documents – including, most notably, general and specific Applicant Guides corresponding to each operational programme – are not yet final at the time of this report's writing.

195. **The first step is to decide on the allocation of resources for county road projects across different counties in Romania.** This follows the current PNDL model in that each

county receives a share of the total budgetary envelope for the program. The table below, however, proposes a significant improvement over the status quo by setting a clear, specific, and transparent formula, including criteria for allocation of funds.

196. **The EU funds for the rehabilitation / modernization of county roads are allocated through ROP**. The allocation is done at the level of the regions, depending on their size and population. The team that produced this report considered that this mode for the allocation of funding is deficient because it does not take into account the actual investment needs of the various regions (for example, some regions might have much higher investment needs for county roads than other regions). As such, the proposal that the allocation of funds for the rehabilitation / modernization of county roads be made by county is closer to reality than the allocation by region, which is proposed in ROP 2014-2020 for the rehabilitation / modernization of county roads.

**Table 17. Prioritization criteria for allocating funding between counties (for county roads)**

| Proposed Indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Investments Needs | RON | 2011 | 30% | The way funds are allocated should be done mostly based on where the need is greatest. In this case, the greatest need was calculated by identifying the counties with the largest network of dirt or gravel county roads made – i.e., county roads requiring modernization. The investment needs for modernization work were evaluated using cost standards developed by the MRDPA. |
| Population | Number | 2011 | 20% | The total population of the county is another important prioritization criteria, as the rehabilitation of a county road network should take into consideration how many people will benefit from this investment. |
| Local Human Development Index | Value | 2011 | 15% | The LHDI was designed by Prof. Dumitru Sandu and indicates for each county the respective level of development. The methodology for the elaboration of the LHDI is discussed in Annex 10. The less developed a county is, the more attention it should be given as it will likely have fewer resources for the development of critical infrastructure. |

| | | | | |
|---|---|---|---|---|
| Financial Sustainability Index | Value | 2014-2022 | 15% | The FSI was developed by Victor Giosan and Graham Glenday and it measures the prudent capital expenditure margin for a local authority. The FSI represents, in a simplified form, 30% of non-earmarked revenues over an implementation timeline (in this case 2014-2022, which corresponds to the next EU programming period, including two years for finishing up investments started through 2020). Annex 11 indicates the methodology for the FSI and the index calculated for county councils and local authorities. The FSI is also meant as a counter-weight to the LHDI, as it shows the capacity of public authorities to cover operations and maintenance costs for completed infrastructure projects. Usually, the poorer public authorities have a weaker capacity to cover such costs. |
| Number of Motor Vehicles | Number | 2011 | 20% | This is thought as a counterweight to population numbers, as there may be counties with a high population, but with a low motorization rate, and counties with a smaller population but a higher motorization rate |

197. **Once the funding is allocated between counties, the next step is to decide on which specific projects should receive financing.** The following table includes a number of criteria for prioritizing and selecting investments in county roads. This model can be applied to both ongoing and new investments. Regarding the former, since the PNDL's current project portfolio far exceeds available resources, the criteria noted below can also be deployed to sort through existing projects and reach a manageable portfolio size (by suspending, postponing, or canceling some investments). In addition, the completion rate of an individual project can and should be taken into account for decisions regarding which investments the PNDL will keep in its portfolio; the importance of this criterion in raking projects (i.e., % weight in final score) depends on the MRDPA's preferences, as manager of the PNDL. As for new projects, these would only be approved and launched if there is sufficient room in the PNDL budgetary envelope once all ongoing projects are accounted for. This space must exist not only for the first year, but for all subsequent years, through the project's completion.

198. **The prioritization criteria for the projects financed through ROP 2014-2020 have been developed in parallel with the prioritization criteria for PNDL, which are listed below**. As such, the criteria are coordinated. However, given that there are no PNDL resources for hiring internal expert evaluators in order to interpret and assign scores to complex criteria, a set of normative criteria were proposed for PNDL (connection to opportunities, connection to the main infrastructure, traffic on the county road, population served by the county road). All these criteria for PNDL are also found in the evaluation and selection grid for Axis no. 6 on county roads under ROP 2014-2020.

**Table 18. Prioritization criteria for county road projects**

| STEP 1 – Prioritization of all county roads within a county | | |
|---|---|---|
| **Prioritization Criteria** | **Weight** | **Relevance** |
| **Connection to opportunities** | 30% | While the network of county roads is relatively |

| | | |
|---|---|---|
| • Connection to a growth pole **(10 points)**<br>• Connection to a county residence **(7 points)**<br>• Connection to a city with more than 10,000 people **(4 points)**<br>• Connection to a city with less than 10,000 people **(1 point)** | | large in every county, some road links are more important than others. Of particular importance are those county roads that improve accessibility to centers of opportunity – i.e., larger localities that provide jobs, education, healthcare, culture, administrative services and act as engines for the local/ county/ regional/ national economy. |
| **Connection to major trunk infrastructure**<br>• Connection to a highways proposed in the Transport Masterplan **(10 points)**<br>• Connection to an express road proposed in the Transport Masterplan **(7 points)**<br>• Connection to a national road **(4 points)** | 20% | Connection to major trunk infrastructure enables overall accessibility to people living along the respective county road. |
| **Traffic on the County Road**<br>• More than 3,500 vehicles per day **(10 points)**<br>• 2,000-3,500 vehicles per day **(7 points)**<br>• 500-2,000 vehicles per day **(4 points)**<br>• Less than 500 vehicles per day **(1 point)** | 30% | The more travelled a county road is the more attention it should garner when it comes to rehabilitation/modernization works. |
| **Number of people per km serviced by county road**<br>• More than 450 people/km **(10 points)**<br>• 300-450 people/km **(7 points)**<br>• 150-300 people/km **(4 points)**<br>• Less than 150 people/km **(1 point)** | 20% | It is not enough to ease access to opportunities, it is important to do so for as many people as possible. County roads that connect a larger population to a center of opportunity should receive a higher score. |
| **STEP 2 – Identification of projects that could be financed from EU funds*** | | |
| **Sub-step 2.1** | | **Reasoning** |
| Identify the county roads that connect to the TEN-T network. | | County roads that connect to the TEN-T network may be eligible for funding under the Regional Operational Programme 2014-2020, and applicants should first apply to the ROP, before attempting to apply for PNDL funding. If, the ROP application is not accepted for funding, applicants should provide an explanation of why it was not accepted. |
| **Note: This step may be subject to change, based on the final Applicant's Guide developed for the Regional Operational Programme 2014-2020.* | | |
| **STEP 3 – Identify the road links that should receive PNDL funding** | | |
| **Sub-step 3.1** | | **Reasoning** |
| Using the priority list prepared under Step 1, and subtracting the county roads that may be eligible for EU funding, determine the length of the county road links defined as "bad," which could be financed from the county road allocation for the respective county. Funding will be given to the county roads that have received the highest score under Step 1, and which | | Available funds should be allocated with priority to the road links that have been identified by the county councils as being "bad." It is the county councils that best know which road links are in most need. The prioritization methodology described under Step 1 ensures |

| | |
|---|---|
| have a road link defined as "bad." If the PNDL funding available to a county for county road projects will suffice to modernize all road links defined as "bad," Sub-step 3.2 will be undertaken.<br><br>County councils have provided information on the state of the roads (i.e. "good," "average," "bad").<br><br>According to GD 363/2010, the standard cost for the modernization of 1 km of county road is €332,832. | that a unified methodology is used nationally for allocating PNDL funds for "bad" county road links. |
| **Sub-step 3.2** | **Reasoning** |
| If available funding for a particular county suffices to cover the modernization of all "bad" county road links, the remaining funding can be used for the rehabilitation of "average" county road links as follows:<br>• Priority will be given to the county roads with the highest estimated score under Step 1, with the exception of the roads that may be eligible for EU funding.<br>• Funding will be allocated with priority to dirt or gravel roads defined as "average."<br>• If funds will remain after this allocation, remaining funds will be allocated to "average" county road links that have the following coverage type: cement concrete; paved with setts; or, bituminous asphalt.<br>• Should funding be available even after this allocation, the remaining funds will be allocated to "average" county road links that have been modernized already (i.e. they have an asphalt concrete coverage).<br><br>County councils have provided information on the state of the roads (i.e. "good," "average," "bad") and on the surface coverage of county roads.<br><br>According to GD 363/2010, the standard cost for the rehabilitation of 1 km of county road is €273,855. | If "bad" county road links can be covered with allocated PNDL funds, the rest of available funds should go to second priority road links identified by county councils as being in an "average" state. |

199. **An Investment Guide for County Roads is delivered along with this report.** On the one hand, this guide presents the way in which PNDL county road prioritization was done and indicates at the same time the projects potentially eligible for ROP 2014-2020 funds. As well, the guide identified on the territory all the county roads that are classified as "1st priority" and that will receive pre-allocated funds from ROP 2014-2020. This investment guide also provides a model for making complementary investments – covered both with EU and PNDL funds – in county roads. Clearly, by making complementary ROP and PNDL investments, a number of synergies are generated and the established goals set by the two investment programs are achieved faster. The specific objective that is defined in ROP is the following: "Increasing the accessibility level of urban and rural areas located close to the TEN-T network through modernization of county roads". PNDL investments complement the investments made with ROP funds and help increase the accessibility of rural and urban areas through the rehabilitation / modernization of county roads that are not in the proximity of the TEN-T network.

## Communal Roads

***Investment Needs***

200. **Investments needs for communal roads could be estimated relatively easy.** A simple way of doing this is by looking at the length of dirt or stone communal roads that are in need of modernizing in every county (such data are made public every year by the National Institute of Statistics), and multiplying that by the MRDPA cost standard for the modernization of communal roads. It is unfeasible to do an in-depth assessment of the state of all communal roads, as the existent network is extensive. Moreover, local authorities should normally ensure the rehabilitation and maintenance of communal roads that have already been modernized.

**Table 19. Investment needs in communal roads, by county (in EUR)**

| County | Dirt and Stone Communal Roads requiring modernization |
|---|---|
| ALBA | € 202,987,794 |
| ARAD | € 107,976,348 |
| ARGES | € 249,042,222 |
| BACAU | € 177,445,002 |
| BIHOR | € 239,753,934 |
| BISTRITA-NASAUD | € 90,560,808 |
| BOTOSANI | € 200,859,228 |
| BRAILA | € 43,538,850 |
| BRASOV | € 60,954,390 |
| BUZAU | € 214,017,636 |
| CALARASI | € 19,931,118 |
| CARAS-SEVERIN | € 56,503,752 |
| CLUJ | € 161,384,004 |
| CONSTANTA | € 135,454,200 |
| COVASNA | € 37,153,152 |
| DAMBOVITA | € 88,045,230 |
| DOLJ | € 136,228,224 |
| GALATI | € 64,050,486 |
| GIURGIU | € 27,090,840 |
| GORJ | € 118,232,166 |
| HARGHITA | € 144,548,982 |
| HUNEDOARA | € 236,851,344 |
| IALOMITA | € 40,636,260 |
| IASI | € 150,934,680 |
| ILFOV | € 3,676,614 |
| MARAMURES | € 86,690,688 |
| MEHEDINTI | € 103,912,722 |
| MURES | € 131,777,586 |
| NEAMT | € 123,263,322 |
| OLT | € 126,746,430 |
| PRAHOVA | € 73,338,774 |
| SALAJ | € 123,263,322 |
| SATU MARE | € 84,949,134 |

| | |
|---|---|
| **SIBIU** | € 66,759,570 |
| **SUCEAVA** | € 199,311,180 |
| **TELEORMAN** | € 38,894,706 |
| **TIMIS** | € 175,896,954 |
| **TULCEA** | € 69,662,160 |
| **VALCEA** | € 102,171,168 |
| **VASLUI** | € 134,293,164 |
| **VRANCEA** | € 79,530,966 |

*Data Sources: National Institute of Statistics and MRDPA*

201. **Current investment needs in communal roads are relatively modest, at around EUR 4.7 billion.** This in essence should make the coordination of investments in communal roads somewhat easier. There are funds available for such investments through the PNDL and the PNDR. In addition, communes can allocate their own funds (although most have little to spare) for such investments, and county councils also carry on such work when they deem necessary.

### *Coordination and Harmonization*

202. **Coordinating investments in communal roads is not necessarily difficult, but it is somewhat more complicated than the coordination of county roads.** Some key issues with respect to coordination are discussed below.

**Lack of capacity for coordinated approaches**

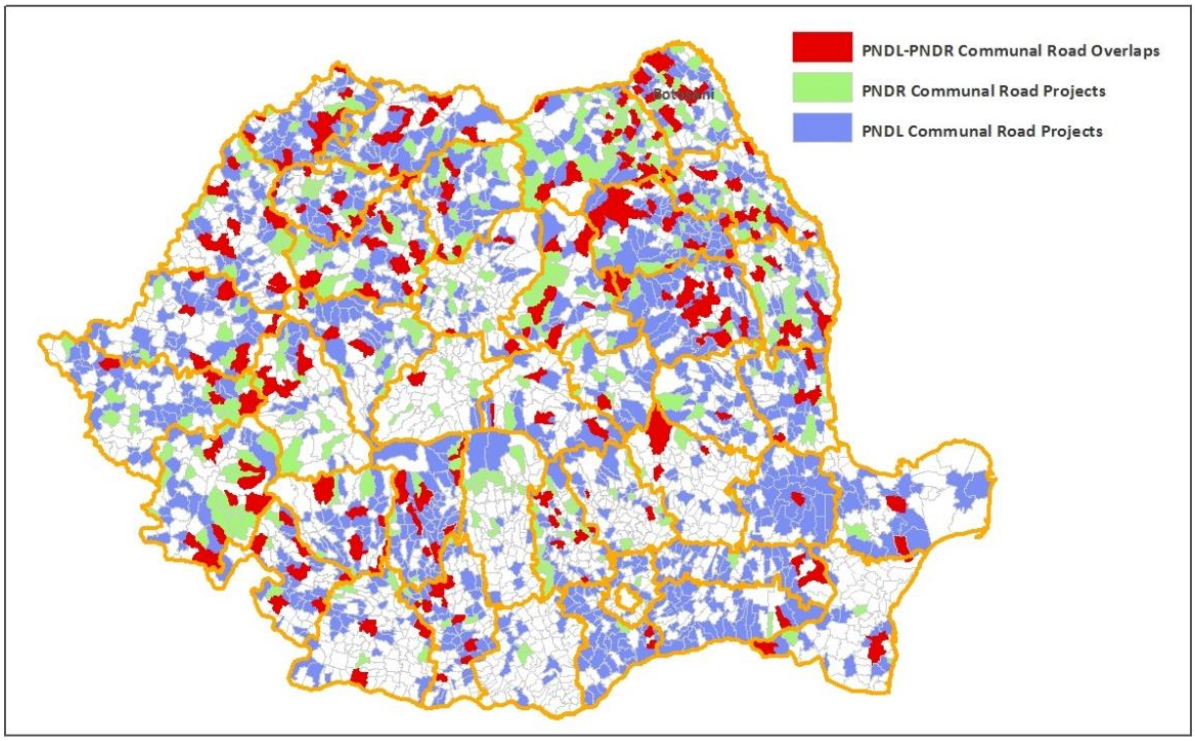
203. **Rural authorities often lack the capacity to prepare good projects and encourage integrated approaches.** Earlier in this report it was estimated that, on average, communes in Romania can spend on capital investments less than EUR 1.8 million over 2014-2022. This basically means that most communes in Romania can afford, at most, to modernize a communal road and rehabilitate a school. On the one hand, this lack of resources translates into poorly prepared projects. On the other hand, it means that communes will often have little resources to spare for the maintenance of the developed infrastructure. The lack of resources, particularly human capital, also means coordination of individual projects is harder to achieve.

**Danger of crowding out EU funded projects**

204. **While the PNDR finances larger communal projects, the PNDL has a much bigger project portfolio.** Since communal road projects are easier to design than other project types (e.g., water and wastewater), many local authorities prefer these types of projects. Also communal roads are quite visible, and they are often used by mayors to show the electorate that something concrete has been achieved in the community. Since for the PNDL there is no budget allocation by sector, projects are funded as they come through the pipeline. As such, the PNDL now has a very large portfolio of communal road projects. The danger is, of course, that many communes will prefer to fund their roads with PNDL funds rather than resort to EU funding, simply because PNDL funds are easier to access – particularly in the context of low project management capacity, as is the case in many rural localities in Romania. This creates an unwanted situation, as it is much better to rely on EU grants to finance such investments that on state-budget resources, for all the aforementioned reasons.

205. **The large portfolio of PNDL communal road projects also means that adequate coordination with the PNDR is a prerequisite.** As the map below indicates, the large majority of territorial administrative units in Romania have used PNDL or PNDR funds to fund communal road projects. There are also many territorial administrative units with PNDL-PNDR funding "overlaps" – i.e., they have accessed both types of funding for road rehabilitation/modernization work.

**Figure 11. Coordination of PNDL and PNDR communal road projects**




*Data Sources: MRDPA; PNDR 2007-2013*

206. **To properly coordinate PNDL and PNDR investments, it is important to have the final PNDR Applicant Guide.** While the PNDR upper threshold for communal road projects could also be used for PNDL projects, it is important to have the full PNDR evaluation and selection criteria to design appropriate coordination mechanisms.

### *Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects*

207. **The report on "Improved Prioritization Criteria for PNDL Projects" proposes a number of steps for selecting higher impact communal road projects.** These criteria are included below. Both the coordination steps and the prioritization criteria discussed here are subject to change by the MRDPA at a later date, keeping in mind that some of the EU programmatic documents – including, most notably, general and specific Applicant Guides corresponding to each operational programme – are not yet final at the time of this report's writing.

208. **The first step is to decide on the allocation of resources for communal road projects across different counties in Romania.** This follows the current PNDL model in that each county receives a share of the total budgetary envelope for the program. The table below, however, proposes a significant improvement over the status quo by setting a clear, specific, and transparent formula, including criteria for allocation of funds.

209. **The proposed funds allocation model for communal roads under PNDL is closer to reality than the model for the allocation of funds under PNDR.** Considering PNDL, a county-level allocation based on effective needs was proposed, knowing that PNDR finances projects at the national level irrespective of region. As such, some counties may receive much more funding via PNDR for the rehabilitation / modernization of communal roads, compared to other counties – which, in fact, did happen in the programming period 2007-2013. Thus, there is a risk that an important part of the funding is allocated to counties with relatively lower investment needs.

**Table 20. Prioritization criteria for allocating funding between counties (communal roads)**

| Prioritization Criteria | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Investments Needs | Euro | 2011 | 40% | The way funds are allocated should take into account where the need is greatest. In this case, the greatest need was calculated by identifying the counties with the largest network of communal roads made of gravel and stone – i.e., communal roads requiring modernization. The investment needs for modernization work were evaluated using cost standards developed by the MRDPA. |
| Rural Population | Number | 2011 | 30% | Communal roads primarily service people in rural areas and the larger the rural population of a county, the more attention should paid to rehabilitation/ modernization of communal roads there. |
| Local Human Development Index | Value | 2011 | 15% | The LHDI was designed by Prof. Dumitru Sandu and indicates for each county the respective level of development. The methodology for the elaboration of the LHDI is discussed in Annex 10. The less developed a county is, the more attention it should be given as it will likely have fewer resources for the development of critical infrastructure. |
| Financial Sustainability Index | Value | 2014-2022 | 15% | The FSI was developed by Victor Giosan and Graham Glenday and it measures the prudent capital expenditure margin for a local authority. The FSI represents, in a simplified form, 30% of non-earmarked revenues over an implementation timeline (in this case 2014-2022, which corresponds to the next EU programming period, including two years for finishing up investments started through 2020). Annex 11 indicates the methodology for the FSI and the index calculated for county councils |

| Prioritization Criteria | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| | | | | and local authorities. The FSI is also meant as a counter-weight to the LHDI, as it shows the capacity of public authorities to cover operations and maintenance costs for completed infrastructure projects. Usually, the poorer public authorities have a weaker capacity to cover such costs. |

210. **Once the funding is allocated between counties, the next step is to decide on which specific projects should receive financing.** The following table includes a number of criteria for prioritizing and selecting investments in communal roads. This model can be applied to both ongoing and new investments. Regarding the former, since the PNDL's current project portfolio far exceeds available resources, the criteria noted below can also be deployed to sort through existing projects and reach a manageable portfolio size (by suspending, postponing, or canceling some investments). In addition, the completion rate of an individual project can and should be taken into account for decisions regarding which investments the PNDL will keep in its portfolio; the importance of this criterion in raking projects (i.e., % weight in final score) depends on the MRDPA's preferences, as manager of the PNDL. As for new projects, these would only be approved and launched if there is sufficient room in the PNDL budgetary envelope once all ongoing projects are accounted for. This space must exist not only for the first year, but for all subsequent years, through the project's completion.

211. **PNDL selection criteria were elaborated in parallel with the evaluation and selection criteria pertaining to PNDR.** As such, the criteria used for PNDL are harmonized with those used in the case of PNDR. For example, both programs use population and the local human development index (LHDI) as selection criteria. Other criteria used in the case of PNDR (e.g. "Creating direct accessibility to other EU-funded investments") could not be applied for prioritizing PNDL projects because they suppose a project evaluation and selection process performed by an external evaluator – which is not possible for PNDL at the moment. Other two criteria were introduced in the case of PNDL and could have been considered for PNDR as well – population density and the financial sustainability index.

**Table 21. Prioritization criteria for communal roads projects, by territorial-administrative unit**

| STEP 1 – Eligibility | | |
|---|---|---|
| **Sub-step** | | **Reasoning** |
| Funding communal roads projects only in communes with over 1,000 inhabitants. | | Funds should initially target larger communes, where a minimum level of economies of scale can be achieved. |
| **STEP 2 – Identifying the territorial-administrative units that should receive priority funding for communal roads projects** | | |
| **Prioritization criteria** | **Weight** | **Relevance** |
| Population | 40 % | The larger gets the population within a locality, the higher becomes the need to invest in communal |

| | | |
|---|---|---|
| | | roads becomes higher. |
| Population density | 30 % | The higher the density in a locality, the greater the impact of a communal road development; in other words, a larger population is served by less road kilometers. |
| Local Human Development Index (LHDI) | 15 % | LHDI at the locality level should be considered in order to focus more on poorer localities, which face difficulties in terms of funding investments from their own budget. |
| Financial Sustainability Index (FSI) | 15 % | FSI at the locality level counterbalances the situation introduced by LHDI, ensuring that priority is given to localities facing development needs, but being able to cover the operations and maintenance costs after the investment for development is finalized. |

| **STEP 2 – Identifying the territorial-administrative units that may receive funding through PNDR 2014-2020*** | |
|---|---|
| **Sub-step** | **Reasoning** |
| The territorial-administrative units with a FSI larger than EUR 4 million are proposed for funding. Investments should focus only on projects for communal roads that are shorter than 5 km.<br><br>According to GD 363/2010, the cost standard for modernizing 1 kilometer of communal road is EUR 193,506. | Communes with a higher FSI have better budgetary and administrative capacities, both needed for submitting applications for PNDR funds. In addition, smaller infrastructure projects have less significant operations and maintenance costs and enable more communes to benefit from investments in their communal roads. |
| **Note: This step may be subject to changes, based on the final Applicant's Guide developed for the PNDR 2014-2020.* | |

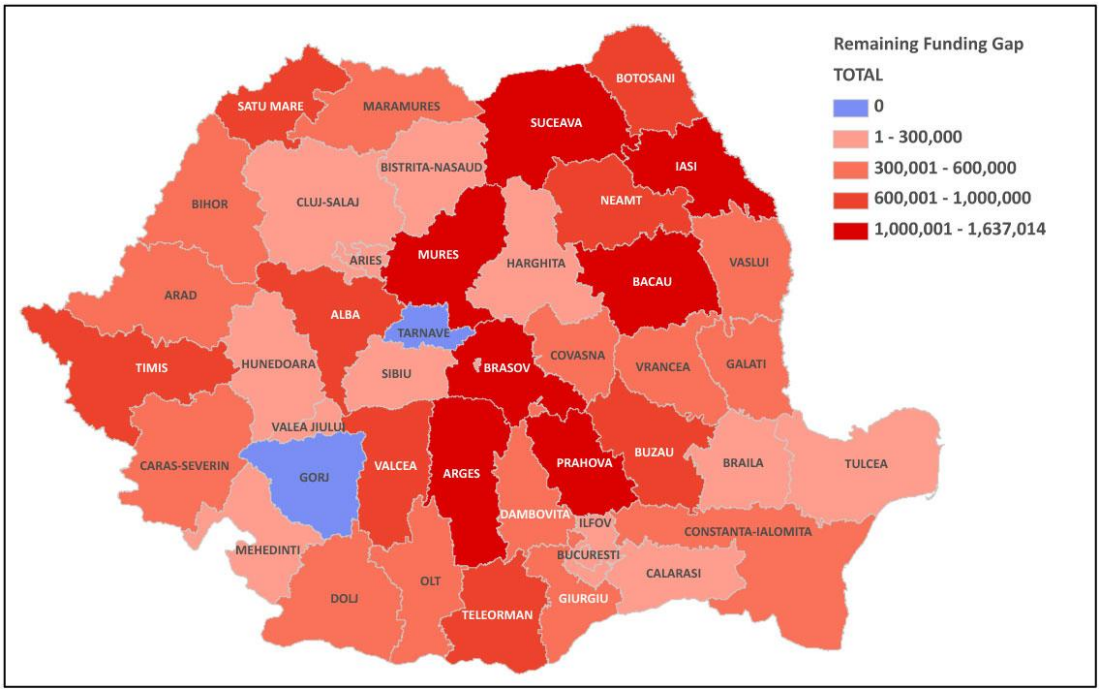
212. **An Investment Guide for Communal Roads and Social Infrastructure is delivered along with this report.** The guide proposes a prioritization model for communal road interventions supported by any funding source, including PNDR or PNDL. Using this guide and a common database, management authorities for PNDR and PNDL could make investments in communal roads in a complementary and coordinated manner. Clearly, by making complementary PNDR and PNDL investments, a number of synergies are generated and the established goals set by the two investment programs are achieved faster. The PNDR concrete objective is defined as follows: "Building local interest road infrastructure, which will help the reduction of trends related to social and economic decline and the improvement of the living standard in rural areas". PNDL investments complement the investments made with PNDR funds and help diminish the trends related to social and economic decline, while contributing to the improvement of living standard in rural areas.

# Chapter 5: Coordinating PNDL Water and Wastewater Projects

### *Investment Needs*

213. **The investments needs in the water and wastewater sector are significant.** The 2007-2013 Regional Water and Wastewater Master Plans have originally identified investment needs of over EUR 30 billion. Assuming that all the national investment programs (i.e., SOP Environment 2007-2013, PNDL, PNDR, and the Environment Fund) under way in the country will finalize existing commitments, then the remaining funding gap will be of around EUR 23 billion**,** distributed by region as in the map below.

**Figure 12. Funding gap in the Water and Wastewater Sector (in 1,000 Euro)**




*Data Source: Master Plans for Water and Wastewater 2007-2013; Operational Programs (OP Environment, PNDR, PNDL, and Environment Fund)*

214. **There are of course other players that have investments planned or ongoing in the sector.** For example, the regional water operators also invest in the water and wastewater infrastructure. Estimates based on a study done by the EBRD for the Ministry of Environment and Climate Change[58] show that around EUR 2 billion have been committed by regional water companies for such investments. In addition, investments have also been funded by localities from their own budget, and in some cases by county councils. For example, the budget executions for 2008-2012 indicate that all localities in Romania spend a total of around EUR 1 billion for investments in Housing and Public Services, and a share of this sum (it is not clear how much) goes to investments in water and wastewater

[58] Serra, Pedro Cunha et al. 2014. *Assistance to the Regional Operation Companies to improve the quality and coverage of water services and maximization of results by attracting private resources and alternative financial mechanisms.*

infrastructure (e.g., extension of service or rehabilitation of existing infrastructure). In turn, county councils spend around EUR 50 million on average on Housing and Public Services.

215. **While overall investment needs are calculated in the Regional Water and Wastewater Master Plans through 2037+, Romania has committed to a number of earlier targets in the EU Accession Treaty.** In particular, three directives have to be taken into consideration: the Drinking Water Directive (98/83/EC); the Urban Wastewater Directive (91/271/EEC); the Water Framework Directive (2000/60/EC). The importance of these directives is discussed below.

216. **The Drinking Water Directive aims "to protect human health from adverse effects of any contamination of water intended for human consumption by ensuring that it is wholesome and clean."[59]** For this purpose, member states are to monitor at least 48 parameters for all distribution systems that serve more than 50 people or supply more than 10 cubic meters per day, as well as all for all water supplied as part of an economic activity.[60] The directive further lays out provisions for proper planning, regulation, monitoring, and reporting. The same directive notes that derogations from its provisions are possible, as follows: the first two, each limited to a maximum of three years, are the responsibility of member states; a third "exceptional" derogation can be granted by the EC. In the case of Romania, as noted in the country's EU Accession Treaty, the derogations for achieving the Directive's targets are as follows:

- *Agglomerations with less than 10,000 inhabitants*
  - Oxidisability: December 31, 2010
  - Ammonium, nitrates, turbidity, aluminums, iron, lead, cadmium, and pesticides: December 31, 2015

- *Agglomerations with 10,000-100,000 inhabitants*
  - Oxidisability and turbidity: December 31, 2010
  - Ammonium, nitrates, aluminum, iron, lead, cadmium, pesticides, and manganese: December 31, 2015

- *Agglomerations with more than 100,000 inhabitants*
  - Oxidisability, ammonium, aluminum, pesticides, iron, and manganese: December 31, 2010

217. **The Urban Waste Water Treatment Directive seeks to "protect the environment from urban waste water discharges and discharges from certain industrial sectors."[61]** In short, the Directive mandates: the Collection and treatment of waste water in all agglomerations of more than 2,000 population equivalents (p.e.); secondary treatment of all discharges from agglomerations of over 2,000 p.e. and more advanced treatment for agglomerations of over 10,000 population equivalents in sensitive areas and their

[59] *See* http://ec.europa.eu/environment/water/water-drink/legislation_en.html.
[60] Ibid.
[61] *See* http://ec.europa.eu/environment/water/water-urbanwaste/index_en.html.

catchments; pre-authorization of all discharges of urban wastewater, of discharges from the food-processing industry, and of industrial discharges into urban wastewater collection systems; monitoring of the performance of treatment plants and receiving waters; and controls of sewage sludge disposal and reuse, and treated waste water reuse when possible. The text of the Directive was formally adopted in 1993, with an implementation timeline of up to the end of 2005. For Romania and other new EU member states, however, a different timetable was set at the time of accession. The implementation schedule with intermediate and final targets is provided below:

**Table 22. Key requirements for the Urban Wastewater Directive**

| Deadline (Dec. 31) | Collecting system for urban wastewater | | Treatment of urban wastewater | |
|---|---|---|---|---|
| | Size of agglomeration (people equivalent) | % | Size of agglomeration (people equivalent) | % |
| **2010** | 2000 ≤ PE < 10,000 | 60.8% | 2000 ≤ PE < 10,000 secondary treatment | 50.5% |
| **2013** | 2000 ≤ PE < 10,000 | 69.1% | 2000 ≤ PE < 10,000 secondary treatment | 60.6% |
| | PE ≥ 10,000 | 100% | | |
| **2015** | 2000 ≤ PE < 10,000 | 80.2% | 2000 ≤ PE < 10,000 secondary treatment | 76.7% |
| | | | PE ≥ 10,000 tertiary treatment | 100% |
| | Population connected to a wastewater collection and treatment system | | | ≥ 70% *(SOP Environment)* |
| **2018** | 2000 ≤ PE < 10,000 | 100% | 2000 ≤ PE < 10,000 | 100% |

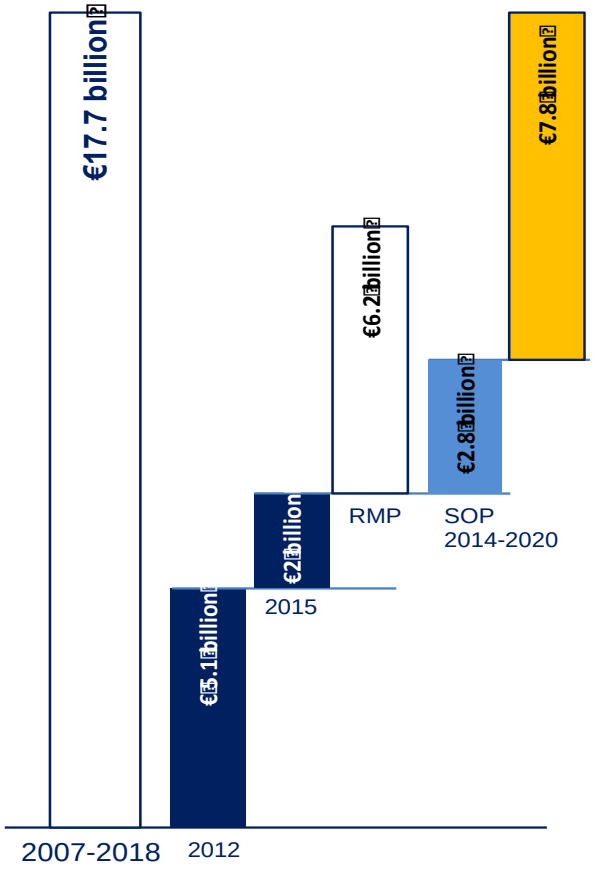
218. **The EU Water Framework Directive was adopted with the aim of establishing an integrated framework "for the protection of inland surface waters, transitional waters, coastal waters, and groundwater."**[62] In short, the directive seeks to achieve good ecological status for all water bodies in the EU. The specific aims of the Directive are multifold: to prevent further deterioration; to promote sustainable water use; to progressively reduce discharges as well as the pollution of ground water; and to mitigate effects of floods and droughts. Romania has committed to reaching a good state for 60% of the surface waters, groundwater, and protected areas by December 2015 (i.e., fifteen years after the adoption of the directive), with potential derogations through December 2021/2027 under justified circumstances, based on Article 4 (4) and 4 (5). Annex V of the WFD 2000/60/EC provides detailed indicators for assessing the status of a particular body of water.

219. **Achieving 2018 EU targets will be hard.** Assuming that all commitments under the national investment programs will be carried through, there remains a funding gap of around EUR 13 billion. Taking into consideration investments taken on by regional water companies, local administrations, and public administrations, the funding gap would go down to around EUR 10 billion. Furthermore, EU fund allocations (OP Large Infrastructure and PNDR) for 2014-2020 for water and wastewater investments amount to around EUR 3 billion. This leaves an "optimistic" funding gap of around EUR 7 billion, which would have to

[62] *See* Article 1 of the Water Framework Directive 2000/60/EC: http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32000L0060&from=EN.

be covered from state-budget investments, local/county budget investments, loans, private investments, or PPP arrangements. A similar figure was estimated by EBRD in a study they have done for the Ministry of Environment and Climate Change (see figure below).The EBRD started from the premise that around EUR 7.1 billion of needed investments have or will be covered through SOP Environment 2007-2013, the execution of ISPA Funds (Instrument for Structural Pre-Accession), investments done by regional water companies, as well as other grants and loans.

**Figure 13. EBRD Estimates on Funding Gap to meet EU Water and Wastewater Targets**




*Source: Serra, Pedro Cunha et al. 2014. "Assistance to the Regional Operation Companies to improve the quality and coverage of water services and maximization of results by attracting private resources and alternative financial mechanisms"*

### *Coordination and Harmonization*

220. **Coordinating investments in water and wastewater is rather difficult, and this for several reasons.** The main ones are discussed below.

**Large investments needs require a mix of funding sources**

221. **The investment needs in the sector are large, requiring inputs from a variety of sources.** The larger the investment needs, the more stakeholders and funding sources need to be identified to help address those needs. This of course brings significant coordination issues with it. The difficulties are doubled by the fact that investments in water and wastewater infrastructure, particularly those in rural networks, tend to be small in size,

requiring rather high transaction costs and the involvement of multiple parties (e.g., a donor or managing authority, a local public administration, the county administration, the regional water company).

**Coherent regional approaches are needed**

222. **Regional Water and Wastewater Master Plans have been devised to guide investments in infrastructure in the sector, but these are unfortunately not always followed.** To ensure that investments in water and wastewater infrastructure are efficient and effective, it is important to have a clear plan. For example, an investment in a wastewater treatment plan may not be financially viable in a village of 1,000 people, but it may be viable in a cluster of villages of 3,000 people. In this sense, the regional water masterplans have defined feasible water systems (e.g., a water main pipe that could service an entire region) and wastewater agglomerations and clusters, which would ensure economies of scale and the sustainability of the new investments.

223. **Particularly for investments in wastewater systems, it is critical to have a regional approach.** In this sense, the European Council Directive 91/271/EEC on Urban Wastewater Treatment defines an agglomeration as an "area where the population and/or economic activities are sufficiently concentrated for urban waste water to be collected and conducted to an urban waste water treatment plant or to a final discharge point." It is also recommended that wastewater investments be focused on agglomerations of over 2,000 people equivalent, as these are more likely to ensure the financial and operation efficiency of the new systems. A cluster is a system of such agglomerations.

224. **Since agglomerations and clusters do not always coincide with the administrative boundaries of a territorial unit, they make the coordination of investments quite difficult.** For example, an agglomeration may include localities from different territorial administrative units (UAT), requiring these actors to coordinate investments in the wastewater system across jurisdictions. What happens in practice, however, particularly for investment projects that cater directly to territorial administrative units (such as PNDL, PNDR, or the Environment Fund) is that projects are designed and implemented at the locality level, rather than at the agglomeration level. Usually, only investments that are carried out by the regional water company, or investments where the regional water company is the beneficiary, focus on agglomerations and clusters.

225. **Going forward, it is important to ensure that investments in water and wastewater infrastructure follow the provisions of existing regional master plans.** Moreover, although all people in Romania should be able to have access to such basic infrastructure, a priority should be given to those localities and agglomerations that help achieve EU Accession Treaty targets by 2018 – i.e., localities and agglomerations with more than 2,000 people equivalent.

226. **Consequently, the first step in coordinating different investment programs is to ensure a focus on localities and agglomerations of over 2,000 people equivalent.** In the case of water systems, these could also be done in localities with more than 50 people, but at least in the short term, the focus should be on agglomerations of more than 2,000

people equivalent. In the case of wastewater systems, no investments should be funded for agglomerations of less than 2,000 people equivalent.

227. **It is also important to identify a coherent approach for funds allocation by region.** For example, EU funds are allocated by regional water systems, whereas funds allocated through the PNDL are allocated to counties. While in a large proportion of cases regional water systems coincide with the counties, there are a number of exceptions – e.g., the Constanța-Ialomița region, the Cluj-Someș and Cluj-Arieș regions, the Sibiu and the Târnave regions, the Deva and Valea Jiului regions. Since the focus is on integrated water and wastewater systems, funds allocation should ideally be coordinated territorially.

**Responsibilities should be clearly defined**

228. **While regional water operators are the main players in the operation and maintenance of water and wastewater systems, there are also systems run by individual localities and by private companies.** Ideally, all investments done in a new system should be included in the regional intercommunity development association (ADI) and the operation and maintenance of the facility should be taken over by the regional water company. This does not always happen in practice. Some mayors prefer to invest in individual systems that they run independently. They do this because the water and wastewater tariffs they charge are lower than that of regional operators. However, these lower costs are misleading, because the costs with the operation and maintenance of these systems are often rolled over under a different accounting category. For example, the personnel in charge with maintaining a water treatment station may in fact show up on the books as staff of the City Hall.

229. **Investments done independently by localities are also not always financially and operationally sustainable.** Often, territorial administrative units design individual systems that do not follow the proposals of the regional master plans, and when these systems are finished they end up working sub-optimally. It also happens that systems are developed without ensuring that a large enough number of people will actually connect to them once completed. In many areas, the service is too expensive and people prefer not to connect. In some situations, the water and wastewater systems developed by localities do not follow basic EU guidelines (e.g., proper chlorination of water) and as such do not help achieve key targets – not to speak of the potential health hazard they pose. Lastly, there are situations where localities invest in wastewater systems without having a water system in place, in the hope of using the finalized wastewater system as a bargaining chip to get a water system funded too.

230. **To ensure a coherent and coordinated approach to water and wastewater investments, it is important that regional water operators play a key role throughout the process.** Ideally, investments through the sector should either: be run through the regional operator; be run through a locality but then handed over to the regional operator for operation and maintenance of the system; be developed and operated by a locality, but with a prior approval received from the regional operator to ensure a coordinated and feasible approach and appropriate technical solutions.

***Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects***

231. **The report on "Improved Prioritization Criteria for PNDL Projects" proposes a number of steps for selecting water and wastewater projects.** These criteria are included below. Both the coordination steps and the prioritization criteria discussed here are subject to change by the MRDPA at a later date, keeping in mind that some of the EU programmatic documents – including, most notably, general and specific Applicant Guides corresponding to each operational programme – are not yet final at the time of this report's writing.

232. **The first step is to decide on the allocation of resources for water and wastewater projects across different regions in Romania (in most cases, these "regions" covered by Regional Water Operators cover only one county).** This follows the current PNDL model in that each county receives a share of the total budgetary envelope for the program. The tables below, however, propose a significant improvement over the status quo by setting a clear, specific, and transparent formula, including criteria for allocation of funds.

233. **The EU-funded investments in water and sewage infrastructure are made through the Large Infrastructure Operational Programme (LIOP) 2014-2020 and through the National Program for Rural Development (PNDR) 2014-2020.** LI OP funds are allocated by regions for pre-determined projects. With respect to PNDR, there is no regional pre-allocation, any rural TAU being allowed to apply for this type of funding.

**Table 23. Prioritization criteria for allocating funding between regions (for water projects)**

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Investment Needs | Euro | 2014+ | 40% | Investment needs were calculated from the regional masterplans and they took the existing commitments for SOP Environment 2007-2013, PNDL, PNDR, and for the Environment Fund into consideration. This is the most important indicator, as it shows how much there is left to invest in the sector. |
| People without access to piped water | Number | 2011 | 15% | The more people are without access to piped water in the particular region, the higher the need for investments in the sector. |
| LHDI | Value | 2011 | 15% | In accordance with the *Territorial Development Strategy of Romania,* priority should be given to providing key basic infrastructure in lagging regions. |
| FSI | Value | 2011 | 15% | This measure is designed as a counterweight to the LHDI. Whenever a local authority is investing in water infrastructure, especially if it will not cede the operation and management to the regional operator, it is good to check whether it will have the financial capacity to operate and maintain the investment. |
| Affordability | Water tariff / Average monthly income in the region | 2011 | 15% | Priority should be given to the regions where the water tariff does not represent a substantial share of the average monthly income. The more affordable the service is the |

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| | | | | more likely are people to connect to the service. |

**Table 24. Prioritization criteria for allocating funding between regions (wastewater projects)**

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Investment Needs | Euro | 2014+ | 40% | Investment needs were calculated from the regional masterplans and they took the existing commitments for SOP Environment 2007-2013, PNDL, PNDR, and for the Environment Fund into consideration. This is the most important indicator, as it shows how much there is left to invest in the sector. |
| People without access to a sewage system | Number | 2011 | 15% | The more people are without access to sewage in the particular region, the higher the need for investments in the sector. |
| LHDI | Value | 2011 | 15% | In accordance with the *Territorial Development Strategy of Romania,* a priority should be given to providing key basic infrastructure in lagging regions. |
| FSI | Value | 2011 | 15% | This measure is designed as a counterweight to the LHDI. Whenever a local authority is investing in water infrastructure, especially if it will not cede the operation and management to the regional operator, it is good to check whether it will have the financial capacity to operate and maintain the investment. |
| Affordability | Wastewater tariff / Average monthly income in the region | 2011 | 15% | A priority should be given to the regions where the wastewater tariff does not represent a substantial share of the average monthly income. The more affordable the service is the more likely are people to connect to the service. |

234. **Once the funding is allocated between counties/"regions," the next step is to decide which specific projects should receive financing.** The following tables include a number of criteria for prioritizing and selecting investments in water and wastewater, respectively. This model can be applied to both ongoing and new investments. Regarding the former, since the PNDL's current project portfolio far exceeds available resources, the criteria noted below can also be deployed to sort through existing projects and reach a manageable portfolio size (by suspending, postponing, or canceling some investments). In addition, the completion rate of an individual project can and should be taken into account for decisions regarding which investments the PNDL will keep in its portfolio; the importance of this criterion in raking projects (i.e., % weight in final score) depends on the MRDPA's preferences, as manager of the PNDL. As for new projects, these would only be approved and launched if there is sufficient room in the PNDL budgetary envelope once all ongoing projects are accounted for. This space must exist not only for the first year, but for all subsequent years, through the project's completion.

235. **The projects that are funded through LIOP 2014-2020 are not chosen based on selection criteria, but are pre-selected in each regional master plan for water and sewage.** Basically, at the level of each region, the master plan identifies a series of water systems and a set of sewage agglomerations / clusters that are to be financed.

236. **Regarding PNDR, the evaluation and selection criteria were prepared in parallel with PNDL selection criteria.** Some of these criteria (focus on human agglomerations with over 2,0000 people equivalent, served population) were used both for PNDL and PNDR. In the case of PNDR though, some additional criteria were proposed for a better project selection.

**Table 25. Prioritization criteria for water projects, by locality**

| STEP 1 - Eligibility | | |
|---|---|---|
| **Sub-step** | | **Reasoning** |
| Identify all localities at the water region level with more than 50 people | | According to the EU Water Acquis, it is only these localities that should be prioritized for investments in water infrastructure. Investments for smaller localities are not considered a priority |
| **STEP 2 – Coordination with EU funded projects** | | |
| **Sub-step** | | **Reasoning** |
| Identify localities financed under LI OP 2014-2020, as well as localities with ongoing investments under SOP Environment 2007-2013, PNDL, PNDR, and the Environment Fund | | This allows the charting of all ongoing or proposed investments in the sector, and ensures that PNDL funds will go to completing started PNDL water investments or go to starting new investments in areas not yet covered by other investment programs |
| **STEP 3 – Prioritization of water investments** | | |
| **Prioritization Criteria** | **Weight** | **Reasoning** |
| Population in locality without access to piped water<br>• More than 2,000 people **(10 points)**<br>• 1,000-2,000 people **(7 points)**<br>• 500-1,000 people **(4 points)**<br>• Less than 500 people (**1 point)** | 35% | Localities with a higher number of unserved people should receive a higher priority. |
| Level of development of locality as measured by the Local Human Development Index<br>• Poor locality **(10 points)**<br>• Low-med locality **(7 points)**<br>• Hi-med locality **(4 points)**<br>• Developed locality **(1 point)** | 15% | Priority should be given to less developed localities, which lack the resources to undertake needed investments in the sector. |
| Financial Sustainability as measured by the FSI<br>• > 2,500,000 Euro **(10 points)**<br>• 1,500,000 – 2,500,000 **(7 points)**<br>• 1,000,000 – 1,500,000 **(4 points)**<br>• < 1,000,000 **(1 point)** | 15% | The capacity of the locality to potentially cover operations and maintenance costs should be factored in |
| Locality is part of a regional system within the water master plan<br>• Yes **(10 points)** | 35% | Ideally, investments in water should only focus on localities that are part of the master plan, as these were identified as the |

| | |
|---|---|
| • No **(4 points)** | target places for achieving the EU Acquis. Also, the master plans already presuppose a prioritization process of investments, including an analysis of affordability of the service and the capacity of end-users to pay for the service. |

**Table 26. Prioritization criteria for wastewater projects, by agglomerations**

| **STEP 1 - Eligibility** | | |
|---|---|---|
| **Sub-step** | | **Reasoning** |
| Identify all agglomerations at the water region level with more than 2,000 people equivalent | | According to the EU Water Acquis, it is only these localities that should be prioritized for investments in wastewater infrastructure. Investments for smaller localities are not considered a priority. |
| **STEP 2 – Coordination with EU funded programs** | | |
| **Sub-step** | | **Reasoning** |
| Identify agglomerations financed under LI OP 2014-2020, as well as localities with ongoing investments under SOP Environment 2007-2013, PNDL, PNDR, and the Environment Fund | | This allows the charting of all ongoing or proposed investments in the sector, and ensures that PNDL funds will go to completing started PNDL wastewater investment or to starting new investments in areas not yet covered by other investment programs. |
| **STEP 3 – Prioritization of wastewater investments** | | |
| **Prioritization Criteria** | **Weight** | **Reasoning** |
| Helping achieve a better quality of water bodies<br>• Water bodies in moderate, poor, or bad state OR with good ecological potential **(10 points)**<br>• Water bodies in good or very good state OR with moderate ecological potential **(4 points)** | 10% | This measure can help achieve the EU Water Framework Directive, while at the same time meeting targets for the Wastewater Directive. |
| Population in locality without access to sewage<br>• More than 3,000 people **(10 points)**<br>• 2,000-3,000 people **(7 points)**<br>• 1,000-2,000 people **(4 points)**<br>• Less than 1,000 people (**1 point)** | 30% | Localities with a higher number of unserved people should receive a higher priority. |
| Level of development of locality as measured by the Local Human Development Index<br>• Poor locality **(10 points)**<br>• Low-med locality **(7 points)**<br>• Hi-med locality **(4 points)**<br>• Developed locality **(1 point)** | 15% | Priority should be given to less developed localities, which lack the resources to undertake needed investments in the sector. |
| Financial Sustainability as measure by the FSI<br>• > 2,500,000 Euro **(10 points)**<br>• 1,500,000 – 2,500,000 **(7 points)**<br>• 1,000,000 – 1,500,000 **(4 points)**<br>• < 1,000,000 **(1 point)** | 15% | The capacity of the locality to potentially cover operations and maintenance costs should be factored in |
| Locality is part of a regional system within the water master plan | 30% | Ideally, investments in wastewater should only focus on localities that are part of the |

| | |
|---|---|
| • Yes **(10 points)**<br>• No **(4 points)** | master plan, as these were identified as the target places for achieving the EU Acquis. Also, the master plans already presuppose a prioritization process of investments, including an analysis of affordability of the service and the capacity of end-users to pay for the service. |

237. **An Investment Guide for Water and Wastewater is delivered along with this report.** The guide presents the way in which the investments in water and sewage infrastructure can be done in a complementary manner through several investment programs with EU funding or from the state-budget. For instance, it is recommended that PNDL funds should not be used for financing systems / agglomerations / clusters that are funded through LIOP because LIOP systems are conceived in an integrated manner and use EU grants, while PNDL investments are made in a focused manner, at the locality level. Clearly, the proposals included in this investment guide help achieve the objectives of all the investment programs that target this type of infrastructure.

# Chapter 6: Coordinating PNDL Social Infrastructure projects

### *Investment Needs*

238. **Investment needs in social infrastructure are hard to estimate.** Social infrastructure basically means thousands of buildings strewn all over Romania, in different states of repair or disrepair. Moreover, the need for additional social infrastructure is best known by local authorities and communities on the ground, and these needs are continuously shifting. In the report on "Improved Prioritization Criteria for PNDL Projects" a methodology was developed for assessing potential investment needs based on the profile of individual territorial administrative units. The results of that estimation are included in the table below. The methodology is of course far from perfect, but it does provide a starting point for thinking about ways to address issues in this sector.

**Table 27. Investment needs for social infrastructure, by county (in EUR)**

| County | Estimated Investment Needs (in EUR) | | | | Total financial allocation (in EUR) |
|---|---|---|---|---|---|
| | Health | Sports | Education | Culture | |
| ALBA | € 18,000,000 | € 16,800,000 | € 10,230,000 | € 26,000,000 | € 71,030,000 |
| ARAD | € 15,500,000 | € 22,800,000 | € 12,870,000 | € 10,000,000 | € 61,170,000 |
| ARGES | € 34,000,000 | € 25,600,000 | € 12,540,000 | € 33,000,000 | € 105,140,000 |
| BACAU | € 31,000,000 | € 35,200,000 | € 27,720,000 | € 45,000,000 | € 138,920,000 |
| BIHOR | € 18,000,000 | € 32,800,000 | € 21,450,000 | € 24,000,000 | € 96,250,000 |
| BISTRITA NASAUD | € 14,500,000 | € 22,000,000 | € 16,500,000 | € 9,000,000 | € 62,000,000 |
| BOTOSANI | € 25,500,000 | € 30,800,000 | € 25,080,000 | € 64,000,000 | € 145,380,000 |
| BRAILA | € 13,000,000 | € 15,200,000 | € 13,530,000 | € 29,000,000 | € 70,730,000 |
| BRASOV | € 12,000,000 | € 17,600,000 | € 11,550,000 | € 9,000,000 | € 50,150,000 |
| BUZAU | € 22,000,000 | € 22,400,000 | € 21,120,000 | € 49,000,000 | € 114,520,000 |
| CALARASI | € 18,000,000 | € 18,000,000 | € 15,510,000 | € 39,000,000 | € 90,510,000 |
| CARAS-SEVERIN | € 32,000,000 | € 22,000,000 | € 13,530,000 | € 22,000,000 | € 89,530,000 |
| CLUJ | € 18,500,000 | € 14,400,000 | € 8,580,000 | € 37,000,000 | € 78,480,000 |
| CONSTANTA | € 16,500,000 | € 26,400,000 | € 15,180,000 | € 30,000,000 | € 88,080,000 |
| COVASNA | € 15,000,000 | € 16,000,000 | € 9,240,000 | € 10,000,000 | € 50,240,000 |
| DAMBOVITA | € 24,000,000 | € 30,000,000 | € 15,840,000 | € 9,000,000 | € 78,840,000 |
| DOLJ | € 18,000,000 | € 28,400,000 | € 23,430,000 | € 74,000,000 | € 143,830,000 |
| GALATI | € 27,500,000 | € 23,600,000 | € 20,130,000 | € 6,000,000 | € 77,230,000 |
| GIURGIU | € 10,500,000 | € 17,200,000 | € 12,210,000 | € 31,000,000 | € 70,910,000 |
| GORJ | € 22,000,000 | € 20,400,000 | € 11,550,000 | € 4,000,000 | € 57,950,000 |
| HARGHITA | € 8,000,000 | € 25,200,000 | € 13,200,000 | € 4,000,000 | € 50,400,000 |
| HUNEDOARA | € 27,000,000 | € 8,800,000 | € 4,290,000 | € 17,000,000 | € 57,090,000 |
| IALOMITA | € 21,500,000 | € 20,800,000 | € 17,160,000 | € 45,000,000 | € 104,460,000 |
| IASI | € 8,500,000 | € 38,000,000 | € 29,700,000 | € 60,000,000 | € 136,200,000 |
| ILFOV | € 6,500,000 | € 9,200,000 | € 2,640,000 | € 1,000,000 | € 19,340,000 |
| MARAMURES | € 17,000,000 | € 28,800,000 | € 14,190,000 | € 12,000,000 | € 71,990,000 |
| MEHEDINTI | € 25,500,000 | € 16,000,000 | € 13,860,000 | € 45,000,000 | € 100,360,000 |

| County | Estimated Investment Needs (in EUR) | | | | Total financial allocation (in EUR) |
|---|---|---|---|---|---|
| | Health | Sports | Education | Culture | |
| MURES | € 26,500,000 | € 36,800,000 | € 25,410,000 | € 26,000,000 | € 114,710,000 |
| NEAMT | € 30,000,000 | € 26,400,000 | € 24,750,000 | € 29,000,000 | € 110,150,000 |
| OLT | € 45,500,000 | € 28,400,000 | € 21,120,000 | € 57,000,000 | € 152,020,000 |
| PRAHOVA | € 20,500,000 | € 28,400,000 | € 18,810,000 | € 19,000,000 | € 86,710,000 |
| SALAJ | € 18,000,000 | € 19,200,000 | € 12,870,000 | € 25,000,000 | € 75,070,000 |
| SATU MARE | € 10,000,000 | € 24,800,000 | € 17,820,000 | € 14,000,000 | € 66,620,000 |
| SIBIU | € 16,000,000 | € 20,400,000 | € 14,850,000 | € 11,000,000 | € 62,250,000 |
| SUCEAVA | € 20,500,000 | € 42,400,000 | € 33,000,000 | € 14,000,000 | € 109,900,000 |
| TELEORMAN | € 28,000,000 | € 18,000,000 | € 19,800,000 | € 75,000,000 | € 140,800,000 |
| TIMIS | € 16,500,000 | € 34,800,000 | € 21,780,000 | € 14,000,000 | € 87,080,000 |
| TULCEA | € 18,500,000 | € 16,000,000 | € 12,210,000 | € 27,000,000 | € 73,710,000 |
| VALCEA | € 25,500,000 | € 17,200,000 | € 10,560,000 | € 32,000,000 | € 85,260,000 |
| VASLUI | € 27,500,000 | € 33,200,000 | € 27,060,000 | € 75,000,000 | € 162,760,000 |
| VRANCEA | € 26,000,000 | € 21,200,000 | € 19,140,000 | € 30,000,000 | € 96,340,000 |
| **TOTAL** | **€ 848,500,000** | **€ 971,600,000** | **€ 692,010,000** | **€ 1,193,000,000** | **€ 3,705,110,000** |

239. **The Ministry of Education, at the request of the MRDPA, is preparing a database with key information on every school in the country.** The MRDPA wants to use this database to more accurately identify rehabilitation needs for existing schools. Once the database will be functional, it will be easier to accurately estimate how much it would cost to rehabilitate the existing school network. Of course, these estimates will still not include the investment needs for new educational infrastructure (e.g., kindergartens or daycare centers).

240. **Similar databases should be elaborated for the other types of social infrastructure.** This way it would be easier to estimate investment needs across the board, and once investment needs are known it will be much easier to prioritize and coordinate investments.

### *Coordination and Harmonization*

241. **Coordinating investments in social infrastructure is relatively difficult, because of the eclectic nature of the sector.** Some of the relevant issues are discussed below.

**Eclectic sectors with eclectic needs require a targeted approach**

242. **In the case of social infrastructure, specific needs may vary substantially from one locality to the next and across different types of infrastructure**. In one case there may be a need to rehabilitate a classroom, in another case there may be a need for running water and a proper sanitation system, and in yet another case there may be a need to fix the roof and install a heating system. Similarly, one locality may be in need of rehabilitating an existent health clinic, whereas another locality would require that a clinic be built to begin with.

243. **The eclectic nature of social infrastructure makes coordination of investments rather tough.** This is why EU-funded programs coordinate their investments by focusing on specific sub-sets. For example, the ROP 2007-2013 focuses on Category A Cultural heritage sites in rural areas, while the PNDR 2007-2013 has allocated funds for the rehabilitation of Category B Cultural heritage sites.

244. **For the 2014-2020 programming period, a similar approach will be taken.** For example, it is most likely that the ROP 2014-2020 will focus on professional and vocational high-schools and on kindergartens and nurseries. Similarly, the PNDR may focus on a particular type of social infrastructure. Once the respective programmatic documents and the applicant guides will be finalized, it will be easier to assess how different national programs could better coordinate their interventions in social infrastructure.

**Investment needs in social infrastructure are manageable given available resources**

245. **Investment needs in social infrastructure are estimated to be relatively limited, and local authorities have more of their own resources to tackle existent challenges in this sector**. For example, every locality receives a transfer from the central budget to cover teacher's salaries and to pay for needed operation and maintenance costs of existing educational facilities. The funds for operation and maintenance do not always cover needs fully, but they do give localities more financial autonomy than in the case of other sectors (e.g., communal roads).

**The danger of crowding out EU funds should be minimized**

246. **Social infrastructure investments can be financed from three key investment programs: the ROP, the PNDR, and the PNDL.** In addition, localities and county councils allocate funds from their own budget for the rehabilitation and maintenance of existing social infrastructure. Whenever possible, local authorities should rely on EU funds to address existing needs. Also, they should use their own resources, to the extent possible, to solve key issues. PNDL funds should be used only as a last resort.

### *Prioritization and evaluation/selection criteria and harmonization with selection criteria applicable to EU-funded projects*

247. **The report on "Improved Prioritization Criteria for PNDL Projects" proposes a number of steps for selecting higher impact social infrastructure projects.** These criteria are included below. Both the coordination steps and the prioritization criteria discussed here are subject to change by the MRDPA at a later date, keeping in mind that some of the EU programmatic documents – including, most notably, general and specific Applicant Guides corresponding to each operational programme – are not yet final at the time of this report's writing.

248. **The first step is to decide on the allocation of resources for different types of social infrastructure across different counties in Romania.** This follows the current PNDL model in that each county receives a share of the total budgetary envelope for the program. The tables below, however, propose a significant improvement over the status quo by setting a clear, specific, and transparent formula, including criteria for allocation of funds.

249. **PNDL allocations at the county level were made based on estimated needs.** The allocation of EU funds at the county level was made by programs. Thus, considering ROP 2014-2020, pre-allocations were made for regional hospitals in Cluj-Napoca, Craiova, and Iași, while regional allocations based on the region's population and area were made for educational infrastructure, cultural and heritage infrastructure, and county-level local-level health infrastructure. Considering PNDR, the allocation is national for the educational infrastructure and for the cultural heritage.

**Table 28. Prioritization criteria for allocating funding between counties (educational infrastructure)**

| Proposed indicator | Measure unit | Time period | Specific weight | Relevance |
|---|---|---|---|---|
| Share of pre- and school-aged population (3-18 years) in total population | % | 2011 | 40% | Indicates the availability of a critical mass of beneficiaries for the educational structure. It is mainly an efficiency indicator, orienting the investments to the counties with the highest number of pupils. |
| The early school leaving rate | % | 2011 | 10% | One of the causes of the early-school leaving phenomenon, besides the socio-economic issues, is the poor access to school infrastructure. Thus, investments should be oriented towards the peripheral settlements with limited access to quality educational services. |
| LHDI | Value | 2011 | 15% | Poverty is strongly correlated with poor education and early-school leaving. Investments in educational services should target poor communities with limited resources and social issues. In accordance with the *Territorial Development Strategy of Romania,* a priority should be given to providing key basic infrastructure in lagging regions. |
| FSI | Value | 2014-2022 | 15% | This measure is designed as a counterweight to the LHDI. Whenever a local authority is investing in social infrastructure it is good to check whether it will have the financial capacity to operate and maintain the investment. |
| Number of PCs / 1,000 pupils | Number | 2013 | 10% | Access to educational IT&C infrastructure is an indicator for the quality of life and also for the quality of education (endowment of education facilities). Poor and remote areas are generally confronted with poor access to IT&C tools, both in households and schools. |
| Number of sports fields / 1,000 pupils | Number | 2013 | 10% | The obesity phenomenon among pupils has grown in the last years and schools should provide proper sports facilities to improve their physical condition. |

**Table 29. Prioritization criteria for allocating funding between counties (health infrastructure)**

| Proposed indicator | Measure | Year | Specific weight | Relevance |
|---|---|---|---|---|
| Life expectancy | Number of years | 2013 | 10% | Indicates the accessibility of people to quality health services. Developed counties are characterized by a high level of life quality as suggested by life expectancy. |
| Number of inhabitants / physician | Number | 2013 | 30% | Indicates the accessibility to primary medical services. The provision of a sufficient number of physicians generally ensures lower morbidity rates and higher life expectancy. |
| Number of hospital beds / 100,000 inhabitants | Number | 2013 | 10% | Indicates the accessibility to specialized medical services. The availability of complex emergency and specialized services, such as the ones offered by hospitals, generally suggests a better quality of life for citizens. |
| Share of population over 65 in total population | % | 2011 | 20% | Indicates the level of demand for health services that is directly correlated with the population's median age. |
| Number of inhabitants / pharmacy | Number | 2013 | 30% | Indicates the accessibility to pharmaceutical drugs. The access to pharmacies generally ensures a better health condition for the population. |

**Table 30. Prioritization criteria for allocating funding between counties (cultural infrastructure)**

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Number of museums | Number | 2013 | 10% | The lack of museums in many cities and villages is a barrier in developing a strong cultural and touristic local offer. Investments in such cultural units should target the most deprived areas in terms of museum and exhibition infrastructure. |
| Number of tourists hosted | Number | 2013 | 40% | Tourism and culture are often interlinked. The already existing tourist poles should be supported by investments in cultural infrastructure, in order to exploit their full potential and prolong tourist stays. |
| Number of seats in art performing institutions / companies | Number | 2013 | 10% | The availability of art performing venues is an indicator of the quality of life. Investments in such facilities should target those settlements, especially urban ones, which have no/fewer such institutions. |
| Number of public libraries | Number | 2013 | 10% | Public libraries offer basic cultural services that should be available to all citizens, regardless of their residence. Thus, investments in such units should be oriented towards the most cultural deprived areas. |
| LHDI | Value | 2011 | 15% | Investments in cultural infrastructure should |

| | | | | |
|---|---|---|---|---|
| | | | | target poor communities with limited resources for such investments. |
| FSI | Value | 2014-2022 | 15% | This measure is designed as a counterweight to the LHDI. Whenever a local authority is investing in social infrastructure it is good to check whether it will have the financial capacity to operate and maintain the investment. |

**Table 31. Prioritization criteria for allocating funding between counties (sports infrastructure)**

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Share of young population (5-29) in total population | % | 2011 | 40% | Youngsters represent the largest share of sports facilities users. The indicator reflects the availability of a critical mass of end users for sports infrastructure. |
| Number of sports clubs | Number | 2013 | 10% | The number of clubs is a relevant indicator of the citizens' interest in sports, indicating also a high demand for better sport facilities. |
| Number of registered sportsmen and sportswomen | Number | 2013 | 20% | This number of registered sportsmen/sportswomen is also relevant for evaluating the demand for sports infrastructure at local level. |
| LHDI | Value | 2011 | 15% | Investments in sports infrastructure should target poor communities with limited resources for such investments. |
| FSI | Value | 2014-2022 | 15% | This measure is designed as a counterweight to the LHDI. Whenever a local authority is investing in social infrastructure it is good to check whether it will have the financial capacity to operate and maintain the investment. |

250. **Once the funding is allocated between counties, the next step is to decide which localities should receive financing within each category of social infrastructure (i.e., education, health, etc.).** The following tables include a number of criteria for prioritizing and selecting investments in these various types of social infrastructure. This model can be applied to both ongoing and new investments. Regarding the former, since the PNDL's current project portfolio far exceeds available resources, the criteria noted below can also be deployed to sort through existing projects and reach a manageable portfolio size (by suspending, postponing, or canceling some investments). In addition, the completion rate of an individual project can and should be taken into account for decisions regarding which investments the PNDL will keep in its portfolio; the importance of this criterion in raking projects (i.e., % weight in final score) depends on the MRDPA's preferences, as manager of the PNDL. As for new projects, these would only be approved and launched if there is sufficient room in the PNDL budgetary envelope once all ongoing projects are accounted for. This space must exist not only for the first year, but for all subsequent years, through the project's completion.

251. **The PNDL selection criteria for social infrastructure were prepared in parallel with the evaluation and selection criteria pertaining to ROP and PNDR.** At the moment of writing this report, the ROP evaluation and selection criteria for educational infrastructure and health infrastructure are not in place yet. With respect to PNDR, the selection criteria for educational infrastructure are similar, both PNDL and PNDR taking into consideration the population and the development degree at the TAU level. In the case of PNDL, this program includes a series of criteria that are ignored by PNDR (e.g. school aged population) and that would enable a more rigorous project selection. Regarding the cultural infrastructure, there is a very significant accordance between the two sets of criteria used in the case of PNDL and PNDR (e.g. tourist potential, social and cultural activities, population, local human development index). The criteria used by ROP for the evaluation and selection of cultural heritage projects are rather general and need to be assessed by an external evaluator.

**Table 32. Prioritization criteria for educational infrastructure projects, by territorial administrative unit (TAU)**

| STEP 1 – Identifying the TAUs that should receive priority funding for educational infrastructure projects | | | | |
|---|---|---|---|---|
| **Proposed indicator** | **Measure** | **Year** | **Weight** | **Relevance** |
| Number of school aged (6-18) / pre-school aged (3-6) population | Number | 2011 | 30% | Indicates the sustainability of educational investments. The existence of a critical mass of children and pupils ensure the efficiency and improves the impact of public spending. |
| Share of population with pre-university education | % | 2011 | 10% | It is a measure for the likelihood that the educational infrastructure will be used. |
| Average no of children/pupils / classroom | Number | 2013 | 10% | Indicates the provision of sufficient educational infrastructure for the school population. A high number of pupils/classroom generally indicates the need for additional investments in extending the existing infrastructure. |
| LHDI | Value | 2013 | 15% | The level of socio-economic development is strongly correlated with quality of educational services. Investments in educational services should target less developed communities with limited resources and social issues. |
| FSI | Value | 2014-2020 | 15% | The FSI is designed as a counterweight to the LHDI and measures the capacity of the public authorities to operate and maintain the infrastructure investment once it has been finalized. |
| Number of PCs / 1,000 pupils | Number | 2013 | 10% | The access to educational IT&C infrastructure is an indicator for the quality of life and of the schools endowment (quality of education). Poor and remote areas are generally confronted with poor |

| | | | | |
|---|---|---|---|---|
| | | | | access to IT&C tools, both in households and schools. |
| Number of sports fields / 1,000 pupils | Number | 2013 | 10% | The obesity is on the rise among school children and schools should provide proper sports facilities to improve their physical condition. |

| STEP 2 – Coordination with EU funded projects* | |
|---|---|
| **Sub-step** | **Reasoning** |
| Propose for PNDR 2014-2020 or POR 2014-2020 funding the TAUs that have an FSI larger than 4 million Euro. Focus only on education infrastructure projects of less than €500,000. | The communes that have a larger FSI, have a larger budget capacity, and a higher administrative capacity required for writing a PNDR or a ROP application, and required for writing more complex and higher value integrated development projects (which are eligible under PNDR). Moreover, smaller infrastructure projects require lower operation and maintenance costs, and they allow more communes to benefit from investments in their communal roads.<br><br>€500,000 is the upper threshold set in the draft PNDR 2014-2020 programmatic document, and it should be used by PNDL too, to ensure a coordinated approach. |
| **Note: This step may be subject to change, based on the final Applicant's Guide developed for the Regional Operational Programme 2014-2020 and the PNDR 2014-2020.* | |

**Table 33. Prioritization criteria for health infrastructure projects, by territorial-administrative unit (TAU)**

| STEP 1 – Identifying the TAUs that should receive priority funding for health infrastructure projects | | | | |
|---|---|---|---|---|
| **Proposed indicator** | **Measure** | **Year** | **Weight** | **Relevance** |
| Share of population over 65 in total population | % | 2011 | 20% | Indicates the level of demand for health services, that is directly correlated with the population's median age |
| Number of inhabitants / physician | Number | 2013 | 20% | Indicates the accessibility to primary medical services. The provision of a sufficient number of physicians generally ensures lower morbidity rates and higher life expectancy. |
| Number of inhabitants / pharmacy | Number | 2013 | 20% | Indicates the accessibility to pharmaceutical drugs. The access to pharmacies generally ensures a better health condition for the population. |
| Distance to the closest hospital | Kilometer | 2013 | 20% | Indicates the accessibility to specialized medical services. The availability of complex emergency and specialized services, such as the ones offered by |

| | | | | |
|---|---|---|---|---|
| | | | | hospitals, generally suggests a better quality of life for citizens. |
| Average mortality / infant mortality rate | ‰ | 2009-2013 | 20% | The average mortality rate is an indicator directly influenced by the average age and the quality of medical services. Higher mortality rates indicate both an unfavorable age structure and the need for improved medical services. |

| STEP 2 – Coordination with EU funded projects* | |
|---|---|
| **Sub-step** | **Reasoning** |
| Propose for PNDR 2014-2020 or POR 2014-2020 funding the TAUs that have an FSI larger than 4 million Euro. Focus only on health infrastructure projects of less than €500,000. | The communes that have a larger FSI, have a larger budget capacity, and a higher administrative capacity required for writing a PNDR or a ROP application, and required for writing more complex and higher value integrated development projects (which are eligible under PNDR). Moreover, smaller infrastructure projects require lower operation and maintenance costs, and they allow more communes to benefit from investments in their communal roads.<br><br>€500,000 is the upper threshold set in the draft PNDR 2014-2020 programmatic document, and it should be used by PNDL too, to ensure a coordinated approach. |
| **Note: This step may be subject to change, based on the final Applicant's Guide developed for the Regional Operational Programme 2014-2020 and the PNDR 2014-2020.* | |

**Table 34. Prioritization criteria for cultural infrastructure projects, by territorial administrative unit (TAU)**

| STEP 1 – Identifying the TAUs that should receive priority funding for cultural infrastructure projects | | | | |
|---|---|---|---|---|
| **Proposed indicator** | **Measure** | **Year** | **Weight** | **Relevance** |
| Average number of tourists | Number | 2009-2013 | 30% | It indicates the settlement's touristic attractiveness, considering that culture and tourism are strongly correlated. The existing touristic poles require additional investments in cultural infrastructure and events, in /order to improve their offer to visitors and to improve their competitiveness. |
| Average number of visitors in museums | Number | 2009-2013 | 20% | It indicates the cultural attractiveness of the settlements. Such investments should target the cultural poles, by exploiting their existing potential. |
| Average number of organized performances | Number | 2009-2013 | 10% | It signals the level of cultural services' provision. More performances indicate the existence of a strong demand for cultural events that should be supported by |

| | | | | |
|---|---|---|---|---|
| | | | | investments in infrastructure. |
| Average number of active readers in public libraries | Number | 2011-2013 | 10% | The indicator reveals the level of the cultural demand at local level, orienting the investments in an efficient way. |
| LHDI | Value | 2013 | 15% | The level of socio-economic development is strongly correlated with quality of educational services. Investments in educational services should target less developed communities with limited resources and social issues. |
| FSI | Value | 2014-2020 | 15% | The FSI is designed as a counterweight to the LHDI and measures the capacity of the public authorities to operate and maintain the infrastructure investment once it has been finalized. |

| **STEP 2 – Coordination with EU funded projects*** | |
|---|---|
| **Sub-step** | **Reasoning** |
| Propose for PNDR 2014-2020 or POR 2014-2020 funding the TAUs that have an FSI larger than 4 million Euro. Focus only on cultural infrastructure projects of less than €1,000,000. If cultural heritage sites are financed, focus only on Class B sites. | The communes that have a larger FSI, have a larger budget capacity, and a higher administrative capacity required for writing a PNDR or a ROP application, and required for writing more complex and higher value integrated development projects (which are eligible under PNDR). Moreover, smaller infrastructure projects require lower operation and maintenance costs, and they allow more communes to benefit from investments in their communal roads.<br><br>€1,000,000 is the upper threshold set in the draft PNDR 2014-2020 programmatic document, and it should be used by PNDL too, to ensure a coordinated approach.<br><br>The ROP focuses on Class A cultural heritage sites in urban and rural areas, and on Class B cultural heritage sites in urban areas. The PNDR focuses on Class B cultural heritage sites in rural areas, and so should the PNDL to ensure a coordinated approach. |
| **Note: This step may be subject to change, based on the final Applicant's Guide developed for the Regional Operational Programme 2014-2020 and the PNDR 2014-2020.* | |

**Table 35. Prioritization criteria for sports infrastructure projects, by territorial administrative unit (TAU)**

| Proposed indicator | Measure | Year | Weight | Relevance |
|---|---|---|---|---|
| Share of young population (5-29) in total population | % | 2011 | 40% | Youngsters represent the largest share of sports facilities users. The indicator reflects the availability of a critical mass of end users for sports infrastructure. |
| Number of sports rooms / 1,000 inhabitants | Number | 2013 | 15% | The indicator is relevant for evaluating the quantitative availability of sports facilities at local level. Investments of such kind should target the most deprived areas in terms of sports facilities. |
| Number of sports fields / 1,000 inhabitants | Number | 2013 | 15% | The indicator is relevant for evaluating the quantitative availability of sports facilities at local level. Investments of such kind should target the most deprived areas in terms of sports facilities. |
| LHDI | Value | 2013 | 15% | The level of socio-economic development is strongly correlated with quality of educational services. Investments in educational services should target less developed communities with limited resources and social issues. |
| FSI | Value | 2014-2020 | 15% | The FSI is designed as a counterweight to the LHDI and measures the capacity of the public authorities to operate and maintain the infrastructure investment once it has been finalized. |
| **STEP 2 – Eligibility** | | | | |
| **Sub-step** | | | | **Reasoning** |
| Focus only on sports infrastructure projects of less than €665,720. | | | | This is in accordance with the standard costs included in GD 363/2010. No EU funded operational programmes proposes the funding of sports infrastructure in rural areas. |

252. **An Investment Guide for Communal Roads and Social Infrastructure is delivered along with this report.** This guide presents in detail the way in which state-budget investments and EU-funded investments in social infrastructure could be made in a complementary and harmonized way. Thus, with reference to educational infrastructure, kindergartens, nurseries, technical high schools and vocational schools were mapped separately, these being eligible for funding under ROP and PNDL. Regarding health infrastructure, outpatient departments, hospitals and integrated community centers were mapped, as these are eligible for funding under ROP. PNDR does not finance health infrastructure projects. With respect to cultural infrastructure, Class A and Class B archaeological and architecture monuments were mapped. Class A monuments in urban and rural areas are eligible for funding under ROP 2014-2020. Considering Class B monuments, those located in urban areas are eligible for funding under ROP and those situated in rural areas are eligible for PNDR funding. The cultural centers were also mapped,

as they are eligible only for PNDL funding. Sports infrastructure is eligible for funding only through state-budget programs.

253. Investment priorities were included for all types of social infrastructure. Such prioritization can be used by all investment programs – both state-budget-funded and EU-funded – and may lead to a complementary approach concerning these programs and the achievement of common objectives. For example, regarding PNDR, the objective of cultural infrastructure funding is the following: “Harnessing local cultural heritage, rural tourism promotion, thereby improving living standards in rural areas”. The financing of educational infrastructure through PNDR has the following purpose: “Improving living conditions for the rural population and stopping the phenomenon of depopulation in rural areas by reducing rural-urban disparities”. Referring to ROP, the goal of funding educational infrastructure is the following: “Increasing participation in early education and compulsory education, particularly for children at risk of early school dropout”. The objective attached to health infrastructure funding under ROP is the following: “Improved access to community health services and secondary level services, particularly for poor and isolated areas”. Finally, the ROP objective with regard to the funding of cultural heritage infrastructure projects is the following: “Boosting local development through conservation, preservation, and promotion of cultural heritage and cultural identity”. Clearly, the investments promoted through PNDL can help achieve these objectives.

# Chapter 7: From Theory to Practice: The PNDL 2015

254. **While work on the design and financial allocations of the PNDL 2015 was ongoing at the time of this report's writing, several intermediary and final outputs had been completed in time to be taken into consideration by the MRDPA.** In particular, the final report on *Coordination of Strategies and Programs for EU and State-Funded investments in Romania's Infrastructure*, the final report on *Improved Prioritization Criteria for PNDL Projects*, and the intermediary version of this report were available for the MRDPA's consideration in the design of the PNDL 2015. The following analysis shows that the technical staff of the MRDPA has taken several recommendations on board. Also, multiple interviews with Ministry staff have revealed what they considered useful, what they ultimately implemented, what they are considering for future years, and what is more difficult to adopt and why.

255. **In what follows, the PNDL 2015 is discussed in detail, based on the data available publicly on the MRDPA's website.**[63] The program is, in fact, a good practice example in the Romanian context: every year, once the budget is approved and the MRDPA completes the final allocation by county and by project, the Ministry publishes the list of interventions financed in fiscal year 2015 ("active" projects). The PNDL is thus compared to the PNDL 2014 (for which there are also data posted on the MRDPA website), and it is analyzed from the perspective of the recommendations made in the reports mentioned above.

## Multiannual Implementation Timeline and Budgeting

256. **The shortcomings of an annual investment program have been discussed in detail in the report on *Improved Prioritization Criteria for PNDL Projects* and are also addressed in the following chapter on multiannual budgeting.** These challenges become even more visible when one looks at how the PNDL was implemented in 2015. In essence, in July 2015, when this report was drafted, the PNDL had yet to disburse any funds to sub-national projects. Virtually, half of the year was wasted preparing a list of projects that would receive funding in 2015. With a multiannual implementation framework, the PNDL could have technically started disbursing in January 2015.

257. **With a year-on-year implementation approach, several months are lost every year preparing an eligible projects list.** A multiannual implementation framework would eliminate the need for preparatory work at the beginning of every year. This work would be done only once, at the beginning of an implementation timeline, with the financing of ongoing works continuing unabated from year to year. New projects would be accepted for funding only to the extent that projects in the existing list are finished, and to the extent that there are sufficient resources to cover these new projects (not just for the first year, but for their entire implementation timeline).

258. **Fortunately, the MRDPA understands the limitations of an annual system and is now considering adopting a multiannual implementation framework, discussing this**

[63] The data are available at http://www.mdrap.ro/lucrari-publice/pndl/-8564

**possibility with the Ministry of Finance.** The MRDPA has also asked the World Bank to provide more insights on potential multiyear budgeting approaches, and the next chapter of this report is dedicated to this topic.

259. **Given that multiannual implementation frameworks are used for EU-funded operational programmes, they could certainly be used for state-budget-funded investment programs – even with existing legislative and institutional restrictions.** Most importantly, the PNDL funding cycle should be coupled with the EU funding cycle, to the extent possible. Having the same implementation timeline is one of the simplest and at the same time most effective coordination and harmonization tools. The same implementation timeline means that priorities can be decided together, investment priorities can be carved out between different investment programs, and the implementation of projects on the ground can be coordinated more efficiently.

## Budget Allocation for 2015

260. **The report on *Improved Prioritization Criteria for PNDL Projects* argued that in 2015 the Ministry of Finance should allocate a similar amount as in 2014, with a small increase made possible by the overall growth of the economy and by the rising inflation.** Indeed, the PNDL budget allocation for 2015 was at around RON 1.6 billion, similar to what was estimated by the Bank.

261. **Unfortunately, the sum that was allocated for the PNDL 2015 was not the sum that ended up being available, according to MRDPA representatives interviewed.** Because of an accounting error, RON 0.5 billion that were not spent in 2014 did not get rolled over into 2015, but rather were transformed into a budgetary credit and taken out of the 2015 PNDL budget. Thus, the actual PNDL budget available for investments in 2015 is only RON 1.04 billion.

262. **This could have been avoided if a multiannual implementation framework was in place, with a credible and functional commitment that funds can roll over into future fiscal years when needed to complete infrastructure investments.** For EU-funded programs, undisbursed sums are routinely rolled-over from one fiscal year to the next. Of course, the current situation is also a testament to the broader budgetary planning challenges in Romania (described in depth in the following chapter), which continues to suffer from weak capacity and lack of will to implement a clearer, more predictable system.

## Budget Allocation by Counties

263. **The report on *Improved Prioritization Criteria for PNDL Projects* recommended that funds allocated to individual counties should be based on actual needs.** In 2014, each individual county was allocated roughly the same amount, regardless what the projects implemented in that particular county were, regardless of the county's development level, and regardless of how much of the financing could be covered from own sources (e.g., a wealthier county has more to spend on infrastructure from the budgets of local authorities themselves, and hence, *ceteris paribus*, would need less support from the central government).

264. **The PNDL 2015 made a differentiated budget allocation for each county.** By and large, as can be seen in the table below, the PNDL 2015 county allocations follow the allocations proposed as part of this technical assistance, in consultation with the MRDPA. There are, however, multiple counties where the allocation for 2015 differs markedly. For example, Botoșani and Cluj have received significantly less funds than what was proposed by the Bank - around 11-12 million RON less. On the other hand, counties like Bistrița-Năsăud, Constanța, and Iași have received significantly more – around 11-16 million RON more.

**Table 36. Comparison of PNDL 2015 county allocation and proposed WB allocation**

| County | 2015 allocation (RON) | Share of PNDL 2015 | Share proposed by WB | Difference between WB proposal and actual PNDL allocation | |
|---|---|---|---|---|---|
| | | | | Share | Actual sum (RON) |
| ALBA | 22,983,309 | 2.19% | 2.59% | -0.40% | -4,137,314 |
| ARAD | 26,918,921 | 2.57% | 2.50% | 0.07% | 740,714 |
| ARGEȘ | 26,939,185 | 2.57% | 2.87% | -0.30% | -3,113,397 |
| BACĂU | 36,571,367 | 3.49% | 2.89% | 0.60% | 6,309,359 |
| BIHOR | 27,850,840 | 2.66% | 2.72% | -0.06% | -631,050 |
| BISTRITA-NĂSĂUD | 36,124,909 | 3.45% | 2.37% | 1.08% | 11,307,968 |
| BOTOȘANI | 16,590,318 | 1.58% | 2.68% | -1.10% | -11,472,720 |
| BRĂILA | 21,615,886 | 2.06% | 2.30% | -0.24% | -2,468,065 |
| BRAȘOV | 22,440,626 | 2.14% | 2.63% | -0.49% | -5,098,848 |
| BUZĂU | 25,686,641 | 2.45% | 2.75% | -0.30% | -3,109,387 |
| CĂLĂRAȘI | 25,000,000 | 2.39% | 2.38% | 0.01% | 78,346 |
| CARAȘ-SEVERIN | 28,828,510 | 2.75% | 2.40% | 0.35% | 3,697,431 |
| CLUJ | 8,751,042 | 0.84% | 2.04% | -1.20% | -12,610,376 |
| CONSTANȚA | 40,789,778 | 3.90% | 2.35% | 1.55% | 16,182,263 |
| COVASNA | 17,772,046 | 1.70% | 2.26% | -0.56% | -5,893,054 |
| DÂMBOVIȚA | 29,563,148 | 2.82% | 2.57% | 0.25% | 2,651,951 |
| DOLJ | 22,698,400 | 2.17% | 2.71% | -0.54% | -5,678,777 |
| GALATI | 25,969,076 | 2.48% | 2.59% | -0.11% | -1,151,547 |
| GIURGIU | 16,920,094 | 1.62% | 2.46% | -0.84% | -8,839,262 |
| GORJ | 15,964,605 | 1.52% | 1.15% | 0.37% | 3,922,630 |
| HARGHITA | 30,466,980 | 2.91% | 2.47% | 0.44% | 4,602,911 |
| HUNEDOARA | 23,886,432 | 2.28% | 2.46% | -0.18% | -1,872,924 |
| IALOMITA | 22,010,406 | 2.10% | 2.15% | -0.05% | -502,853 |
| IAȘI | 42,552,513 | 4.06% | 2.91% | 1.15% | 12,081,080 |
| ILFOV | 9,740,210 | 0.93% | 1.13% | -0.20% | -2,092,339 |
| MARAMUREȘ | 26,251,062 | 2.51% | 2.59% | -0.08% | -869,561 |
| MEHEDINTI | 23,851,162 | 2.28% | 2.41% | -0.13% | -1,384,630 |
| MUREȘ | 24,129,702 | 2.30% | 2.72% | -0.42% | -4,352,187 |
| NEAMȚ | 33,415,550 | 3.19% | 2.70% | 0.49% | 5,143,086 |
| OLT | 28,457,305 | 2.72% | 2.64% | 0.08% | 813,118 |
| PRAHOVA | 36,936,416 | 3.53% | 2.73% | 0.80% | 8,349,813 |
| SALAJ | 15,387,771 | 1.47% | 1.80% | -0.33% | -3,460,539 |
| SATU MARE | 19,773,328 | 1.89% | 2.55% | -0.66% | -6,928,443 |
| SIBIU | 20,948,674 | 2.00% | 1.17% | 0.83% | 8,697,273 |

| County | 2015 allocation (RON) | Share of PNDL 2015 | Share proposed by WB | Difference between WB proposal and actual PNDL allocation | |
|---|---|---|---|---|---|
| | | | | Share | Actual sum (RON) |
| SUCEAVA | 36,113,350 | 3.45% | 2.92% | 0.53% | 5,537,204 |
| TELEORMAN | 27,211,522 | 2.60% | 2.62% | -0.02% | -223,240 |
| TIMIȘ | 29,840,467 | 2.85% | 2.80% | 0.05% | 520,875 |
| TULCEA | 25,602,903 | 2.45% | 2.32% | 0.13% | 1,309,526 |
| VÂLCEA | 22,107,789 | 2.11% | 2.62% | -0.51% | -5,326,972 |
| VASLUI | 28,481,588 | 2.72% | 2.67% | 0.05% | 523,263 |
| VRANCEA | 23,984,466 | 2.29% | 2.45% | -0.16% | -1,670,177 |
| **TOTAL** | **1,047,128,300** | **100.00%** | **100.00%** | | |

265. **One can speculate over why this situation exists, but some causes include:**

- The allocation by county is made based on what the counties request individually. Some counties may simply request less than what they could receive, or perhaps the counties that received more "dared" to ask for more, in the hope that they would be granted at least a share of that.
- Bargaining power varies from county to county, with some having significantly more clout in the dialogue with central authorities, for a variety of reasons.
- A clear formula for county-based budget allocation continues to be lacking. As long as there is no clear formula for the allocation of funds by county, the allocation process is likely to include a greater dose of subjectivity.

266. **The county allocation proposed as part of this technical assistance follows a clear formula which takes individual county needs into consideration.** The allocation formula is presented in detail in the report on *Improved Prioritization Criteria for PNDL Projects.* This can be institutionalized through a simple Order by the MRDPA Minister, and it could be used for a more objective allocation of PNDL funds over a longer implementation period. Again, this would help boost the program's predictability and, hence, the ability of central, county, and local authorities to coordinate investment programs and projects better. It is also easier to communicate to potential beneficiaries (e.g., local authorities) and the general public how the allocation works, based on a specific and transparent formula.

## Funding Allocation by Priorities

267. **One of the key recommendations of this technical assistance was to have clear priorities identified for the PNDL, with the budget allocations by sectors taking into account those priorities.** The PNDL 2014 funded basically all kinds of project proposals that came from the sub-national level, without requiring a prioritization of limited funds based on the most important needs. As a result, a large share of funded projects represented projects that were easy for sub-national authorities to write – e.g., communal roads (with over 45% of PNDL 2014 funds going to such projects). The report on *Improved Project Prioritization for PNDL Projects* recommended that the PNDL allocate funding based on actual needs on the ground, demand from sub-national authorities, and EU-level priorities. The recommended split is included in the table below, along with a comparison with the actual sectoral allocations of PNDL 2014 and PNDL 2015.

**Table 37. Comparison of PNDL allocations by sector**

| Sector | PNDL 2014 Allocation | Technical Assistance Proposal | PNDL 2015 Allocation |
|---|---|---|---|
| **County Roads** | 14% | 15% | 10% |
| **Communal Roads** | 45% | 25% | 33% |
| **Water and Wastewater** | 35% | 50% | 35% |
| **Social Infrastructure** | 2% | 10% | 14% |
| **Other** (e.g. city halls, tourism, markets, bridges) | 4% | 0% | 8% |
| **TOTAL** | **100%** | **100%** | **100%** |

268. **While the PNDL 2015 does not have a clear budget split by priorities, allocated funds are closer to what the technical assistance has proposed, with a smaller allocation for communal roads and a larger allocation for social projects.** The MRDPA has triaged communal road projects, with a focus on works with a high completion degree, based on interview data. Also, the program finances more social infrastructure projects (particularly new educational infrastructure projects, with numerous new ones added for financing). In line with what the technical assistance recommended, social infrastructure was the only sector where new PNDL projects were accepted. For the other sectors, the focus was largely on projects that had already been started.

269. **Somewhat problematic is the fact that the allocation of funding for water and wastewater projects appears lower than it should be, particularly given the needs in the sector.** As explained before, Romania has made specific commitments and it is far from reaching set targets on water/wastewater service coverage (at agreed quality standards). Even more problematic is the fact that a significant number of these PNDL projects are investments that should not be financed, as will be discussed in the next section. In fact, it may be that the relatively low budget allocation for water and wastewater projects is due to the low quality of projects in the existent portfolio. Since the PNDL 2015 focused primarily on financing ongoing projects, it could not achieve significantly improved project selection outcomes. Thus, if the projects in the existent portfolio were not the best, the PNDL 2015 is financing sub-optimal projects in this sector. Ideally, the “bad” (unfeasible, unsustainable, etc.) projects from the current portfolio, particularly those with a low completion rate, or projects that have not been started at all, should have not received any additional funding.

270. **Lastly, it should be noted that the current PNDL split by sectors is done for a budget that is 33% lower than what it normally should have been.** Thus, in absolute terms, the allocation for social infrastructure projects is close to what the technical assistance proposed, while the allocations to the other sectors are lower.

## Prioritization of Projects

271. **One of the key tasks that the World Bank has had in this assignment was to recommend, in consultations with the MRPDA and other stakeholders, a way of prioritizing PNDL investments and ensuring their coordination and harmonization with EU**

**investments.** To this end, a set of prioritization criteria are devised taking EU selection criteria into consideration. These proposed PNDL criteria have been discussed extensively with the MRDPA and relevant stakeholders at the central, regional, and at the local level. A look at the PNDL 2015 database indicates to what extent these prioritization criteria have actually been used.

272. **The MRDPA has indicated that the proposed prioritization criteria were used in the selection of PNDL 2015 projects, but other criteria were used as well.** Most importantly, the Ministry gave higher priority to projects that had a higher completion rate, with the intent of finishing more projects in a timely fashion. Given that this criterion was used as the main triage tool, several projects that were otherwise considered non-priority actually made it on the PNDL 2015 project priority list.

**Table 38. A breakdown of PNDL 2015 priority projects**

| Investment Type | Number | Share | PNDL 2015 Allocations (in RON) | Share |
|---|---|---|---|---|
| **Priority investment according to World Bank Prioritization** | 1,125 | 46.3% | 523,492,716 | 50.0% |
| **Non-priority investment according to World Bank Prioritization** | 979 | 40.3% | 392,883,433 | 37.5% |
| **Investment in non-priority sectors** | 325 | 13.4% | 130,752,151 | 12.5% |
| **TOTAL** | **2,429** | 100.0% | **1,047,128,300** | 100.0% |

273. **Around 46% of PNDL 2015 projects are part of the priority list of projects identified as part of this technical assistance.** These represent around 50% of the total value allocated for the 2015 fiscal year. At the same time, around 40% of the projects, with around 36% of the total allocated value for 2015, are considered non-priority by this technical assistance. In essence, this means that in the initial project portfolio of around 4,000 projects there were other projects that should have received funding before these 979 non-priority projects. The fact that these interventions are considered non-priority does not necessarily mean that the projects should not be financed. Often, local authorities know their needs much better than central authorities and can make a clear case for why they have chosen one project over another. However, the large number of non-priority projects does indicate that the prioritization criteria proposed were not fully taken on board in the triage of the existing PNDL portfolio and in financing decisions for 2015.

274. **Around 14% of PNDL 2015 represent investments in non-priority *sectors*.** These refer to, on the one hand, sectors that, based on the findings of this technical assistance, should not be the focus of the PNDL. These include investments in tourism infrastructure, city hall buildings, or communal markets. On the other hand, non-priority sectors are those for which it is difficult to devise clear prioritization criteria (e.g., investments in bridges and investments in local town roads), which add up to 64% of the total funding dedicated to non-priority sectors. The need for investment in bridges is usually determined on a case-by-case basis (e.g., where a flood has destroyed an existing bridge), while the investment needs in local roads (particularly in smaller towns and municipalities) are harder to assess through a simplified general prioritization mechanism. Towns and municipalities vary

substantially in size and financial capacity. As such, PNDL funds for road infrastructure should primarily target rural areas. Having a clearer focus of the PNDL on a few key sectors will enable a more efficient and impactful allocation of MRDPA funds going forth, and it will also help the Ministry better coordinate PNDL interventions with other EU and state-funded programs.

275. **In addition to non-priority projects, there are 367 investments (out of a total of 2,429) that should not be financed based on the findings of this technical assistance.** These largely represent water and wastewater projects inherited from previous investment programs. The key reasons why such projects should not be financed include the following:

- Wastewater projects are implemented in localities with less than 2,000 people equivalent, or water projects are implemented in localities with less than 50 people. Such investments are considered to be inefficient from an economic and financial point of view, and they do not help with achieving EU acquis targets in the water and wastewater sector. Ideally, all wastewater and water projects financed by the PNDL should focus on water systems and sewage agglomerations/clusters with more than 2,000 people equivalent.

- The projects are part of a system/agglomeration/cluster that will receive priority funding under the OP Large Infrastructure 2014-2020. Obviously, if EU funding is available for a particular investment, it should be sought firstly. PNDL funds should ideally target projects that are not eligible for EU funding, or projects that are complementary to EU funded investments. The Ministry of Finance recently took a similar position publicly.[64]

196. **It is important that for the 2016 financial exercise some of the lessons from the current exercise be internalized to enable enhanced coordination and harmonization of interventions – and, hence, higher development impact.** Ideally, the PNDL should focus on finalizing a triaged version of the current project portfolio, with a particular attention paid to projects with a high priority score, while at the same time identifying potential solutions for the projects that should technically not be financed by the PNDL. For example, water and wastewater projects that could technically be covered by OP Large Infrastructure 2014-2020 should be funded from this OP. The same goes for county roads and social infrastructure that can be financed by the ROP 2014-2020. All this comes back to the need to improve coordination among investment programs and projects in Romania. The recommendations put forth in this series of reports promise to deliver higher predictability and transparency, not just for the PNDL, but for all state-budget-funded instruments that will consider adopting them. The MRDPA has begun taking some steps in the right direction with the 2015 programming of the PNDL, but in truth a lot more can and should be done to promote effective coordination among investment programs and a more strategic project selection and prioritization process.

[64] *See*, for instance, http://www.mediafax.ro/economic/teodorovici-bugetul-2016-nu-va-include-cheltuieli-de-la-buget-daca-se-pot-face-cu-fonduri-europene-14558398

# Chapter 8: Spotlight on Multiyear Budgeting as a Tool for Coordinating Investments

276. **In response to the MRDPA's interest in the topic and upon its request, this chapter focuses on multiyear budgeting as a tool to enhance the coordination and impact of the National Local Development Program (PNDL) and similar programs.** Providing an exhaustive analysis of how multiannual budgeting could work and what it would require in the Romanian context is beyond the scope of the current assessment. In fact, the World Bank's governance experts are currently working with the Ministry of Public Finance (MPF) on a full-fledged assistance to that effect. The purpose of this chapter is more narrow and specific to the main audience of this work. It seeks to orient the MRDPA on multiyear budgeting and help define its potential role in this reform effort, including a discussion of implications for programs like the PNDL.[65]

277. **But why discuss multiyear budgeting to begin with, especially in the context of this report?** First and foremost, a multiannual framework for the PNDL would facilitate coordination with other investment programs, particularly those funded by EU structural funds, which operate on a seven-year programming period, with an additional three years for completing project implementation. In addition, adopting multiannual budgeting in Romania would grant a much-needed higher predictability to multiyear investment programs, as a solution to the current problem of ever-expanding project portfolios. Once started, an investment would be guaranteed the necessary funds through completion, as opposed to the current practice of putting ongoing investments on hold to start new ones, without ensuring that the required funds are set aside from one year to the next. Equally important for the topic at hand, coordination is impossible without reasonable certainty regarding the timely implementation and completion of projects. Otherwise, a school may be ready before the road in front of it is paved, a county road may be ready before a highway it is supposed to connect to, and the funds for a communal road may be available but cannot be deployed until the corresponding water/wastewater project is completed.

278. **Such preliminary arguments suggest that the are several advantages to implementing a multiyear PNDL – and adopting a multiyear budgetary framework more broadly.** The following sections cover these topics: (i) the theory behind multiyear budgeting; (ii) Romania's current multiyear budgeting framework; (iii) future options for multiyear budgeting in the context of the PNDL and beyond; and (iv) conclusions.

279. **The full implementation of multiannual budgeting for investment programs like the PNDL requires a substantial effort from many players, with the Center of Government (Prime Minister's Chancellery) and the Ministry of Public Finance playing leadership roles.** Keeping in mind the need to triage and rationalize its large project portfolio, as well as the broader benefits of multiannual budgeting in Romania, the MRDPA has the potential to become a key driver of needed reforms. This is not to say that the country is starting from

[65] Given the intended aim of this report, the approach taken and language used are simple (non-technical), clear, and as accessible as possible to broad audiences.

scratch. As later shown, the legal framework for multiyear budgeting exists to a certain extent, but requires strengthening and refining.

280. **The reasonable expectation is that changes will not happen overnight and the process of implementing multiannual budgeting fully will require 3-5 years, based on what has happened in other countries**. Indeed, success would require many elements, including: specialized expertise and organizational capacity; enhanced program and project monitoring systems and IT platforms; and, perhaps most challenging, a shift in mentality from an annual to a multiannual budgeting process, including a sufficiently high level of credibility regarding budgetary commitments from one year to the next. The final section of this chapter discusses these obstacles in greater depth.

## Multiyear Budgeting: A Theoretical Case

281. **Budgeting refers to the process of allocating limited available resources to maximize benefits resulting from public spending.**[66] In theory, an all-knowing government would estimate revenues perfectly and then allocate resources across sectors and institutions in the way that produces the highest possible positive effects for everyone. In practice, of course, there are many variables that affect the process and outcome of budgetary planning, including: institutional and personal dynamics; political changes; limited available information; unforeseen events such as sudden economic downturns; etc. It is not uncommon to picture the budgeting process as an annual negotiation among line ministries and the Finance Ministry, where the power balance among parties often weighs more in how resources get allocated compared to a fully objective process, informed by data and set priorities.

282. **Several interchangeable terms refer to the same basic process of planning a budget over several years: multiyear/multiannual budgeting; medium-term expenditure framework (MTEF), most often used in technical and scholarly circles; and "fiscal-budgetary strategy," in Romania's context (more details follow in the next section).** Whatever the preferred term, multiyear budgetary planning is a core element to MTEF. The trend to move to MB started in the 1980s and, by the end of 2008, more than two thirds of countries in the world had adopted some form of a MTEF. In Eastern Europe, the reforms only started after 2000, in most cases. As argued in the 2013 World Bank report "Beyond the Annual Budget: Global Experiences with Medium-Term Expenditure Frameworks," the causes for this movement toward MB are two-fold: in poorer countries, this often happened under pressure from donors; advanced economies (OECD members), by contrast, adopted MB to enhance budgetary planning, better prioritize expenditures, and improve government performance (particularly in the context of high fiscal deficits in the early 1990s).[67]

[66] Gosta Ljungman, "Top-Down Budgeting: An Instrument to Strengthen Budget Management," IMF Working Paper WP/09/243, 2009
[67] "Beyond the Annual Budget: Global Experiences with Medium-Term Expenditure Frameworks," World Bank, 2013, p. 1

283. **Conceptually, there are two different approaches to budgetary planning: *bottom-up* and *top-down*.** In "pure" form, the two are completely opposed. In bottom-up budgetary planning, line ministries and other spending agencies formulate requests for resource allocations from the central budget, often based on previous spending levels. They typically ask for more every year, regardless of policy priorities or actual performance, engaging in bilateral negotiations with the ministry of finance. Nearly always the total ask across all spending agencies far exceeds the budgetary envelope, as each spending agency is incentivized to exaggerate the needs for resources to ensure that there is room to cut, as in a typical negotiation. By contrast, in a top-down model, the ministry of finance (and/or the center of government) determines a total expenditure level for the entire government before allocating resources to specific sectors/spending agencies. This calculation is based on existing economic data and forecasts, and further the total expenditure is allocated to individual sectors and sector ceilings are set (based on agreed policy priorities). Only then individual appropriations are made, within the determined sector ceilings.[68]

284. **In practice, governments usually deploy both bottom-up and top-down elements in their budgetary planning efforts – a top-down approach is usually informed by a bottom-up analysis.** Supporters of the latter rightly point out that governments must ensure sufficient financing for critical functions or promised investment programs/reforms, and such data can only come from spending agencies themselves. At the same time, a top-down approach starts from setting the total expenditure level, which puts a heavier focus on fiscal sustainability issues. It is also true that a stronger top-down system makes coordination somewhat easier: the negotiation process is anchored in clear ceilings (in the aggregate and for each sector), allowing spending agencies room for maneuver, as long as they stay within the agreed caps. Under such a model, the budgetary planning process includes multiple key steps:[69]

- *Set the overall expenditure ceilings*. This is the result of ideological (i.e., small vs. big government), technical choices (macroeconomic and fiscal forecasts, borrowing capacity, etc.), and timing (need to cool down or stimulate the economy). The two key inputs are economic forecasts and fiscal targets.
- *Allocate resources to each sector and set sub-ceilings.* This is the result of political agendas and priorities; there can be no universal recipe for the optimal allocation of funds. At the same time, final allocations need to take into account fixed expenditures and funds committed already, and also respect the set ceilings. Usually this stage is time-consuming and involves complex negotiations among government members.
- *Prepare the detailed budget for each spending agency.* Ceilings limit the total funds that can be spent by, say, a line ministry. Within those

[68] Gosta Ljungman, "Top-Down Budgeting: An Instrument to Strengthen Budget Management," IMF Working Paper WP/09/243, 2009
[69] Ibid., p. 12-17

constraints, however, each actor can then allocate resources in the best way possible to reach policy objectives for that particular sector.

**Box 4. Setting sector allocations and ceilings in Sweden**

Sweden sets an overall ceiling every three years, for a budget structured into 27 expenditure areas. The policy priorities are discussed at a *cabinet budget retreat* (held for two days in mid-March every year), where budget ceilings are also set.

Interestingly, all negotiations have to happen during the retreat and decisions on resource allocations are always collective. A minister who is asking for an increased allocation for an expenditure area must convince all others to make a corresponding cut in their proposed budgets, thereby maintaining overall expenditure levels under the agreed aggregate ceiling. By mid April of every year, a final budget proposal is presented to parliament.

*Source: Gosta Ljungman, "Top-Down Budgeting: An Instrument to Strengthen Budget Management," IMF Working Paper WP/09/243, 2009*, p. 16

- *Pass the budget through parliament*. At this step in the process, it is important to ensure that parliamentary decisions do not alter radically the established ceilings (for example, by requiring that any proposed increases in appropriations be accompanied by proportional decreases, possibly under the same sector's ceiling) to ensure fiscal discipline and sustainability.
- *Execute the budget for the current year* and, when needed, begin preparations for next year's budget.

285. **With respect to multiannual budgets specifically, there are three levels of MTEF, varying in complexity and requiring different levels of government commitment and capacity.**[70] Countries around the world are at different stages in this typology.

- *Medium-term fiscal framework (MTFF)*. This is the most basic form of multiannual budgeting and involves only defining overall and sector-specific budget ceilings. It is fully top-down in nature, focuses on allocating resources for inputs, and holds institutions accountable for staying within agreed spending caps.
- *Medium-term budgetary framework (MTBF)*. This includes top-down elements of the MTFF, but also bottom-up considerations to determine the resource needs of spending agencies. MTBFs are still heavily input-oriented and only track outputs/outcomes in rare instances. Put differently, spending agencies are still held accountable for the use of inputs.
- *Medium-term performance framework (MTPF)*. This mixes again top-down and bottom-up elements, but the core focus is on programs and their

[70] *See* "Beyond the Annual Budget: Global Experiences with Medium-Term Expenditure Frameworks," World Bank, 2013

outcomes – not on the institutions that manage these resources. MTPFs require strong monitoring and evaluation (M&E) capacity, and hold spending agencies accountable for their actual results.

**Box 5. Good practices at different levels of the MTEF**

*Medium-term fiscal framework*

- Debt and deficit targets are established using model-based debt sustainability analysis, taking into account constraints imposed by policy rules.
- Revenue forecasts are based on revenue department or other tax and non-tax receipt models.
- Independent macroeconomic forecasts are used, and fiscal forecasts are subject to scrutiny by an audit office, fiscal council, or similar consultative body.
- Aid commitments are covered by debt sustainability analysis and revenue forecasts.
- The Ministry of Finance (MoF) issues a background paper on macro-fiscal objectives to inform budget decision making and form part of the budget documentation.

*Medium-term budgetary framework*

- The MoF issues a budget strategy paper describing the macro-fiscal framework and providing a broad indication of national development and budgetary priorities for the medium term.
- A budget circular is sent to spending agencies outlining the basis on which they should prepare their medium-term budget requests. This circular indicates the availability of budget resources, usually in the form of provisional agency or program expenditure ceilings, and the aggregate cost assumptions to be used, including changes in inflation and public sector pay.
- The budget requests of spending agencies reflect strategic objectives, the cost of current and new activities, expected cost recovery, and other relevant factors.
- Final expenditure ceilings are reflected in the annual budget submitted to the legislature for consideration.
- Spending agency budgets are finalized, and sector strategies are revised to reflect budget realities.
- Spending agency budgets and sector strategies are published.

*Medium-term performance framework*

- Sector strategies discuss program outputs, outcomes, and performance.
- Agency output, outcome, and performance indicators are used to establish budget targets.
- Spending agencies report on results relative to targets. Comprehensive spending reviews are conducted periodically.

*Source: "Beyond the Annual Budget: Global Experiences with MTEFs," World Bank, 2013*

At the end of 2008, there were a total of 132 countries with some sort of MTEF system implemented, as follows: 71 with MTFF (stage 1), 42 with MTBF (stage 2), and only 19 with MTPF (stage 3).[71] Numbers in all categories have increased dramatically compared to 1990, when only nice countries were at stage 1, only one was at stage two, and another one was

[71] Ibid.

at stage three. Romania is at stage 2 currently, at least at a *de jure* level; the next section explains this in greater detail, discussing the benefits and limits of the current law for fiscal responsibility (Law 69/2010).

286. **MTEFs can vary in terms of coverage and level of detail – as a general rule, more comprehensive is better, though care should be exercised in micromanaging spending agencies.**[72] It is typical to start with a central government MTEF, i.e., covering only the national level and its transfers to subnational governments. In countries with a highly decentralized structure, lower levels can be encouraged to develop their own MTEFs, given that a single framework at the national level will only include limited expenditures. The more programs are covered under the MTEF, regardless of the source of financing, the better the framework at serving aforementioned purposes (predictability, fiscal discipline, prioritization, etc.). Moreover, it terms of level of detail, MTEFs should – to the full extent possible – break down expenditure allocations for each spending agency to promote full accountability (e.g., even large programs that cut across ministries should be split clearly between each actor). The Ministry of Finance should refrain from setting or requiring ceilings at multiple levels *within* spending agencies, i.e., micromanaging them.[73] As a general rule, each institution should be granted flexibility in how it manages its resources, as long as it meets set targets (in terms of spending and, ideally, also in terms of results).

287. **An interesting good practice is to set different sub-ceilings for capital and operational expenditures to prevent, in effect, budget transfers from capital improvements to operational spending.** This is the norm in the UK, for instance, where this rule was adopted as a response to the natural tendency to cut investment resources, which pay off in the medium-to-long run, when faced with budgetary pressures in the short run. The next sub-section discusses the applicability of this principle in the Romanian context.

288. **A typical timeline for MTEFs is 3-5 years, and different countries have more or less flexibility in imposing hard expenditure ceilings.**[74] It is common to start with the current year's budget for the first-year allocation, then have a fixed allocation for the second year, and then indicative allocations for the other future year(s). Out-years roll forward each year, with some potential adjustments in the eventuality of unexpected economic events of other justifiable policy shifts (e.g., military conflict). The key to the entire framework is setting clear and credible expenditure ceilings, usually based on forward estimates (i.e., projections of spending or actual multiyear allocations of resources). Some countries set hard real or nominal ceilings for the entire duration of an MTEF (e.g., Denmark, the Netherlands, Sweden), others are more flexible in adjusting targets – within reason – every year. How do governments ensure that ceilings are followed? There is a wide range of sanctions possible, ranging from top management changes to financial penalties and budget cuts. It is considered a good practice to rely on realistic, solid estimates developed by an independent third party (e.g., the Fiscal Council, in Romania's case), though it is also true that no forward estimates can be perfect. Therefore it is common to have implicit or

[72] Ibid., p. 20-21
[73] "Top-down Budgeting as a Tool for Central Resource Management," Korea Institute of Public Finance, OECD, December 2005, p. 22

explicit margins: for the former, governments may use conservative economic forecasts; for the latter, they may hold a contingency reserve (e.g., 2% of total expenditure in Chile, Korea, and Sweden) at the central level or at each spending agency, or both. In case of a budgetary surplus, the resources can be distributed to programs that require expansion, based on clear arguments by spending agencies.

**Box 6. Chile's simple model for arriving at macroeconomic forecasts**

In Chile, there is an independent third-party institution ("the output gap" group) that produces macroeconomic forecasts. This panel includes 14 members, prominent economists, all appointed by the Ministry of Finance, with an even split between those identified as close to the ruling party and those identified as close to the opposition.

The first panel meeting discusses and decides on the methodological aspects of the estimates. At the second meeting, panel members submit individual calculations and results. The 14 estimates are published, enabling each member to check his/her work. Finally, the two extremes are discarded and the final result is chosen as the average of the remaining 12 estimates.

*Source: "Top-down Budgeting as a Tool for Central Resource Management," Korea Institute of Public Finance, OECD, December 2005, p. 16-17*

289. **What about new policy initiatives?** Having a MTEF does not preclude governments from funding new programs, in line with evolving conditions and citizen needs. In countries where the framework functions well, however, there is a clearly defined institutional process for how to evaluate, select, and fund new initiatives. In countries like Sweden, any increase in funding needs to be compensated by savings elsewhere; in other countries, ceilings may be adjusted upon clear and solid justification. The typical model involves setting up a committee that looks at new policy proposals and ranks them based on a number of criteria, then the Center of Government, together with the Finance Ministry, makes the final decision on what to finance.[75]

290. **Importantly, MTEFs have to function within a clear and legitimate institutional structure.** The optimal choice would depend on historical legacies and evolving conditions. For instance, in countries where the Ministry of Finance is typically strong, it can take full ownership of implementing a MTEF. In other cases, the Center of Government (Prime Minister's Office) is better suited for this role, with the Ministry of Finance playing a monitoring role once everything is in motion. Regardless of the ultimate choice, one actor needs to be clearly accountable for enforcing the general rules of a MTEF, and third-party reporting on year-to-year actual performance versus targets can also play a fundamental part (e.g., from a civil society organization, a fiscal council, or another independent body).

291. **All in all, multiyear budgeting offers multiple key advantages:**

- *First, it allows governments to focus on strategic priorities for longer time horizons.* In fact, it starts with that: the Center of Government takes on a list of key priorities,

[74] "Beyond the Annual Budget: Global Experiences with MTEFs," World Bank, 2013, p. 22-24
[75] "Top-down Budgeting as a Tool for Central Resource Management," Korea Institute of Public Finance, OECD, December 2005, p. 25

setting allocations matching those priorities, and then executing on the agreed agenda. This is more efficient and effective than a purely bottom-up process where each spending agency makes the case for why it should receive more funds than before, and what happens in the aggregate is much more the result of bilateral negotiations with the Ministry of Finance than the outcome of a strategic prioritization effort.

- *Second, it grants a higher degree of predictability to the process of allocating and spending public resources every year.* Each spending agency can plan for longer periods of time, without fearing massive budget cuts under normal circumstances. Particularly for infrastructure projects spanning multiple years, this would enable decision-makers to ensure that investments, once started, are fully funded through completion.
- *Third, it is more transparent across the entire cycle*. Priorities are clearer, allocations have to match the priorities, and there is full visibility into how each spending agency is doing every year compared to set targets. Assumptions around macroeconomic estimates stand independent scrutiny.
- *Fourth, data show that adopting MTEFs, in its various forms, helps with a number of key indicators*. Specifically, countries with MTEFs are better at fiscal discipline (improved fiscal balance), allocative efficiency (i.e., lower volatility for how much the government spends and on what sectors), and technical efficiency (more cost-effective measures, i.e., more bang for the same buck). The World Bank has tested these hypotheses in multiple countries and the results are shown to be significant; as a general rule, the more advanced the MTEF, the better it is.[76]

In this context, the next section explores the status of multiyear budgeting in Romania, including recent progress, emerging challenges, and potential impact on the National Local Development Program (PNDL).

## Recent Developments in Romania

292. **Multiyear budgeting is a relatively recent development in Romania**. The first elements were introduced in the context of the country's EU integration effort: the Pre-accession Economic Programmes (PEP) required the Government to introduce medium-term budgetary projections as early as 2004. Following Romania's accession, these projections were introduced in the Convergence Programmes, submitted annually by the Government to the EU and covering a period of four years (e.g., 2014-2017, 2015-2018, etc.).[77] Of course, Romania also participates in and benefits from the structural funds allocated by the EU as part of multiyear programming periods – i.e., 2007-2013, 2014-2020, etc. There are clear multiannual budgeting elements in absorbing such funds. As in other sectors (e.g., Romania's rule of law reforms), the shift toward multiannual budgeting has occurred as a direct result of explicit and/or implicit requirements at the EU level.

[76] *See* "Beyond the Annual Budget: Global Experiences with MTEFs," World Bank, 2013
[77] Ionuț Dumitru, "Multiyear Budgetary Planning," in *Seven Fundamental Themes for Romania*, RAO Publishing House, 2014

293. **At the same time, it is important to note the culture of annual budgets has been strong in Romania – partly because of legal and regulatory reasons, partly because of mentalities.** The Romanian Constitution itself stipulates, under Article 138, paragraph 2, that "the Government develops the draft of the budget annually […] and submits it for the Parliament's approval."[78] The word "annual" is explicitly included in the Constitution. During field interviews, interlocutors in certain institutions, including in the Ministry of Public Finance, have noted that this particular article is an important constraint against adopting a full-fledged multiyear budgeting framework. Experts from civil society disagree with this view, however, noting that the Constitution does not forbid the Government of the Parliament to develop and approve a multiyear budget annually, rolling it forward every year (as it happens in other countries too). The Law on Public Finances (Law 500/2002) clearly states under Article 4 that multiyear commitments are to be translated into annual commitments by each spending agency. For an investment spanning multiple years such as a new bridge in a city, the City Hall writes up a contract with the contractor and, annually, signs an addendum stipulating the sums available to be spent on that particular contract in that given year.

294. **The World Bank's "Public Expenditure and Institutional Review" from February 2010 put a bleak diagnostic on the state of Romania's budgetary planning framework at that point in time.** The report criticizes the lack of orientation toward policies and results, due to a multitude of factors: weak strategic planning capacity, no independent oversight of budget execution, and deficient accountability mechanisms. This translated into significant variance between planned allocations and budgetary execution, with multiple amendments over the course of a single year. Moreover, in early 2010, there was no "strategic, multiannual planning" and there was only a weak linkage between policy objectives, resources, and actual budgetary allocations. The management of the budget tended to be ad-hoc, with major reallocations in the last few months of the year (the "November-December" effect). As the report notes, "multi-year expenditure targets are only indicative and budget execution differs substantially from previous year's programming, especially for capital spending."[79] Indeed, the percentage change between actual vs. planned expenditures for capital investments was over +45% in 2006 and -30% in 2008. This seriously undermined predictability and transparency, contributing to the problem of starting new infrastructure investments when funds are plenty or even exceed expectations and stopping them (sometimes for good) when funds fall short. Unlike wages and other sensitive budgetary chapters, capital investments are less rigid and, often, they play the "pivot" role when balancing the budget.

295. **Still, there has been some progress toward multiyear budgeting, mostly since 2010, when a much expected MTEF was put in place (also as a key recommendation of the World Bank's public expenditure review).** The crux of this effort is the Law on Fiscal Responsibility (Law 69/2010), the first comprehensive legislative act that introduced the requirement for the government to develop a medium-term fiscal-budgetary strategy (FBS).

[78] *See*, for instance, http://www.constitutiaromaniei.ro/art-138-bugetul-public-national/
[79] "Public Expenditure and Institutional Review," World Bank, February 2010

The FBS "sets the objectives and priorities in the fiscal-budgetary area, the targets for revenues and expenditures for the consolidated budget and its components, and the evolution of the consolidated budget for a period of three years."[80] Based on interview data with key stakeholders in government, academia, and civil society, the law is considered a big step in the right direction, at least at a *de jure* level. It was spearheaded by a number of experts from the Ministry of Public Finance, and it draws from good practices in other countries that have adopted MTEFs.

296. **The Law on Fiscal Responsibility defined for the first time several key elements of multiyear and responsible, prudent budgeting in Romania.** These included: objectives of the fiscal-budgetary policy (e.g., prudency, predictability, debt sustainability, etc.); rules and correction mechanisms, including the adoption of requirements resulting from the EU Fiscal Pact (e.g., structural deficit of under 1% at Romania's current debt level as a medium-term objective – MTO); budgetary expenditures and revenues; a strict cap on the number of budgetary amendments every year (maximum of two and none in the first six months of the year); the general framework for the fiscal-budgetary strategy; a number of rules for enhancing the transparency of budgetary policy (publishing regular reports, etc.); the Fiscal Council; institutional responsibilities and sanctions.

297. **The fiscal-budgetary strategy (FBS) is to be published and updated annually by the Ministry of Finance before July 31, and features a number of projections and ceilings for the upcoming three years.**[81] Parliament approves the FBS and its proposed ceilings and can formulate amendments/objections. Importantly, however, the law forbids adjustments that would deteriorate targets for budget deficits or would increase expenditures beyond approved ceilings (article 35, paragraph 1 of Law 69/2010). The ceilings for the total budgetary deficit and for personnel expenditures are fixed/required for two years following the publishing of the FBS; other ceilings (e.g., amount of loans contracted; public debt level; sub-ceilings for budgetary components like social security, special funds, and others) are fixed/required only for the following year. Other main components of the FBS include an analysis of actual results for the two previous years of budgetary execution, assessment of policies affecting expenditures and revenues, and a comparison of potential changes from one FBS to the next. The medium-term expenditure framework, which is part of the FBS, covers three main sections: priorities in terms of expenditures; expenditures for the 10 largest spending agencies and, in the aggregate, spending levels for local territorial administrative units; and major public investment projects. Moreover, Article 30 of the Fiscal Responsibility Law (Law 69/2010) requires the annual budget submitted by all spending agencies (from local to central level) to follow the FBS or, if that is not possible, to explain any deviations.

[80] Law 69/2010, Art. 3, paragraph 1
[81] Law 69/2010, Articles 26-29

**Box 7. The Romanian Fiscal Council (Law 69/2010)**

The Fiscal Council (FC) is an independent authority with 5 members, who support the Government and the Parliament with developing fiscal-budgetary policies and with ensuring the quality of macroeconomic forecasts. The FC develops analyses and evaluations and formulates its own "opinions," published on its website and also sent to various other institutions.

The FC includes five members nominated by: the Romanian Academy, the National Bank of Romania, the Academy of Economic Sciences Bucharest, the Romanian Banking Institute, and the Romanian Banking Association. These are appointed by Parliament for a period of 9 years. The FC has its own budget and Technical Secretariat, under the Romanian Academy.

*Source: Law 69/2010*

298. **The FBS for 2015-2017 was finalized, approved, and published in December 2014, and follows the structure defined by Law 69/2010.** The MTEF defines ceilings for broad budgetary chapters: total expenditures from the state budget; total expenditures for 10 ministries; personnel; goods and services; interest expenditures; subsidies; transfers; expenditures for nonreimbursable and reimbursable projects; social assistance; loans, etc. The ten large spending agencies included in the FBS are: the Ministry of Labor, the Ministry of Internal Affairs, the Ministry of Transport, the General Secretariat of the Government, the Ministry of Health, the Ministry of Agriculture and Rural Development, the Ministry of National Education, the Ministry of Defense, the Ministry of Public Finance, and the Ministry of Justice. Notably, the MRDPA is *not* included in the list of spending agencies for which multiyear budgeting is defined, along with expenditure ceilings and sub-ceilings.

299. **Where does all this position Romania with respect to the typology defined in the previous section?** To rule out one of the three options, it is clear that the country has not implemented performance-based budgeting (stage III of MTEFs), though it is planning to do so in future years, with World Bank assistance. The European Commission has developed since 2006 the medium-term budgetary framework index, which evaluates countries against five main criteria: (i) existence of a medium-term budgetary framework (MTBF or stage II in the typology presented earlier); (ii) connectedness between the MTBF and the preparation of annual budgets; (iii) involvement of the national parliament in the preparation of medium-term plans; (iv) existence of coordination mechanisms prior to setting the medium-term budgetary targets; (v) monitoring and enforcement of multiannual budgetary targets.[82] Romania scores the maximum possible (i.e., a two) on the first, third, and fifth criteria, and is in the middle for the rest (scoring a one). This places the country at a median score of 1.6 – after member States like France, Spain, the Netherlands, Latvia, Greece, and Denmark, but ahead of countries like Bulgaria, Cyprus, Poland, Hungary, and others. At least based on this theoretical assessment, Romania can be placed squarely at the second stage of MTEFs with a fairly solid medium-term budgetary framework.

[82] *See* the annual surveys and index data at:
http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/framework/index_en.htm

## Current Challenges of Multiyear Budgeting in the Romanian Context

300. **In practice, however, multiyear budgeting in the Romanian context faces a number of challenges that require nuancing the evaluation above.** In 2011, the ceiling for total budgetary expenditures was increased by close to RON 3 billion through an emergency ordinance, despite the fact that the Romanian Parliament had passed the FBS in 2010 and, alongside it, Law 275/2010 for approving certain ceilings and indicators. The Fiscal Council noted at the time that it is "regrettable" that the Government decided to circumvent the Fiscal Responsibility Law – beyond the provisions for permissible derogations, such as unforeseen economic events – and this created a "dangerous precedent."[83] Since then, the Government has repeatedly issued derogations from the Fiscal Responsibility Law: for 2012, it adjusted upward the targets for personnel expenditures; in 2013, actual deficit targets were readjusted upward (from 2.1% for 2013 and 1.8% for 2014 to 2.3% and 2.5% respectively);[84] and, in 2014, through GEO 74/2014, the Government allowed more than two budgetary amendments for that year (even after November 30), through derogation from Law 69/2010 and Law 500/2002.

301. **The jury is still out on what can be done to limit the number of derogations from the Fiscal Responsibility Law.** On the one hand, it is fine to allow a certain degree of flexibility – and Law 69/2010 does indeed stipulate several instances when it is permissible to adjust set ceilings: adjustment in the scope of the general consolidated budget; the significant worsening of the macroeconomic outlook; or a change in Government, whereby the incoming cabinet has the right (but not the obligation) to issue a new FBS. On the other hand, derogations from the law open the door to abuse and lack of predictability, and ultimately defeat the purpose of a law on fiscal responsibility. A solution would be to enshrine certain principles (e.g., a balanced budget or a deficit of no more than 1%) in the Constitution, following the model of other countries. Another option, albeit weaker, is to make Law 69/2010 an organic law, hence requiring a majority of members of Parliament for any derogations (as opposed to a majority of those present). What is certainly clear is that the political culture of accountability should be strengthened in Romania to enable the Law on Fiscal Responsibility to become a solid norm, with derogations only pursued in truly exceptional circumstances.[85]

302. **Another potential weakness of the current framework for multiyear budgeting is the development of economic forecasts fully under the purview of the Ministry of Public Finance.** The establishment of a Fiscal Council was a positive step in this regard, though this body has limited ability to shape budgetary planning. It can merely comment on projections made by the Ministry of Public Finance. Elsewhere, stronger independent bodies like the Austrian Institute for Economic Research or the UK Office of Budget Responsibility (separate from the Treasury) directly provide the assumptions and estimates used in building out the budget.

---

[83] http://www.mediafax.ro/economic/boc-rectificarea-bugetara-prin-derogare-de-la-legea-responsabilitatii-a-fost-convenita-cu-fmi-si-ce-8565528

[84] *See* Ionuț Dumitru, "Multiyear Budgetary Planning," in *Seven Fundamental Themes for Romania*, RAO Publishing House, 2014

[85] Ibid.

303. **In addition, the World Bank's functional review of Romania's public finance sector, finalized in October 2010, months after the establishment of Law 69/2010, called attention to a number of other shortcomings.** These include: the lack of a clear *priority-setting process* by the Center of Government (e.g., by reinstituting the Cabinet Strategic Planning Committee); the weak framework for assessing the *fiscal impact of new legislation*, including the Ministry of Finance's inability to enforce the fiscal neutrality clause of the Fiscal Responsibility Law; and the lack of *strategic prioritization of expenditures*. This final report seeks to address precisely this latter category, in the context of local and county-level infrastructure projects. There is a similar effort by another World Bank team working with the Ministry of Public Finance to enhance the prioritization of national-level projects (based on GEO 88/2013).

304. **Three aspects of the current framework are particularly worth noting in the context of this report:**

- *Review and improve the methodology for setting expenditure ceilings*: In Romania, there is no systematic methodology for the estimation of expenditure requirements, which means that the ministry expenditure ceilings are to some extent arbitrary. This makes it difficult for the Government to insist that the ceilings be followed during budget preparation. As a consequence, they end up modified significantly during budget preparation, thereby undermining the basic aim of top-down budgeting.[86]

- *Separate baseline vs. new policies and projects*: Budget requests from spending agencies, along with the FBS, should contain a separation of baseline funding required to continue existing policies and projects and funding requests for new initiatives. The same logic applies to investment projects, which should clearly be separated into ongoing and new commitments, ensuring that any additional new projects are only pursued if there is enough room in the total budget minus the resources committed to complete ongoing projects. The next section explores this in greater depth.

- *Review baseline funding to identify saving opportunities*: Just because something received funding at some point and continues to receive funding at present does not necessarily mean that it *should* continue. There should be a clear owner of monitoring and evaluation (M&E) functions, independent of the spending agencies making the funding request. The other report on "Coordination of Strategies and Programs" (World Bank, March 2015), also submitted under Component 1, recommends that the Center of Government should take on this task.

**Box 8. The Canadian system for monitoring expenditures is based on clear mechanisms**

[86] *See* the "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015

In Canada, the Expenditure Management System is the framework for developing and implementing the government's spending plans, and encompasses a number of elements and activities (e.g. planning, evaluation, etc.) that guide decisions on resource allocation. A key pillar of this system is the strategic review of spending programs. All institutions receiving central appropriations are required to undertake, at least every four years, a strategic review covering 100% of their direct program spending and operating costs of their major statutory programs. Spending agencies are required to identify reallocation options totaling 5% from their lowest-priority, lowest-performing program and can even identify more potential savings in order to provide a greater range of options.
*Source: "Romania Public Finance Sector Functional Review," World Bank, 2010*

305. **In conclusion, Romania's multiyear budgeting framework is a work in progress.** The Fiscal Responsibility Law (Law 69/2010) has introduced a number of positive measures that have instilled greater fiscal discipline, an enhanced focus on strategic priorities, and a more predictable and transparent budgeting process. In practice, several shortcomings persist: budgetary projections and set ceilings can suffer changes, which affects their credibility and predictability; the fiscal-budgetary strategy does not clearly link priorities and resource allocation, and, in fact, there is no set process for drawing specific national priorities across all sectors; the fiscal impact of new initiatives is not always properly evaluated and challenged, as mandated by law, by the Ministry of Public Finances. Last but not least, Romania's budgetary planning should take into account performance and results, virtually moving to the next stage of the MTEF model. This is in fact a commitment made by the Government toward the EC; for instance, in the Convergence Programme for 2015-2018, a medium-term goal is "the implementation of multiannual budgeting based on programs and projects, which would facilitate important savings and would increase the predictability and efficiency of public expenditure."[87]

## A Multiyear PNDL: Between Necessity and Feasibility

306. **This section discusses the advantages of moving to a multiyear framework for the National Local Development Program (PNDL), managed by the MRDPA.** This pertains primarily to local and county-level infrastructure projects, as explained in further depth below. The main questions addressed are: is a multiyear PNDL needed and, if so, is it feasible?

307. **According to Law 273/2006 on local public finances, expenses for public investments and other capital expenditures financed from local public funds have to be integrated in the budget proposals of territorial-administrative units.** The budget proposals are developed by the credit release authorities and then approved by the deliberative authorities. The Fiscal Responsibility Law requires all public authorities – including subnational governments – to abide by the Fiscal Budgetary Strategy. At the same time, only investment objectives that are entirely financed through multiannual budget proposals may be included in public investment programs. The main credit authorities are

[87] "Convergence Programme 2015-2018," Romanian Government, p. 25. Available at http://discutii.mfinante.ro/static/10/Mfp/pdc/programconvergenta2015-2018.pdf

the mayors of the TAUs (including the general mayor of Bucharest and mayors of the sectors) and the presidents of the county councils.[88]

308. **The main credit release authorities for local budgets elaborate public investment programs annually.** For each of the objectives, financial and non-financial information is integrated. The financial information includes: the total value of the project; the commitment appropriations; the budgetary appropriations; the funding schedule, structured by sources and years, and correlated with the implementation schedule; the cost-benefit analysis; and operation and maintenance costs. The non-financial information should comprise: the investment strategy (including investment priorities and the relationship between different projects, and the analysis criteria that determine the introduction in the investment program of new objectives to the detriment of ongoing ones); the description of the project; and the physical progress of the objectives.

309. **The challenges of the current PNDL framework are well-known – in fact, all investment programs financed from the state budget on an annual basis face the same difficulties.** As noted earlier, the lack of a multiyear PNDL leads to:

- *Lack of prioritization*: It is virtually impossible to prioritize programs and projects without having a clear sense of what the total available budget is. Since infrastructure projects, even of small and medium size, as is typical under the PNDL, span multiple years, there is an inevitable mismatch between the annual allocations of resources and the multiyear implementation timeline. This is also partly why the linkages between strategic priorities, financial allocation, and projects remain weak.
- *Ever-growing project portfolios*: Since financial allocations may change every year, decision-makers at the central level face political pressures from subnational governments to invest in new projects whenever possible. The hope of local stakeholders is that, once the project begins, they would find a way to persuade the Ministry to allocate the funds needed to complete the investment in future years. This logic has generated massive portfolios of active and inactive projects – the difference between them is that the former receive funding in the current fiscal year, while the latter do not. The "active/inactive" status is only applicable to one fiscal year – as noted above, things can change dramatically from one year to the next, particularly if there is a change in the ruling coalition. Recent Romanian history suggests that such changes can happen often.
- *Implicit preference for small projects with limited impact*: Given the annual nature of financial allocations for PNDL projects, applicants tend to submit for consideration small investments (e.g., short road segments) that typically cannot, in isolation, generate substantial benefits upon completion. Investments financed through PNDL 2014 were on average three times smaller than similar projects financed through the ROP 2007-2013 and PNDR 2007-2013. This is also related to an evaluation process that requires improvement, in line with the other recommendations made in this report.

[88] See Art. 21 of the Law no. 273/2006

- *"Drip funding" has almost become the norm, not the exception*: As noted earlier, at the end of 2014 there were around 3,950 projects contracted under the PNDL, with a total estimated value of about RON 22 billion. It will take more than 15 years to finish these projects with the financial allocation that the PNDL has received in previous years (assuming that no other new projects are financed in that time interval). This raises the cost of the construction (due to the time value of money, the need to conserve works and repair damages, the need to update technical documentation and permits constantly, etc.) and delays the benefits for the communities where projects are located.[89] Of course, "drip funding" is related to the practice of funding new projects in the absence of sufficient fiscal space – this inevitably constrains the resources available for ongoing investments.
- *Lack of correlation with EU-funded projects*: As stated repeatedly, EU-financed programs operate based on a multiannual framework – the "n+2" rule (or n+3, as the case may be) allows member states to design interventions and receiving funding over a period of seven years of programming, plus an extra three years for completing implementation and seeking reimbursement. Without a longer time horizon for state-budget-funded investments, it is very difficult to attempt to coordinate them with EU-funded projects. As a matter of fact, there is a risk of cannibalization: subnational governments that believe they would be able to attract sufficient funding through the PNDL may avoid applying for EU funds due to their added complexity and rigor.
- *Suboptimal timing of resource allocation given the annual budgetary calendar*: When there are excess resources available, projects may receive additional financing only in July, the earliest that a budgetary amendment can be introduced (by law). Contractors also need to submit final payment requests by November to make sure that they can get paid. This essentially reduces the period for construction to 4 months or less, keeping in mind that weather in the fall can be unfavorable.
- *Complex and burdensome legal procedures*: Spending agencies use multiannual framework contracts covering the total period of construction/acquisition, with a provision for the annual endorsement of addenda covering the value of work to be undertaken during that year. The legal requirements to make payments are concentrated in the annual contracts, not in the framework contract itself, allowing public authorities to tailor the work undertaken and corresponding payments to fit the annual appropriation available. There is actually a specific legal provision requiring public authorities to communicate to contractors at the beginning of each year the sum available for payment, thus helping them avoid performing more work than what the beneficiary can afford paying for.[90]

[89] *See* the "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015
[90] Ibid.

For all these reasons, it becomes evident that adopting a multiyear framework for the PNDL – not just at the level of programming, but also at the fiscal-budgetary level – is a key necessity in the context of the MRDPA's efforts to improve the program. In short, this promises to deliver higher predictability, more transparency, improved efficiency of spending, higher level of attractiveness for potential applicants and beneficiaries, and, ultimately, more impactful projects.

310. **On the question regarding the feasibility of a multiannual PNDL given current legislative and policy constraints, there are more arguments in favor than against.** For one, EU-funded interventions currently "run through" the national budget and expenditures get subsequently reimbursed; this suggests that it is possible to have multiyear infrastructure investment projects even under the status quo constraints of annual budgeting, provided that there is firm commitment to a clear annual budget allocation. Moreover, the Romanian Law on Public Finances (Law 500/2002), even under its current form, appears to permit multiyear budgeting.[91] Article 4 (5) provides that the budget may include "multiannual commitments," with these commitments defined by Article 2 (14) as "amounts allocated to certain programs, projects, subprojects, objectives and the like, which are carried on for a period longer than a year and give rise to commitment credits and budgetary credits."[92]

311. **Opponents of the views expressed above appeal to the "annuality" provision of the Romanian Constitution and to the Fiscal Responsibility Law**. This report explained earlier that the Constitution does not forbid multiannual budgets, but merely requires an annual approval process. There is nothing stopping the Government or the Parliament from adhering to multiyear targets, which is essentially what happens under the Fiscal Responsibility Law (though room for improvement definitely exists). At the same time, Article 30 (2) of Law 69/10 notes that "preallocating sums from the budget with a special destination to spending agencies or sectors is not permitted." Again, this is a matter of framing. A multiyear PNDL would not hinge on "preallocating" sums of money for multiple years in a row, but it would need to take into account budgetary commitments spanning multiple annual budgets. In other words, if the MRDPA's budget for the PNDL is "X" for 2016, there could be no new projects started in 2016 if the total sum needed in 2016 for financing ongoing projects exceeded "X." The following paragraphs explain in depth how this system would work.

312. **The World Bank team currently assisting the Ministry of Public Finance has identified concrete ways for introducing multiannual investment appropriations for significant investment projects (as defined by GEO 88/2013)**.[93] This report argues that the same model could apply to local and regional-level infrastructure interventions of the PNDL type (most of which would count as small or medium-sized). This is based on the dual

[91] For a full discussion of this, *see* the "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015
[92] Ibid.
[93] Ibid.

system of cash and commitment appropriations (the French model), as explained in the box below.

**Box 9. The dual appropriations system**

Romania's Public Finance Law (Law 500/2002), through Articles 2 and 4, introduced the system of dual cash and commitment appropriations. Under this system, the annual budget law voted by the Parliament contains two types of legal appropriations of expenditures. The first is an appropriation for payments, which imposes a quantitative limit on the value of payments to suppliers, contractors, employees, etc. that a spending agency may make during the year. The second is an appropriation for commitments, which imposes a quantitative limit on the value of contractual obligations into which a spending agency may enter during the year, and which will require payments at some stage in the future.

The principle of budgetary appropriations for commitments as well as for payments is of French origin. In France, appropriations for commitments have for a long time existed in respect to investment expenditures. The so-called LOLF legislation of 2001 generalized the principle of appropriations for commitments to other categories of expenditure also (e.g., contracts for the supply of goods and services). Budgetary appropriations for commitments play the role of providing a legal basis for entering into contracts that will oblige the state to make payments in several years into the future – something that an annual payments appropriation cannot do (by definition).

The two types of appropriation may be illustrated by the example of an investment project contract providing for the construction of a road over a period of three years (starting in 2015) at a total project cost of 15 million RON, with actual construction to the value of 5 million RON expected to take place during each of the three years. This would involve the following pattern of commitment appropriations (CA) and payment appropriations (PA):

*Year 2015 (n)*
CA: 15 million (corresponding to a contract signed covering the full three years)
PA: 5 million (corresponding to the payment of the first tranche)

*Year 2016 (n+1)*
CA: 0 (no new contract is signed)
PA: 5 million (corresponding to the payment of the second tranche)

*Year 2017 (n+2)*
CA: 0 (no new contract is signed)
PA: 5 million (corresponding to the payment of the third and final tranche)

*Source: "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015*

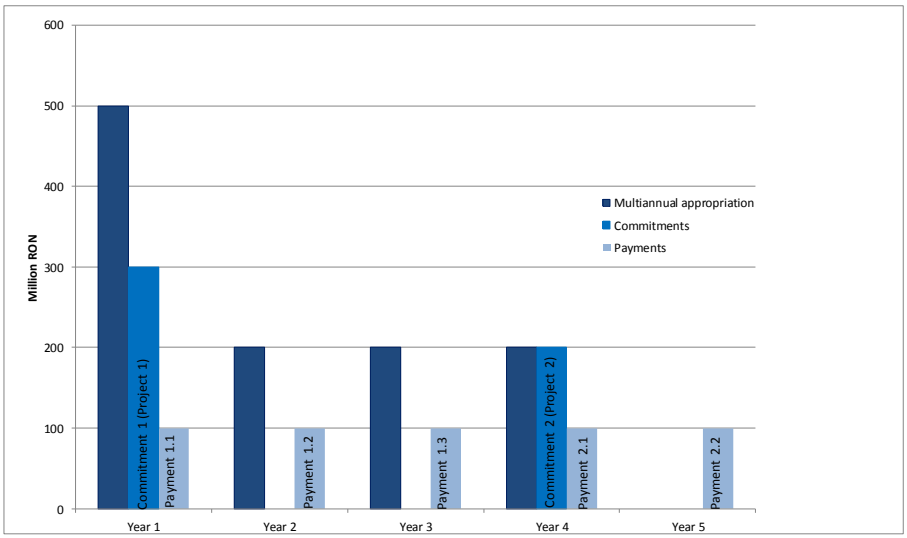
313. **As explained in the reports prepared by the World Bank for the public investment management technical assistance, the system of multiannual appropriations can mitigate the risks of "drip funding," excessive and unsustainable project portfolios, and large numbers of inactive investments that continue to incur costs**.[94] The key is to include the

[94] Ibid.

total project cost (TPC) within the multiannual appropriation of a particular spending agency, reserving the sums exclusively for that particular project. In France, this blocking (reservation) of the full amount is regulated by the LOLF legislation dating from 2001.[95] At any point in time, the system reserves an appropriation equal to the portion of the approved total project cost for which contracts have not yet been signed, but which will be signed during the remainder of the implementation period. By contrast, line ministries and other spending agencies in Romania do not reserve from their commitment appropriations the remaining total cost of investment projects under their purview. Rather, commitment appropriations are intended only to cover the value of contracts anticipated to be signed during the year in which those appropriations are granted. There is thus no requirement to also reserve within the commitment appropriation amounts that needed to cover contracts expected to be signed at a later stage during the acquisition/construction process.

314. **The figure below illustrates the example of a RON 500 million multiannual appropriation over five years for a highway project.** In year 1, an initial multiannual appropriation of 500 million is made, covering the TPC. Also in year 1 a contract is entered into, involving a commitment of 300 million, leading to 3 separate payments to the contractor of 100 million in years 1, 2, and 3. No other contracts are signed in years 2 and 3, so additional commitments during those years are zero. In year 4, the 200 million left from the original multiannual project appropriation is finally committed in the form of a second contract, which then results in 2 separate payments to the contractor of 100 million in years 4 and 5. Nothing remains of the initial multiannual total project appropriation in year 5, as the total amount had been contracted by year 4.

**Figure 14. Hypothetical example of a RON 500 million multiannual appropriation**




*Source: "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015*

Note that in practice, at least for infrastructure projects, the contract for the full amount is signed from the beginning. This does not change the main conclusions of the example

[95] Art. 9 of the law provides that the commitment appropriation is to cover the full costs of any project that is *complete* (can be operationalized without the addition of further components).

presented. By including a second contract in year 4, the figure above merely makes the point that, even in the absence of a contract, the remaining total cost is reserved from the annual appropriations until the project is completed.

315. **The system of multiyear appropriations, as described above, should ideally cover the entire Romanian public sector, not just the MRDPA or the PNDL, and its successful implementation depends on multiple factors.** First, the multiannual appropriation reserved for a particular investment has to only go to that investment; otherwise, the same problems of drip funding and diverting money from one investment to another will continue. Second – and related to the first condition – is to have a solid project monitoring system, tracking at all times what the projects' total cost is, what contracts are signed, and when. Third, the total value of multiannual appropriations for a spending agency must be clearly and credibly defined. This would require the fiscal-budgetary strategy and the corresponding laws on approved ceilings to define limits specifically for multiannual appropriations for each major ministry/spending agency (this is not the case, currently). Under such a system, no new projects could be pursued unless extra budgetary room becomes available for current and future years, equal to the new projects' total cost. It would thus be impossible to reshuffle projects within a ministry's portfolio (or program, like the PNDL), since each investment would have a clear, dedicated multiannual appropriation. Last but not least, the system requires strong monitoring and evaluation functions from both within and outside the MRDPA. The Ministry of Public Finance and other control institutions (e.g., the Court of Accounts, the Audit Authority, etc.[96]) should monitor project allocations and, respectively, project expenditures, while the Center of Government should regularly evaluate the performance of investment programs.[97]

316. **What would adopting this system of multiannual appropriations mean for the PNDL?** The MRDPA would have a set appropriation every year for expenditures related to the program. For each individual project for which a financing agreement exists between the MRDPA and a local/county authority, the MRDPA would block/reserve the total project cost (for new projects) or the total remaining project cost (total project cost minus expenditures paid in previous years, for ongoing projects) from the multiannual appropriation. Each project in the pipeline would thereby be accounted for, transparently, and the resources needed for its completion would be ensured every year. As argued earlier, there should be different appropriations for the baseline (portfolio of ongoing projects) and (possibly) the supplementary fiscal space (for new projects, if any). The

[96] Established by Law 94/1992 as an autonomous, independent institution, the Court of Accounts (CA) is essentially the main auditing public body in Romania responsible for checking and reviewing the management and spending of public money. Members of the CA are appointed by Parliament. The Audit Authority (AA) performs the external auditing of non-reimbursable funds, including EU money. The AA is a financial checking body attached to the CA, but with independent operations from the CA. The AA monitors and reviews the EU-funded projects implemented by public and private entities, ensuring that all expenditures made are consistent with the specific requirements for each program. The AA is coordinated by a president and two vice-presidents appointed by the Parliament from the CA members.

[97] For detailed proposals on M&E mechanisms, *see* the report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, April 2015

appropriation for the baseline is clear from one year to the next and equals the annual remaining cost of finishing ongoing projects. At the same time, the supplementary fiscal space results from a top-level negotiation and is, ultimately, the outcome of a political decision. It is critical to note, however, that any *new* projects taken on in the current year create fiscal implications and must be included in the baseline for future years.

317. **The following illustrative example helps demonstrate how the system would work in practice for a simplified PNDL with only three projects and an implementation period of 2016-2020.**[98] It is assumed that the PNDL will have the following set ceilings for two main categories of expenditures: ongoing projects (from the baseline) and new projects (from the supplementary fiscal space). Their sum is the total ceiling allowed for expenditures under the PNDL for the timeline defined earlier (2016-2019).

| Year | Baseline<br><br>(A) | Supplementary fiscal space available<br>(B) | Total ceiling<br><br>(A)+(B) |
|---|---|---|---|
| 2016 | 100 | 50 | 150 |
| 2017 | 90 | 70 | 160 |
| 2018 | 75 | 90 | 165 |
| 2019 | 60 | 110 | 170 |

Now consider that the PNDL has three new projects, all starting from scratch in 2016. The projects are supposed to make the following payments in each year:

| Year | Project 1<br>(C) | Project 2<br>(D) | Project 3<br>(E) | Total space required each yr.<br>(C)+(D)+(E) |
|---|---|---|---|---|
| 2016 | 5 | 20 | 10 | 35 |
| 2017 | 30 | 30 | 10 | 70 |
| 2018 | 20 | 60 | 10 | 90 |
| 2019 | 20 | 75 | 10 | 105 |

Then the impact of the three projects on the ceiling and the fiscal space remaining is as follows:

| Year | Updated baseline<br><br>(F) | Supplementary fiscal space remaining for that particular year |
|---|---|---|
| 2016 | 100 | 15 (=50-5-20-10) |
| 2017 | 160 (=90+30+30+10) | 0 (=70-30-30-10) |
| 2018 | 165 (=75+20+60+10) | 0 (=90-20-60-10) |
| 2019 | 165 (=60+20+75+10) | 5 (=110-20-75-10) |

It is important to note that: (i) the annual expenditures are blocked/reserved from the beginning, for all four years, reducing the fiscal space available to take on other new

[98] The team would like to thank Victor Giosan for providing a similar example for how the model could work in practice

projects; (ii) expenditures are always below agreed ceilings, even when factoring into the new baselines the costs of the three new projects; (iii) for years 1 and 4, there is a surplus, which can be directed to other expenditures for that particular year (i.e., do not generate expenditures in future years) or can be reallocated to other programs/spending agencies; (iv) by 2020, the PNDL completes the four projects and frees up fiscal space to be able to pursue new investments. Of course, this is a simplified model, with only three new projects – all new and all lasting for four years – and only two categories (baseline and new projects). In practice, it is often a good practice to maintain a small contingency to cover unexpected costs in a given year and have at least some flexibility.

318. **There are several key advantages to the proposed system in the context of the PNDL and beyond:**

- *First, it addresses the major challenge of ever-expanding project portfolios, limiting the number investments to a sustainable level and promoting budgetary discipline.* This is particularly important for a program like the PNDL, which had close to 4,000 active projects in its portfolio (i.e., received financing in 2014), plus probably thousands more inactive/suspended investments. A precondition for this to work is to rationalize and sort through the project portfolio, as argued in the next sub-section.
- *Second, it incentivizes the MRDPA – and, by implication, project beneficiaries at the local and county levels – to complete projects in a timely manner.* An incomplete project continues to block resources from the approved appropriations, thereby limiting the ability of the PNDL to fund new projects. Only by finishing a project can the Ministry free up the space required by new investments it wants to pursue.
- *Third, it is more predictable.* Not only does the Ministry of Finance know how much to allocate every year, with a reasonable certainty that funds will actually be expensed, but the MRDPA also knows what it can and cannot do within the set ceilings. The predictability rolls down the process chain further: local administrations know which projects get financed and, roughly, when they can be finished, and contractors know that they will get paid for the work performed.
- *Last but not least, the system's transparency would increase significantly.* At any point, it is clear how much is needed to complete all projects that are underway, thus avoiding the dangerous illusion that splitting available payment appropriations between more projects creates additional fiscal space.[99]

[99] "Draft Report on Strengthening the Link between Prioritized Projects and the Budget," Advisory Services of Strengthening Public Investment Management, World Bank, May 2015

## Recommended Action Steps for the MRDPA

319. **As noted earlier, the MRDPA can only do so much to enable the adoption of a full multiyear budgetary framework in Romania, but there are a series of steps in can take in this direction:**

- *Ask to be included in the fiscal-budgetary strategy from 2016 onward*. Currently, it is not one of the ten ministries that is covered by this framework, which means that there are no ceilings defined for the main categories of expenditures.
- *Help drive forward the evolution of multiannual budgeting in Romania toward a focus on programs and results*. As the manager of the largest state-funded program for local and county-level infrastructure (the PNDL), the MRDPA is uniquely positioned to work with the Ministry of Public Finance and support its efforts to adopt program and performance-based budgeting. The Ministry of Public Finance is currently exploring a potential path forward in this respect, with World Bank assistance. Pilot ministries may include the Ministry of Health and the Ministry of Education, but the MRDPA could also express interest to be among the first institutions in the country to adopt performance-based budgeting. Recommendations on M&E mechanisms for the PNDL – included in the report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure" (World Bank, April 2015) – could help operationalize this effort.
- *Work with the Ministry of Public Finance to promote the establishment of ceilings and multiannual appropriations for baseline capital expenditures and new investment projects*. Again, the current system does not make this distinction, which is critical for having a functional model of strategic prioritization of a limited number of projects.
- *Develop a system for project- and program-level monitoring in real time*. An IT platform is needed to monitor the large number of projects in the PNDL portfolio and know, at all times, which stage they are at, how much money they are absorbing, and whether they are on track or face delays. The same database would also capture the multiannual requirements of each project in the portfolio, making sure that the total costs are properly reflected in the available budgetary envelope.

320. **At the same time, the MRDPA can proactively institute a *de facto* multiyear PNDL.** This can be pursued regardless of how the broader fiscal-budgetary framework evolves, although it would certainly make things easier to also have *de jure* changes that would move the entire public administration in Romania to a multiannual system. In any case, the MRDPA should consider taking the following measures:

- **Conceptualize what the PNDL could look like through 2020 – essentially the time interval matching the EU programming period.** This is a first step to greater internal discipline in allocating resources to PNDL projects and, in fact, does not depend on the Ministry of Finance formally adopting the model presented above. All that is needed is sufficient commitment by the MRDPA to stick to a certain split in the funding allocated to the main sectors under the PNDL. The report on "Improved Prioritization Criteria for PNDL Projects" has proposed a multiannual

budget for the PNDL for the 2014-2020 programming period of around RON 13 billion RON – or EUR 2.8 billion. This budget takes into consideration budget allocations for 2014, assuming that the resources available for the program will be at least at that level, in the context of a growing economy with a positive outlook. Several scenarios were discussed for the proper allocation of this budget by individual sectors. The table below includes this proposed allocation.[100]

**Table 39. Proposed allocation of PNDL budget (in EUR millions) for 2014-2020**

| Sub-programmes | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | 353.6 | 371.3 | 389.9 | 409.4 | 429.8 | 451.3 | 473.9 | **2,879.2** |
| County roads | 67.2 | 70.5 | 74.1 | 77.8 | 81.7 | 85.8 | 90.0 | **547.0** |
| Local/communal roads | 31.8 | 33.4 | 35.1 | 36.8 | 38.7 | 40.6 | 42.6 | **259.1** |
| Water and waste water | 183.9 | 193.1 | 202.7 | 212.9 | 223.5 | 234.7 | 246.4 | **1,497.2** |
| Social infrastructure | 70.7 | 74.3 | 78.0 | 81.9 | 86.0 | 90.3 | 94.8 | **575.8** |

*Source: "Improved Prioritization Criteria for PNDL Projects," World Bank, December 2014*

- **Next, the MRDPA should rationalize the PNDL portfolio based on budget constraints.** Again, the current portfolio would take over 15 years to complete, assuming that 2014 funding levels would hold going forward. The rationalization should therefore be done for each sector by: (i) deploying the sector-specific criteria (e.g., those listed in chapters 4-6 of the current report); and (ii) considering project completion status, with more advanced works taking priority. Some investments will have to be put on hold, others will have to search for alternative funding (e.g., EU funds), and others will have to be canceled. While none of these options is politically easy, there is no other way to stopping the practice of "drip funding" and to enhancing the efficiency and impact of PNDL funds.

- **The MRDPA should further set the PNDL baseline (for the budgeted year and for the programming period).** This would cover all ongoing investments that passed the test (i.e., remained in the portfolio) in the previous step. All these projects should be finalized according to their implementation timeline (without intervening on the portfolio of ongoing investments to exclude some projects and/or introduce new ones), budgeting properly based on costs expected for each year. If there are doubts related to anticipated costs, a careful review of projects in the portfolio should be undertaken to preempt high volatility in budgeted vs. expensed costs.

- **The MRDPA should consider new investments separately from ongoing projects and only when allowed by the available budget envelope**. New investment projects should be funded exclusively by the difference between the total PNDL budgetary allocation (budgeted year and programming period) and the PNDL baseline (as defined above). These projects would be prioritized according to the

[100] *See* the report on "Improved Prioritization Criteria for PNDL Projects" (submitted by the World Bank team as part of the same technical assistance for the MRDPA – Component 2) for an in-depth discussion of sector-by-sector allocation under the PNDL

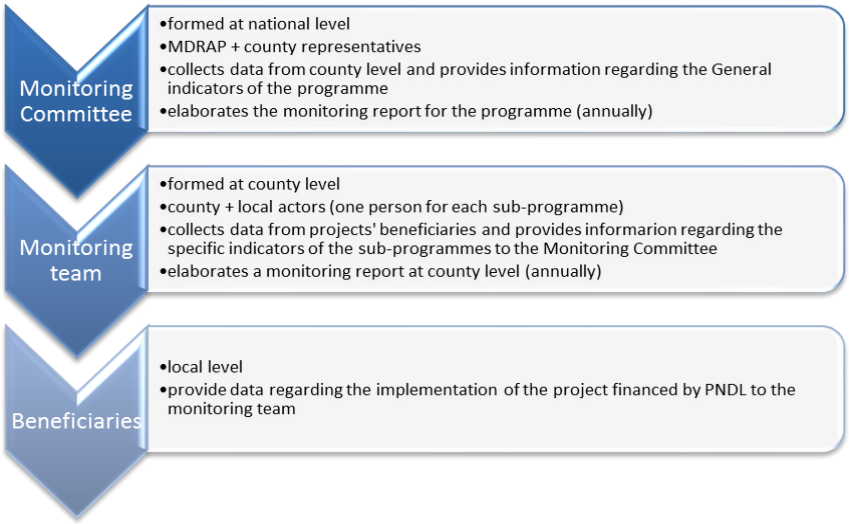
sector-specific criteria in this report. For all new projects accepted, the corresponding planned budget allocations must be included in the PNDL baseline for future years, as explained in-depth in the multiyear appropriations model included above.

- **The MRDPA should also design and adopt a clear legal procedure to follow if the PNDL budgetary allocation is smaller than the PNDL baseline**. This may happen for different reasons: e.g., budgetary austerity, change in government priorities, etc. There are mainly two alternatives under this scenario: (i) a proportional cut for all investment projects included in the baseline, with the price of delaying the completion date for all; (ii) allocation of the available funds to investment projects according to their evaluation/selection scores or based on costs required for conserving ongoing works (ongoing projects would thus be classified as "active/in implementation" and "paused"). Whatever the ultimate solution, if the allocation is smaller than the baseline then the new investment project submission would be suspended until there are funds to cover *all* ongoing projects (including "paused" ones) and any excess could be allocated to brand new investments.

- **The MRDPA should strengthen monitoring and evaluation (M&E) mechanisms to make necessary corrections in the financing and implementation of the program promptly.**

  **At the program level:**
  - The PNDL should set performance indicators for the entire program (e.g., number of projects, total beneficiaries, absorption rates, etc.) and for each sector (length of rehabilitated roads, number of additional people with access to water and sanitation, etc.). This would enable M&E mechanisms based on actual results, and the Ministry of Public Finance would also have a key role to play in verifying periodically that indicators (particularly financial ones) are on track.

**Figure 15. Proposed PNDL monitoring framework**



- As for program evaluations, the government should conduct independent impact assessments of completed projects. It is recommended that these tools be deployed by third-party auditors – one option would be to have the Prime Minister's Chancellery deploy a core team of in-house or hired experts to evaluate whether programs have indeed generated positive development effects through output and outcome indicators (based on a sample of projects). Some simple indicators such as, in the case of running water projects, the number of people connected or the number of people connected who are regularly paying their bills, could tell a lot about the quality of the design of some programs and their opportunity cost. The impact assessments could then be used to further refine the policy framework for relevant investment programs and should be made public. Currently, there are no systematic efforts to carry out impact assessments of state-budget-funded investment programs and there are no public, transparent evaluations of such instruments.

**At the project level:**

- A proper monitoring is the first step in enabling the MRDPA to correct issues promptly as they develop during the project implementation phase. Currently, the system is based on simple desk reviews of submitted documents, as there are no continuous mechanisms for verifying the works on the ground. This is critical in terms of providing a constant flow of information regarding how projects are advancing, how much funds they would require at different stages in their implementation, where delays are accumulating and why, etc.
- For its part, the MRDPA should continue to have the overall program monitoring role, with specific project monitoring visits scheduled based on a defined methodology (e.g., as mentioned earlier, larger/more complex projects should be more carefully scrutinized). In addition, the MRDPA could rely on a more active involvement by county council representatives, as well as on independent auditors. It is highly recommended to implement a standard electronic reporting system, easily accessible by all local authorities, who should be incentivized to gradually move away from hard-copy report submissions. This would enable faster processing and real-time monitoring of progress.

**And, finally, for the post-implementation phase:**

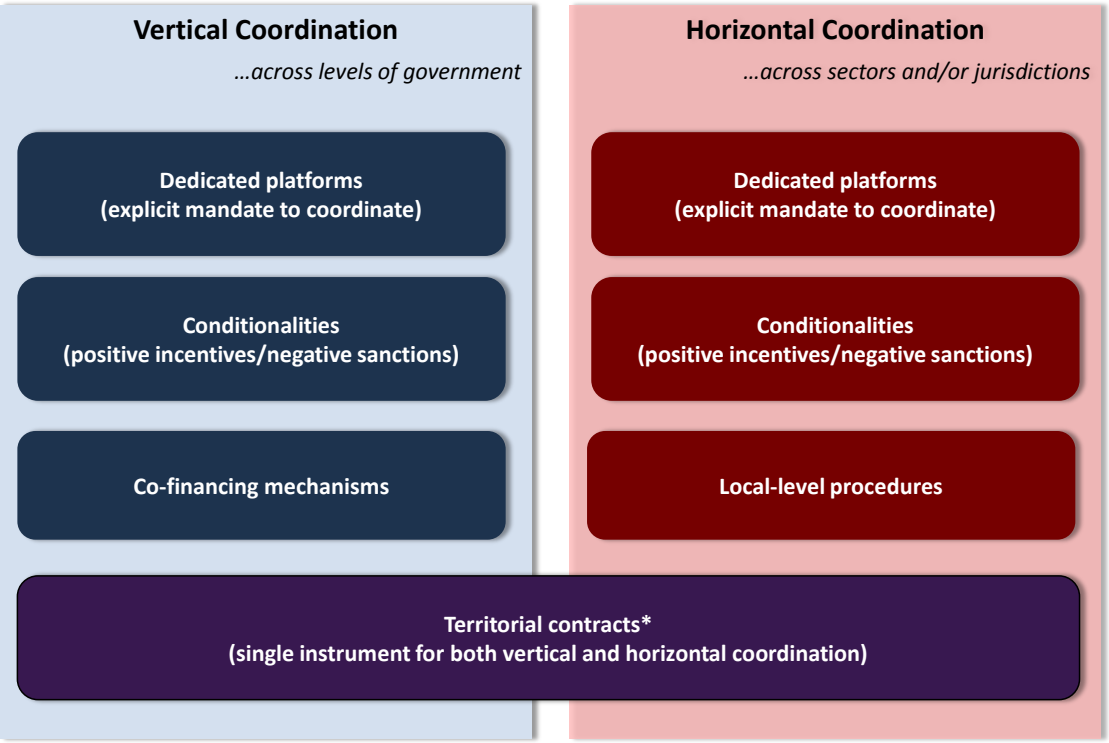
- In particular with respect to financial indicators, the MRDPA should collect and assess all relevant information (e.g., number of projects, disbursement vs. planned allocations, etc.). This would enable the Ministry to engage in a strategic dialogue with the Ministry of Public Finance and other stakeholders and, if need be, have the arguments and the data to persuade them to expand the PNDL. This would be particularly useful during the negotiations for increases in budgets from one year to the next or even during the course of a single year (if excess resources become available).

Of course, the reality is that multiyear budgeting will work best in the PNDL's case *if* it is implemented in correlation with a broader reform effort at the level of the Ministry of Public Finance (MPF). The MRPDA should pursue the above-mentioned actions while coordinating closely with the MPF to ensure that progress is both significant and durable.

# Chapter 9: Spotlight on Territorial Contracts as a Tool for Coordinating Investments

321. **Based on the experience of other countries, territorial contracts between national and sub-national entities hold the potential to become a very powerful tool for both vertical and horizontal coordination of investments in Romania**. Different countries have different names for this: contracts, agreements, pacts, etc. This is not to be confused with contracts for individual projects between, say, a Ministry serving as the Managing Authority of an EU-Funded program and a local authority as beneficiary of the grant. Territorial contracts involve stakeholders from public, private, and nonprofit sectors, usually at a regional level. They include a vision for that particular territory, with goals, activities (projects), and performance (output, outcome, and impact) indicators. They can be purely *transactional*, driving financial allocations through a series of positive incentives and/or sanctions (e.g., the Netherlands); or *relational*, trust-based. Most importantly, territorial contracts have the potential to account for both state-budget and EU funds, setting priority projects and "dividing them up" between financing sources of various kinds.

**Figure 16. Examples of vertical and horizontal coordination mechanisms**




** Territorial contracts are the main focus on this chapter. The other dimensions are discussed at length in the report on "Coordination of Strategies and Programs for EU and State-Funded Investments in Romania's Infrastructure," World Bank, March 2015*
*Note: Adapted based on "Investing Together: Working Effectively across Levels of Government," OECD, 2013*

322. **In the Romanian context, territorial contracts would help mitigate the high volatility of strategic investment priorities.** The basic thinking is to "lock in" subnational and national stakeholders from a particular region/county/territory, for a defined period of time (e.g., equal to the EU programming cycle of seven plus three years), on a list of clearly defined infrastructure projects. Why is this critical? Recent experience in Romania suggests that political changes happen often and also bring about shifts in strategic priorities. As such, projects are started and not always brought to completion. Territorial contracts would help on multiple dimensions:

- First, territorial contracts would offer an opportunity to bring stakeholders together – across party lines and across sectors (public, private, and nonprofit) – and establish a list of priority projects for an entire programming period.
- Second, they would be perceived as stronger accountability mechanisms compared to other existing documents (e.g., development strategies). They could have specific sanctions for potential breaches, penalizing those parties that decide to deviate unilaterally from set priorities.
- Third, territorial contracts would follow a clear format, requiring subnational and national authorities to think through a list of priority projects, but also potential funding opportunities and parties accountable for implementation. Certain complex interventions often involve local, county, and national bodies. This framework would help define, from the start, who is responsible for what.
- Fourth, by setting a more stable list of priorities, territorial contracts would reduce the risk of "drip funding" and starting more projects than financially sustainable. Because the list of priorities could not change with every election cycle or even more frequent episode of political instability, the financed projects would likely be carried forward through completion.
- Finally, this tool would enable authorities across administrative levels to nurture a culture based on partnership and collaboration. This experience can become particularly valuable in a context where ever-more-complex projects require public actors to be increasingly creative and collaborative – not just across administrative levels, but also across sectors.

323. **For all these reasons, the aim of this chapter is to explore the possibility of introducing territorial contracts in Romania.** The MRDPA, as the ministry responsible for public administration reforms, is ideally positioned to spearhead this effort. The first part of this chapter presents an overview of the agreements between local and government authorities in different European countries to highlight good practices and experiences, presenting the types of contracts used in Spain, Italy, and Sweden. The second section reviews the Polish model of Regional Contracts and the more recent Territorial Contracts, as the main planning tools aimed at supporting and improving regional development policies in the country. The same section also includes a summary of the contract for Podlaskie region. The last section of this chapter looks into the opportunity of designing and implementing territorial contracts in Romania, covering some of the institutional and legal changes required. Finally, the same section presents a brief scenario regarding a contract for Bihor County (chosen to illustrate a potential pilot).

## Good Practices of Regional Agreements in Europe

### *1. Convenios de colaboración in Spain*

324. **In Spain, coordination between autonomous communities and the central government is done through agreements and co-financing frameworks.** Local communities receive money from both the central and local budget through a mixed of taxes, tax-sharing arrangements, and transfers negotiated in a multilateral forum. Local communities get transfers from the central government for capital expenditures through equalization funding and *convenios de colaboración* (cooperative agreements). *Convenios de colaboración* were introduced in 1984 to run structural policies in order to manage interdependence among policies and mitigate the strong antagonism following the decentralization process under which autonomous communities have received significant powers.

325. **A *convenio de colaboración* is a bilateral agreement signed between an autonomous community and the central government of Spain under which both parties undertake a number of obligations and responsibilities pertaining to a project**. Through *convenios* autonomous communities get earmarked funds for each type of investment, be it state-budget-funded or entirely financed by EU funds. These agreements play an important role in regional development, and influence the long-term strategic planning of regions. Through these bilateral agreements the central government maintains some leverage on the development of the regions and can ensure coordination with cross-regional priorities and projects. *Convenios* are negotiated on a sectorial basis between a region and different ministries.

326. **These agreements cover investments of general interest, such as airports, roads, and waterways crossing more than one autonomous community, thus addressing the issue of horizontal coordination among multiple territorial units.** For example, *convenios* signed between the Galician regional authorities and the central government target a wide area of interventions. In 2010, for instance, most of the funds assigned by the central government to Galicia targeted investments in environment, rural, and maritime affairs (17%), education (14%), health and social policy (12%), industry, tourism & trade (11%), culture (11%), and development (8%). Less money went to projects covering justice, defense, and territorial policy and public administration (between 5% and 6%). Although interventions under *convenios* are actually coordinated by the central government, oftentimes regions and municipalities contribute financially to the projects (especially for water investments.

327. **The Spanish legislation is quite limited when it comes to regulating *convenios de colaboración* and allocation of funds based on such agreements.** There is a set of general rules providing a great deal of flexibility to these agreements. C*onvenios* cover a certain period of time and can be extended automatically or by signing another *convenio.* Negotiations for *convenios* are very transparent to the public. The agreements are published in the Official Bulletin of the central government. There is a monitoring commission for each *convenio*, responsible for solving problems regarding the interpretation and non-compliance with the terms of the agreement. If the monitoring

commission fails to solve the problems, then the matter is taken to the courts dealing with administrative conflicts among levels of government. The disagreements over distribution of competences between the region and the central government should be sorted out by the Constitutional Court of Spain.

328. **Except for the Basque Country and Navarra, the Spanish autonomous communities sign tens of agreements with the central government every year.** For example, in 2010, there were 59 *convenios* signed on average per region. The number of agreements increased dramatically, from only 14 in 1984 to over 800 by 2004. In recent years, the regions improved their bargaining stance during negotiations for future investments. Starting with 2011, a new rule reads that *convenios* breaching the budget's stability will be subject to a binding report issued by the Ministry of Economics and Finance.

329. **The allocation of funds depends on current transfers**. The amount of money transferred from the central government to the regions increased after 2007, but it went down sharply in 2010, in the context of the global economic crisis, which hit Spain particularly hard. At the same time, the co-financing share of autonomous communities for investments covered by *convenios* went up, from 24% in 2007 to 47% in 2010.

330. **As a case in point, the *convenios* signed between Galicia and the Spanish Government helped the region to perform quite well compared to other autonomous communities in the country.** Galicia has a large number of *convenios;* only in the past few years the region has signed 65 agreements. One of the major investments under way in the region is the construction of the high-speed railway (Alta Velocidad Española - AVE) between Madrid and Galicia.[101] The AVE line was prioritized by the central government. The project has a total value of EUR 2.2 billion of which half is covered through EU funds, and there is also a large contribution from the central government. A top priority for the Galician authorities, the project is part of the region's strategic objective of improving the connection between Galicia and the rest of Spain.

331. **Other agreements cover the transport and water sectors.** For example, a *convenio* was signed in July 2014 between the Ministry of Environment, Land, and Infrastructure and the Galician Agency for Technological Modernization for a road management system of mobility of public transport, with a total value of EUR 2.2 million. EUR 810,000 was allocated by the Ministry and the rest was co-financed by the Galician Agency.[102] Another *convenio* was signed in August 2014 between the Ministry of Agriculture, Food, and Environment and the Government of Galicia for the development of a new wastewater treatment plant and collection in Ribeira.[103] It is an investment worth EUR 30 million, co-financed by the Spanish Ministry of Economy through ERDF and the Board of Galicia

[101] Public Investments Across Levels of Government in Galicia, Spain (OECD)
[102] Convenios de colaboración available at: http://www.xunta.es/consulta-convenios?accion=detalle&IDConvenio=127935
[103] Information available on the Ministry of Agriculture, Food and Environment: http://www.acuaes.com/sala-de-prensa/notas-de-prensa/el-ministerio-de-agricultura-alimentacion-y-medio-ambiente-y-la-xunta

through Aquas de Galicia, the regional water company. The new wastewater treatment plan will cater to over 32,000 people by providing a complex process of wastewater treatment in the towns of Ribeira, and some communities in Aguiño, Ameixida, Revuelta, and Castiñeras.

332. **There are also some *convenios* dealing with smaller projects**. It is the case of the new center of the arts in Verin, developed under an agreement signed between several stakeholders: the Ministry of Environment, Land and Infrastructure, the Ministry of Culture, Education and Universities, the Galicia Tourism Agency, the Ourense County Council, and the County of Verin.[104] This EUR 3.3 million project is partly funded through the 2007-2013 Operational Program ERDF Galicia, with a contribution from the other parties to the agreement.

### *2. Accordi di Programma Quadro (APQs) in Italy*

333. **Italy employs a participatory form of territorial development planning and contractual forms of multi-level governance.** The instrument of contractual cooperation was implemented for the first time in the mid-1980s, and is based on the British culture of public-private partnership and the French state-regions planning agreement. The first two tools used in Italy for a contractual form of cooperation were the Accordi di Programma Quadro (APQ – Framework Program Agreements). These were designed to address three well-known issues at the time: the bureaucratic complexity, inaction, and delays in the decision-making process. By mid-1990, these types of agreements evolved to negotiated programming. They act like strategies seeking to coordinate development policies by involving various public and private actors under a complex decision-making and a unified management of financial resources.

334. **The regional development policy in Italy is implemented based on contracts signed between regions and the central government**. APQs are the main instruments for planning the so-called "additional" resources for regional development (in addition to their own financing sources). APQs are signed between central and regional authorities and cover interventions mutually agreed by the two parties. The APQ framework is established under the Institutional Program Understanding (IIP – Intese Instituzionali di Programma), which is the main structure for planning national additional resources in Italy. IIP was established between 1999 and 2001 in order to help with the coordination between the central government and regional authorities in defining objectives for specific areas of interventions and implementing local infrastructure development projects.

335. **APQs are signed by the region, the Ministry of Economy and Finance, and other relevant public institutions, depending on the type of project**. An APQ is signed for each project. The document has an annex describing the project, making sure that it is consistent with the given programming tools in the region. APQs can cover infrastructure investments in transport, cultural heritage, human resources, local development systems, and water and environment. APQs are operative programming instruments that allow immediate

[104] Convenios de colaboración available at: http://www.xunta.es/consulta-convenios?accion=detalle&IDConvenio=125853

implementation of the proposed investment. They stipulate actions and methods of implementation, point to the entities responsible for project execution, indicate the funding framework, and ensure monitoring of implementation. Under APQs, responsibilities and commitments are assigned to each signatory party. The agreements also include litigations and reconciliation procedures between parties.

336. **Interventions are financed from different funding sources, such as ordinary resources, additional national funds dedicated to underdeveloped regions, and EU and private funds.** Ordinary resources are released from the central budget to regional or local budgets of some regions – typically, the poorest ones. These underdeveloped regions receive 15% additional funds for development. Additional national funds are disbursed annually in order to strike an economic and social balance between different areas in the country. APQs are also funded through EU operational programs for Northern, Southern, and Central regions. Private funds are usually used for infrastructure investments that have the potential to generate substantial revenues. Regions must submit project proposals to the Ministry of Economy. Every six months, parties responsible for the implementation of the APQ must send a monitoring report to the Joint Committee of Agreement describing the project implementation status. The reports should flag critical and financial issues and indicate solutions.

337. **Since 2003, significant funds were released from the Fund for Underutilized Areas (FAS – Fondo per Area Sottoutilizzate).** Money is allocated by the Inter-ministerial Committee for Economic Programming (CIPE) based on specific resolutions that identify the projects' beneficiaries and set the rules they must comply with. 50% of the money covering all APQs in Italy comes from national and regional ordinary resources, 23% from the FAS, while the rest comes from EU funds or private investors.

338. **Italian regions and autonomous provinces received EUR 23 billion during the 2000-2006 programming period**. Approximately EUR 18.6 billion was allocated through APQs. 85% of the overall funds went to the Southern regions – in the most underdeveloped areas of the country.[105] Between 2005 and 2006, all funds covering the APQs amounted to 15% of the total capital expenditures in Italy. Between 1999 and 2007, 567 APQs were signed for 17,000 projects with a total value of nearly EUR 74 billion.[106]

339. **Money is allocated to regions based on local needs and the size of population.** Underdeveloped regions in Southern Italy receive more funds that those in the North and Center. Sicilia received the largest amount, i.e., EUR 16.5 billion between 2001 and 2008, through 47 APQs. Wealthy Northern regions, like Trento and Veneto, receive less money.

[105] Department for Development and Economic Cohesion, Ministry of Economic Development, Italy http://www.dps.gov.it/opencms/export/sites/dps/it/documentazione/politiche_e_attivita/programmazione_2000-2006/02_-_Programmazione_Nazionale_-_Stato_di_attuazione.pdf

[106] "The importance of factor levels in the forecast public system for the expenditure of public investment" by Carlo Amati, Francisco Barbaro, Valentina Bravi, M. Alessandra Guerrizio, Francesca Spagnolo -- Ministry of Economic Development, Italy available at: http://www.dps.tesoro.it/documentazione/docs/uver/ersa07.pdf

EUR 2 billion went to Trento for APQs signed between 2000 and 2007, while Veneto was allocated EUR 2.2 billion between 2001 and 2009. There are some regions in the North that still receive significant funds. It is the case of Toscana, with an overall EUR 13 billion awarded for projects signed between 1999 and 2008, and Lombardia, with EUR 10.4 billion. At the same time, there were regions in the South that obtained less money compared to peers from the same geographical area. For example, Basilicata received EUR 2.4 billion for APQs signed between 2002 and 2010, while Puglia benefited of EUR 5.7 billion from 2002 to 2010.[107] In recent years, the total value of projects covered by APQs amounted to EUR 6.2 billion.[108] Between 2012 and 2015 the largest amount went again to Sicilia, i.e., EUR 1.6 billion. Over the same period of time, Campania received EUR 1.7 billion, while Molise received EUR 952 million, and Basilicata EUR 650 million. Other regions have gotten much less money – e.g., EUR 26 million for Lombardia and 16.6 million for Lazio.

340. **One of the largest interventions covered by an APQ is the EUR 1.16 billion wastewater treatment project in Sicilia.** EUR 213 million were allocated from the 2007-2013 EU funds, in addition to EUR 532 million rescheduled from the previous programming period. Other interventions included in APQs covered a number of issues, such as the development of the South road A1-A14 San Vittore-Campobasso of national and inter-regional strategic importance (EUR 482 million); mitigation of landslide risk in Sicilia (EUR 122 million); increasing treatment capacity of municipal wastewater in Veneto (EUR 19.5 million); and water networks in Puglia (EUR 89 million). Some of the APQs targeted social infrastructure projects – e.g., development of the Hospital of the Sea in East Napoli (EUR 299 million).

341. **Intervention areas vary quite a bit**. For example, Abruzzo is strengthening regional mobility (EUR 25.5 million) and developing local road protection in Matera (EUR 20 million). Other APQs targeted natural and cultural heritage-related interventions, such as monitoring the natural heritage in Basilicata (EUR 40 million) or ensuring safety and improvement of the regional educational heritage in Basilicata (EUR 40.5 million).

### *3. Regional Development Programs and Regional Growth Programs in Sweden*

342. **Since the 2000s, Sweden relies on different regional instruments aimed at coordinating various local and national public administration stakeholders in order to promote regional development.** The country transitioned from the Regional Growth Agreements to the Regional Growth Programs and the Regional Development Programs. However, these are not agreements per se, as they act rather as umbrella-type frameworks guiding regional development in Sweden.

343. **Regional Growth Agreements (RGA) were introduced in Sweden at the beginning of previous decade to help coordination and policy adjustment in various sectors**. They were regional partnerships coordinated by county and regional boards, acting more like

[107] More information available at: http://www.dps.gov.it/opencms/export/sites/dps/it/documentazione/Strumenti/Elenco_APQ/Elenco_APQ.pdf
[108] Ministry of Economic Development website http://www.dps.gov.it - APQ Rafforzzati

platforms allowing for a more structured form of engagement, negotiation, and collaboration between the central government and counties. These agreements were also used to explore new approaches to regional and industrial development. The RGAs were officially launched on January 1, 2000, and covered all 21 counties in the country. The RGAs would allow representatives from municipalities, local business associations, and universities to take the lead in drafting and implementing different regional action programs. This regional partnership encouraged a cross-sectoral approach and collaboration across various sectors and different ministries. Each county would prepare assessments on potential opportunities and threats to regional and industrial development that would be used when drafting regional development programs.

344. **In 2004, the RGAs were replaced by Regional Growth Programs (RTPs) and Regional Development Programs (RUPs).** Both are currently the main instruments guiding integrated regional development in Sweden, fostering an integrated approach to regional policy. However, they are not genuine contracts nor real programs with an operational dimension since they are not attached to a single budget or source of funding, but to multiple sources. Both RUPs and RTPs bring together various local stakeholders involved in regional development, such as representatives from different sectors, municipalities, the private sector, and nonprofit organizations to formulate and agree on a particular policy agenda.

345. **The Regional Development Program (RUP) is the main instrument for designing long-term development strategies targeting sustainable growth in each region in Sweden.** It defines investment priorities and regional strategies. From 2008 onward, the RUP acts like an umbrella program gathering interventions from different sectors into a single coherent strategy. It is more like a foundation for a number of regional development strategies and programs, RTPs, EU funds, County Plans for Infrastructure, transport plans, Environmental Programs, etc. The RUP was a key tool for implementing the Swedish National Strategic Reference Framework (NSRDF). The 2007-2013 NSRDF was implemented by 21 RUPs, 8 ERDF Regional Operational Programmes, and one European Social Fund (ESF) program. RUPs proved to be crucial in mobilizing actors and funds in the Swedish regions, especially during the financial crisis.

346. **The RUP received some guidelines from the central government in terms of design and from the NSRF on the content**. The final version of the RUP is designed by the regional authority or regional coordination body (*kommunalt samverkansorgan),* which is the County Administrative Board or regional autonomous body. The RUP is implemented by a host of local actors, such as municipalities, county councils, businesses, relevant state authorities, and other entities.

347. **Regional Growth Programs (RTPs) are subsidiary programs based on RUPs, also financed by the public and private sectors.** The RTPs were perceived as operational sub-programs of the RUP as they outline the priorities of the specific region, in addition to funding and implementation methods. The RTPs are enforced by counties on a voluntary basis. They focus on a wide range of areas, including labor, entrepreneurship, self-employment, entrepreneurship, innovation systems, and sustainable development.

348. **The RTPs have multi-objective instruments and are not linked to only one funding program.** The RTPs are seen as regional coordination bodies (county administrative boards) for their own instrument, as they can easily adjust themselves to the regional needs. RTPs focus on central government priorities, and they must prove these policies by justifying the results and outcomes to the national government. This explains why there are such small regional differences between investment priorities among RTPs. RTPs have limited capacity to address specific development opportunities in each region.

349. **Ecological sustainability was incorporated into these growth agreements, with the aim of bringing an ecological element to sustainable development.** Three pilot counties were initially included in the new form of RTPs, namely Dalarna, Skane, and Västerbotten. A government bill emphasized later that growth programs should be closely coordinated with EU funds and programs and relevant areas of intervention. For example, the 2007-2013 RTP for Västerbotten has five strategy areas, as follows: promoting environment, culture, health, an attractive urban environment, and good living conditions; development of trade and industry; skills and labor supply; accessibility and infrastructure; and international cooperation and networking.[109]

### *4. Contrat de Plan d'Etat-Région in France (State-Region Planning Contract)*

350. **Formerly known as state-region project contract, *Contrat de Plan d'Etat-Région* – CPERs (the state-region planning contracts) is the primary mechanism of regional development policy in France**. CPERs are tools aimed at generating a coherent regional policy at the local level, implementing the strategic directions of the central government and the region over the past three decades in the country. The CPER is an agreement between the state and the region, under which both parties undertake responsibilities to plan and finance multiannual large infrastructure projects and/or support development of specific sectors.

351. **First introduced on a limited scale in the wake of the decentralization process in the mid-1980s, the CPER is now an essential instrument of regional policy promoting alignment with regions for clusters supported by national policies.**[110] France has a long tradition in contractual practices as it had used such type of agreements in the form *contrats de ville* (city contracts) in urban policies since the 1970s. The CPER is a detailed contract that sets out specific policies and programs to be implemented by the central government and regional/local authorities over a certain period of time. CPERs are co-funding contracts (not delegation contracts) under which parties agree to carry out a number of tasks and on the ways these activities should be funded. Central and regional authorities jointly finance the interventions mentioned in the contract. Most of the money is allocated for specific projects through the ministries. Some financial contribution comes from the regional governments. An annex to the contract refers to the financial contribution of the parties, and provides a full description of each intervention. Acting as

[109] RISE – Integrated Regional Strategies in Europe, available at: http://www.espon.eu/export/sites/default/Documents/Projects/TargetedAnalyses/RISE/FinalReport/PDF_for_Intranet/Annex_4_Case_Study_Vaesterbotten.pdf
[110] OECD Reviews of Regional Innovation - Central and Southern Denmark

tools intended to harmonize regional objectives with the targets promoted by the government, the CPERs ensure that regional targets are not too diverse or too costly.

352. **The first round of CPERs was enforced in 1984 and covered the period through 1988.** There have been six rounds of contracts so far. The scope of contracts and money allocated to regional projects expanded over the course of time. This top-down approach to planning evolved into a more bottom-up view of agreements based on projects designed by regions, which eventually strengthened the role of regional governments. If at the beginning the CPER was designed as merely a tool to ensure consistency between the national and regional plans, it gained some autonomy after the national plan was replaced with the regional plans in the 1990s. Today, the CPER is a platform through which the government ensures consistency among regional strategies. The CPER is planned simultaneously for all regions and has the same duration. Starting with the 2000-2006 generation of planning contracts, the length of the agreement was expanded to six/seven years in order to fall in line with the EU programming period and allow for some financial contribution from the European Regional Development Fund (ERDF) and the European Social Fund (ESF).

353. **The CPERs put in practice the regional strategies that should be consistent with national targets.** However, there are some constraints on choosing regional objectives. Most of the time, the government imposes certain objectives on regions, in line with the national strategies. For example, funding of one high-speed train line is included in different CPERs, although the purpose of this intervention was to build a *national* line and no specifically local infrastructure was mentioned.[111] To this end, the projects included in the CPER are within the limits set by the inter-ministerial committee for regional planning and competitiveness placed under the French prime minister (i.e., Délégation interministérielle à l'aménagement et la compétitivité des territoires - DIACT).

354. **Both the region and the state are responsible for preparing the regional strategic plan.** Other regional actors, such as private companies, can contribute to this document. The region and the government (the latter represented by the prefect) engage actively during negotiations. Various analyses are conducted at this stage. The region hires experts to conduct a SWOT analysis, while the prefect prepares the government's strategy for the regions, making sure that the document explains how the state would adjust its national plan for that particular geographical area. The CEPR has a revision clause that would allow the parties to modify the terms of the agreement, objectives, and the tools used in the contract's implementation. Sometimes, the new data resulting from the analyses call for a revision of the contract.

355. **As for the main legal provisions governing its application, the CPER was established under the main framework for planning in France, approved on July 29, 1982,**

---

[111] *Linking Regions and Central Governments – Contracts for Regional Development* - OECD, available at: http://www.oecd-ilibrary.org/docserver/download/4207101e.pdf?expires=1438617460&id=id&accname=ocid195787&checksum=5666CC0CD6B4F1CB1B50B9040B2AC22A

**subsequently modified by Law 2010-704 of June 28, 2010.**[112] The law reviewed the central planning system by creating a system of regional planning. The legislation set the strategic medium-term objectives for the country's economic, social, and cultural development, as well as the elements to bring together the regions and different economic, social, and environmental partners. The plan is developed in two steps. The first planning law defines a six/seven year plan (it used to be five years) with key targets and relevant actions, setting the ground for negotiations for the plan's objectives. It also refers to areas where the state should have leverage in negotiations considering the EU's objectives. The second planning legislation defines the legal, financial and administrative measures in connection to the objectives identified in the first planning law.

356. **Each CPER has a regional council, responsible for conducting consultations among stakeholders for drafting the plan.** The council is also responsible for monitoring the implementation of the contract. Members of the council include representatives from the region, the central government, and different sectors (e.g., agriculture, banking, etc.). The plan is developed through a complex and lengthy process. 18 months before the plan enters into force a policy paper with priorities is prepared in consultations with all regions. The document is submitted to the government at least one year before the plan is enforced. The Government must draft the first planning law and send it to the Parliament at the beginning of the year before the planning period would start. The government must elaborate the second planning law four months before the plan becomes active. Once the legislative body approves the second planning law, the government has the green light to conclude the agreements with local authorities, regions, public and private companies. The plan covers mutual obligations regarding contract implementation, and sets the duration of the agreement. Initially, all activities outlined in CPERs had to be consistent with the objectives included in the national plan; now the objectives should be in line with the regional master plans.[113]

357. **The prefect prepares the specific contracts between the region and the state regarding the implementation of CPER activities.** Within the limits of the annual budget, the state shall provide investments in the form of capital grants, subsidies, loans, tax regulations, and financial aid. The state should withdraw from projects that have not started within 18 months following payment of the first financial assistance. EU assistance can also be withdrawn for same reasons. During the first year of the CPER cycle and before the end of the first quarter, the Government must prepare a report summarizing the activities undertaken in the previous year, and then submit it to the Parliament for approval. The achievements of the CPER must be presented in detail starting the second year of the planning cycle. The termination clause allows both the central government and the region to end the contract.

---

[112] More information available at: http://legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000691991

[113] Available at: http://www.oecd-ilibrary.org/urban-rural-and-regional-development/oecd-territorial-reviews-champagne-ardenne-france-2002_9789264175952-en;jsessionid=2ttj5b9f2ga23.x-oecd-live-03

358. **The planning contract is signed by the prefect of the region on behalf of the central government and by the elected president of the region.** Other stakeholders, such as general councils of urban communities can join the CPER and should bring in their financial contribution to the given interventions. The contracts are coordinated by steering committees that include the regional prefect, the chair of the departmental authority, and the head of the regional social and economic council.

359. **The scope of the CPER has expanded from one round of contract to another, and so did the funds.** For example, nearly EUR 41 billion was awarded for CPERs for the period 2000-2006, by 56% more than the 1994-1999 planning cycle. Of this, the state contributed 17.5 billion, the regions EUR 17.7 billion, and the local communities EUR 5.7 billion. The EU's financial input to the 2000-2006 CPER amounted to EUR 10.2 billion.

360. **For many years, the CPER covered predominantly large infrastructure projects, especially in public transportation; nevertheless, priorities have changed more recently from so-called hard and tangible to soft and less tangible issues.** Nowadays there is an increase in the number of interventions dealing with general and qualitative goals, such as increasing welfare of citizens, strengthening the connection among people in the region, and sustainable development. In the 2000s, CPERs covered both hard and soft issues. For example, the 2000-2006 planning contract for Midi-Pyrénées sought to develop the region based on open, strong solidarity as to serve its inhabitants.[114] The CPER reform of the 2000s readjusted broad objectives to regional contexts. Inspired by the Lisbon and Goteborg European Councils promoting innovation, competitiveness, and sustainable development, the new generation of CEPR narrows down the core areas to three key issues, namely competitiveness and attractiveness of territories, sustainable development, and social and economic territorial cohesion.

361. **The 2015-2020 CPER is a new type of planning contract concentrating on six priorities aimed at supporting the territorial reforms promoted by the French Government.** The new priorities are the following: multimodal mobility; higher education, research, innovation; ecological and energy transition; digital technology; innovation for the future; and territorial policies. In addition, there is cross-support targeting employment. The newly introduced territorial component opens the paths toward developing small projects under sub-contracts, such as *contrats de pays* (country contract), *contrats d'agglomération* (agglomeration contracts), and *contrats de parcs naturels régionaux* (regional natural parks contracts). These sub-contracts leave more room for maneuver for local authorities since they can define projects identified by local and regional actors. However, the projects must still be approved by the central government, and should be consistent with the national strategy.

---

[114] *Linking Regions and Central Governments - Contracts for Regional Development* - OEDC, available at: http://www.oecd-ilibrary.org/docserver/download/4207101e.pdf?expires=1438617460&id=id&accname=ocid195787&checksum=5666CC0CD6B4F1CB1B50B9040B2AC22A

362. **The French government will provide EUR 12.5 billion for the 2015-2020 planning period.**[115] The largest funds will go to multimodal mobility (EUR 6.7 billion) and ecological and energy transition (EUR 2.9 million). Education will receive EUR 1.2 billion, while territorial policies will get nearly EUR 1 billion. The smallest share will fund innovation for the future (EUR 50 million) and digital technology projects (EUR 32 million). Several public utility services operators, such as the Environmental and Energy Agency and the Water Agency, are among the stakeholders actively involved in the CPER. The CPER will also use new funding sources. For example, between 2015 and 2017, EUR 900 million will come from the Investment for Future Program, while the National Agency for Urban Renovation will offer EUR 850 million for projects of regional interest under the new urban renewal national program.

363. **Although CPERs proved to be very useful, there are some shortcomings and challenges to such type of contracts.** One of issues is the lack of standardized or centralized monitoring and evaluation procedures. The prefect conducted evaluations for contract implementation in 1993, 1998, and 2000. Today, the contract performance is assessed both at the national and regional level. Since 2005, DIACT performs the evaluation at the national level, while an ad-hoc committee comprising representatives from central government and regions is responsible at the local level. There have been 150 evaluations of 1989-1993 CEPR and 160 assessments for the 2000-2006 CPER covering 16 areas of interventions. Only the territorial component was evaluated 21 times in 13 regions during 2000 and 2006. Ninety of the 160 reports focused on seven areas, namely tourism, methodology, employment, environment and sustainable development, cities, economic development, and territorial policies.

364. **Despite being an efficient regional policy instrument, the CPER is perceived sometimes as a tool of state decentralization, rather than promoting a true partnership between the state and the region**.[116] Others complain that a big problem is the delay in project implementation due to shortcomings related to availability of funds, reallocation of money, and underestimated costs of poor or unfinished preliminary studies. At the same time, the government's financial contribution has not always been acceptable, and there have been differences in the financial support provided by the ministries to regions. For example, in some areas the government's financial support is quite high (e.g., education - 63%, cities - 68%, agriculture - 59%, foreign trade - nearly 70%), while in others, like health and roads it was much lower, i.e., between 33% and 50%.

365. **Some believe that the CPER would be more efficient if built on limited policies, although some trust that such approach would actually hinder local initiative**. Monitoring and evaluation of the CPER performed by an independent council could increase the transparency of the process. Previous CPERs pointed to the need of greater budget stability

[115] Available at Commisariat Géneral a Egalité de Territoires: http://www.cget.gouv.fr/actualites/contrats-plan-etat-region#

[116] Territorial Review Finland – OECD, available at: http://www.oecd-ilibrary.org/docserver/download/0405081e.pdf?expires=1438015781&id=id&accname=ocid195787&checksum=F518562AAD3056B969B5C792AF80547E

and coherence of various planning schemes as to set a solid national framework with a long-term perspective. Last but not least, the region should produce a strategic document orientation to strengthen its role as the leading intermediary structure between national and subnational forms of government.

***Case Study: CPER for Ile-de-France Region***

366. **In February 2015, the French government and Ile-de-France region (one of the 27 regions in the country) signed the 6th generation of planning contracts covering the 2015-2020 period**.[117] This CPER focuses on transport infrastructure, in line with priorities of the region's Master Plan aimed at advancing a new model of territorial planning and development and rebalancing the western and eastern parts of the region. This agreement covers over 12,000 square kilometers, including Paris, with more than 12 million people (approximately 18% of the total population of the country).

367. **The total value of the CPER is EUR 7.3 billion, by a third more than the previous CPER.** EUR 4.4 billion comes in financial support from the region and EUR 2.89 billion from the government. Overall, transport projects account for 73% of the total value of the CPER. The state and region shares differ from one component to another. For example, the government will contribute by 51% to the energy component, while both state and region shall have equal shares for education, innovation, and employment projects. The region will cover 65% of investments in transport sector, while the state will contribute 35%.

368. **The focal point of the Ile-de-France contract planning is *Nouveau Grand Paris (*New Grand Paris - NGP), an ambitious infrastructure project concentrating on the development and modernization of public transport in the Paris area.** Considered *de facto* the Transportation Master Plan for the region, the project targets urban, social, and economic sustainable development and employment as to strengthen Paris' position among the most attractive cities in the world. Other investments will tackle development of river and harbor infrastructure, improving living conditions for students, development of digital technology and renewable energy, thermal rehabilitation, and urban development. The CPER sets a first by assigning funds for the development of cycling infrastructure.

369. **The proposed public transport network should link the region's main economic centers and provide support to local development.** NGP covers seven local territories targeting seven areas of development, including innovation and research, health, finance, and aeronautics. Interventions include an automated metro line encircling Paris (Grand Paris Express), seven strategic centers, more than 200 kilometers of public transport network, and 72 stops (of which 57 new stations) serving over 2 million passengers daily. French authorities also plan to develop 70,000 new homes per year. The main beneficiary of the project is Société du Grand Paris, a public entity responsible for the development of the future metro, under the supervision of the Ministry of Territorial Equality and Housing, the Ministry of Ecology, Sustainable Development and Energy, and the Ministry of Finance.

[117] More details available at: http://www.iledefrance.fr/fil-actus-region/etat-region-2020-73-milliards-euros-investissements-publics

370. **Interventions under NGP will bring together several stakeholders, such as the government, region, local authorities, Metropole du Grand Paris (to be established in 2016), Chambers of Commerce, and a number of public transport companies**. Overall, French authorities will spend EUR 26 billion over the next 15 years, of which EUR 22.5 billion only will cover the metro network. Most funds will derive from tax revenues, state subsidies (optional), local authority subsidies, loans, and local taxes (such as office tax, special infrastructure tax, or flat-rate tax on network business). If needed, the state will provide EUR 1 billion. Local authorities must contribute with up to EUR 225 million.

371. **Some components of the NGP will be implemented through *Contrats de Développement Territorial* – (Territorial Development Contracts – CDT).** The 15-year contracts between the state and local communities are planning and scheduling tools designed by the state and local authorities in connection to this transportation project.[118] Established in 2010, the CDTs will translate NGP to the local level. There are 22 CDTs dealing with 10% of the territory and 38% of the population of the Greater Paris Region, spread across 157 local communities. As of June 2014, 21 CDTs were active. Fifteen local territories have signed the framework agreement prompting the area of interest for future contracts. The agreements are submitted to public consultation so citizens and interested stakeholders learn about future interventions and provide feedback. [119]

### *5. National Regional Policy in Switzerland*

372. **Since 2008, Switzerland employs a New Regional Policy (NRP) as an innovative approach to regional development.** It marks a substantial shift from redistribution of resources from stronger to weaker areas to the promotion of endogenous growth opportunities in less developed areas. To this end, the main objective of the NRP is to provide assistance to rural, mountainous, and border areas as to increase their competitiveness and help them bring some benefit to business development. Through this new approach, the Swiss federal government aims to make these regions more attractive for business and development opportunities and build a strong rural economy that should eventually lead to reducing disparities among regions. The NRP aims to explore the potential of regions and cantons and encourage cooperation among different stakeholders – such as between regions and cantons, public and private institutions, and among different economic sectors. [120]

373. **The Swiss regional policy is based on the principle of cooperation between federal authorities and cantons.** From this perspective, the NRP is established on three pillars, namely: (i) increasing the economic strength of regions; (ii) ensuring coordination of regional policy with relevant federal agencies; and (iii) providing expertise for regional policy and people involved in the process. The NRP is executed through the federal government's eight-year program overseen by the State Secretariat for Economic Affairs

[118] More information available at http://www.ile-de-france.gouv.fr/gdparis/CONTRATS-DE-DEVELOPPEMENT-TERRITORIAL
[119] More information available at http://www.grand-paris.jll.fr
[120] Available at: http://www.regiosuisse.ch/prestations-regiosuisse/publications/fiches-info/fiche-info-npr/fiche-info-npr-191108-f.pdf

(SECO).[121] The first multi-year program runs from 2008 through 2015 and focuses on areas that have the highest development potential for rural and mountainous areas in the country, including environmentally friendly tourism, energy industry, forestry and agriculture, and education and health.

374. **In consultation with the SECO, regions and cantons define the programs and projects included in the long-term framework.** The strategic orientation of the programs is set by cantons, and is then reviewed by the federal government. Cantons are responsible for implementing the activities under Pillar 1 of the NRP (i.e., increasing the economic strength of the region), while the federal government plays a key role with regard to the other two pillars. Pillar 1 is perhaps the main important component of regional development policy in Switzerland, advancing development of innovation and a market-oriented economy in order to increase competitiveness of regions and help them become successful in a globalized economy. This pillar is the mechanism through which the government offers support to local strategies and projects to enable cantons to boost their economies by bringing together regional companies and institutions.

375. **Pillar 1 is of the NRP is based on contractual arrangements between the Swiss Confederation and the cantons.** The cantons embark on four-year joint program agreements in which local authorities define specific objectives for their regions. In fact, these programs are the arena where cantons select, structure, and execute the projects that have been agreed upon with the federal government. These agreements also point to government's financial contribution to specific regional policies.[122] The Swiss government provides CHF 40 million (approximately EUR 37.5 million) per year in federal grants, in addition to EUR 50 million annually in loans to implement the agreements.[123] The cantons' contribution of should match the support from federal government.

376. **The cantons are key players in developing, funding, and implementing the four-year joint program agreements.** First, they must propose the local strategy and identify the necessary steps for program implementation. Only when the canton is very clear about the development goals and the way they should be put in practice, the federal government will start providing the money. A canton designs together with the region the program implementation. The canton may also decide whether it would engage in cross-border cooperation with neighboring cantons or other European countries, and incorporate the respective strategies into the program. The second step is signing the agreement. After the government reviews the strategy, both parties sign a joint program contract that defines the objectives, activities, and financial contribution of each party. The final step is the implementation of the program. The canton will ensure that it will use the funds made available by the federal government to implement the activities included in the strategy. It will also ensure to carry out the objectives and activities on which both parties have agreed. The canton must also monitor the program achievements and prepare the annual reporting. The contract can be adjusted if important changes occurred. The joint program

[121] OECD - Switzerland Territorial Review
[122] More information available at State Secretariat for Economic Affairs SECO www.seco.admin.ch
[123] SECO http://www.news.admin.ch/NSBSubscriber/message/attachments/29256.pdf

agreement can be terminated if the targets are not fulfilled.

## The Polish Model for Deploying Territorial Contracts

377. **Soon after the 1999 decentralization process that awarded more powers to regions and a few years before its 2004 EU accession, Poland embarked on innovative institutional reforms aimed to improve coordination among different levels of government.** Regional Contracts and, later on, Territorial Contracts are the main instruments to establish cooperation between central and regional authorities and help better coordinate public investments in Poland.

378. **Given Romanian authorities' interest in the Polish model for absorbing EU funds and managing public investments, this section focuses exclusively on Poland.** Some of the elements featured by the instruments described below are similar to those encountered in Spain, Italy, and Sweden; others are quite unique to the Polish context. The next section explores the potential applicability of such tools to Romania.

### *Regional Contracts*

379. The 1999 decentralization established elected several types of administrative units at the subnational level – 16 regions (*voivodships*), 308 counties (*powiats*), and 2,489 municipalities (*gminas)*, totaling 2,809 "self-government" units in the country. These administrative entities have different responsibilities with regard to transport, water, and social infrastructure, including planning, development, maintenance, monitoring and evaluation. Each voivodship has its own Regional Operational Program.

380. **The pioneers of regional development tools in Poland, Regional Contracts (RCs), were introduced in Poland in 2000**. It was the first civil legal agreement concluded between the government and the voivodships, with a clearly defined objective to promote and advance regional development. The contract was signed by the minister responsible for regional development at that time and the Marshall of the voivodship (the head of the region). The contract was designed as a main tool for executing regional strategies and preparing regions for managing future EU funds at the regional level. These documents acted as the development program at the regional level, funded through sector investment plans sponsored by the central government. Initially, RCs covered activities under regional programs funded by the government, on one hand, and interventions supervised by relevant ministers and additionally supported by local governments, on the other hand. RCs were connected to the regional programs established by voivodships.

381. **RCs introduced a new philosophy in that regional development can be achieved through cooperation among different social and economic partners for a viable program.** The RC was the first instrument of regional policy to allow transferring additional funds from the state budget to regions in order to finance development-related tasks at the local level. Provisions stipulated in the contract endowed local authorities with responsibilities to manage public funds at regional and local level. The main beneficiaries of the RCs were municipalities, counties, economic and professional entities, NGOs, scientific and research institutions, (private) entrepreneurs, and other entities involved in regional development.

382. **For all their innovative character, RCs also faced a number of challenges**. The main problem was that the contracts would cover rather small projects since there was only little money dedicated to regional development programs at that time. Also, since they were managed at the regional level, not all parties (i.e., government authorities) appreciated these agreements. At the same time, as most of the regional development programs were designed at the national level, they did not give much leverage to regional administrations to pursue their own views about regional development.

383. **It is important to mention that before drafting the first version of RCs, Polish authorities approved significant programming documents laying out the foundation for a better preparation and implementation of regional development programs.** Two key documents in this respect were the National Regional Development Strategy defining the main principles and implementation instruments of regional development for the period 2000-2006, and the Support Program (PW), a three-year document outlining objectives, procedures, and conditions for state support granted for regional programs.

384. **The first version of RCs was inspired from best practices applied in other EU countries (especially France**). The first batch of regional contracts was signed in 2001 for a two-year period. These were large documents of about 300 pages (including annexes), with a comprehensive structure. Provisions of the agreement mentioned objectives of the contract, a detailed project description, financial obligations to be undertaken by parties, diagnosis of the region, monitoring indicators, and some financial procedures. The contract also outlined the rules that the beneficiaries should fulfill to get the money and financial liabilities of the government and local administration. The Minister of Regional Development (MRD) was in charge with assessing the implementation of RCs.

385. **The second batch of RCs was renegotiated at the beginning of 2002 and the first new contracts were signed in 2004, with a duration of a maximum of three years.** Interestingly, the country's accession to the EU in 2004 and the implementation of the first EU-funded program diminished significantly the role of RCs. The EU-funded Integrated Regional Operational Programme (IROP) for the period 2004-2006 had become the basic regional program for the RCs. The contracts still continued to maintain the role of instruments for state-budget funds supporting areas not covered by IROP, although their financial magnitude fell sharply and continued to decrease in the following years. The third batch of RCs was signed in 2004 and 2005, and covered the period from 2004 through 2006, based on an annual agreement. This version of RC took into account the annual Support Program (PW).

386. **The last version of RCs was implemented in 2007-2009**. It was governed by the 2006 Act on the principles of development policy, which replaced the 2000 Act on the principles of supporting regional development. Perhaps the most important legislation in the field of regional development in Poland, the 2006 Act was the key document to leverage the role of RCs by making them the basic tool for implementing national and regional development strategies. Among other things, the Act outlined government procedures on regional development and the rules for getting funds for regional development projects. The law also defined the programs for disasters, emergency situations, and economic crisis response, and other pilot programs testing the newly

approved financial instruments on regional development aimed at increasing the administrative capacity to implement such programs. Most of the interventions included in the RCs were drawn from the EU-funded ROPs.

387. **This new version of RCs comprising a maximum of 30 pages was more effective than the previous ones, as it put more emphasis on objectives, priority projects, funding sources, and responsibilities of parties.** It would increase transparency of the use of state budget funds and the 16 ROPs by regulating the financial obligations for both parties and setting some basic principles for project implementation. Also, it would be based on diagnostics and include indicators and appropriate measures (such as reporting and control).

388. **Most of the interventions covered by RCs were related to infrastructure development in transport, communication, environmental protection, and social services**. For example, considering the Lubelskie region, the largest number of projects funded under RCs was in education, i.e., 403 interventions for 235 beneficiaries, with a total value of EUR 50 million. A third of the money was the contribution from the region and local governments. Interventions targeted the construction and modernization of 69 schools and the development of 98 sports facilities. Interventions in the transport, of which 40% was provided through local budgets, covered, primarily, the renovation and modernization of municipal and local roads – around 154 km of roads and restoration of 2 bridges. The RCs for the period from 2004 to 2006 included over 100 social assistance projects totaling EUR 5.7 million, of which 70% came from the state budget. The money went to repairing and modernization of social homes, development of new facilities, and new equipment. Around EUR 8.8 million was spent on 48 healthcare projects. Interventions in healthcare sector benefited of the highest co-financing from the state budget, i.e., 83%. Projects targeted construction and renovation of healthcare facilities in order to improve medical services in the region. In addition, EUR 48 million was assigned for development of three regional hospitals. Environmental projects amounted to nearly EUR 8 million, of which 58% was the contribution from local budgets. The money was used to develop, among other things, six waste storage facilities and wastewater plants, and 40 water treatment facilities. Approximately EUR 3.7 million were used to develop 170 km of water and 23 km of sewage network; half of the money came from the local budgets. With support from state and local budgets, Lubelskie also developed a few energy projects, such as the construction of 30 km of gas network and 1 km of energy grid. A little over EUR 5 million was spent on social initiatives activities aimed at promoting the local heritage.

### *Territorial Contracts*

389. **The Territorial Contracts (TCs) recently replaced the RCs and will be used for the 2014-2020 programming period.** The TCs have become the new instruments for coordination among central and regional governments, opening the way for investments targeting specific needs and strengths of each region. The TCs are legal agreements signed between the voivodships and the central government to implement regional development policies and projects within the Polish National Strategy for Regional Development (NSRD) 2010-2020. The contracts cover priorities covering certain areas of interventions, consistent to the NSRD and the Regional Development Strategy for each region.

390. **TCs should improve coordination of development activities undertaken by central and regional authorities and increase cohesion, complementarities, and synergies with regard to regional development.** These contracts are signed after each region and the government have agreed on projects and funding sources. The TC's main priorities are set by the 16 ROPs (one per region).

391. **The TCs are designed to coordinate activities undertaken by national and regional public administration with regard to regional development.** Interventions should focus on areas of strategic importance for the country and with significant regional impact. The TCs are meant to bring about some sort of order into the strategic thinking and management. The new form of regional agreements are expected to strengthen cooperation and partnership between the voivodships and the government, and trigger a higher degree of consistency between goals and objectives set by government authorities and those outlined by regions. It is expected that these agreements will lay out the stage for a more rational allocation of public funds and spending, and avoid implementation of overlapping projects or low priority interventions – Romania faces today much of the same issues.

392. **Under the TCs, the government undertakes the commitment to support the priority projects in the region**. The contract defines clearly what priority projects the voivodship should embark on in order to advance regional development. The contract is signed by the Minister for Infrastructure and Development (MID) on behalf of the government and the Marshal of the Voivodship (the head of the region and head of the Marshall's Office) on behalf of the region. The TCs set specific objectives and tasks for the parties, and mention the source of funding to achieve these targets. Interventions included in the TC must be consistent with regional policies and the regional development strategy. Projects should be in line with relevant actions included in the regional strategies, the national cohesion policy, and the EU 2020 Strategy.

393. **The projects covered by a TC can be financed by different funding sources, be it national, EU, or private**. To this end, the money could come from: a) national public funds – especially those released by the MID, including EU funds and from other donors; b) funds managed by other ministries (including EU funds) and money from regional and local budgets; c) International Financial Institutions (such as the World Bank); and d) other public, semi-public, and private funds. The financial contribution from the central government for each contract should not exceed 60%, while the regions should cover 40% of projects' costs.

394. **The region and the MID must agree on areas of interventions, strategic investments, specific projects, and funding sources**. After the Regional Marshall Office decides on areas of interventions, a list of projects is prepared based on proposals promoted by relevant regional institutions, organizations, and companies. These proposals are analyzed by a committee chaired by the Marshall. The proposed interventions are complemented by projects promoted by the central government. A detailed table comprising the type project, responsible entity, foreseen source of funding, and implementation conditions is produced and included in the contract, as in the example reproduced below. The catch is that all projects included in the TC (even those with state-budget financing) are linked to the EU Operational Programmes, which would make quite

difficult for the parties to change the contract provisions or the list of projects. Once the contract is signed, it is highly unlikely that the list of projects would undergo major changes, regardless of political changes or other evolutions in the country.

**Table 40. Example of a (partial) list of projects from one Territorial Contract in Poland**

| Name of activity | Responsible parties | Projected source of financing | Implementation |
|---|---|---|---|
| *Construction of northern bypass of Cracow* | Self-government (region) | Relevant OP 2014-2020/ state budget | Activity incorporated in the Transport Development Strategy and the 2011-2015 National Plan for Road Development |
| … | … | … | … |
| … | … | … | … |

***Case in Point: The Podlaskie Voivodship***[124]

395. **The Territorial Contract for Podlaskie was signed between the Marshall's Office (through the Marshall and a Member of the Voivodship Board) and the Ministry of Infrastructure and Development (through the Minister).** The contract has three chapters. The first section tackles general provisions (subject and duration of the contract) and funding sources; the second one covers objectives and priority activities related to each area of intervention and the list of projects; and the last part deals with amendments and litigations.

396. **The Act of 2006 on the principles of regional development is mentioned right at the beginning of the text, as the governing legislation for the contract.** Further, the TC refers to 19 national, regional, and EU strategies and regulations, in addition to EU operational programs. These include: the Resolution of the Council of Ministers approving the TC for Podlaskie; the EU Partnership Agreement for Poland (PA); the Regional Operational Program for 2014-2020; the National Operational Programs; the National Strategy of Regional Development 2014-2020; the National Regional Strategy for 2010-2014 – regions, towns, rural areas; the Country Development Strategy 2030; the Strategy for Socio-Economic Development of Eastern Poland; the Podlaskie Voivodship Development Strategy by 2020; the EU 2020 Strategy; the European Parliament and European Council's regulations on ERDF; the European Social Funds; the Maritime and Fishery Fund; the 2014 Act on principles of implementation of the programs in the area of cohesion policy financed in the period 2014 – 2020; and the Voievodship's regulations on territorial government and on public finances. The TC stipulates that Podlaskie will receive Zlot 18.5 billion (approximately EUR 4.4 billion) of Zlot 400 billion (EUR 95.8 billion) to cover regional development policies in Poland between 2014 and 2023.

[124] *See* Annex 4 for the full text of the Podlaskie Voivodship Territorial Contract (translated into English). *See* Annex 5 for the full text of the Wielkopolskie Voivodship Territorial Contract (translated into English), as a point of comparison.

397. **The first section of the agreement stresses that both parties agree to collaborate for the 2014-2020 programming period and employ objectives with regard to cohesion policy.** The Territorial Government (the Voivodship) shall ensure that the ROP will be implemented according to the PA. Regional authorities also agree to contribute to the implementation of the projects by getting funds from the ROP's managing authorities and intermediate bodies. The MID undertakes responsibility to secure state budget funds to partially cover the domestic contribution of projects. The figures should be defined by the Minister in consultation with the Minister of Finance, after approval of the ROP by the European Commission. The duration of the contract is from 2014 through 2023, but it can be shortened upon consent by parties. The TC could be terminated by any party, with a prior 6-month written note. Perhaps the most important article of this section is the one referring to the funding sources. These can be under operational programs, the state budget, the Voivodship budget, local budgets, funds released by other public finance sector units, special governmental funds, other public funds, and private funds.

398. **The second chapter of the contract outlines the main objectives and areas of intervention.** Podlaskie has identified 11 main areas of intervention, as follows: improvement of research quality and strengthening collaboration between the science sector and the rest of the economy; development of international and domestic road and railway and transport connections; modernization of power distribution and transmission systems; reduction of social exclusion; modernization of crossing borders in the Voivodship; better use of the natural and cultural potential of the Voivodship; increasing employment in the region; enhancing the level of education and competences; upgrading quality and availability of healthcare services; development of the Voivodship city and its functional areas; and revival of areas with high concentration of social and economic issues.

399. **Each project is linked to a strategy or document covering the respective area of intervention**. For example, the relevant documents for transport infrastructure projects are the National Roads Construction Program and the Multiyear Programme of Railway Investments. Both the MID and the region should bring in additional funding sources, others than those covered by the OPs; in addition, the Voivodship should also carve out some financial contribution from local budgets. The transport projects cover a wide range of activities, such as: construction of international corridors servicing express roads with heavy traffic transit; improvement of national and regional roads to ensure external connections; development of express roads connecting regional centers; development and modernization of railways connecting to neighboring voivodships; and upgrading of railway network providing access to local labor markets. For their part, the projects in the healthcare sector are in line with the regional needs, and also consistent with priorities set in the Policy Paper on health protection for the period 2014-2020 and the National Healthcare Strategy. The TC does not tackle water infrastructure under a specific area of intervention. The only reference to the water sector is made in the context of flood prevention. Investments aimed at protecting against floods should be done according to the updated water master plans.

400. **The priority projects are divided into core (basic) projects and projects to be pursued upon fund availability.** The document mentions 25 core projects, in addition to 14 possible (back-up) interventions. Although most of the investments are related to transport

infrastructure, there are a number of social infrastructure, R&D, and energy projects too. The table contains the name of the project, responsible entity for project implementation (the Government or the Voivodship), source of funding, and conditions for project execution. For example, the development of a few sections of S-8 Radziejowice – Białystok road in the area of Podlaskie Voivodship will be executed by the Government with money from appropriate the OPs for the period 2014-2020. This project is included in the Implementation Document to the Transport Development Strategy and in the National Roads Construction Program for 2011-2015.

401. **Nevertheless, even some of the projects included in the core section might depend on funds available for certain programs.** It is the case of the S-61 Ostrów Mazowiecka-Augustów bypass (the sections covering Podlaskie) funded through the Connecting Europe Facility (CEF) and EU-funded OPs. A note reads that if the project is not approved by the CEF, then it should be entirely implemented through OPs. Other projects are financed entirely from state budget funds. An example in this respect is the extension of the Fryderyk Chopin Music University - Instrumental-Pedagogical Faculty in Białystok – a multiyear project implemented by the Polish Ministry of Culture and National Heritage. The same goes for the reconstruction and extension of the University Clinical Hospital of the Medical University of Białystok, a multiyear project implemented from state funds by the Ministry of Health. The TC underlines clearly that implementation of projects from the pipeline list depends upon fund availability. For example, the construction of the voivodship road Białystok – Supraśl is subject to negotiations between Poland and the European Commission.

402. **Within five month upon drafting the TC, the parties must prepare and exchange information about projects that made it to the priority list**. Any other changes to the list of interventions should be approved by both parties. If information about a particular project is not complete, then the respective intervention could be removed from the list. By mid-February of each year, the MID should send information about projects to the managing authorities for the OPs. At the same time, it should request information from appropriate managing authorities of the OPs about contract/project implementation in the previous year. They should also ask for data from relevant authorities sponsoring projects that are not covered by the EU programs. By the end of April, the voivodship should provide the MID with information on contract performance for the previous year and how the objectives and projects under the ROP were fulfilled. By the end of May, the MID should pass on to the voivodship an assessment on the TC's performance during the previous year. The voivodship should provide comments on the draft within a week; the draft is approved if there are no comments. Comments from the region should be reviewed by the MID and, ultimately, they should be included in the document.

403. **Litigations occurring during the implementation of the contract should be sorted out amicably, as stipulated by the TC.** If one party is in breach of the agreement and infringes contract provisions, it must remedy the issues promptly. In this context, an infringement is considered any action or negligence of not taking certain actions. The guilty party should be asked in writing to remedy the problem. If litigations cannot be solved amicably, they can be settled in the general county court in the jurisdiction to which the registered office of the MID belongs. However, since it is not clearly specified what an

action or a missed action exactly means, infringement and breach of contract could be played down easily by the parties.

## Adapting and Adopting Territorial Contracts in Romania

404. **Applying the Polish model of Territorial Contracts in Romania may require some significant changes from legal, institutional, and administrative perspectives.** In many ways, this instrument is much harder to implement than multiyear budgeting, for which Romania already has a legal and policy foundation in place (albeit insufficient, it provides a good starting point). A main reason for why this model of contractual agreement between central and regional administrations proved to be successful in Poland and helped improve public investments' coordination across levels of government is related to the strong degree of decentralization in the country. The voivodships, the largest territorial administrative unit in Poland, play a crucial role at the regional level. Romania, by contrast, lacks a formal regional administrative level, so until that happens – if the regionalization agenda ever leads to adjusting the Constitution and carrying forth all the other needed legal and regulatory changes – the contracts would have to fit the current administrative structure. In practice, this would mean signing eight agreements between the MRDPA and each administrative region, represented by the Regional Development Council (RDC).

405. **RDCs function as a partnership between authorities at different levels within a region (county, city, communes).** The RDC's mandate, as defined by law 315/2004,[125] covers precisely the coordination of regional development policies and programs, *both* those funded from EU sources and those financed through the state budget. In relation to the ROP, the RDC of each region oversees the RDA's activities, making sure that all counties within a region receive a fair and equal treatment. The RDC funds parts of RDAs' budgets through the county budgets. Its membership includes the presidents of counties in each region and three representatives of local administrations in the county (one for each level of local councils – municipalities or major cities, towns, and communes). The RDC is led by a president and vice-president, positions that rotate among counties in a particular region, and its secretariat is provided by the RDA.

406. **Introducing a meaningful territorial contract between the central government – most likely, the Ministry of Regional Development and Public Administration (MRDPA) – and RDCs across Romania – would require several elements**. These include: (i) strategic projects at the county level; (ii) clear regional/local priorities and targets; and (iii) strong commitment from relevant stakeholders to carry out these interventions, regardless of political changes. The first two are fulfilled, at a basic level, as even currently there are County and Regional Development Strategies that define key projects and priorities. It is also true that their quality is not always at the highest standard – for instance, a common issue is precisely that funding sources are not always identified and the result is a long wish list of projects without any reasonable anchoring in priorities and resource availability. Moreover, it is crucial that the main actors of the agreement (i.e., counties) should stick to the priorities outlined in the contract and try not to change the provisions or the list of

[125] *See* "Monitorul Oficial nr. 577 din 29.06.2004"

projects. Regardless of who is going to be the president of the County Council or what political party might be brought to power by the next elections, all relevant parties should stick to the responsibilities and commitments undertaken through a potential agreement. This would be the main aim – and benefit – of county-level TCs in Romania.

407. **In addition to political commitment, the following principles should be followed for an effective deployment of this instrument in the current Romanian context:**

- *True integration of strategic priorities*: The TCs between counties and the central level (the MRDPA) should not duplicate or contradict existing planning documents, but bring everything together (development strategies, spatial plans, programming documents for EU and state-budget funds, etc.). This would also require coordination with higher-level documents (e.g., regional development strategies, the General Transport Master Plan, etc.).
- *An appropriate legal framework*: Ideally, Romania should have a specific legislation regulating (regional) development, just like the Polish 2006 Act on the principles of development policy, which is the overarching legal framework governing the relation between voivodships and the central government under the TCs. Another possible solution would be amending the Law on Public Administration as to allow signing and enforcing agreements between RDCs and the central government. Currently, counties and governments can engage in contractual legal relationships for specific investment projects.
- *Credible sanctions and/or rewards*: If one party breaches the TCs, there need to be clear mechanisms to sanction such actions. At the same time, projects included in a TC could be rewarded with bonus points during evaluation processes (whether under EU or state-budget-funded programs) or, in the aggregate, regions that manage to maintain the same TC priorities for an entire programming period may receive additional transfers for projects from the national budget. All this would serve the purpose of ensuring more predictability and stability in designing and implementing a set of strategic investments.
- *Proper consultations*: Political commitment depends on wide ownership of the priorities set in a TC. Indeed, drafting such a document should come as the result of wide-ranging consultations with all political parties, with civil society activists, members of the academia, and representatives of the private sector.
- *Multiyear budgeting*: To the full extent possible, the TCs should have the same timeline as EU funds (i.e., seven plus three years) and state-budget funds should also be able to operate in a multiannual framework. The previous chapter focused on this specific issue.
- *Monitoring and evaluation mechanisms*: The MRDPA, as the leader of public administration reform in Romania, should take on the role of monitoring and evaluating the design and implementation of TCs. This would allow for continuous improvement of this tool, sharing of good practices, etc.

***Piloting Territorial Contracts in Romania***

408. **Without any doubt, before pursuing a particular framework of territorial contracts, extensive testing and piloting is needed.** One alternative to the regional model described above is to have TCs at the level of counties – all counties or just some, based on an opt-in or opt-out system. The following paragraphs take on the illustrative example of a contract signed between the MRDPA and the County of Bihor in Western Romania. The contract could be signed between the Ministry of Regional Development and Public Administration (MRDPA - represented by the Minister) and the County Council (through the President of the County Council).

409. **Bihor County has a coherent and specific development strategy for 2014-2020, which contains clear objectives, targets and projects on short- and medium-term**. The document includes projects, sectors, budget estimates, funding sources, and priority levels of projects. Project implementation is also clearly defined. A brief project description refers to some key elements, like relevance of the intervention for the envisioned development and connection to the county's strategic goals; integration with national/regional strategies; territorial reach; main activities; applicant and potential partners; forecast funding sources; implementation timeline, priority degree; and project status.

410. **The Bihor TC should also refer to key relevant national, regional/county, and EU strategies.** For example, among the *national* strategies could be the National Sustainable Development Strategy 2013-2020-2030, the Government Program 2013-2016, the General Transport Master Plan, the National Territorial Development Strategy 2030, the National Health Strategy for 2014-2020, the Sectoral Strategy on Culture and Cultural Heritage for 2014-2020, the Strategy on Education and Professional Training 2014-2020, and the Sports Strategy 2030. The most important document at the *regional* level should be the Development Plan for the North-West region (where Bihor County is geographically located). The Regional/Bihor County Water Master Plan, the Bihor County Development Strategy, and the County General Urban Plan are perhaps the key strategic documents at the *county* level. As for *EU* strategies, the list should include the EU-Romania Partnership Agreement 2014-2020, the Europe 2020 Strategy, the TEN-T Policy, and perhaps some of the sectoral regulations, like the Drinking Water Directive, etc.

411. **Following the Polish model, two lists of priority projects should be drafted in consultation with relevant local and national stakeholders.** One list should include the core projects and the other should cover interventions subject to fund availability. The list of projects should be drafted in consultation with relevant local stakeholders (counties, cities, and communes). A good starting point in picking the priorities could be the current development strategy, which applies a prioritization method based on correlation with other investments at various stages in the county and in connection to other future investments from the strategic and specific projects. Of course, some of the projects should be implemented based on emerging opportunities and available funding. Each project that should make it to the list should be correlated with at least one significant strategy. It is important to mention the source of funding for each project, as well as what would be the financial contribution of the county/city/commune, whenever applicable.

412. **For example, a project that would likely have a good chance of making it to the core priority would be the rehabilitation and modernization of 33 kilometers of the county road 764, with an estimated value of approximately EUR 28 million.** The potential source of funding identified is the Regional Operational Programme. The project is in line with the county's strategic objective targeting development of public infrastructure in the county, and also with the specific objective of modernization of transport in Bihor. The proposal is also included in the Development Plan for North-West region. The project is of national importance too, as it would connect to the TEN-T.

413. **The contract should indicate the entities responsible for the implementation of the projects, their duration, and timeline.** The section on litigation and non-compliance could be improved compared to the Polish version. The actions and situations that would lead to the breach of the contract should be better defined. To this end, the contract could make it more clear what are the actions of non-compliance and what negligence (or non-action) could mean. Moreover, the signatory parties might consider providing a better definition of actions that could jeopardize the implementation of the contract, and give examples of actions that could put the parties in breach of the agreement. In addition to the overall performance of the contract, an assessment of each project should be required. If the implementation is delayed or does not correspond to the timeline both parties have mutually agreed upon, then the responsible party should be held accountable and should face (administrative) penalties. If a certain percentage of projects included in the list are underperforming over a period of time, then the activities undertaken by the responsible party should be reviewed and immediate actions to remedy the situation should be taken.

### *Recommended Action Steps for the MRDPA*

414. **To move forward the conversation on introducing territorial contracts in Romania, the MRDPA should pursue the following steps:**

- *Create a technical task team responsible for evaluating in-depth the opportunity of adopting territorial contracts in Romania*. This internal team could also collaborate with outside experts from other Member States and International Financial Institutions.

- *Assemble a group of legal experts and explore requirements, needed changes, etc.* This is important to determine what can be done under the current legal framework and what changes are needed, if any. It would be particularly critical to establish the type of sanctions and positive rewards that could be tied to the adoption of territorial contracts.

- *Launch a consultation process with subnational governments to test the idea and decide on the optimal structure*. This could be done through a series of events in each region, enlisting the help of Regional Development Agencies. Of particular important would be to decide who the parties to the agreement could be: for example, the MRDPA and county councils, or the MRDPA and RDCs, or both (in parallel).

- *Prepare a full action plan and timeline for implementation*. This will depend on generating sufficient momentum and buy-in from all stakeholders involved.

- *Launch pilot territorial contracts in a number of jurisdictions.*
- *Monitor and evaluate pilot results and adapt, launch, and implement the model for the national scale.* This is obviously contingent on how well the pilot TCs perform in practice. External experts should be involved to assess the results of TCs, covering a series of critical areas: legal; technical; policy design; and monitoring and evaluation (M&E).

# Annex 1. Input-Output Analysis to Assess the Impact of the PNDL 2014-2020

**The impact assessment of the infrastructure investment program in Romania is based on the Input-Output methodology, facilitating the identification of the direct and indirect effects of the changes on the demand-side variables on the economy.** The Input-Output methodology is one of the main methodologies used in assessing the macroeconomic impact of different types of investment on the economy[126]. The methodology captures the transmission mechanism of the investment on relevant variables through the interactions between the branches of the economy.

**The data required for the Input-Output analysis is available in the symmetric input-output tables.** The data is available from the ESA supply, use and input-output tables made available by Eurostat[127]. From this, the symmetric input-output tables are used which are compiled by converting the supply and use tables expressed in basic prices. The tables encompass four quadrants which reflect: a) the requirements for intermediate inputs (first quadrant); b) final use of goods and services (second quadrant); c) requirements for primary inputs (third quadrant); d) market transactions (forth quadrant). The data is disaggregated at the level of 65 sectors in accordance with NACE rev2[128]. Based on the infrastructure investment priorities an aggregation of the 65 sectors to 4 sectors was done (see Appendix 2). This aggregation reflects the relation between the type of investments and the sectors where the investments are directed.

**The input-output tables are used to calculate specific technical input coefficients, the Leontief matrix and its' inverse based on which the impact of the exogenous changes in the final demand components are calculated.** The input-output tables are used to calculated specific technical input coefficients for intermediates, final demand components and primary inputs[129]. The matrix of input coefficients for intermediates is used to calculate the Leontief inverse. If we accept that sectorial output is produced with fixed technical coefficients[130] then the balance between total inputs and outputs can be described by the relation between the vector of final demand, Leontief inverse and the vector of outputs. This algebraic relation facilitates the identification of the impact of changes in the final demand components on output. Changes in this algebraic relation (see Annex 1.1) allows to identify the impact of the investment program on value added and compensation of employees.

---

[126] Morillas A. Moniche L. Castro J. M. (2000): Structural Funds. Light and Shadow from Andalusia, Paper presented at the Thirteenth International Conference on Input-Output Techniques, Macerata, 21st-25th August

[127] http://ec.europa.eu/eurostat/web/esa-supply-use-input-tables/data/workbooks

[128] Eurostat (2008a): NACE Rev. 2 Statistical classification of economic activities in the European Community, Eurostat Methodologies and Working papers

[129] Eurostat (2008b): Eurostat Manual of Supply, Use and Input-Output Tables, Eurostat Methodologies and Working papers

[130] Dobrescu, E. (2013): Restatement of the I-O Coefficient Stability Problem. Journal of Economic Structure 2:2

**The impact of the infrastructure investment on output, value added and compensation of employees is calculated reflecting a threefold effect: a) on the aggregated economy, b) competitiveness and return of investment, and c) the social impact through the employees' compensation.** The balance between total inputs and outputs is used to calculate the impact of changes in the final demand vector (see Annex 1.1). The infrastructure investments are captured by the gross fixed capital formation component of the final demand. At this point two comments are in order.

First of all, the relation between vector of final demand, Leontief inverse and the vector of outputs is represented in differences (see Annex 1.1). The justification behind this choice resides in the fact that the results of the transformation doesn't depend on the level of the components from the input-output tables, but only on the structural relations between them.

These structural relations are stable on the short and medium term[131] thus justifying the use of the latest input-output data, for 2010, in the analysis for the 2014-2020 time frame. Second of all, the impact of infrastructure investment is traced in respect to three strategic dimensions: a) the impact on the aggregated economy; b) the impact on competitiveness and return of investment and c) the social impact through the employees' compensation. This facilitates a more refined assessment of the investment effect.

## Impact of the infrastructure investment program. Main results

**There is strong positive impact of the infrastructure investment program on economic output, value added and compensation of employees, the highest being on economic output reflecting the strong driving effect of investment.** The impact on output comprise the direct and indirect effects from the Leontief inverse and incorporates not only the value added from the industry but also intermediate consumption. In this respect, the increase in output reflects the capacity of the investment to stimulate the economy. Adding to these it should be taken into account that this investment comprises mainly of fixed assets for which the amortization period is longer than the actual process of implementing the investment. This indicates that the impact of the fixed assets is even higher than indicated by the output multipliers.

**Sectors with a higher value added generate a higher net yield, consequently investments in these sectors, for example the ones included under Services, generate a higher return of investment.** The increase in value added is strongly correlated with the net yields of the sectors. Consequently, a higher impact of investment on value added reflects higher yields. Table 1 suggests that the highest impact is registered in the case of services. Sectors with a high value added multiplier are for example Education and Activities auxiliary to financial services and insurance activities, characterized by a low weight of intermediate consumption and a high percent of high skilled workers. These are also the sectors which tend to increase the overall competitiveness of an economy. The construction sector has a

[131] Dobrescu, E. (2013): Restatement of the I-O Coefficient Stability Problem. Journal of Economic Structure 2:2

strong driving effect on economic activity, but a much lower value added than the above mentioned sectors. *This indicates that the investment program should be targeted strategically to optimize the achievement of multiple targets like: a) a high driving effect on the economy; b) a high return of investment. In this context, it should be mentioned that the infrastructure investment program excels in regard to the first objective, but not in respect to the second.*

**The infrastructure investment has an important social impact generating an increase of 680.2 million euro for the period 2014-2020 in compensation of employees.** There are some sectors which have a higher compensation of employees' multiplier, especially the ones hiring skilled workers. Cases entering this category are: Scientific research and development, Education, Architectural and engineering activities; technical testing and analysis. Investments in these sectors would lead to a high increase in income. This is not the case of the infrastructure investment which targets sectors with a lower than average compensation of employees multiplier. Nonetheless due to the high nominal value of the investments, the increase in income is significant.

**Table 1. Impact assessment of infrastructure investment program in Romania for the period 2014-2020 (increase in 2010 million EUR)**

| Sectors | Investment sub-programs | Value of investment | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|---|---|
| Agriculture, forestry and fishing | | | 93.4 | 39.6 | 18.0 |
| Industry | | | 1295.7 | 311.6 | 107.1 |
| Construction | a) Country roads; b) Local and communal roads; c) Social infrastructure (education, health, culture, sports); d) Water and wastewater. | 2879.2 | 3280.1 | 1160.3 | 287.4 |
| Services | | | 1202.3 | 586.2 | 267.8 |
| **Total impact** | | **2879.2** | **5871.6** | **2097.7** | **680.2** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**The infrastructure investment generates 2.04 euro of economic activity per 1 euro spent, indicating a higher than unity multiplicative effect and underling the usefulness of the investment.** The result reflects the relation between the total value of investment and

increase in output. The value is comparable with other cases[132] reflecting the strong driving effect of investment.

**The highest indirect impact of the infrastructure investment in terms of value added and compensation of employees is registered in the case of Services generating an increase of 586.2 million euro for the period 2014-2020 in value added and 267.8 million euro in compensation of employees.** The results highlights the strategic importance of the sectors hiring high skilled workers and the capacity to generate value with a low weight of intermediate consumption. At the same time it reflects the high driving effect of the Construction sector.

**The impact of investment programs on sectors with different profiles showcases the need to have a strategic mix of investment programs which optimize the outcomes in respect to key targets like: a) a high driving effect on the economy; b) a high return of investment; c) high social impact.**

**Table 2. Ranking the impact of investment programs in Romania. Comparison between Construction and Services**

| Sectors | General economic impact (increase in output) | Competitiveness impact (increase in VA) | Social impact (increase in the compensation of employees) |
|---|---|---|---|
| Construction (county roads and communal roads, social infrastructure, water and waste water) | **1** | **2** | **2** |
| Services | **2** | **1** | **1** |

*Based on specific multipliers calculated from the Symmetric Input-Output tables for Romania

*The results (see Table 1 and 2) underline the specificity of the infrastructure investment program which excels in its capacity to have a stimulating effect on the economy, increasing the volume of economic activities, but has a smaller capacity to generate on the short term a high return of investment due to the nature of the program. At the same time, the program generates significant increases in income, due to the high nominal value of the investment.*

## Annex 1.1. Algebraic description of the methodology

The input-output model is a linear system of equations based on the Leontief production function and a specific vector of final demand. The balance between total inputs and outputs are reflected by the following equations:

[132] Morillas A. Moniche L. Castro J. M. (2000): Structural Funds. Light and Shadow from Andalusia, Paper presented at the Thirteenth International Conference on Input-Output Techniques, Macerata, 21st-25th August

$$\begin{cases} x_{1,1} + \cdots x_{1,j} + x_{1,d} = x_1 \\ x_{2,1} + \cdots x_{2,j} + x_{2,d} = x_2 \\ \dots \\ x_{i,1} + \cdots x_{i,j} + x_{1,d} = x_i \end{cases} \quad (1)$$

Where $x_{i,j}$ are the intermediates from sector i to sector j, $x_{i,d}$ represents the final demand for commodity i, $x_i$ represents the output of sector i.
Assuming a Leontief type of production function, relation 1 is written under the form:

$$\begin{cases} a_{1,1}x_1 + \cdots a_{1,j}x_i + x_{1,d} = x_1 \\ a_{2,1}x_1 + \cdots a_{2,j}x_i + x_{2,d} = x_2 \\ \dots \\ a_{i,1}x_1 + \cdots a_{i,j}x_i + x_{i,d} = x_i \end{cases} \quad (2)$$

Where $a_{i,j} = x_{i,j}/x_j$ are the input coefficient for domestic intermediates

By algebraically manipulating relation 2 we obtain the fallowing relation:

$$\begin{cases} (1 - a_{1,1})x_1 - a_{1,2}x_2 \dots - a_{1,j}x_i = x_{1,d} \\ -a_{2,1}x_1 + (1 - a_{2,2})x_2 \dots - a_{2,j}x_i = x_{2,d} \\ \dots \\ -a_{2,1}x_1 + a_{2,2}x_2 \dots (1 - a_{i,j})x_i = x_{i,d} \end{cases} \quad (3)$$

In the matrix form relation 3 can be written as:

$$X = (I-A)^{-1} Y \quad (4)$$

Where A is the matrix of input coefficients, I is the unit matrix, $(I-A)^{-1}$ is the Leontief inverse, X is the vector of output and Y is the vector of final demand.

Relation (4) is expressed in differences so to isolate the impact of the structural relations between the sectors of the economy.

$$\Delta X = (I-A)^{-1} \Delta Y \quad (5)$$

Relation (5) is used to analyze the impact of changes of final demand on output changes.

With the same token relations (6) and (7) are used to analyze the impact of changes of final demand on value added and compensation of employees' changes[133]

[133] Morillas A. Moniche L. Castro J. M. (2000): Structural Funds. Light and Shadow from Andalusia, Paper presented at the Thirteenth International Conference on Input-Output Techniques, Macerata, 21st-25th August

$$\Delta VA = v_i (I-A)^{-1} \Delta Y \quad (6)$$

Where $v_i = VA_i/X_i$ , VA represents the value added in sector i, the rest of the notation remaining unchanged

$$\Delta CE = e_i (I-A)^{-1} \Delta Y \quad (7)$$

Where $v_i = CE_i/X_i$ , $CE_i$ represents the compensation of employees in sector i, the rest of the notation remaining unchanged.

## Annex 1.2. Sectoral aggregation of the industries from the symmetric input-output tables

| Sector number | Sectors NACE rev 2 | Sectoral aggregation | Sectoral composition |
|---|---|---|---|
| 1 | Crop and animal production, hunting and related service activities | *Agriculture, forestry and fishing* | 1-3 |
| 2 | Forestry and logging | *Industry* | 4-22 |
| 3 | Fishing and aquaculture | *Construction** | 27 |
| 4 | Mining and quarrying | *Services* | 23-26, 28-65 |
| 5 | Manufacture of food products, beverages and tobacco products | | |
| 6 | Manufacture of textiles, wearing apparel and leather products | | |
| 7 | Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | | |
| 8 | Manufacture of paper and paper products | | |
| 9 | Printing and reproduction of recorded media | | |
| 10 | Manufacture of coke and refined petroleum products | | |
| 11 | Manufacture of chemicals and chemical products | | |
| 12 | Manufacture of basic pharmaceutical products and pharmaceutical preparations | | |
| 13 | Manufacture of rubber and plastic products | | |
| 14 | Manufacture of other non-metallic mineral products | | |
| 15 | Manufacture of basic metals | | |
| 16 | Manufacture of fabricated metal products, except machinery and equipment | | |
| 17 | Manufacture of computer, electronic and optical products | | |

Eurostat (2008b): Eurostat Manual of Supply, Use and Input-Output Tables, Eurostat Methodologies and Working papers, pp. 508

| | | | |
|---|---|---|---|
| 18 | Manufacture of electrical equipment | | |
| 19 | Manufacture of machinery and equipment n.e.c. | | |
| 20 | Manufacture of motor vehicles, trailers and semi-trailers | | |
| 21 | Manufacture of other transport equipment | | |
| 22 | Manufacture of furniture; other manufacturing | | |
| 23 | Repair and installation of machinery and equipment | | |
| 24 | Electricity, gas, steam and air conditioning supply | | |
| 25 | Water collection, treatment and supply | | |
| 26 | Sewerage; waste collection, treatment and disposal activities; materials recovery; remediation activities and other waste management services | | |
| 27 | Construction* | | |
| 28 | Wholesale and retail trade and repair of motor vehicles and motorcycles | | |
| 29 | Wholesale trade, except of motor vehicles and motorcycles | | |
| 30 | Retail trade, except of motor vehicles and motorcycles | | |
| 31 | Land transport and transport via pipelines | | |
| 32 | Water transport | | |
| 33 | Air transport | | |
| 34 | Warehousing and support activities for transportation | | |
| 35 | Postal and courier activities | | |
| 36 | Accommodation and food service activities | | |
| 37 | Publishing activities | | |
| 38 | Motion picture, video and television program production, sound recording and music publishing activities; programming and broadcasting activities | | |
| 39 | Telecommunications | | |
| 40 | Computer programming, consultancy and related activities; information service activities | | |
| 41 | Financial service activities, except insurance and pension funding | | |
| 42 | Insurance, reinsurance and pension funding, except compulsory social security | | |
| 43 | Activities auxiliary to financial services and insurance activities | | |
| 44 | Real estate activities | | |
| 45 | of which: imputed rents of owner-occupied dwellings | | |
| 46 | Legal and accounting activities; activities of head offices; management consultancy activities | | |
| 47 | Architectural and engineering activities; technical testing and analysis | | |
| 48 | Scientific research and development | | |
| 49 | Advertising and market research | | |
| 50 | Other professional, scientific and technical activities; veterinary activities | | |

| | | | |
|---|---|---|---|
| 51 | Rental and leasing activities | | |
| 52 | Employment activities | | |
| 53 | Travel agency, tour operator reservation service and related activities | | |
| 54 | Security and investigation activities; services to buildings and landscape activities; office administrative, office support and other business support activities | | |
| 55 | Public administration and defense; compulsory social security | | |
| 56 | Education | | |
| 57 | Human health activities | | |
| 58 | Social work activities | | |
| 59 | Creative, arts and entertainment activities; libraries, archives, museums and other cultural activities; gambling and betting activities | | |
| 60 | Sports activities and amusement and recreation activities | | |
| 61 | Activities of membership organizations | | |
| 62 | Repair of computers and personal and household goods | | |
| 63 | Other personal service activities | | |
| 64 | Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use | | |
| 65 | Activities of extra-territorial organizations and bodies | | |
| * Investment in country roads and communal roads and the social infrastructure investment is allocated as investment in Construction due to the its composition in NACE rev2 (see European Commission 2008, pp. 211) | | | |
| | | | |

## Annex 1.3. Aggregated symmetric input-output tables

**Table A3.1. First quadrant of the symmetric input-output tables for the last available year (2010)**

| | Agriculture, forestry and fishing | Industry | Construction | Services |
|---|---|---|---|---|
| **Agriculture, forestry and fishing** | 4659.7 | 5752.6 | 19.9 | 50.2 |
| **Industry** | 1375.6 | 18826.0 | 8964.3 | 17490.6 |
| **Construction** | 85.0 | 1110.4 | 3302.5 | 5516.0 |
| **Services** | 1820.2 | 14286.9 | 6844.9 | 36474.7 |

Source: Sectoral aggregation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A3.2. Second quadrant of the symmetric input-output tables for the last available year (2010)**

| | Household consumption* | Government consumption** | Gross fixed capital formation*** | Export FOB | Final use |
|---|---|---|---|---|---|
| **Agriculture, forestry and fishing** | 3592.6 | 481.2 | 322.6 | 1838.4 | 6234.8 |
| **Industry** | 27596.8 | 290.6 | 8482.9 | 31919.7 | 68290.0 |
| **Construction** | 3285.0 | 0.4 | 18243.3 | 513.7 | 22042.5 |
| **Services** | 39879.4 | 19512.7 | 3351.7 | 10433.0 | 73176.8 |

Source: Sectoral aggregation based on the Eurostat data on the Symmetric Input-Output tables for Romania
Legend: *Obtained by summing final consumption expenditure by households and final consumption expenditure by non-profit organizations serving households; **Final consumption expenditure by government; ***Obtained by summing gross fixed capital formation, changes in valuables and changes in inventories

**Table A3.3. Third quadrant of the symmetric input-output tables for the last available year (2010)**

| | Agriculture, forestry and fishing | Industry | Construction | Services |
|---|---|---|---|---|
| **Taxes less subsidies on products** | 265.8 | 1858.0 | 1008.4 | 4170.6 |
| **Final use at purchasers' prices** | 8206.4 | 41834.0 | 20139.9 | 63702.2 |
| **Other net taxes on production** | -634.3 | 164.6 | 30.6 | 493.5 |
| **Compensation of employees** | 3214.3 | 9499.7 | 2808.3 | 29535.1 |
| **Operating surplus, gross** | 4512.3 | 17973.8 | 8500.1 | 34627.1 |
| **Value added at basic price** | 7092.3 | 27638.2 | 11339.0 | 64655.8 |
| **Output at basic price** | 15298.7 | 69472.2 | 31479.0 | 128358.0 |
| **Imports CIF** | 1418.7 | 45316.9 | 368.0 | 4612.5 |
| **Supply at basic price** | 16717 | 114947 | 32056 | 132604 |

Source: Sectoral aggregation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A3.4. Third quadrant of the symmetric input-output tables for the last available year (2010)**

| | Household consumption* | Government consumption** | Gross fixed capital formation*** | Export FOB | Final use |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **Taxes less subsidies on products** | 4912.0 | | 1387.7 | | 6299.7 |

Source: Sectoral aggregation based on the Eurostat data on the Symmetric Input-Output tables for Romania
Legend: *Obtained by summing final consumption expenditure by households and final consumption expenditure by non-profit organizations serving households; **Final consumption expenditure by government; ***Obtained by summing gross fixed capital formation, changes in valuables and changes in inventories

## Annex 1.4. Input coefficients and Leontief inverse

**Table A4.1. Input coefficients**

| | Agriculture, forestry and fishing | Industry | Construction | Services |
|---|---|---|---|---|
| **Agriculture, forestry and fishing** | 0.279 | 0.050 | 0.001 | 0.000 |
| **Industry** | 0.082 | 0.164 | 0.280 | 0.132 |
| **Construction** | 0.005 | 0.010 | 0.103 | 0.042 |
| **Services** | 0.109 | 0.124 | 0.214 | 0.275 |
| **Taxes less subsidies on products** | 0.016 | 0.016 | 0.031 | 0.031 |
| **Other net taxes on production** | -0.038 | 0.001 | 0.001 | 0.004 |
| **Compensation of employees** | 0.192 | 0.083 | 0.088 | 0.223 |
| **Operating surplus, gross** | 0.270 | 0.156 | 0.265 | 0.261 |
| **Value added at basic price** | 0.424 | 0.240 | 0.354 | 0.488 |
| **Output at basic price** | 0.915 | 0.604 | 0.982 | 0.968 |
| **Imports CIF** | 0.085 | 0.394 | 0.011 | 0.035 |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A4.2. Input coefficients**

| | Household consumption* | Government consumption** | Gross fixed capital formation*** | Export FOB | Final use |
|---|---|---|---|---|---|
| **Agriculture, forestry and fishing** | 0.045 | 0.024 | 0.010 | 0.041 | 0.035 |
| **Industry** | 0.348 | 0.014 | 0.267 | 0.714 | 0.388 |
| **Construction** | 0.041 | 0.000 | 0.574 | 0.011 | 0.125 |
| **Services** | 0.503 | 0.962 | 0.105 | 0.233 | 0.416 |
| **Taxes less subsidies on products** | 0.062 | 0.000 | 0.044 | 0.000 | 0.036 |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A4.3. Leontief inverse**

| | Agriculture, forestry and fishing | Industry | Construction | Services |
|---|---|---|---|---|
| **Agriculture, forestry and fishing** | 1.399 | 0.087 | 0.032 | 0.018 |
| **Industry** | 0.184 | 1.250 | 0.450 | 0.253 |
| **Construction** | 0.021 | 0.025 | 1.139 | 0.070 |
| **Services** | 0.248 | 0.235 | 0.418 | 1.446 |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

## Annex 1.5. Impact assessment of infrastructure investment program

**Table A5.1. Impact assessment of infrastructure investment program in Romania for 2014 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 11.5 | 4.9 | 2.2 |
| Industry | 159.1 | 38.3 | 13.2 |
| Construction | 402.8 | 142.5 | 35.3 |
| Services | 147.7 | 72.0 | 32.9 |
| **Total impact** | **721.1** | **257.6** | **83.5** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.2. Impact assessment of infrastructure investment program in Romania for 2015 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 12.0 | 5.1 | 2.3 |
| Industry | 167.1 | 40.2 | 13.8 |
| Construction | 423.0 | 149.6 | 37.1 |
| Services | 155.1 | 75.6 | 34.5 |
| **Total impact** | **757.2** | **270.5** | **87.7** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.3. Impact assessment of infrastructure investment program in Romania for 2016 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 12.6 | 5.4 | 2.4 |
| Industry | 175.5 | 42.2 | 14.5 |
| Construction | 444.2 | 157.1 | 38.9 |
| Services | 162.8 | 79.4 | 36.3 |
| **Total impact** | **795.1** | **284.1** | **92.1** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.4. Impact assessment of infrastructure investment program in Romania for 2017 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 13.3 | 5.6 | 2.6 |
| Industry | 184.2 | 44.3 | 15.2 |
| Construction | 466.3 | 164.9 | 40.9 |
| Services | 170.9 | 83.3 | 38.1 |
| **Total impact** | **834.7** | **298.2** | **96.7** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.5. Impact assessment of infrastructure investment program in Romania for 2018 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 13.9 | 5.9 | 2.7 |
| Industry | 193.5 | 46.5 | 16.0 |
| Construction | 489.8 | 173.2 | 42.9 |
| Services | 179.5 | 87.5 | 40.0 |
| **Total impact** | **876.7** | **313.2** | **101.6** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.6. Impact assessment of infrastructure investment program in Romania for 2019 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 14.6 | 6.2 | 2.8 |
| Industry | 203.1 | 48.8 | 16.8 |
| Construction | 514.1 | 181.9 | 45.0 |
| Services | 188.5 | 91.9 | 42.0 |
| **Total impact** | **920.3** | **328.8** | **106.6** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

**Table A5.7. Impact assessment of infrastructure investment program in Romania for 2020 (increase in 2010 million EUR)**

| Sectors | Increase in output (Production) | Increase in value added (VA) | Increase in the compensation of employees |
|---|---|---|---|
| Agriculture, forestry and fishing | 15.4 | 6.5 | 3.0 |
| Industry | 213.3 | 51.3 | 17.6 |
| Construction | 539.9 | 191.0 | 47.3 |
| Services | 197.9 | 96.5 | 44.1 |
| **Total impact** | **966.4** | **345.3** | **112.0** |

Source: Own computation based on the Eurostat data on the Symmetric Input-Output tables for Romania

# Annex 2. Assessing Investment Needs Generated by Climate Change Risks

This section develops a simple risk assessment methodology to generate a risk mapping for the main climate change induced risks (floods, drought, snow storms, and freezes). The main message is that the mapping of risk at the county level may provide useful information for risk management policies such as insurance for climate change induced risks, as well as good information for assessing public funds required to respond to such events.

## Risk assessment

### *Measuring frequencies/probabilities*

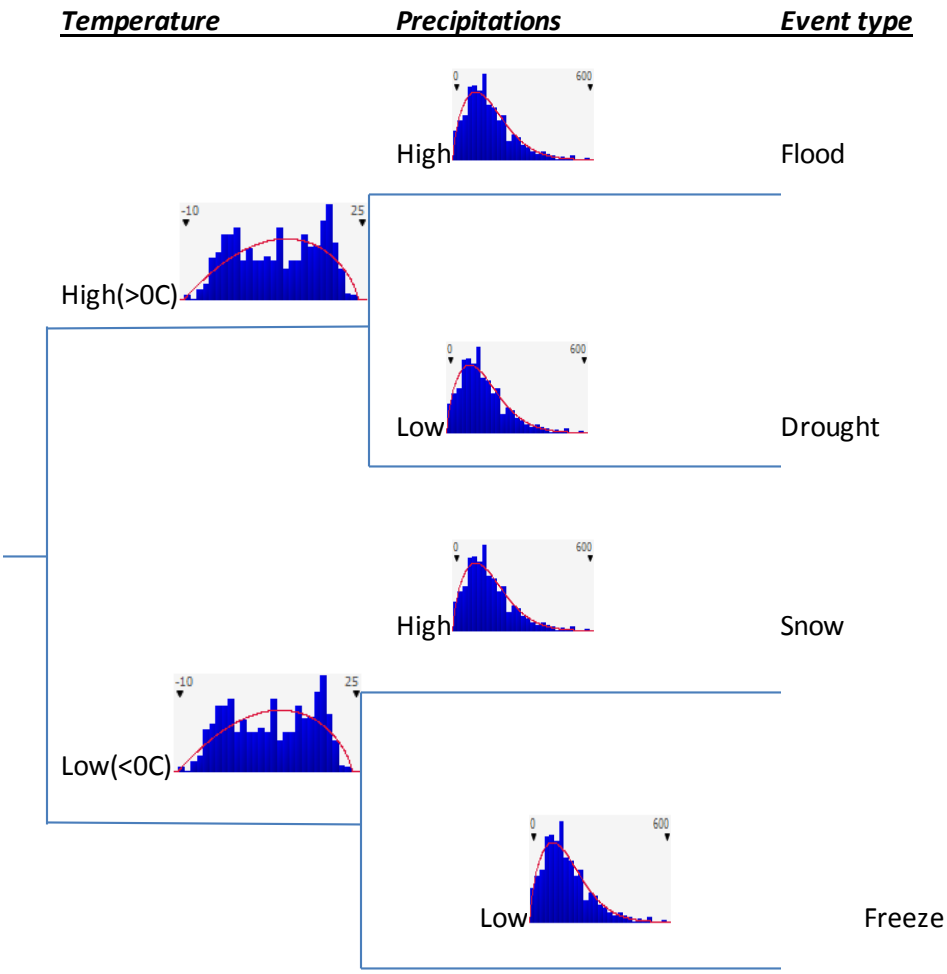
Risk is given by the frequency (probability) of an event multiplied by the damage produced. The climate change events considered here are generated by the combined effects of temperature and precipitations. To be able to assess probabilities of temperatures being under/above given values and of the precipitations to be under/above their determined limits, the data from the NAM, is used, that contain the monthly averaged 30 years' time series of temperatures and precipitations for each county of Romania. The values are spatially averaged for each county from the data recorded by the monitoring networks described above.

From this sets of basic data several probability distributions are calculated that best fit the temperature time series and the precipitations time series in each county. In order to make basic calculations only the normal distributions determined for each parameter and each county, have been considered, that give the respective average and standard deviation values. The use of large amount of data is also helping to determine probability distribution functions that integrate the short term fluctuations of the parameters' values. The exercise done here is intended as a basic example that can be (and it is recommended to be) extended to short term fluctuations, extreme values distributions, combined effects e.g. of melting snow and rain, expected damage distributions for each county, etc.

Having these distributions, based on real data, allows for the calculation of the probabilities of each parameter and of their combinations. Thus there are two options for temperature and two options for the precipitation that combine with each option of temperature resulting in 4 events as depicted in the figure below. The probabilities are calculated for the year following the time series of data – each new year adds new data that may change the distribution parameters, after a new distribution calculation is done.

The event tree resulting at the level of each county is presented, as an example, chosen at random, for Argeş County. For illustration an excerpt of the optimal fit distributions is presented below, although the normal distributions with their moments' values are used in the assessment done for each county.

**Event tree for Climate change events**




Note: the limit between low and high temperatures is zero degrees Celsius (this makes the difference between rain and snow in terms of precipitations). More complex scenarios may be considered where the melting snow combines with rain at above freezing temperatures thus acting as an aggravating element. The event tree in such cases will be extended to accommodate for more options. This report is only providing an example of mapping and not an extended risk evaluation.

### *Assessing damage*

The other component of risk is damage associated with each type of event and for each county. Here the data is not as diversified as in the case of the monitored parameters. The basic sources are the UNSDR database for Romania (average values for floods and droughts), and the data on interventions of the EU solidarity fund (values of damage for snow and freeze), also data on floods provided in a World Bank project on Hazard risk in

Romania associated to floods and a World Bank study on climate change risk in ECA[134] provides some general estimations. Based on these data, average damage per type of event have been determined that were considered the same for each county. Since this study is just opening the way to more elaborate and systematic determinations, this approximation is used to determine the county risk values per type of climate change event taken into consideration. The sum of these risks is presented in the section on combined risks. The values considered (see Annex 2.3) for the damage per type of event are the following:

1) Flood – 328 millions US$/event
2) Drought – 250 millions US$/event
3) Snow – 300 millions US$/event
4) Freeze – 300 millions US$/event

These values are just for orientation and are considered equal for each county. A thorough program of determination of damage associated to the above events for each county is necessary to be implemented for a very detailed risk assessment. It is also important to note that the type of analysis done here is not an extreme value analysis for the resulting four events. The purpose of this exercise is to assess the correlation between the climatologic parameters (temperature and precipitation) with the potential outcome events described above using an event tree method.

The Peak over Threshold method is not used here to determine extreme values associated to a given distribution in order to determine the Exceedance Probability curves. Also given is the basic assumption that damage is the same for all counties it is not the purpose of this report to determine a Farmer curve. The values for the data series are fitted to a normal distribution such that to have a possibility for calculating probabilities of various scenarios of parameters' values (such as negative or positive temperatures etc.). The damage is considered the same for all counties (and a further research program to determine the distributed damage is strongly recommended). The resulting risk is measured for the year after the data series and every new real data that adds to the series requires a new determination of the distributions to assess probabilities. Moreover, the damage is changed by investments allocated for mitigation measures such as flood protection systems, retention areas, water releases from dams upstream, etc. These changes are able to assess new values for damage that determine new investment allocation.

### *The climate change risks maps*

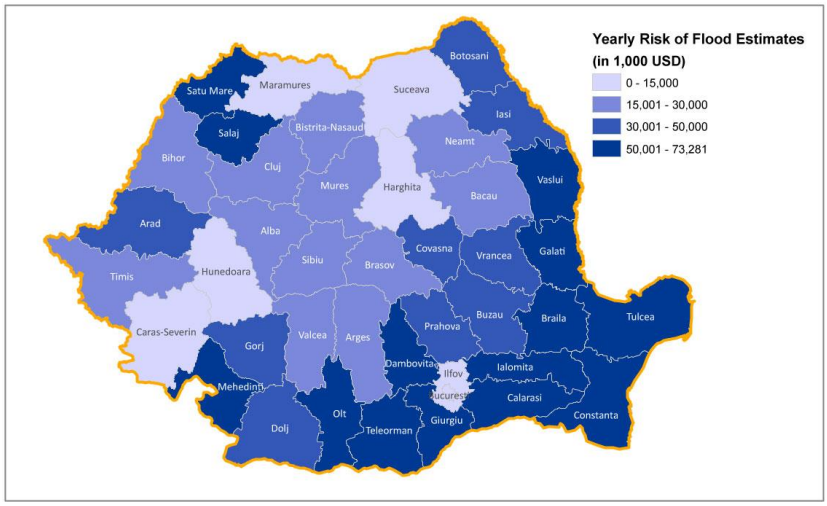
The risks of the climate change events mentioned above are calculated as the product of the probability and the damage. The resulting maps for each risk at the county level are presented below. In each map (of the four types of hazard risks described above) there are four (e.g. for the flood risk) or more (e.g. for the snow risk) ranges of risk values to facilitate, in each case, a better perception of the main differences.

[134] World Bank. 2014. *Insurance against Climate Change: Financial Disaster Risk Management and Insurance Options for Climate Change Adaptation in Bulgaria*.

**Flood risk map**

The first map is the one on flood risk. Here the Northwest and the East and South parts of the country are the most affected along with the counties positioned along the Danube. In fact, the affected areas by the 2005 floods were found in the same area. One should mention though that there is an effect of the precipitations outside of Romania that are brought in by the Danube, which is not considered here.

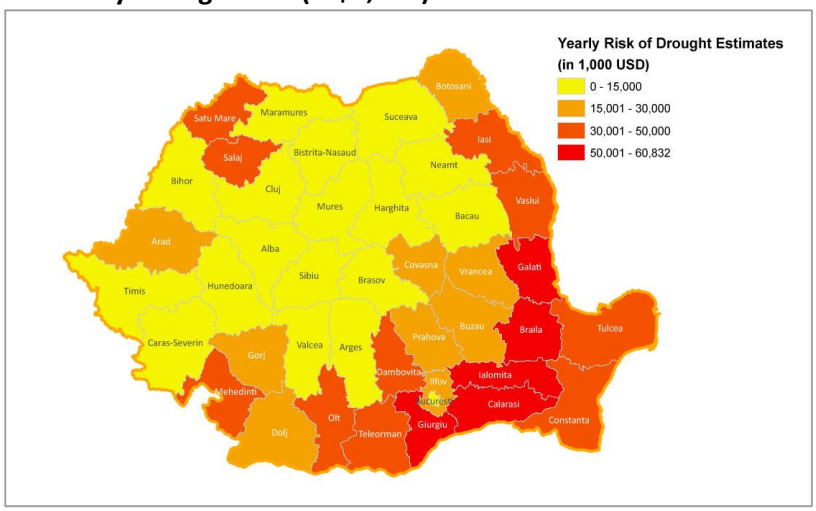
**Yearly Flood Risk (in $1,000)**




**Drought risk map**

The drought risk has a similar pattern to the flood risk which seems normal since river basins that in some years produce floods, in other years are subject to lower precipitation and/or higher evaporation and hence to drought. Obviously the detailed probability values and the damage are different in the two cases. Another observation to make here is the fact that the investments required to protect against the floods effects are not the same as the ones relating to manage the effects of drought.

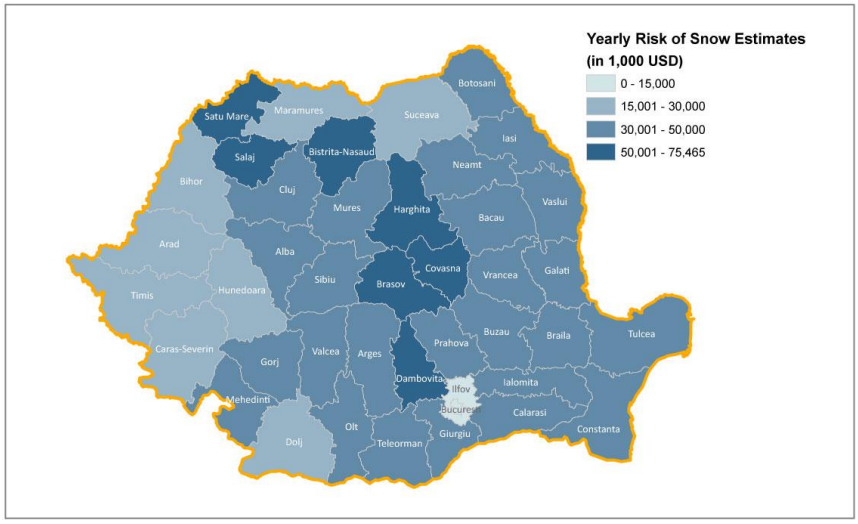
**Yearly Drought Risk (in $1,000)**



**Snow risk map**

The risk associated with heavy snow falling is presenting a different pattern, than the previous events, for the counties of Romania. This time the East and Center areas are most affected while the seaside and the Southwest (that has a Mediterranean climate) are less prone to heavy snow. The mountains area shows high snow risk values, while the East and Southeast plains regions have a sizeable risk too.

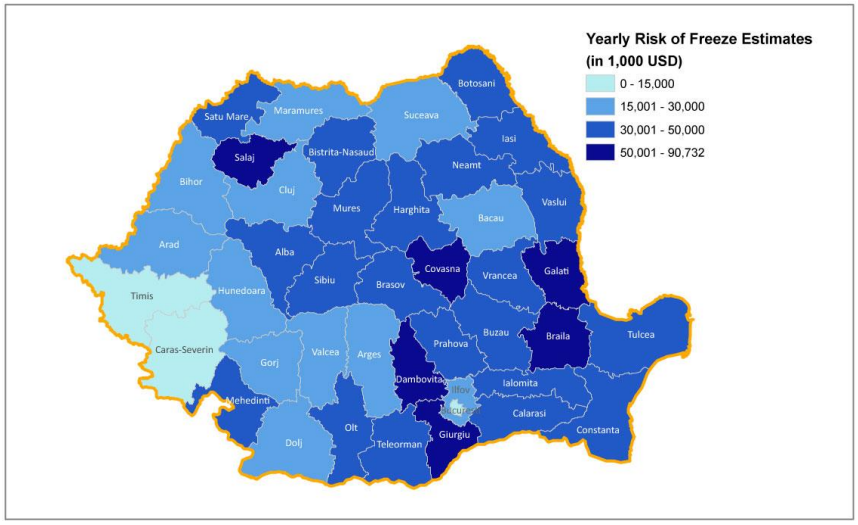
**Yearly Snow Risk (in $1,000)**




**Freeze risk**

The pattern of freeze risk is similar to the pattern of snow storm risk. Covasna County is known as the pole of frost in Romania has the highest likely incidence of freeze events. As in the case of snow risk, the East and Southeast plains have a higher exposure to frost than the West of Romania.

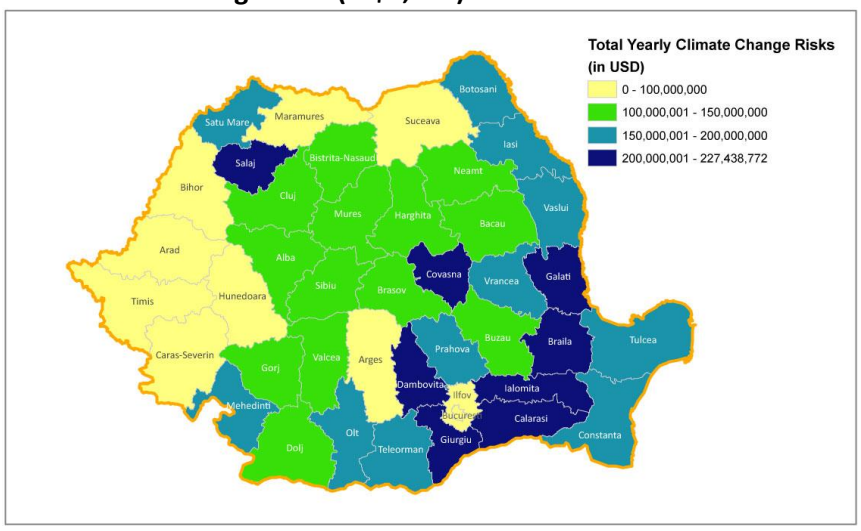
**Freeze Snow Risk (in $1,000)**



***The combined climate change effect risks***

In order to map risks associated with each county a tool was built in Excel, where the value of risk for each county is inserted into the cases associated with the surface of the said county. The total climate change events risk map – summing the separated risks presented above – is given below

**Total Climate Change Risks (in $1,000)**




The interesting thing is that the counties with the highest likelihood of climate change events are also among the least developed counties in Romania. These counties also have less of their own resources for mitigating climate change events and may be more reliant on central government transfers to help them mitigate such risks.

# Annex 3: GEO 88/2013 Selection Criteria for New and Ongoing Investments

| Principles | Criteria for Prioritizing New Projects | Criteria for Prioritizing Ongoing Projects |
|---|---|---|
| **Principle 1**: Appropriateness of the Project in the Policy Context [20 points] | 1.1: Are the project's goals and objectives relevant? [10 points]<br>1.2: Does the project represent a high priority at the current national strategies? [10 points] | 1.1: Are the project's goals and objectives still relevant? [10 points]<br>1.2: Does the project represent a high priority at the current national strategies? [10 points] |
| **Principle 2**: Economic and Social Justification [40 for New / 30 for Existing projects] | 2.1: Is the project economically justified through (pre)-feasibility study? [15 points]<br>2.2: Is the project socially justified? [10 points]<br>2.3: Is the environmental impact of the project acceptable? [10 points]<br>2.4: Are the terms of the acquisition/procurement designed competitive? [5 points] | 2.1: Is the project still economically justified? [10 points]<br>2.2: Is the project still socially justified? [10 points]<br>2.3: Is and was the environmental impact of the project acceptable? [5 points]<br>2.4: Are/Were the terms of the acquisition/procurement competitive? [5 points] |
| **Principle 3**: Affordability and Financial Sustainability [20 points] | 3.1: Is the total funding requirement for the project consistent with a realistic forecast of forward resource availability in the sector/sub-sector? [10 points]<br>3.2: Does the total funding/financing require domestic Government co-financing? [5 points]<br>3.3: Are credible arrangements in place for meeting the resulting operating and maintenance costs on a sustainable basis once the project is completed? [5 points] | 3.1: Is and was the total funding requirement for the project consistent with a realistic forecast of forward resource availability in the sector/sub-sector? [10 points]<br>3.2: Does the total funding/financing require domestic Government co-financing? [5 points]<br>3.3: Are credible arrangements in place for meeting the resulting operating and maintenance costs on a sustainable basis once the project is completed? [5 points] |
| **Principle 4**: Implementation Arrangements/Implementation Performance [20 for New/30 for Existing points] | 4.1: How well is the current preparation of the project? [10 points]<br>4.2: Have appropriate indicators of project progress and performance been defined and suitable monitoring and evaluation arrangements been designed? [5 points]<br>4.3: Is there an identified project management body accountable for implementation progress? [5 points] | 4.1: How well is the current preparation of the project? [10 points]<br>4.2: Is there an identified project management body accountable for implementation progress? [5 points]<br>4.3: How well is the current project management performing? [15 points] |

| | | |
|---|---|---|
| **Auxiliary Principle (Only for Existing)**: Nearness to Completion [additional points] | | A.1: How near is the project in terms of time remaining (how many years left) or physical status (how many implementation progress left)? [additional 5 points]<br>A.2: What would be the costs involved in restructuring or closing the project? [additional -5 points] |

# Annex 4: Territorial Contract for Podlaskie Voivodship

Acting based on art. 14 section 4 in connection with section 2 point 1 of the Act of December 6, 2006 on the principles of managing the development policy (Dz. U. of 2009 No 84, item 712 as later amended), further herein referred to as the "Act," considering the decisions of:

1. Resolution No. 189 by the Council of Ministers of September 24, 2014 approving the negotiated Territorial Contract for Podlaskie Voivodship, based on art. 14o section 2 point 1 of the Act,
2. Resolution by the Voivodship Management Board No …… of …… approving the negotiated Territorial Contract, based on art. 14o section 3 of the Act,
3. Partnership Agreement approved by the European Commission of May 23rd, 2014, further herein referred to as the "Partnership Agreement,"
4. Regional operational programme for 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, further herein referred to as the "ROP,"
5. National operational programmes for 2014-2020 implementing the Partnership Agreement in area of cohesion policy,
6. Country Development Strategy 2020: Active society, competitive economy, efficient state, approved by Council of Ministers on September 25, 2012,
7. National Strategy of Regional Development 2010-2020: Regions, towns, rural areas, approved by the Council of Ministers on July 13, 2010,
8. Socio-Economic Development Strategy of Eastern Poland by the year 2020 approved by the Council of Ministers on July 11, 2013,
9. Podlaskie Voivodship Development Strategy by 2020, approved by the Assembly of the Voivodship on September 9, 2013,
10. Europe 2020: A strategy for smart, sustainable and inclusive growth,

And the provisions of:

11. Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (O.J. of the EU L 347 of 20.12.2013, p 320, as later amended), further herein referred to as the "regulation No 1303/2013,"
12. Regulation (EU) No. 1301/2013 of the European Parliament and of the Council of 17 December 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No. 1080/2006 (O.J. of the EU L 347 of 20.12.2013, p 289),
13. Regulation (EU) No. 1304/2013 of the European Parliament and of the Council of 17 December 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006 (O.J. of the EU L 347 of 20.12.2013, p 281),
14. Act of July 11, 2014 on principles of implementation of the programmes regarding the cohesion policy financed in the programming period 2014 - 2020 (Dz. U. of 2014, item 1146), further herein referred to as the "implementation Act,"

15. Act of June 5, 1998 on the territorial government of voivodship (Dz. U. of 2013, item 596, as later amended),
16. Act of September 4, 1997 on sectors of government administration (Dz. U. of 2013, item 743, as later amended),
17. Act of November 13, 2003 on revenues of the territorial government units (Dz. U. of 2014, item 1115),
18. Act of August 27, 2009 on public finance (Dz. U. of 2013, item 885, as later amended),
19. Act of April 20, 2004 on promotion of employment and labor market institutions (Dz. U. of 2013, item 674, as later amended),

…… Minister of Infrastructure and Development, further herein referred to as the "Minister,"
and
Podlaskie Voivodship, further herein referred to as the "Territorial Government Party" represented by the Voivodship Management Board on behalf of which act:
……, Marshal/ Member of Podlaskie Voivodship Management Board,
and
……, Member of Podlaskie Voivodship Management Board,
jointly referred to as the "Parties,"

make this Territorial Contract, further herein referred to as the "Contract."

Considering the need for coordination of activities in the area of development policy undertaken by the Government Party and the Territorial Government Party in the voivodships in order to increase efficacy and effectiveness of those activities and effectiveness of spending public funds, as well as involvement of public, European and domestic funds for activities in the field of development policy, the estimates, during the period 2014-2023, can nationally amount to approximately PLN 400 billion, including PLN approximately 18.5 billion in Podlaskie Voivodship
the Parties agree as follows:

## CHAPTER 1
## GENERAL PROVISIONS

### Art. 1
### Subject of the Contract

1. The subject of the Contract is the specification of the objectives and priority responsibilities of significant importance for development of the country and Podlaskie Voivodship, further herein referred to as the "Voivodship," in connection to which the Parties declare to collaborate within the framework of implementation of the applicable operational programmes for the years 2014-2020, serving performances of the Partnership Agreement in the area of cohesion policy and other instruments under which priority projects contributing to accomplishment of the objectives of the Contract can be financed.
2. The level, method, and conditions for subsidizing the ROP and the principles concerning settlement of litigations and conditions for amendment of the Contract related to performance of the ROP shall be defined in the Contract after approval of the ROP by the European Commission, and:

1) the Territorial Government Party ensures that the ROP will be implemented according to the Partnership Agreement,
2) the Territorial Government Party shall be responsible for assuring the domestic contribution for the relevant implementation of the ROP. The domestic contribution shall consist of funds from:
    a. institutions involved in the implementation of the ROP: the managing authority, the intermediary authority,
    b. other entities not listed at point a), in particular the beneficiaries of the ROP;
3) the Government Party may secure state budget funds to cover a part of the domestic contribution. The amount of those funds shall be defined by the Minister in consultation with the Minister of Finance, after approval of the ROP by the European Commission;
4) during implementation of the ROP, the Territorial Government Party shall apply the guidelines indicated in art. 5, section 1 of the implementation Act, and the amendments to them;
5) the Government Party shall ensure development of the draft guidelines indicated in art. 5. section 1 of the implementation Act, and amendments to them while observing the principles of partnership, considering the role of the Territorial Government Party and the ROP managing authority.

Art. 2

Effective duration of the Contract

1. The Contract shall be effective from 2014 through 2023.
2. Shortening or extending the effective duration of the Contract shall require consent by the Parties.

Art. 3

Funding sources of the Contract

1. The funding sources of the Contract are in particular: funds allocated to implement the applicable operational programmes for the years 2014 – 2020, serving performance of the Partnership Agreement with regard to the cohesion policy; state budget; the Voievodship's budget; budgets of other territorial government units; funds from other public finance sector units; government funds for special purposes, and other public funds.
2. Also, private funds can be involved in the performance of the Contract according to the principles of the given funding source and applicable regulations.

Art. 4

General principles of collaboration

The Parties to the Contract commit themselves to:

1) undertake, in good will, actions for the purpose of performance of the full scope of the subject of the Contract;
2) undertake, in good will, actions for the purpose of obtaining and involving the largest possible group of partners in performance of the scope of the subject of the Contract;
3) pass on precise and honest information concerning performance of the provisions of the Contract.

CHAPTER 2
DEVELOPMENT OBJECTIVES AND PRIORITY UNDERTAKINGS
Art. 5
Development objectives and declarations of the Parties concerning these performances

The Parties declare that they are willing to collaborate regarding the performance, in particular, of the following development objectives and directions of activities within the area of the Voivodship:

1) improving quality of research and strengthening collaboration between the science sector and the economy:
    a. increasing the transfer of technology and improving cooperation network among SMEs, and between SMEs and other enterprises, tertiary schools, and other institutions,
    b. developing cooperation between scientific-research centers in the region with the main academic centers in the country by implementing joint research projects, exchanging scientific staff among tertiary schools, and pertaining use of existing research infrastructure;
2) development of international and domestic road and railway transport connections:
    a. construction of the international corridor servicing heavy transit traffic for express roads
    b. improvement network of national and voivodship roads to external connections,
    c. construction of express roads connecting regional centers,
    d. development and modernization of railway connections to neighboring voivodships,
    e. improvement of railway infrastructure providing access to local labor markets;
3) modernization of power distribution and transmission systems;
4) modernization of border crossing systems in the Voivodship;
5) better use of the existing natural and cultural potential of the Voivodship;
6) increasing employment level in the Voivodship:
    a. activities targeting an active labor market policy concerning groups facing unfavorable situation in the labor market,
    b. entrepreneurship development,
    c. vocational reorientation of people leaving the agricultural sector,
    d. dissemination of different forms of care for children up to 3 years old,
    e. improvement the adjustment capacity of enterprises and employees;
7) social exclusion reduction:
    a. increasing activity and preventing poverty,
    b. improvement access to social services and investments necessary for social services and active social integration services,
    c. development of social economies;
8) increasing the level of education and competences in the region:
    a. dissemination of pre-school education,
    b. increasing quality of vocational education,

c. support to general education within the purpose of achieving key competences in the labor market,
d. participation in life-long education linked to the needs of the labor market;

9) increasing quality and availability of health care services, especially:
   a. development and rationalization of healthcare infrastructure – investments in infrastructure of therapeutic entities focusing on specific health problems in the region
   b. development of medical rescue services;
10) development of the functional area of the voivodship' s city and the regional and sub-regional towns;
11) support revitalization of areas with high concentration of social and economic issues.

2. Considering the objectives and activities specified in section 1, the Parties declare that:
   1) regarding the objective of improving research quality and strengthening collaboration between the science sector and the economy:
      a. regarding completion of the necessary R&D infrastructure basis in the scientific units considering the existing potential:
         – the Government Party will aim to implement the undertakings indicated in the Polish Map of Research Infrastructure, further herein referred to as the "PMDIB" identified in line with the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, within the available funds, if all legal requirements necessary for implementing those investments are satisfied,
         – the Territorial Government Party will aim to implement, under the framework of the ROP, activities agreed upon in the Contract, indicated in the PMDIB or other agreements involving the Parties, within available funds, if legal requirements necessary for implementing those investments are satisfied;
      b. regarding the objective of supporting regional scientific-research agendas based on regional smart specializations and projects carried out by scientific units and consortia of scientific units together with entrepreneurs, in which the scientific unit is the consortium leader:
         – the Government Party, under relevant national operational programme for the period 2014-2020 in line with the Partnership Agreement in the area of cohesion policy, may allocate funds for projects implemented under the regional scientific-research agendas,
         – the Territorial Government Party may present a proposal of a regional scientific-research agenda, independently or jointly with other voivodships, that should be used to implement projects under relevant national operational programme for the period 2014-2020, implementing the Partnership Agreement regarding the cohesion policy,

– the Government Party will choose the regional scientific-research agendas among the proposals presented in that area by the voivodships, including Podlaskie Voivodship,
– under the regional scientific-research agendas chosen by the Government Party, under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, research projects should be identified based on competition in which the entity from the Voivodship will be the leader (coordinator);

2) regarding the objective of developing international and domestic road and railway transport connections:
   a. the Government Party will aim to implement investments in the area of transport infrastructure according to the draft Implementation Document to the Transport Development Strategy, approved by the Council of Ministers on 24 September 2014 further herein referred to as the "DI," the National Roads Construction Programme, further herein referred to as the "PBDK" or the Multiyear Programme of Railway Investments, further herein referred to as the "WPIK," according to available funds, if all legal requirements necessary for implementation of those investments are satisfied,
   b. the Territorial Government Party will aim to implement voivodship road investments according to the investment plan within the *ex-ante* conditionality to the ROP, based on principles specified in the Partnership Agreement, according to available funds, if all legal requirements necessary for implementation of those investments are satisfied,
   c. the Parties will undertake efforts for obtain additional funds other than the funding sources available under the operational programmes for the years 2014- 2020 implementing the Partnership Agreement in the area of cohesion policy with regard to finance transport investments,
   d. the Government Party will undertake efforts to continue providing financial support to local road investments based on principles specified in the relevant sources of financing subject to availability of funds.
3) for the objective regarding modernization of power distribution and transmission systems:
   a. the Government Party will include the most important investments in power infrastructure identified from the project pipeline for the power sector,
   b. the Government Party will aim, under available funds under relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, to secure financial support for projects identified in the Project pipeline for the power sector if the legal requirements necessary to implement those investments are satisfied,
   c. the Government Party will select projects from investments in power infrastructure included in the Project pipeline for the power sector, based on the principles included in the applicable national operational

programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy,

d. the Territorial Government Party will aim to secure, under the available funds within the ROP, financial support to projects in renewable energy if the legal requirements necessary to implement those investments are satisfied;

4) for the objective of modernization of the border crossing system in the Voivodship, the Parties will undertake actions to obtain additional funds from other sources than those available under the relevant operational programmes for the years 2014-20202 implementing the Partnership Agreement in the area of cohesion policy, to finance the investments in border crossing infrastructure they have agreed upon;

5) for the objective regarding better use of the existing natural and cultural potential of the Voivodship:

   a. the Parties will undertake actions to obtain additional funds from other sources than those available under the relevant operational programmes for the period 2014 -2020 implementing the Partnership Agreement in the area of cohesion policy to finance investments in culture and national and regional heritage,

   b. the Government Party will undertake efforts to provide financial support to investments in the area of culture, especially regarding monument protection, based on principles mentioned in relevant sources of financing, upon availability of funds

6) for the objective of increasing employment level in the Voivodship:

   a. the Government Party will undertake efforts to implementation and provide financial support, under available funds within the relevant national operational programme for the period 2014-2020, implementing the Partnership Agreement in the area of cohesion policy, for activities related to vocational engagement of unemployed young people up to 29 years old of age or looking for employment in Podlaskie Voivodship. The activities will be implemented based on a separate agreement between the managing authority of the respective programme and the Voivodship Labor Office in Białystok that will act as the intermediary authority for the programme. The detailed principles for implementing the activities in the above mention area will be specified in the agreement,

   b. the Territorial Government Party commits itself to get available funds within the frameworks of the ROP

      – vocational activities with financial support will consider the specific characteristics of the region,
      – preference will be given to target groups facing special situation in the regional labor market,
      – activities with financial support will be adjusted to individual needs of the participants,
      – the financial support will include labor market instruments and services indicated in the Act on promoting employment and labor market institutions and in other labor market instruments and services that contribute to vocational activation,

- the financial support will include vocational engagement of people taking care of children up to 3 years old.
- the financial support for adjusting of employees and companies to changes will be implemented according to the demand, and will be targeted at micro, small and medium enterprises;

7) for the objective of reducing level of social exclusion:
   a. the Government Party commits itself, under the available funds under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, that financial support according to the Regulation No. 1303/2013 will be provided to social economic entities in the Voivodship,
   b. the Territorial Government Party commits itself that within the available funds under the ROP:
      - the financial support for activities focusing on people socially excluded or threatened by social exclusion will be focused on their social and vocational engagement and their social and vocational reintegration and rehabilitation, and it will apply, among others, instruments targeting social, vocational, educational, and, health related integration.
      - the financial support for activities focusing on people socially excluded or threatened by social exclusion will be individualized and comprehensive.
      - the financial support will focus on cooperation of among public and non-public services and should integrate services offered by these services.
      - the financial support will focus on de-institutionalization.
      - the financial support for activities regarding the following types of services: assistant and care services for people with various levels of disabilities; support for families and services aimed at substituting care; services in protected housing and other forms of housing and houses will be preferred,
      - the financial support the social-economic sector should focus on creating new jobs;
8) for the objective of increasing the level of education and competences in the region:
   a. the Government Party ensures that projects in the field of higher education reflecting the regional needs (that result from regional smart specializations) will be selected under the available funds under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, based on competition, ensuring interregional competitiveness, taking into account the project pre-selection mechanism at the regional level;
   b. the Territorial Government Party ensures that under available funds under the ROP:
      - the financial support for general education will include activities focusing on key competences and skills needed in the labor market

for students (creativity, innovation, and entrepreneurship), use of modern information and communication technologies, establishing conditions for modern teaching and individualization approach to the student,

- the financial support for activities aimed at improving skills and competences of teachers will be limited to the ESF intervention areas indicated in indent paragraph 1 and deficit areas,
- the financial support to preschool education include establishment of new preschool education facilities, expanding the offer provided by educational centers by offering additional activities in order to boost educational opportunities for children, and by improving the teachers' competences; development of new buildings for preschool education centers will be done in cases where such activities are justified.
- the financial support to activities targeting vocational education will include activities for establishment and development of cooperation among vocational schools and the social and economic environment; for organizations promoting practical vocational education; for improving equipment of laboratories and workshops; for supporting advisory services in schools,
- the financial support for activities covering continuous education of adults will be focused on development of key competences, in particular in foreign languages and information technology competences;

9) for the objective of increasing the quality and availability of healthcare services:
   a. the Parties agree adjusting the healthcare system to the projected epidemiological and demographic changes requires activities at the national, regional, and local level,
   b. the Parties agree that investments in healthcare service infrastructure provided by entities conducting therapeutic activities, financed from the public funds undertaken in the Voivodship, will consider the health needs occurring in the Voivodship,
   c. the Parties shall collaborate to create instruments for survey of health needs;
   d. the Parties will undertake efforts to obtain additional funds other than the sources available within the relevant operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, for financing infrastructure investments of the healthcare services conducting therapeutic activities, financed through public funds, especially adjusting infrastructure of therapeutic entities to requirements in line with the regulations.
   e. the Government Party will undertake efforts to provide financial support to infrastructure investments of the healthcare services providers conducting therapeutic activities, financed through public funds, according to the principles specified for the relevant funding sources, subject to availability of funds.

f. the Government Party shall support establishment of the medical simulation center in Podlaskie Voivodship with available funds under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy[135],
g. the Parties ensures that healthcare projects financed through operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy will be subject to limitations by the Partnership Agreement, in particular, that financial support will be allocated to healthcare investments based on principles resulting from the Policy Paper on Health Protection for 2014-2020, the National Strategic Frameworks and Action Plan;

10) for the objective of developing the functional area of the Applying for the EU funds for national roads is possible, based on competition for urban nodes of basic TEN-T network under the appropriate national operational programme for the years 2014 – 2020.oivodship and regional and sub-regional towns:
    a. the Parties agree that within the area of Białystok and Białystok Urban Functional Area, the financial support targeted by the Instrument of Integrated Territorial Investments, further herein referred to as the "ZIT," implemented from ROP funds and complemented by interventions regarding low-emission public transport and energy efficiency with funds relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, according to division of investments between the operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy;
    b. the Parties agree that in case of regional and sub-regional towns:
        – the towns Łomża and Suwałki or relevant entities from these towns may apply for financial support for projects targeting low-emission public transport through competition under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy depending on availability of funds.
        – the Government Party will select the project, based on competition, from the proposals presented by the towns listed in indent paragraph 1,
        – the Territorial Government Party will support the towns within the area of the Voivodship by subsidizing project implementation of those towns or relevant entities from those towns selected based on competitions with ROP funds or by territorial instruments in the ROP.

11) for the objective of supporting revitalization of areas with high concentration of social and economic issues;

[135] This measure will depend on the final shape of the relevant national operational programme for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, resulting from negotiations with the European Commission.

a. the Government Party shall prepare of the national revitalization plan,
b. the Government Party will undertake actions to prepare legal solutions regarding the area of revitalization,
c. the Territorial Government Party will secure relevant mechanisms to finance activities regarding revitalization within ROP.

3. Additionally, the Parties agree on preventing negative consequences of floods:
   1) the Parties ensure that potential investments related to flood protection will result from the so-called "master plans" completing the updated water management plans according to the Directive 2000/60/EC of the European Parliament and of the European Council of 23 October 2000 establishing the framework for the Community action in the field of water policy (OJ L 327 of 22.12.2000, p. 1; Special edition in Polish: Chapter 15 Volume 005 P. 275 as later amended), the so-called Framework Water Directive, further herein referred to as the "FWD,"
   2) the Parties ensure that potential investments related to flood protection will consider the maps of threats and flood risk, and will be consistent with the flood risks management plans according to the Directive 2007/60/EC of the European Parliament and of the European Council of 23 October 2007 on assessment and management of flood risks (OJ L 288 of 6.11.2007, p. 27),
   3) the Parties will undertake efforts aiming to secure financial support to investments related to flood protection within the framework of the available funds, if the formal and legal requirements necessary for implementation of those investments are satisfied, under the relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy and the relevant ROP.

Art. 6
[Priority interventions and the conditions for their implementation]

1. The Parties agree on the following priority interventions and the conditions to implementation them, including projected funding sources for individual interventions:
   1) Basic interventions

| Name of intervention and beneficiary | Competent Party (Government Party / Territorial Government Party) | Projected funding sources | Conditions for implementation of intervention |
|---|---|---|---|
| S-8 Radziejowice – Białystok, sections Radziejowice – Paszków, end of Wyszków bypass – Zambrów (without Ostrów Mazowiecka bypass), Wiśniewo – Jeżewo – sections within the area of | Government party | relevant national operational programme for the period 2014-2020 | Intervention included in the draft Implementation Document (item 3) to the Transport Development Strategy and included in Schedule 5 to the National Roads Construction Programme for the years 2011 – 2015 |

| | | | |
|---|---|---|---|
| Podlaskie voivodship | | | |
| S-61 Augustów bypass – State border | Government Party | Connecting Europe Facility (CEF) | Intervention included in the draft Implementation Document (item 11) to the Transport Development Strategy and included in Schedule 5 to the National Roads Construction Programme for the years 2011 – 2015 |
| S-61 Ostrów Mazowiecka – Augustów bypass – sections in the area of Podlaskie voivodship | Government Party | CEF reserve / relevant national operational programme for the period 2014-2020 | Intervention included in the draft Implementation Document to the Transport Development Strategy (item 14). Within the frameworks of the CEF, Implementation depends on CEF's decisions. If subsidies from CEF are not obtained, the project will be implemented from funds under the relevant national operational programme. |
| Improvement of transport access to the city of Białystok coming from Warsaw (the national road out from Białystok – access to S-8) | Territorial Government Party | relevant national operational programme for the period 2014-2020 | Implementation under the relevant national operational programme for the years 2014 – 2020 (based on competition) depends on negotiations with the European Commission regarding the scope of the programme. |
| Voivodship road Kleosin – Łapy | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Implementation under the relevant national operational programme for the period 2014-2020 (based on competition) depends on negotiations with the European Commission regarding the scope of the programme. |
| Works on railway lines No 32 section Białystok – Bielsk Podlaski (Lewki) | Government Party | relevant national operational programme for the period 2014 -2020 | Intervention included in the draft Implementation Document of the Transport Development Strategy (item 3, in the list of railway projects of macro-regional importance. |
| Works on railway line No. 31 section Voivodship border – | Government Party | relevant national operational | Intervention included in the draft Implementation Document of the Transport Development |

| | | | |
|---|---|---|---|
| Czeremcha – Hajnówka | | programme for the period 2014-2020 | Strategy (item 5), in the list of railway projects of macro-regional importance. |
| Works on the railway line No 52 Lewki - Hajnówka | Government Party | relevant national operational programme for the period 2014 - 2020 | Intervention included in the draft Implementation Document of the Transport Development Strategy (item 6), in the list of railway projects of macro-regional importance. |
| Works on line E 75 on the section Sadowne – Białystok together with the remaining works on the section Warszawa – Rembertów – Sadowne – sections within the area of Podlaskie voivodship | Government Party | CEF | Intervention included in the draft Implementation Document of the Transport Development Strategy (item 9), in the list of railway projects of national importance. Implementation depending on the decisions on the issue of the CEF. |
| Works on the railway line No 6 section Białystok – Sokółka – Kuźnica Białostocka (State border) | Government Party | relevant national operational programme for the period 2014 -2020 | Intervention included in the draft Implementation Document to the Transport Development Strategy (item 32), in the list of railway projects of national importance. |
| Revitalization of the railway line No 59, section: the State Border – Chryzanów | Government Party | ROP | Project presented by PLK S.A. to the territorial government of the Voivodship to be funded through ROP. |
| Revitalization of the railway line No 57, section Kuźnica Białostocka - Gieniusze | Government Party | ROP | Project presented by PLK S.A. to the territorial government of the voivodship to be funded through ROP. |
| Revitalization of the railway line No 923, section Bufałowo Wschód – Bufałowo | Government Party | ROP | Project presented by PLK S.A. to the territorial government of the voivodship to be funded through ROP. |
| Revitalization of the railway line No 36, section Łapy – Śniadowo – | Government Party | ROP | Project presented by PLK S.A. to the territorial government of the Voivodship to be funded through ROP. |

| | | | |
|---|---|---|---|
| voivodship border | | | |
| Revitalization of the railway line No 49, section Śniadowo – Łomża | Government Party | ROP | Project presented by PLK S.A. to the territorial government of the Voivodship be funded through ROP. |
| Comprehensive undertakings in sustainable urban mobility / eco-transport | Government Party / Territorial Government Party | relevant national operational programme for the years 2014-2020 / ROP / funds from the territorial government units | The interventions will be implemented as projects under the Integrated Territorial Investments Strategy (ZIT) for Białystok and Białystok Urban Functional Area (under development). The projects will be identified based on the provisions of Act of 11 July 2014 on principles of implementation of the cohesion policy operational programmes financed during the financing period of 2014 – 2020:<br>• agreed between the ZIT Union, Voivodship Territorial Government and the minister for regional development based on the ZIT Strategy,<br>• getting approval from the ROP's MA and the MA of the relevant national operational programme for the period 2014 – 2020,<br>• the project is drafted, the application for subsidies is filed when indicated by the competent MA,<br>• the subject of the project and the value of subsidies is determined based on projects from the ZIT Strategy,<br>• depending on availability of funds. |
| Support to energy efficiency activities according to split of investments between national and regional programmes | Government Party / Territorial Government Party | relevant national operational programme for the years 2014 – 2020 / ROP / funds from the territorial government units | |
| Selective support to interventions regarding heating and cooling networks | Government Party / Territorial Government Party | relevant national operational programme for the period 2014-2020 / ROP / funds from the territorial government units | |
| Interventions concerning implementation of the Regional Scientific-Research | Government Party | relevant national operational programme for the | The Government Party, under the relevant national operational programme for the period 2014 – 2020 and dedicates funds for project included in the regional |

| | | | |
|---|---|---|---|
| Agendas (RANB) in Podlaskie voivodship | | period 2014-2020 / beneficiary's own funds | scientific-research agendas. The Territorial Government Party may present a proposal of the regional scientific-research agenda, independently or jointly with other voivodships, under the relevant national operational programme for the period 2014-2020 implementing the – scientific-research agenda. The Government Party will choose the regional scientific-research agendas among the proposals presented by Board management of the Voivodships. Research projects will be chosen based on competition procedure and where an entity from the Voivodship part of the regional scientific-research agenda will be the leader (coordinator), and they will be under the regional scientific-research agendas chosen by the Government Party and under with framework of the relevant operational programme for the period 2014-2020, |
| Extension of the Fryderyk Chopin University of Music, Instrumental-Pedagogical Faculty in Białystok | Government Party | State budget funds | Multiyear project implemented by the Ministry of Culture and National Heritage (further herein: MoCNH) |
| Thermal modernization of the state bodies providing artistic education in Podlaskie voivodship | Government Party | State budget funds / relevant national operational programme for the period 2014 – 2020 | Multiyear project implemented by the MoCNH. |
| Reconstruction and extension of the University Clinical | Government Party | State budget funds | Project implemented as a multiyear project – responsible entity: Ministry of Health, part |

| | | | |
|---|---|---|---|
| Hospital of the Medical University of Białystok | | | 46 of the State budget. |
| Increasing energy security in north-eastern Poland | Government Party | relevant national operational programme for the years 2014 – 2020 /own funds of the beneficiary | Intervention is implementation as individual projects covered by the Project pipeline for the power sector. Implementation will depend on the final results of the works related to the Project pipeline, the final version of the relevant national operational programme for the period 2014-2020 resulting from negotiations with the European Commission, availability of funds under the respective programme, and the final decision by the investor regarding project implementation. |
| Centre of Innovative Studies on Prevention of Civilization Diseases and Individualized Medicine | Government Party | ROP / other funds | The project was not accepted under the updated Polish Road Map of Research Infrastructure – Stage II, but it was recommended to the ROP. The final agreement over the project depends on the evaluation performed by the Ministry of Science and Higher Education (further herein MoSHE) and NCBR, according to the current project card. Possible agreement on financial engineering. The maximum share of state budget funds will be determined later on, and should be in line with the principles on public aid. |
| Białowieża Forest development programme | Territorial Government Party | ROP / State budget funds, funds of the relevant national operational programmes for the | The Parties will support the local party with the Białowieża Forest Development Programme and with the implementation of the agreed joint projects to be co-financed under available sources. |

| | | | |
|---|---|---|---|
| | | period 2014-2020 | |

2) conditional interventions whose implementation depend, among others, on availability of funds:

| Name of intervention and beneficiary | Competent Parties (Government Party / Territorial Government Party) | Projected funding sources | Conditions for implementing the intervention |
|---|---|---|---|
| S-19 Białystok - Lublin, section within the area of Podlaskie voivodship | Government party | relevant national operational programme for the period 2014-2020 | Intervention included in the draft Implementation Document of the Transport Development Strategy (item 32). Implementation depends on availability of funds. |
| S-19 State border – Białystok – sections within the area of Podlaskie voivodship | Government party | relevant national operational programme for the years 2014 – 2020 | Intervention included in the draft Implementation Document of the Transport Development Strategy (item 36). Implementation depends on availability of funds. |
| Voivodship road Białystok – Supraśl (10 km) | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Implementation of the intervention under the relevant national operational programme for the period 2014-2020 depends on negotiations with the European Commission regarding the purpose of the respective programme. |
| Southern city bypass (Białystok) – stage II | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Implementation of the intervention under the relevant national operational programme for the period 2014-2020 depends on negotiations with the European Commission concerning the scope of the respective programme. |
| Increasing the internal transport access. Construction of the western | Territorial Government Party | relevant national operational programme | Implementation of the intervention under the relevant national operational programme for the period 2014-2020 |

| | | | |
|---|---|---|---|
| section of Białystok city bypass | | for the period 2014 – 2020 | depends on negotiations with the European Commission concerning the scope of the respective programme. |
| Works on the railway line E 75 on the section Białystok – Suwałki – Trakiszki (State border) | Government Party | CEF | Intervention included in the draft Implementation Document to the Transport Development Strategy (item 60). Implementation depends on availability of funds and CEF's decision. |
| Works on the railway line No 32 section Lewki – Czeremcha | Government Party | ROP | Project recommended by the territorial government of the voivodship to be funded under ROP. Implementation under ROP depends on negotiations with the European Commission. The final decision regarding this investment implementation will depend on its economic feasibility (adequately large flow of passengers). |
| Podlaskie Agricultural-Food Sector Innovative Technologies Centre (PC RS) with the research and development center for agriculture in rural areas | Territorial Government Party | ROP | Elaboration of detailed project presentation (under ROP) is recommended.<br>The final decision regarding the project implementation depends upon the analysis performed the MoSHE, according to the project description. The financing depends on verification of project description/ card, especially regarding the project's funding sources, own contribution, and securing sustainability of financing post-project completion.<br>Implementation should be in compliance with the regional programme and regional smart specializations. |
| Museum of Siberia Memory in the complex of the former military warehouses at | Territorial Government Party | State budget funds / ROP / relevant national operational | The intervention was initially recommended by the MoCNH. The implementation's scope and details should be agreed together with the MoCNH. As of |

| | | | |
|---|---|---|---|
| Węglowa Street in Białystok – adjustment and extension, as well as development of the permanent exhibition and equipment. | | programme for the period 2014-2020 | EU financing, the implementation depends on the negotiations with the European Commission (competition procedure). |
| Museum in Tykocin. Comprehensive conservation of the Great Synagogue and Talmudic House | Territorial Government Party | ROP | The detailed target of the project and funding sources to be agreed with the MoCNH. As of EU funds, the implementation depends on negotiations with the European Commission (competition procedure). |
| Adjustment of power plant building at Elektryczna Street 13 to the needs of the Arsenal Gallery in Białystok | Territorial Government Party | State budget funds / ROP / relevant national operational programme for the years 2014 – 2020 | The intervention was initially recommended by the MoCNH. The implementation's purpose and details should be agreed together with the MoCNH. As of EU funds, the implementation depends on negotiations with the European Commission (competition procedure). |
| Reconstruction and extension of M. Skłodowska-Curie Białystok Oncology Centre in Białystok with equipment and purchase of medical equipment and devices | Government Party | State budget funds | Part of the project regarding its material aspect (purchase of medical devices or equipment for diagnosis of neoplasm) may be implemented under the National programme for controlling neoplasm illnesses financed from domestic funds at the disposal of the MoH (the programme is until 2015) implemented based on competition. This intervention should be in compliance with the programme-related criteria and availability of funds. |
| Development of higher education based on regional needs | Government Party | relevant national operational programme for the period 2014-2020 | The Government Party is providing funds for activities based on specific characteristics of the region, under the frameworks related to higher education under the relevant national operational programme for the years 2014-2020. |

| | | | |
|---|---|---|---|
| | | | The interventions reflecting the specific regional needs (resulting from the regional smart specializations) will be identified based on competition under the relevant national operational programme for the years 2014-2020, assuring interregional competition, with a pre-selection mechanism at the regional level. The detailed principles and method regarding the above mentioned mechanism will be approved by the committee monitoring the relevant national operational programme for the period 2014-2020. |
| Implementation of the development programme for medical high schools taking part in the practical education of students, including establishment of medical simulation centers. | Government Party | relevant national operational programme for the period 2014-2020 | Implementation will depend on the ultimate version of the relevant national operational programme for the period 2014-2020 resulting from negotiations with the European Commission and availability of funds. |
| Department of Geriatrics and Psycho-Geriatrics at the University Clinical Hospital in Białystok | Government Party | State budget funds | Further agreements with the MoH on possible subsidies |

2. The expected outcome of implementation of the interventions indicated in section 1 is:
   1) in the area of research and development – increasing the outlays on research and development and increasing the level of innovation of the Voivodship;
   2) in the area of transport infrastructure – improving transport access of the Voivodship in the international/domestic/regional transport network;
   3) in the area of power sector – increasing power security of the Voivodship;
   4) in the area of healthcare infrastructure – improving access to healthcare services in the Voivodship;
   5) in the area of activities implemented in the area of Białystok and Białystok Urban Functional Area – decreasing the level of pollution and increasing availability and quality of clean urban transport, increasing energy efficiency, strengthening

collaboration among territorial government units under the Integrated Territorial Investments framework.

6) in the area of activities covering sub-regional towns – decreasing the level of pollution and increasing availability and quality of clean urban transport;
7) in the area of revitalization – improving living quality of residents in areas with negative phenomena;
8) in the area of culture and national and regional heritage - improving access to the cultural goods and services.

3. Implementation of interventions specified in section 1 will depend on:

1) the results of negotiations of the operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, under the framework these undertakings could be financed;
2) readiness of priority interventions to be implemented;
3) availability of funds within the frameworks of indicated funding sources;
4) compliance with the criteria applicable to the given funding source;
5) non-occurrence of circumstances resulting in not being able to finance projects according to the principles, including those subsidizing the intervention in compliance with the criteria applicable to the given funding sources;
6) in case of interventions resulting from the Integrated Territorial Investments strategy – the conditions to get subsidies depend on the results of further works on the ZIT Strategy according to art. 30, section 8, point 4 of the Implementation Act, including the positive opinion from the managing authority of the relevant operational programme for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, or the ROP, and agreement of potential contractor;
7) filing the relevant application by the entity responsible for project implementation, to the relevant institution or relevant authority at the time and conditions indicated by the respective institution or the authority, in order to confirm readiness of the intervention to be implemented;
8) capacity of the entity responsible for project implementation to provide its own (financial contribution;
9) agreement between the Parties on detailed conditions for project implementation, including the final funding sources;
10) other than specified at points 1-9 formal and legal conditions necessary for relevant implementation of the intervention.

4. Priority interventions specified in section 1 are implemented based on conditions defined in relevant documents for the given funding source, considering the detailed conditions indicated in section 1.

5. Granting funds for implementation of priority interventions indicated in section 1, spending and accounting, is based on relevant documents for the given funding source.

Art. 7

Purpose and procedure of reporting on performance of the Contract regarding objectives and priority interventions

1. Within 5 months after preparing the Contract, the Parties - according to competence indicated in art. 6, section 1 - will prepare and send to each other the information concerning each intervention indicated in art. 6, section 1, excluding interventions resulting

from the DI, PBDK or WPIK, according to the template comprising Annex No. 1a to the Contract. In the case when, as the result of amendment to the Contract, additional priority interventions are indicated, the time for preparation of the information on the intervention will be applied *mutatis mutandis*.

2. The information indicated in section 1, drafted according to the template in Annex No. 1a will be Annex No. 1b to the Contract, defining the detailed conditions for implementing each of the individual interventions, after they have been agreed upon by other Party. Any change to Annex No. 1b to the Contract shall require the agreement of the Parties.

3. Failing to prepare the information indicated in section 1 may result in removing the intervention from the list of priority interventions indicated in the Contract. Removing the priority intervention from the list in the Contract shall require consent of the Parties.

4. By February 15th of each year, the Minister will ask the relevant managing authorities of the national operational programmes for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, to provide information regarding performance of the Contract during the previous year, especially concerning the priority interventions indicated in art 6, section 1, implemented within the framework of those programmes. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy.

5. By February 15th of each year, the Minister asks to the relevant authorities to provide information on performance of the Contract during the previous year regarding the objectives and priority interventions indicated in art. 6, section 1, that are not covered by the operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, implemented in the Government sectors overseen by them. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the given sector.

6. By April 30th of each year, the Territorial Government Party passes on to the Minister information on performance of the Contract during the previous year with regard to the objectives and priority interventions implemented under the ROP, indicated in art. 6, section 1. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the programme.

7. By May 31st of each year, the Minister prepares and submits to approval by the Territorial Government Party the draft information on performance of the Contract during the previous year concerning the objectives and priority interventions taking into consideration the information specified in sections 1-2.

8. Within 7 working days, the Territorial Government Party presents to the Minister the comments to the draft indicated in section 7. If there are no comments, the draft is considered approved. The Minister reviews the comments provided by the Territorial Government Party and agrees with the final purpose of the information.

9. The Minister, in consultation with the Territorial Government Party, develops the information templates indicated in sections 4-7. Those templates are not part of the Contract.

Art. 8

The method applied to perform monitoring and control of the performance of the Contract regarding development objectives and priority interventions by the Minister

1. The Minister monitors the performance of the Contract with regard to development objectives based on public statistics data and analyses or evaluations regarding any purpose of the objectives or priority interventions. The conclusions on monitoring are included in the draft information indicated in art. 7, section 7.

2. The Minister monitors the Contract performance regarding priority interventions by monitoring the implementation progress of intervention, in particular with regard to the material and financial progress, in connection to the information concerning each intervention prepared by the Parties according to art 7, section 1. Project monitoring may be conducted based on public statistics data, information on interventions available in the tele-information system -- as specified in art. 69 of the Implementation Act - and based on analyses or evaluations concerning to any extent the priority interventions.

3. In case certain circumstance occurs or the Minister obtains information on relevant performance of the Contract, the Minister may conduct a control about Contract implementation based on documents.

4. For the purpose of conducting the control as specified in section 3, the Minister files an application to obtain the necessary documents available from the entities responsible for project implementation, managing authorities of the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, relevant ministers, or the Territorial Government Party.

5. After completing the control specified in section 3, the Minister drafts the post-control information.

6. The Minister passes on the post-control information to the relevant managing authority of the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, the ROP managing authority, the relevant minister of the entity responsible for the project implementation further herein referred to as the “controlled entity.”

7. The controlled entity has the right to present, within 14 days after receiving the post-control information specified in section 5, motivated written objections to the respective information.

8. The time specified in section 7 may be extended by the Minister, for a specified time, if the control entity has submitted an application before the time allowed for presenting objections expires.

9. The Minister has the right to correct the obvious mistakes in the post-control information, at any time, ex officio or on application performed by the controlled entity. The information about correction is provided to the controlled entity without undue delay.

10. Objections to post-control information shall be considered by the Minister within no more than 14 days from the date these objections were presented. During consideration of the objections, the performance of operations or actions specified in section 12 by the controlling institution interrupts the progress of the time limit.

11. Objections specified in section 7 may be withdrawn at any time. The Minister removes the objections that have been withdrawn without consideration.

12. While considering the objections, the Minister has the right to conduct additional control operations or demand presentation of documents or additional explanations in writing.

13. After considering of objections, the Minister drafts the final post-control information containing the updated findings of the control or the written position concerning the presented objections together with reasons for refusal of correcting the findings. The ultimate post-control information is sent to the controlled entity.
14. There is no possible to present objections to the ultimate post-control information and to the written position concerning the objections presented.
15. Within the scope of priority interventions under the competence of the Government Party, according to the competence defined in art. 6, section 1, the Minister may submit an application for conduction control to managing authorities of the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement on area of cohesion policy or to relevant ministers covered by the purpose of Contract.
16. Under the purpose of the priority intervention the Territorial Government Party is responsible for, according to competences defined in art. 6, section 1, the Minister may submit to the Territorial Government Party the application to conduct control.
17. The control activities indicated in sections 15 and 16 are conducted in the manner and in compliance with relevant procedures for the funding of the given priority intervention.
18. After completing the control, the post-control information covering priority undertakings:

1) under the competence of the Government Party - is drafted by managing authorities of the national operational programme for the period 2014-2020 in connection to the Partnership Agreement with regard to cohesion policy or relevant minister as of the purpose covered by the Contract;
2) under the competence of the Territorial Government Party - is drafted by the Territorial Government Party.

19. The entities indicated in section 18 pass on to the Minister the ultimate post-control information right after drafting it.
20. The Minister conducts the post-control information analysis drafted or received during the previous year and passes on to the Territorial Government Party the conclusions of the analysis by March 31st. By April 30th, the Parties agree whether the implementation of corrective actions aimed at relevant performance of the Contract is justified, and they indicate the competent entity in the respective area.
21. In case the Parties conclude that implementation of corrective actions aimed at relevant performance of the Contract is justified, the Minister, on behalf of the Parties, passes on the relevant information on to the relevant entity.

Art. 9

Method and conditions for verification of priority intervention implementation

1. Verification of priority intervention indicated in art. 6, section 1 is conducted by:

1) the Minister – for interventions implemented through the relevant national operational programmes for the period 2014-2020 in connection to the Partnership Agreement regarding the cohesion policy and interventions implemented through other instruments managed at the national level,
2) the Territorial Government Party – for interventions implemented through the ROP and intervention implemented through other instruments managed at the regional level

– at least once a year, based on the data included in the information indicated in art. 7 or the post-control information indicated in art. 8, section 5.

2. Verification of priority interventions indicated in art. 6, section 1 is conducted especially when:

1) the results of the environmental impact evaluation indicate that implementation of the respective given intervention within the given material and financial extent is impossible;
2) there is an alternative, economically justified solution for the agreed interventions;
3) the funds from the State budget, budgets of the territorial government units or operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy are insufficient for an effective implementation of the given intervention;
4) there is an infringement of the principles of financing the given intervention applicable to the given funding source;
5) the entity responsible for implementation of the priority interventions is giving up on the implementation.

3. If, as the result of verification, one of the Parties finds irregularities regarding preparation or implementation of a priority intervention, the Parties agree to take corrective actions, and decide on the period of implementation of such actions and on the entities responsible for implementing such actions.

4. The Parties decide to take the given intervention out of the Contract if the Parties decide that corrective actions are not possible or serves no purpose.

## CHAPTER 3
## AMENDMENTS TO THE CONTRACT AND SOLUTIONS TO LITIGATIONS

### Art. 10
### Conditions for amending the Contract

1. The Contract may be amended based on a justified application by each Party.

2. Amendment to the Contract should be done in writing or otherwise it will be null and void.

### Art. 11
### Conditions and methods for Contract termination

1. Each of the Parties may terminate the Contract on 6-month termination notice in writing or otherwise it will be null and void.

2. Termination of Contract as indicated in section 1 requires presenting the reasons for such action, and the terminating Party provides information on the circumstances for contract termination.

### Art. 12
### Severability clause

If any provision of the Contract is considered invalid, contrary to the law or not enforceable, the rest of the provisions shall remain in force and the Parties shall make relevant amendments to the Contract.

Art. 13

Solutions for litigations

1. The Parties shall solve all litigations arising from the performance of the Contract provisions in an amicable manner without referring the case to the courts.
2. Any agreement between the Parties made according to the procedure as per section 1 will come into force only when it is made in writing and signed by the Parties provided that no consent of any third party is required to make the settlement. In this situation, the effective date of the agreed solutions depends on the written consent of the third party.
3. If one of the Parties infringes the provisions of the Contract, the other Party may demand the infringing Party infringing the provisions to remedy the infringements. An action or negligence to take action may represent an infringement. The demand to remedy the infringement shall be made in writing.
4. Litigations that are not settled according to the procedure indicated in sections 1-3 will be settled by the general court that has the jurisdiction for the registered office of the Minister.

Art. 14

[Miscellaneous provisions]

1. A Party may not transfer to any third person the rights and liabilities resulting from the Contract without the consent of the other Party.
2. This Contract is a framework agreement in its nature and until the duration of the agreement between the Parties, in the form of Schedule 1b to the Contract, of the detailed conditions for implementation of individual intervention, including the method to finance them, it does not represent a legally binding commitment of the Parties as to implement the individual interventions or financing them. In case of non-implementation of individual interventions or changes regarding conditions for their implementation, none of the Parties will be eligible to any consequential claims, in particular financial claims.
3. Agreements included in the Contract may not be the basis for claims against the Parties filed by other entities, including entities responsible for implementation of interventions indicated in art. 6, section 1.
4. Exchange of information regarding the performance of the Contract will be conducted in the written form or by electronic means to the respective addresses in separate mails.
5. The Parties acknowledge that they do not know any circumstances that should make implementation of priority undertakings not possible.
6. All matters not included in the provisions of the Contract shall be governed by the applicable domestic and EU regulations.
7. The Contract was made in four identical copies of which two are for the Territorial Government Party and two for the Minister.

Art. 15

Effective date

The Contract will be effective as of the date of signing by the second Party.

(signatures on the next page)

| | |
|---|---|
| Minister | Marshal of the Voivodship / Member of the p Board of Management of the Voivodship |
| --- | --- |
| | Member of the Board of Management of the Voivodship |
| | --- |

*Annex No.1a*
*Template of detailed information regarding priority interventions defined in art. 6.*

1. Name of the priority project
……
2. Entity responsible for implementation of the project
……
3. Project description in the context of the proposed objectives
……
4. Subject area of the project implementation
……
5. Area of project implementation (indicate the applicable OSI, if the project covers them)
……
6. Location of project implementation
……
7. Status of progress of preparatory / implementation works
……
8. Indicative total project implementation cost
……
9. Project financing sources

| Total (In PLN) | | | Including: | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2015 | | | 2016 | | | 2017 | | | …… | | |
| Financing Source A | Financing Source B | Financing Source B | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |

10. Project implementation schedule

| Components / Stages | Commencement date (A) mm/yyyy | Completion date (B) mm/yyyy |
|---|---|---|
| | | |
| | | |

11. Expected outputs and results (*measurable indicators and their baseline, and target values*)

| Output / result indicator | Baseline value | Expected target value |
|---|---|---|
| | | |
| | | |

12. Eventual complementary project

*Schedule No 1b*
*Information regarding priority projects defined in art. 6.*

# Annex 5: Territorial Contract for Wielkopolskie Voivodship

Acting based on art. 14o section 4 in connection with section 2 point 1 of the Act December 6, 2006 on the principles of managing the development policy (Dz. U. of 2009 No 84, item 712 as later amended), further herein referred to as the "Act," considering the decisions of the:

20. Resolution No. 231 by the Council of Ministers 13 November 13, 2014 approving the negotiated Territorial Contract for Wielkopolskie Voivodship, taken based on art. 14o section 2 point 1 of the Act,
21. Resolution by the Voivodship Management Board No …… of …… approving the negotiated Territorial Contract, taken based on art. 14o section 3 of the Act,
22. Partnership Agreement approved by the European Commission on May 23, 2014, further herein referred to as the "Partnership Agreement,"
23. Regional operational programme for the years 2014-2020 in connection to the Partnership Agreement within the purpose of cohesion policy, further herein referred to as the "ROP,"
24. National operational programmes for the years 2014-2020 in connection to the Partnership Agreement within the purpose of cohesion policy,
25. Country Development Strategy 2020: active society, competitive economy, efficient state approved by the Council of Ministers on September 25, 2012,
26. National Strategy of Regional Development 2010-2020: Regions, towns, rural areas, approved by the Council of Ministers on July 13, 2010,
27. Strategy for Development of Western Poland by the year 2020 approved by the Council of Ministers on April 30, 2014,
28. Wielkopolskie Voivodship Development Strategy, approved by the Assembly of the Voivodship on December 7, 2012,
29. Communication Europe 2020: A strategy for smart, sustainable and inclusive growth,

and the provisions of:

30. Regulation (EU) No 1303/2013 of the European Parliament and of the Council of December 17, 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European

Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (O.J. of the EU L 347 of 20.12.2013, p 320, as later amended), further herein referred to as the "regulation No 1303/2013,"

31. Regulation (EU) No 1301/2013 of the European Parliament and of the Council of December 17, 2013 on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006 (O.J. of the EU L 347 of 20.12.2013, p 289),
32. Regulation (EU) No 1304/2013 of the European Parliament and of the Council of December 17, 2013 on the European Social Fund and repealing Council Regulation (EC) No 1081/2006 (O.J. of the EU L 347 of 20.12.2013, p 281),
33. Act of July 11, 2014 on principles of implementation of the programmes in the area of cohesion policy financed in the financial perspective 2014 – 2020 (Dz. U. of 2014, item 1146), further herein referred to as the "implementation Act,"
34. Act of June 5, 1998 on the territorial government of voivodship (Dz. U. of 2013, item 596, as later amended),
35. Act of September 4, 1997 on government administration sectors (Dz. U. of 2013, item 743, as later amended),
36. Act of November 13, 2003 on revenues of territorial government units (Dz. U. of 2014, item 1115),
37. Act of August 27, 2009 on public finance (Dz. U. of 2013, item 885, as later amended),
38. Act of April 20, 2004 on promotion of employment and labor market institutions (Dz. U. of 2013, item 674, as later amended),

…….…….…… Minister of Infrastructure and Development, further herein referred to as the "Minister,"

and

Wielkopolskie Voivodship, further herein referred to as the "Territorial Government Party" represented by the Voivodship Management Board on behalf of which act:

……, Marshal/ Member of Wielkopolskie Voivodship Management Board,

and

……, Member of Wielkopolskie Voivodship Management Board,

jointly referred to as the "Parties,"

make this Territorial Contract, further herein referred to as the "Contract."

Given the need for coordination of activities in the area of development policy undertaken by the Government Party and the Territorial Government Party in the voivodships in order to increase efficiency and effectiveness of those activities and effectiveness of spending public funds, as well as using public, European, and domestic funds for activities related to development policy during the years 2014 -2023, the estimates can amount at the national level to approximately PLN 400 billion, with approximately 29.6 billion PLN for Wielkopolskie Voivodship, the Parties agree as follows:

CHAPTER 1

GENERAL PROVISIONS

Art. 1

Subject of the Contract

1. The subject of the Contract is the objectives and priority responsibilities of significant importance for the development of the country and Wielkopolskie Voivodship, further herein referred to as the "Voivodship," in connection to which the Parties agree to collaborate within the implementing framework of the applicable operational programmes for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy and other instruments that could finance priority projects contributing to accomplishment of the objectives of the Contract.
2. The level, method, and conditions for subsidizing the ROP and the principles concerning settlement of litigations and conditions for amendment of the Contract related to the performance of the ROP shall be defined in the Contract after approval of the ROP by the European Commission, and:

6) the Territorial Government Party ensures that the ROP will be implemented according to the Partnership Agreement,
7) the Territorial Government Party shall be responsible for ensuring the (financial) domestic contribution to the extent necessary for the relevant implementation of the ROP. The domestic (financial) contribution shall consist of funds from :
    a. institutions involved in the implementation of the ROP: the managing authority, the intermediary authority,
    b. other entities not listed at point a), in particular, beneficiaries of the ROP;
8) the Government Party may secure state budget funds to cover a part of the domestic (financial) contribution. The amount of these funds shall be defined by

the Minister in consultation with the Minister of Finance, after ROP approval by the European Commission;

9) During the implementation of the ROP, the Territorial Government Party shall apply the guidelines indicated in art. 5, section 1 of the implementation Act and the amendments to them;
10) the Government Party shall ensure development of the draft guidelines indicated in art. 5. section 1 of the implementation Act and the amendments to them observing into the partnership principles, and considering the role of the Territorial Government Party and the ROP managing authority.

Art. 2

Effective duration of the Contract

1. The Contract shall be effective during the years 2014-2023.

2. Shortening or extending the effective duration of the Contract shall require consent by the Parties.

Art. 3

Contract funding sources

1. The funding sources of the Contract are in particular: funds allocated to implement the applicable operational programmes for the years 2014-2020, in connection to the Partnership Agreement in the area of cohesion policy; the state budget; the budget of the Voivodship; the budgets of other territorial government units; funds from other public finance sector units; government funds for special purpose funds; and other public funds.

2. Also, private funds can be used in the performance of the Contract according to the principles of the given source of financing and applicable regulations.

Art. 4

General principles of collaboration

The Parties to the Contract commit themselves to:

4) undertake, in good will, actions for the purpose of performance of the full purpose of the subject Contract;
5) undertake, in good will, actions for the purpose of obtaining and involving the largest possible group of partners in performance of the purpose of the Contract's subject;
6) pass on precise and honest information concerning the performance of the provisions of the Contract.

CHAPTER 2

DEVELOPMENT OBJECTIVES AND PRIORITY INTERVENTIONS

Art. 5

Development objectives and declarations of the Parties concerning these performances

The Parties declare that they are willing to collaborate, in particular, on the performance of the following development objectives and directions of activities within the area of the Voivodship:

12) improving quality of research quality and strengthening collaboration between science sector and the economy:
    a. developing the strongest scientific units and teams, as well as the relationships between business and science, initiating establishment of cluster structures with participation of large enterprises and foreign investors,
    b. strengthening the already existing R&D infrastructure to conduct research for the regional smart specializations, increasing the share of applied and development research, as compared to basic research;
13) improving transfer access and regional cohesion:
    a. extension of road system, improving road conditions and traffic safety aimed at improving intraregional access, as well as access to the national and European road transport networks,
    b. developing express roads connecting regional centers and developing bypasses for express roads,
    c. strengthening transport connections of the marginalized areas with nodal areas as to include them in the regional transport system, connecting to the national and European transport systems, as a development opportunity for the given areas,
    d. ensuring mobility of residents through infrastructure investments on railway lines of regional importance;
14) protection of water resources and increasing safety against floods;
15) better use of the existing natural and cultural potential of the Voivodship;
16) increasing employment level in the Voivodship:
    a. activities targeting an active labor market policy concerning groups facing unfavorable situation in the labor market,
    b. entrepreneurship development
    c. retraining people who are leaving the agricultural sector,
    d. dissemination of different forms of care for children up to 3 years old,
    e. improving the adjustment capacity of enterprises and employees;
17) reducing level of social exclusion
    a. increasing activity and preventing poverty,
    b. improving access to social services and investments in social services and active social integration services,
    c. development of social economies;
18) increasing the level of education and competences in the region:

a. dissemination of pre-school education,
b. increasing quality of vocational education,
c. support to general education in order to achieve the key importance competences in the labor market,
d. dissemination of participation in life-long education linked to the labor market needs;

19) increasing quality and availability of healthcare services
20) development of the functional area of the Voivodship city, as well as the regional and sub-regional towns;
21) comprehensive revitalization of towns with high concentration of unfavorable social and economic phenomena.

2. Considering the development objectives and directions of activities specified in section 1, the Parties declare that:

12) regarding the objective of improving research quality and strengthening collaboration between science sector and the economy:
    a. regarding complementing the necessary R&D infrastructure base in the scientific units considering the existing potential:
        – the Government Party will aim to implement the interventions indicated in the Polish Roadmap of Research Infrastructure, further herein referred to as the "PMDIB," identified through competition under the relevant national operational programme for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, within the available funds, if all formal-legal requirements necessary for implementing those investments are satisfied,
        – the Territorial Government Party will aim to implement, under the ROP, the interventions agreed upon in the Contract indicated in the PMDIB or other interventions agreed upon by the Parties, under the available funds, if all formal-legal requirements necessary to implement those investments are satisfied;

    b) regarding the support to the regional scientific-research agendas based on the regional smart specializations and projects resulting from these specializations, carried out by scientific units and consortia of scientific units with entrepreneurs, in which the scientific unit is the consortia leader:
        – the Government Party, under the frameworks of the relevant national operational programme for the years 2014-2020 in connection to the performance of the Partnership Agreement in the area of cohesion policy, may allocate funds for projects implemented under the regional scientific-research agendas,
        – the Territorial Government Party may present a proposal of a regional scientific-research agenda, independently or jointly with other voivodships, under which research projects will be implemented through the relevant national operational

programme for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy,

– the Government Party will choose the regional scientific-research agenda among proposals presented in that area by the voivodships, including Wielkopolskie Voivodship,

– under the regional scientific-research agenda chosen by the Government Party, through the relevant national operational programme for the years 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, research projects will be identified based on competition in which the entity from the Voivodship covered by the regional scientific-research agenda will be the consortia leader (coordinator);

13) regarding the objective of improving transfer access and regional cohesion:

a. the Government Party will aim to implement investments in the area of transport infrastructure according to the Implementation Document to the Transport Development Strategy, approved by the Council of Ministers on September 24, 2014, further herein referred to as the "DI"; the National Roads Construction Programme, further herein referred to as the "PBDK"; or the Multiyear Programme of Railway Investments, further herein referred to as the "WPIK," under available funds, if all formal-legal requirements necessary to implement those investments are satisfied,

b. the Territorial Government Party will aim to implement investments on voivodship roads according to the investment plan under the *ex-ante* conditionality to the ROP, based on principles specified in the Partnership Agreement, under the available funds, if all formal-legal requirements necessary to implementation those investments are satisfied,

c. the Parties will undertake efforts to obtain additional funds other than the sources available through the applicable operational programmes for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy for financing transport investments,

d. the Government Party will undertake efforts to continuing to provide financial support to investments on local roads based on principles related to the relevant funding sources or on condition of availability of funds within the frameworks of those funding sources;

14) regarding the objective of protection of water resources and increasing the safety of flood protection :

a. the Parties ensure that the potential investments related to flood protection will result from the so-called "master plans" that are complementary to the water management plans until they get updated in 2015 and subsequently from the updated waters management plans after 2015, according to the Directive 2000/60/EC of the European Parliament and of the Council of October 23, 2000 establishing a framework for Community action in the field of water policy (OJ L 327 of 22.12.2000, p. 1; Special edition in Polish: Chapter 15 Volume 005 P. 275 as later amended), the so-called Framework Water Directive, further herein referred to as the "FWD,"

b. the Parties ensure that potential investments related to flood protection will consider the maps of threats and of flood risks, and will be consistent with the flood risks management plans in line with the Directive 2007/60/EC of the European Parliament and of the Council of 23 October 2007 on assessment and management of flood risks (OJ L 288 of 6.11.2007, p. 27),
c. the Parties will undertake efforts aimed at securing financial support to investments related to flood protection under available funds if all formal and legal requirements necessary to implement those investments are satisfied, under the relevant national operational programme for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy and the relevant ROP, respectively;

15) regarding the objective of better use of the existing natural and cultural potential of the Voivodship:
    a. the Parties will undertake actions to obtain additional funds from other sources than those available within the frameworks of the relevant operational programmes for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy for financing investments in culture, as well as in the national and regional heritage,
    b. the Government Party will undertake efforts to financially support investments in the area of culture, in particular monument protection, based on principles related to relevant funding sources , on condition of availability of funds;

16) regarding the objective of increasing employment level in the Voivodship:
    a. the Government Party will undertake efforts to implement and financially support, through available funds under the relevant national operational programme for the years 2014–2020, in connection to the Partnership Agreement in the area of cohesion policy, the activities in Wielkopolskie Voivodship in the area of vocational engagement of young people up to 29 years old who are unemployed or are looking for employment. Those activities will be implemented based on a separate agreement between the managing authority for the respective programme and the Voivodship Labor Office in Poznań that will act as the intermediary authority for that programme. The detailed principles of implementation of the activities related to the vocational engagement of young people up to 29 years old of who are unemployed or are looking for employment and the level of funds allocated for the respective objective will be mentioned in that agreement;
    b. Under available funds under ROP, the Territorial Government Party commits itself to:
        – activities related to vocational engagement covered by financial support will consider the specific characteristics of the region,
        – preference will be given to target groups facing special situation in the regional labor market,
        – activities covered by financial support will be adjusted to the individual needs of the participants in the projects,

- financial support will include labor market instruments and services indicated in the Act on promoting employment and labor market institutions, and other labor market instruments and services that should contribute to vocational engagement
- financial support will include vocational engagement of people taking care of children up to 3 years old,
- financial support to adjusting employees and enterprises to changes will be implemented according to the demand and will be targeted at micro, small, and medium enterprises;

17) regarding the objective of reducing the level of social exclusion :
    a. the Government Party commits itself that, under the available funds under the relevant national operational programme for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, the financial support in the form of financial instruments indicated in the Regulation No 1303/2013 will be provided to social economy entities in the Voivodship,
    b. the Territorial Government Party commits itself that through the available funds within the ROP:
        - the financial support of activities for socially excluded people or those threatened by social exclusion will focus on their social and vocational engagement , as well as social and vocational reintegration and rehabilitation, and it will take place by applying, among others, active integration from the social, vocational, educational, and health perspective,
        - the financial support to activities for socially excluded people or those threatened by social exclusion will be individualized and comprehensive,
        - the financial support will focus on cooperation of public and non-public services and integration of services offered through them,
        - the financial support will focus on de-institutionalization process,
        - the financial support of activities concerning the following types of services will be preferred: assistant and care services for people with various levels of disability; support to families; services related to substitute care; services in protected apartments and other forms of apartments; and supporting houses;
        - the financial support targeting social economies will focus on creating new jobs;

18) regarding the objective of increasing the level of education and competences in the region:
    a. the Government Party ensures that the interventions with regard to higher education reflecting specific regional needs (resulting from the regional smart specializations) will be selected through the frameworks of available funds under the relevant national operational programme for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, based on competition, ensuring interregional

competitiveness, based on a project pre-selection mechanism at the regional level;

b. the Territorial Government Party ensures that through the frameworks of the available funds under the ROP:
   - the financial support in the area of general education will include activities focusing on increasing key competences, as well as aptitudes or skills (creativity, innovation, and entrepreneurship) necessary in the labor market for students, use of modern information and communication technologies, establishing conditions for modern teaching and individual approach to the student,
   - the financial support to activities focusing on improving the skills and competences o paragraph indent 1 and deficit areas,
   - the financial support to preschool education will include establishment of new preschool education facilities, expanding the educational by offering additional activities aimed at improving educational opportunities for children, as well as improving teachers' competences; developing the new facilities for preschool education centers will be done to a limited extent in cases where such activities are justified ,
   - the financial support to activities in the area of vocational education will include activities regarding establishment and development of cooperation between vocational schools and their related social and economic environment; organizations dealing with practical vocational education; improving equipment of school laboratories and workshops; on providing support to advisory services in schools,
   - the financial support to activities in the area of continuous education of adults will be focusing on development of key competences especially learning foreign languages and information technology competences;

19) for the objective of increasing quality and availability of healthcare services:

a. the Parties agree that adjusting the healthcare system to the projected epidemiological and demographic changes requires activities at the national, regional, and local level,

b. the Parties agree that investments in healthcare service infrastructure provided by entities conducting therapeutic activities, financed from the public funds undertaken in the Voivodship, will consider the health needs in the Voivodship,

c. the Parties shall collaborate to create instruments for survey of health needs;

d. the Parties will undertake efforts to obtain additional funds other than the sources available within the relevant operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, for financing infrastructure investments of the healthcare services conducting therapeutic activities, financed through public funds,

especially adjusting infrastructure of therapeutic entities to requirements as to be in line with the regulations.

e. the Government Party will undertake efforts to continue provide financial support to investments infrastructure of entities conducting therapeutic activities financed through public funds, based on principles specified for the relevant funding sources, on condition of availability of funds within the frameworks of those sources,

f. the Government Party will undertake efforts to provide financial support to infrastructure investments for healthcare services providers conducting therapeutic activities, financed through public funds, according to the principles specified for the relevant funding sources, subject to availability of funds.[136]

g. the Parties ensures that healthcare projects financed through operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy will be subject to limitations by the Partnership Agreement, in particular, and that financial support will be allocated to healthcare investments based on principles resulting from the Policy Paper on Health Protection for 2014-2020 and the National Strategic Frameworks and Action Plan ;

20) for the objective of the development of the functional area of the Voivodship city and the regional and sub-regional towns:

a. the Parties agree that within the area of the Voivodship city functional area, the financial support targeted by the Instrument of Integrated Territorial Investments, further herein referred to as the "ZIT," implemented from ROP funds and complemented by interventions focusing on low-emission public transport and energy efficiency funded through funds relevant national operational programme for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy, according to the division of investments between the operational programmes for the period 2014-2020 implementing the Partnership Agreement in the area of cohesion policy;

b. the Parties agree that regarding regional and sub-regional towns:

- the towns Gniezno, Kaqlisz, Konin, Leszno, Ostrów Wielkopolski and Piła or relevant entities from those towns may apply for financial support for projects targeting low-emission public transport based on competition under the relevant national operational programme for the years 2014–2020 in connection to the Partnership Agreement in the area of cohesion policy, depending on availability of funds;
- the Territorial Government Party will provide subsidies to towns within the area of the Voivodship to support project implementation in those towns or relevant entities from those

[136] The measure depending on the final shape of the relevant national operational programme for the years 2014 – 2020 in connection to the Partnership Agreement in the area of cohesion policy, resulting from negotiations with the European Commission.

towns, selected based on competition under the ROP or from territorial instruments in the ROP;

21) for the objective of supporting revitalization of areas with high concentration of social and economic issues ;
    a. the Government Party shall prepare the national revitalization plan,
    b. the Government Party will undertake actions to prepare legal solutions regarding the area of revitalization,
    c. the Territorial Government Party will secure relevant mechanisms to financing activities in the area of revitalization under the ROP.

3. Additionally, the Parties agree that in the area of power sector:

4) the Government Party will define the most important investments related to power infrastructure in the Project pipeline for the power sector,
5) the Government Party will aim, under the available funds through the relevant national operational programme for the years 2014 – 2020 in connection to the Partnership Agreement in the area of cohesion policy, to secure financial support for interventions from the Project pipeline for the power sector, provided that formal-legal requirements necessary for implementing those investments are satisfied,
6) the Government Party will select projects among the investments in power infrastructure included in the Project pipeline for the power sector, based on principles applicable for the national operational programme for the years 2014–2020 in connection to the Partnership Agreement in the area of cohesion policy,
7) the Territorial Government Party will aim to secure, under available funds within the frameworks of the ROP, financial support for projects in renewable energy if all formal-legal requirements necessary for implementing those investments are satisfied.

Art. 6

Priority interventions and conditions for their implementation

2. The Parties agree on the following priority interventions and the conditions necessary to implement them including the projected funding sources for individual interventions:
    3) basic interventions

| Name of the intervention and beneficiary | Competent Parties (Government Party / Territorial Government Party) | Projected funding source | Conditions implementing the intervention |
|---|---|---|---|
| S-5 Wrocław – Bydgoszcz, sections | Government | relevant national | Intervention included in the draft Implementation Document |

| | | | |
|---|---|---|---|
| Białe Błota – Gniezno, Poznań – Kaczkówko, Korzeńsko – Wrocław, sections within the area of Wielkopolskie voivodship | party | operational programme for the years 2014 – 2020 | (items 6 and 16) to the Transport Development Strategy and included in Schedule 5 to the National Roads Construction Programme for the years 2011–2015. |
| S-11 Kórnik – Ostrów Wielkopolski | Government Party | relevant national operational programme for the years 2014–2020 / State budget | Intervention included in the draft Implementation Document (item 30) to the Transport Development Strategy.<br><br>Planned commencement of study works for the respective road section.<br><br>The implementation of the intervention dependents on availability of funds and if the project is going to be included the in the PBDK. |
| Bypass of Ostrów Wielkopolski on the on S-11 road | Government Party | relevant national operational programme for the years 2014-2020 | Intervention included in the Schedule 6 to the PBDK for the years 2011 - 2015 |
| Bypass of Jarocin on S-11 road | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention included in the Schedule 6 to the PBDK for the years 2011 - 2015 |
| Bypass of Kępno on S-11 road | Government Party | relevant national operational programme for the years 2014 – 2020 | For projects managed by the General Directorate for National Roads and Motorways (further herein referred to as the GDDKiA), co-financing shall be possible from the EU funds under the relevant national operational programme for the years 2014 – 2020, if the project is included the PBDK. The project |

| | | | |
|---|---|---|---|
| | | | is included in the draft PBDK. |
| Bypass of Ujście on road S-11 | Government Party | relevant national operational programme for the years 2014 – 2020 | For projects managed by the GDDK co-financing shall be possible from the EU funds under the relevant national operational programme for the years 2014 – 2020. If the project is included in the PBDK. The project is included in the draft PBDK. |
| Works on railway line E 59 on the Poznań Główny – Szczecin Dąbie sections within the area of Wielkopolskie voivodship | Government Party | Connecting Europe Facility (further herein referred to as the CEF) | The section included in the DI (item 5) in the list of railway projects of national importance from the Transport Development Strategy. The project implementation depends on the decision by the CEF. |
| Works on railway line E 59 on the section Wrocław – Poznań, stage IV, section from the border of Dolnośląskie voivodship to Czempiń, sections within the area of Wielkopolskie voivodship | Government Party | CEF | Section included in the DI (item 8) in the list of railway projects of national importance from the Transport Development Strategy. The project implementation depends on the decision by the CEF. |
| Works on the railway line C-E 65 section Chorzów Batory – Tarnowskie Góry – Karsznice – Inowrocław – Bydgoszcz – Maksymilianowo, sections within the area of Wielkopolskie voivodship | Government Party | CEF | Section included in the DI (item 15) in the list of railway projects of national importance to the Transport Development Strategy. The project implementation depends on the decision by the CEF. |
| Works on the cargo bypass of Poznań | Government Party | CEF | Section included in the DI (item 22) in the list of railway projects of national importance in the |

| | | | |
|---|---|---|---|
| | | | Transport Development Strategy. The project implementation depends on the decision by the CEF. |
| Works on the railway lines No 14, 881 section Łódź Kaliska – Zduńska Wola – Ostrów Wielkopolski, stage II: Zduńska Wola – Ostrów Wielkopolski | Government Party | relevant national operational programme for the years 2014 – 2020 | Section included in the DI (item 22) in the list of railway projects of national importance from the Transport Development Strategy. |
| Works on the railway line E-20, section: Warsaw – Poznań – remaining works, section Sochaczew – Swarzędz | Government Party | CEF | Section included in the DI (item 30) in the list of railway projects of national importance to the Transport Development Strategy. The project implementation depends on the decision by the CEF. |
| Works on the railway lines No 14, 815, 816, section Ostrów Wielkopolski – Leszno – Głogów including electrification of the section Krotoszyn/ Durzyn – Głogów | Government Party | relevant national operational programme for the years 2014 – 2020 | Section included in the DI (item 42) in the list of railway projects of national importance from the Transport Development Strategy. |
| Comprehensive interventions in sustainable urban mobility / eco-transport | Government Party / Territorial Government Party | relevant national operational programme for the years 2014 – 2020 / ROP / funds of the territorial government units | The interventions will be implemented in the form of projects stemming out from the Integrated Territorial Investments Strategy (ZIT) for the Voivodship city and its functional areas. The projects will be identified according to procedures provided by the implementation Act: |

| | | | |
|---|---|---|---|
| Support to activities in the area of energy efficiency according to the division of investments between the national and the regional programmes | Government Party / Territorial Government Party | relevant national operational programme for the years 2014 – 2020 / ROP / funds of the territorial government units | • agreed between the ZIT Union, Voivodship Territorial Government and the minister responsible for regional development based on the ZIT Strategy<br>• obtaining approval from the ROP Managing Authority (further herein the MA) and the MA of the relevant national operational programme for the years 2014 – 2020,<br>• the project is prepared and the application to get subsidies is filed when indicated by the competent MA,<br>• the purpose of the project and the value of subsidy is determined based on the ZIT Strategy,<br>• depends on availability of fund allocations. |
| Establishment of the agglomeration railway servicing the area of Poznań Agglomeration | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 / ROP / funds from the territorial government units | If funds are available the project will be able to apply for financial support under the relevant national operational programme for the years 2014 – 2020 (PI 7.4), in a closed competition for projects resulting from the Territorial Contracts. Projects included in the ZIT Strategy will score additional points. |
| Interventions concerning implementation of the Regional Scientific-Research Agendas (RANB) in | Government Party | relevant national operational programme for the years 2014 – 2020 | The Government Party, under the relevant national operational programme for the years 2014 – 2020, shall dedicate funds for projects implemented under the framework of the regional |

| | | | |
|---|---|---|---|
| Wielkopolskie voivodship | | / own funds of the beneficiary | scientific-research agendas.<br><br>The Territorial Government Party may present a proposal of the regional scientific-research agenda, independently or jointly with other voivodships, under the relevant the research projects will be national operational programme for the years 2014 – 2020 implementing the regional-scientific agenda<br><br>The Government Party will choose regional scientific-research agendas from the proposals presented in that area by the board management of the voivodships.<br><br>According to the framework of the regional scientific-research agendas chosen by the Government Party, and through the relevant operational programme for the years 2014 – 2020, research projects will be chosen based on competition in which an entity from the voivodship covered by the regional scientific-research agenda will be the consortium leader (coordinator). |
| Establishment of the Hospital Rescue within the construction of the new Mother and Child Hospital in Poznań | Government Party | relevant national operational programme for the years 2014 – 2020 | The intervention is planned to be included in the list of strategic projects in the area of healthcare to be implemented within the relevant national operational programme for the years 2014 – 2020. Project implementation depends on the final version of that programme, as the result of negotiations with the European Commission. |
| Construction of the | Government | relevant | The intervention is planned to |

| | | | |
|---|---|---|---|
| Hospital Rescue Department within the Clinical Centre of Rescue and Intervention Medicine in Poznań | Party | national operational programme for the years 2014 – 2020 | be included in the list of strategic projects in the area of healthcare to be implemented under relevant national operational programme for the years 2014 – 2020. Project implementation depends on the final version of the respective programme, as the result of negotiations with the European Commission. |
| Construction of facilities for the Group of Music Schools in Poznań | Government Party | State budget funds | Multiyear project implemented by the Ministry of Culture and National Heritage (further herein: MoCNH) |
| Thermal modernization of state artistic education entities of in Wielkopolskie voivodship | Government Party | relevant national operational programme for the years 2014 – 2020 / State budget funds | Multiyear project implemented by the MoCNH. |

4) conditional interventions whose implementation depends, among others, on availability of funds:

| Name of intervention and beneficiary | Competent Parties (Government Party / Territorial Government Party) | Projected funding source | Conditions for implementing the intervention |
|---|---|---|---|
| S-11 Ostrów Wielkopolski – Kępno | Government party | relevant national operational programme for the years 2014 – 2020 | Intervention included in the DI (item 30) to the Transport Development Strategy. Implementation depends on availability of funds and if the projects is included in the PBDK. |

| | | | |
|---|---|---|---|
| S-11 Bypass of Oborniki | Government party | State budget funds | Intervention included in the DI (item 34) to the Transport Development Strategy. Planned commencement of study work for the respective road section |
| S-11 Piła - Poznań | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention included in the DI (item 34) to the Transport Development Strategy. Implementation depends on availability of funds and if the project is included in the PBDK. |
| S-10 Szczecin Bydgoszcz – sections within the area of Wielkopolskie voivodship | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention included in the DI (items 26, 29, 38) to the Transport Development Strategy. Implementation is dependent on availability of funds and if the project is included in the PBDK. |
| DK 25 Ostrów Wielkopolski – Kalisz – Konin | Government Party | State budget funds | Planned commencement of study works for the respective road section. |
| Construction of the viaduct over Inflancka Street and viaduct over Chartowo and Zegrze in the course of Bolesława Krzywoustego Street in Poznań | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Applying for the EU funds for national roads is possible, based on competition for urban nodes of basic TEN-T network under the relevant national operational programme for the years 2014 – 2020. |
| Construction of Naramowicka Node over Lechicka Street in Poznań | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Applying for the EU funds for national roads is possible, based on competition for urban nodes of basic TEN-T network under the relevant national operational programme for the years 2014 – 2020. |
| New route for the national road No 25 within the town limits of Konin on the | Territorial Government Party | relevant national operational programme | Applying for the EU funds for national roads is possible, based on competition for urban nodes of basic TEN-T network under |

| | | | |
|---|---|---|---|
| section from Poznańska Street to Przemysłowa Street | | for the years 2014 – 2020 | the relevant national operational programme for the years 2014 – 2020. |
| Construction of Gostynin bypass on the national road No 12 | Government Party | relevant national operational programme for the years 2014 – 2020 | The intervention depends on whether is included in the PBDK and if funds can be secured under the relevant national operational programme for the years 2014 – 2020. |
| Rehabilitation of railway line No 356 Wągrowiec – Gołańcz – voivodship border | Territorial Government Party | ROP | Project presented by the Polish Railway Lines S.A. (further herein: PLK S.A.) to the territorial government of the Voivodship to be financed through the ROP. Implementation depends on availability of funds. |
| Rehabilitation of railway line No 357 Drzymałowo – Wolsztyn | Territorial Government Party | ROP | Project presented by the Polish Railway Lines S.A. (further herein: PLK S.A.) to the territorial government of the Voivodship for financing within the frameworks of the ROP. Implementation depends on availability of funds. |
| Works on the railway lines No 281, 766 Oleśnica – Łukanów – Krotoszyn – Jarocin – Września – Gniezno | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 54) in the list of railway projects of national importance from the Transport Development Strategy. The project implementation depends on availability of funds. |
| Works on the railway lines No 18, 203 Bydgoszcz Główna – Piła – Krzyż, stage I, section Bydgoszcz – Piła | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 61) in the list of railway projects of national importance from the Transport Development Strategy. The project implementation depends on availability of funds. |
| Works on railway lines No 18, 203 Bydgoszcz Główna – | Government Party | relevant national operational | Intervention is included in the DI (item 62) in the list of railway projects of national importance |

| | | | |
|---|---|---|---|
| Piła – Krzyż, stage I, section Piła – Krzyż with electrification | | programme for the years 2014 – 2020 | from the Transport Development Strategy. Implementation depends on availability of funds. |
| Modernization of the railway line No. 354 Poznań Główny POD – Piła Główna | Territorial Government Party | ROP | It has been initially agreed upon implementation of this section under the ROP. |
| Modernization of hydro-technical structures of Bydgoszcz Canal - the section from km 14.8 to km 38.9 including the locks: Okole, Czyżkówko, Prądy, Osowa Góra, Józefinki and Nakło Wschód as well as Józefinki weir | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 18) in the list of inland waters related projects from the Transport Development Strategy. Implementation depends on availability of funds. |
| Rehabilitation of the navigation route of the Bydgoszcz Canal and lower Noteć River (from km 14.8 to km 176.2) to the parameters of class II waterway | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 19) in the list of inland waters related projects from the Transport Development Strategy. Implementation depends on availability of funds. |
| Modernization of hydro-technical structures on the lower Noteć River waterway from km 38.9 to km 176.2 | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 20) in the list of inland waters related projects from the Transport Development Strategy. Implementation depends on availability of funds. |
| Reconstruction of river engineering structures and river engineering works on the Warta River from km 0.00 (town of Kostrzyń on the Odra) to km 68.2 (town of Santok) and | Government Party | relevant national operational programme for the years 2014 – 2020 | Intervention is included in the DI (item 22) in the list of inland waters related projects from the Transport Development Strategy. Implementation depends on availability of funds. |

| | | | |
|---|---|---|---|
| on the lower, free-flowing Noteć River (from km 176.2 to km 226.1), aiming at restoring the parameters of class II waterway | | | |
| PIONIER-LAB – National Platform of Research Infrastructure Integration with the Innovation Ecosystems | Government Party | ROP (eventually the relevant national operational programme for the years 2014 – 2020 according to the competition procedure | Intervention is included in the PMDIB. It could be implemented from the ROP, if the proposal is compliant with the programme and the smart specializations. |
| PRACE – Partnership for Advanced Computing in Europe | Government Party | ROP (eventually the relevant national operational programme for the years 2014 – 2020 according to the competition procedure | Intervention included in the PMDIB. It could be implemented from the ROP, if the proposal compliant with the programme and the smart specializations. |
| ICOS-PL – Integrated Carbon Observation System | Government Party | ROP (eventually the relevant national operational programme for the years 2014 – 2020 according to the competition procedure | Intervention included in the PMDIB. It could be implemented from the ROP, if the proposal compliant with the programme and the smart specializations. |

| | | | |
|---|---|---|---|
| ECBiG – European Centre of Bio-information and Genomics | Government Party | ROP (eventually the relevant national operational programme for the years 2014 – 2020 according to the competition procedure | Intervention included in the PMDIB. It could be implemented from the ROP, if the proposal compliant with the programme and smart specializations. |
| Cooperation Network of the Research and Development Sector and Enterprises in Functional Materials Processing Technique and Research | Territorial Government Party | ROP | This project was initially recommended to the ROP. The final agreement regarding the project implementation depends on the evaluation performed by the Ministry of Science and Higher Education (further herein: MoSHE) and the National Centre of Research and Development (further herein: NCBR) according to the current project description (in line to the forms provided by the Ministry of Infrastructure and Development on September 4, 2014). The implementation depends on verification of project description, particularly with regard to funding sources, own financial contribution, and funding sustainability post-completion of the project. Implementation will also depend on the project's consistency with the regional programme and the regional smart specializations. |
| Development and and equipping the Faculty Centre of Innovation Pharmaceutical Technology at Karol Marcinkowski Memorial Poznan University of Medical Sciences | Government Party | ROP | |
| Wielkopolska Renewable Energy Centre | Territorial Government Party | ROP | |
| Plants Phenotyping Centre | Territorial Government Party | ROP | This project was initially recommended to the ROP. The Institute is the only entity in Poland that has the ERA-Chairs (Horizon 2020 Programme). The final agreement over project implementation depends on the |

| | | | |
|---|---|---|---|
| | | | evaluation performed by MoSHE and the NCBR according to the current project descriptions (in line with the forms provided by the Ministry of Infrastructure and Development on September 4, 2014). The implementation depend on verification of project description, particularly regarding funding sources, own financial contribution, and funding sustainability post-completion of the intervention. |
| Construction of the Western Centre for Heart and Vessels Diseases in Poznań | Government Party | State budget funds | The project may be included in the multiyear programme of the Ministry of Health (further herein: MoH) – The programme is furthered implemented. Implementation of the programme will be possible after its enactment by the Council of Ministers and getting funds from the State budget (part 46). |
| Establishment of Proton Radiotherapy Centre in Poznań | Territorial Government Party | ROP / State budget funds | Implementation of the intervention will depend on the final purpose of the Health Policy paper and the decisions of the Steering Committee indicated in the Partnership Agreement. The main part of material aspect of the may be implemented under the National programme for control of neoplastic diseases financed from domestic funds used by of the MoH implemented based on competition (programme until 2015). Implementation of the intervention depends on the competition's results and final decision over the implementing authority, according to selection criteria of the implementing authorities, programme description, and availability of |

| | | | |
|---|---|---|---|
| | | | funds. |
| Construction of the new Mother and Child Hospital in Poznań | Government Party | ROP | Implementation of the intervention will depend on the final purpose of the Health Policy paper and decisions of the Steering Committee indicated in the Partnership Agreement. |
| Development of higher education based on regional needs | Government Party | relevant national operational programme for the years 2014 – 2020 | The Government Party, within the frameworks implementing activities in the area of higher education under the relevant national operational programme for the years 2014 – 2020, shall dedicate funds for activities based on specific characteristics of the region.<br><br>The interventions reflecting the specific regional needs (resulting from the regional smart specializations) will be identified based on to the competition under the national operational programme for the years 2014 – 2020, ensuring interregional competition based on projects pre-selection mechanism applied at the regional level.<br><br>The detailed principles and application method of the above-indicated mechanism will be approved by the committee monitoring the relevant national operational programme for the years 2014 – 2020. |
| Implementation of the development programme for medical high schools taking part to the participating practical education of students, | Territorial Government Party | relevant national operational programme for the years 2014 – 2020 | Implementation of the intervention will depend on the final version of the relevant national operational programme for the years 2014-2020 resulting from negotiations with the European Commission and available allocation. |

| | | | |
|---|---|---|---|
| including establishment of medical simulation centers. | | | |

2. The expected outcome of implementation of the interventions indicated in section 1 are the following:

9) in the area of research and development – increasing the outlays on research and development, and increase the in innovation level in the Voivodship;
10) in the area of transport infrastructure – improving transport access of the Voivodship in the (international/domestic/regional) system;
11) in the area of healthcare infrastructure – improving access to healthcare services in the Voivodship;
12) in the area of activities regarding the functional area of the voivodship city, decreasing the level of pollution, and increasing availability and quality of clean urban transport; increasing energy efficiency; strengthening collaboration among territorial government units within the framework of the Integrated Territorial Investments;
13) in the area of activities covering sub-regional towns – decreasing the level of pollution increasing availability and quality of clean urban transport;
14) in the area of culture and national and regional heritage – improving access to cultural goods and services.

3. Implementation of interventions specified in section 1 will depend on:

11) the results of the negotiations for the operational programmes for the years 2014 – 2020 in connection to the Partnership Agreement in the area of cohesion policy, within the frameworks these interventions could be financed;
12) readiness of priority interventions to be implemented;
13) availability of funds within the indicated funding sources;
14) compliance with the criteria applicable to the given funding sources;
15) non-occurrence of circumstances resulting in not being able to finance projects according to the principles, including those subsidizing the intervention in compliance with the criteria applicable to the given funding sources;
16) in case of interventions resulting from the Integrated Territorial Investments strategy – the conditions to get subsidies depend on the results of further works on the ZIT Strategy according to art. 30, section 8, point 4 of the Implementation Act, including the positive opinion from the managing authority of the relevant operational programme for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, or the ROP, and agreement of potential contractor;
17) filing the relevant application by the entity responsible for project implementation, to the relevant institution or relevant authority at the time and conditions indicated by the respective institution or the authority, in order to confirm that the intervention is ready to be implemented;

18) capacity of the entity responsible for project implementation to provide its own (financial contribution;
19) agreement between the Parties on detailed conditions for project implementation, including the final funding sources;
20) other than specified at points 1-9 formal and legal conditions necessary for relevant implementation of the intervention.

4. Priority interventions specified in section 1 are implemented based on conditions defined in relevant documents for the given funding source, considering the detailed conditions indicated in section 1.

5. Granting funds for implementing priority interventions indicated in section 1, spending and accounting, is based on relevant documents for the given funding source.

Art. 7

Purpose and procedure of reporting on performance of the Contract regarding objectives and priority interventions

1. Within 5 months after preparing the Contract, the Parties - according to competence indicated in art. 6, section 1 - will prepare and send to each other the information concerning each intervention indicated in art. 6, section 1, excluding interventions resulting from the DI, PBDK or WPIK, according to the template comprising Annex No. 1a to the Contract. In the case when, as the result of amendment to the Contract, additional priority interventions are indicated, the time for preparation of the information on the intervention will be applied *mutatis mutandis*.

2. The information indicated in section 1, drafted according to the template in Annex No. 1a will be Annex No. 1b to the Contract, defining the detailed conditions for implementing each of the individual interventions, after they have been agreed upon by other Party. Any change to Annex No. 1b to the Contract shall require the agreement of the Parties. .

3. Failing to prepare the information indicated in section 1 may result in removing the intervention from the list of priority interventions indicated in the Contract. Removing the priority intervention from the list in the Contract shall require consent of the Parties.

4. By February 15$^{th}$ of each year, the Minister will ask the relevant managing authorities of the national operational programmes for the years 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, to provide information regarding performance of the Contract during the previous year, especially concerning the priority interventions indicated in art 6, section 1, implemented within the framework of those programmes. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy.

5. By February 15$^{th}$ of each year, the Minister asks the relevant authorities to provide information on performance of the Contract during the previous year regarding the objectives and priority interventions indicated in art. 6, section 1, that are not covered by

the operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, implemented in the Government sectors overseen by them. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the given sector.

6. By April 30th of each year, the Territorial Government Party passes on to the Minister information on performance of the Contract during the previous year with regard to the objectives and priority interventions implemented under the ROP, indicated in art. 6, section 1. The information is prepared based on data provided by the entities responsible for project implementation or data and information obtained while managing the programme.
7. By May 31st of each year, the Minister prepares and submits to approval by the Territorial Government Party the draft information on performance of the Contract during the previous year concerning the objectives and priority interventions taking into consideration the information specified in sections 1-2.

8. Within 7 working days, the Territorial Government Party presents to the Minister the comments to the draft indicated in section 7. If there are no comments, the draft is considered approved. The Minister reviews the comments provided by the Territorial Government Party and agrees with the final purpose of the information.
9. The Minister, in consultation with the Territorial Government Party, develops the information templates indicated in sections 4-7. Those templates are not part of the Contract.

Art. 8

The method applied to perform monitoring and control of the performance of the Contract regarding development objectives and priority interventions by the Minister

1. The Minister monitors the performance of the Contract with regard to development objectives based on public statistics data and analyses or evaluations regarding any purpose of the objectives or priority interventions. The conclusions on monitoring are included in the draft information indicated in art. 7, section 7.
2. The Minister monitors the Contract performance regarding priority interventions by monitoring the implementation progress of the intervention, especially with regard to the material and financial progress, in connection to information concerning each intervention prepared by the Parties according to art 7, section 1. Project monitoring may be conducted based on public statistics data, information on interventions available in the tele-information system -- as specified in art. 69 of the Implementation Act - and based on analyses or evaluations of the priority interventions.
3. If certain circumstance occurs or the Minister obtains information on the relevant performance of the Contract, the Minister may conduct a control about Contract implementation based on documents.
4. For the purpose of conducting the control as specified in section 3, the Minister files an application to obtain the necessary documents available from the entities responsible for project implementation, managing authorities of the national operational programmes for

the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, relevant ministers, or the Territorial Government Party.
5. After completing the control specified in section 3, the Minister drafts the post-control information.
6. The Minister passes on the post-control information to the relevant managing authority of the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy, the ROP managing authority, the relevant minister of the entity responsible for the project implementation further herein referred to as the "controlled entity."
7. The controlled entity has the right to present, within 14 days after receiving the post-control information specified in section 5, motivated written objections to the respective information.
8. The time specified in section 7 may be extended by the Minister, for a specified time, if the control entity has submitted an application before the time allowed for presenting objections expires.
9. The Minister has the right to correct the obvious mistakes in the post-control information, at any time, ex officio or on application performed by the controlled entity. The information about correction is provided to the controlled entity without undue delay.
10. Objections to post-control information shall be considered by the Minister within no more than 14 days from the date these objections were presented. During consideration of the objections, the performance of operations or actions specified in section 12 by the controlling institution interrupts the progress of the time limit.
11. Objections specified in section 7 may be withdrawn at any time. The Minister removes the objections that have been withdrawn without consideration.
12. While considering the objections, the Minister has the right to conduct additional control operations or demand presentation of documents or additional explanations in writing.
13. After considering of objections, the Minister drafts the final post-control information containing the updated findings of the control or the written position concerning the presented objections together with reasons for refusal of correcting the findings. The ultimate post-control information is sent to the controlled entity.
14. There is no possible to presenting objections to the ultimate post-control information and to the written position concerning the objections presented.
15. Within the purpose of priority interventions under the competence of the Government Party, according to the competence defined in art. 6, section 1, the Minister may submit an application for conduction control to managing authorities of the national operational programmes for the period 2014-2020 in connection to the Partnership Agreement on area of cohesion policy or to relevant ministers covered by the purpose of Contract.
16. Under the purpose of the priority intervention the Territorial Government Party is responsible for, according to competences defined in art. 6, section 1, the Minister may submit to the Territorial Government Party the application to conduct control.
17. The control activities indicated in sections 15 and 16 are conducted in the manner and in compliance with relevant procedures for the funding of the given priority intervention.
18. After completing the control, the post-control information covering priority interventions:

3) under the competence of the Government Party - is drafted by managing authorities of the national operational programme for the period 2014-2020 in

connection to the Partnership Agreement with regard to cohesion policy or relevant minister as of the purpose covered by the Contract;

4) under the competence of the Territorial Government Party - is drafted by the Territorial Government Party.

19. The entities indicated in section 18 pass on to the Minister the ultimate post-control information right after drafting it.

20. The Minister conducts the post-control information analysis drafted or received during the previous year and passes on to the Territorial Government Party the conclusions of the analysis by March 31st. By April 30th, the Parties agree whether the implementation of corrective actions aimed at relevant performance of the Contract is justified, and they indicate the competent entity in the respective area.

21. In case the Parties conclude that implementation of corrective actions aimed at relevant performance of the Contract is justified, the Minister, on behalf of the Parties, passes on the relevant information on to the relevant entity.

Art. 9

Method and conditions for verification of priority intervention implementation

1. 1. Verification of priority intervention indicated in art. 6, section 1 is conducted by:

3) the Minister – for interventions implemented through the relevant national operational programmes for the period 2014-2020 in connection to the Partnership Agreement regarding the cohesion policy and interventions implemented through other instruments managed at the national level,
4) the Territorial Government Party – for interventions implemented through the ROP and intervention implemented through other instruments managed at the regional level
   - at least once a year, based on the data included in the information indicated in art. 7 or the post-control information indicated in art. 8, section 5.

2. Verification of priority interventions indicated in art. 6, section 1 is conducted especially when:

6) the results of the environmental impact evaluation indicate that implementation of the respective given intervention within the given material and financial extent is impossible;
7) there is an alternative, economically justified solution for the agreed interventions;
8) the funds from the State budget, budgets of the territorial government units or operational programmes for the period 2014-2020 in connection to the Partnership Agreement in the area of cohesion policy are insufficient for efficiently implement the given intervention;
9) there is an infringement of the principles of financing the given intervention applicable to the given funding source;
10) the entity responsible for implementation of the priority interventions is giving up on the implementation.

3. If, as the result of the verification, one of the Parties finds irregularities regarding preparation or implementation of a priority intervention, the Parties agree to take corrective actions and decide on the period of implementation of such actions and on the entities responsible for implementing such actions.

4. The Parties decide to take the given intervention out of the Contract if the Parties decide that corrective actions are not possible or serve no purpose.

CHAPTER 3

AMENDMENTS TO THE CONTRACT AND SOLUTION TO LITIGATIONS

Art. 10

Conditions for amending the Contract

1. The Contract may be amended based on a justified application by each Party..

2. Amendment to the Contract shall be done in writing or otherwise it will be null and void.

Art. 11

Conditions and method for Contract termination

1. Each of the Parties may terminate the Contract on 6-month termination notice in writing or otherwise it will be null and void.
2. Termination of Contract as indicated in section 1 requires presenting the reasons for such action, and the terminating Party provides information on the circumstances for contract termination.

Art. 12

Severability clause

If any provision of the Contract is considered invalid, contrary to the law or not enforceable, the rest of the provisions shall remain in force and the Parties shall make relevant amendments to the Contract.

Art. 13

Solution for litigations

1. The Parties shall solve all litigations arising from the performance of the Contract provisions in an amicable manner without referring the case to the courts.
2. Any agreement between the Parties made according to the procedure as per section 1 will come into force only when it is made in writing and signed by the Parties provided that no consent of any third party is required to make the settlement. In this situation, the effective date of the agreed solutions depends on the written consent of the third party.
3. If one of the Parties infringes the provisions of the Contract, the other Party may demand the infringing Party infringing the provisions to remedy the infringements. An action or negligence to take action may represent an infringement. The demand to remedy the infringement shall be made in writing.
4. Litigations that are not settled according to the procedure indicated in sections 1-3 will be settled by the general court that has the jurisdiction for the registered office of the Minister.

Art. 14

Miscellaneous provisions

1. A Party may not transfer to any third person the rights and liabilities resulting from the Contract without the consent of the other Party.
2. This Contract is a framework agreement in its nature and until the duration of the agreement between the Parties, in the form of Schedule 1b to the Contract, of the detailed conditions for implementation of individual intervention, including the method to finance them, it does not represent a legally binding commitment of the Parties as to implement the individual interventions or financing them. In case of non-implementation of individual interventions or changes regarding conditions for their implementation, none of the Parties will be eligible to any consequential claims, in particular financial claims.
3. Agreements included in the Contract may not be the basis for claims against the Parties filed by other entities, including entities responsible for implementation of interventions indicated in art. 6, section 1.
4. Exchange of information regarding the performance of the Contract will be conducted in the written form or by electronic means to the respective addresses in separate mails.
5. The Parties acknowledge that they do not know any circumstances that should make implementation of priority interventions not possible.
6. All matters not included in the provisions of the Contract shall be governed by the applicable domestic and EU regulations.
7. The Contract was made in four identical copies of which two are for the Territorial Government Party and two for the Minister.

Art. 15

Effective date

The Contract will be effective as of the date of signing it by the second Party.

(signatures on the next page)

Minister

---

Marshal of the Voivodship / Member of the Board of Management of the Voidvodship

---

Member of the Board of Management of the Voivodship

---

*Annex No 1a*
*Template of detailed information concerning priority interventions defined in art. 6.*

1. Name of the priority intervention
……
2. Entity responsible for implementing the intervention
……
3. Description of the intervention in the context of the proposed objectives
……
4. Subject area of the intervention implementation
……
5. Area of intervention implementation (indicate the applicable OSI, if the intervention covers them)
……
6. Location of intervention implementation
……
7. Status of progress of preparatory / implementation works
……
8. Indicative total intervention implementation cost
……
9. Intervention funding sources

| Total (In PLN) | | | Including: | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2015 | | | 2016 | | | 2017 | | | …… | | |
| Financing Source A | Financing Source B | Financing Source B | | | | | | | | | | | | |
| | | | | | | | | | | | | | | |

10. Intervention implementation schedule

| Components / Stages | Commencement date (A) mm/yyyy | Completion date (B) mm/yyyy |
|---|---|---|
| | | |
| | | |

11. Expected outputs and results (*indication of measurable indicators and their baseline, and target values*)

| Output / result indicator | Baseline value | Expected target value |
|---|---|---|
| | | |
| | | |

12. Potential complementary interventions

*Schedule No 1b*
*Information concerning priority interventions defined in art. 6.*