

Cojanu, Valentin; Dima, Alina; Muşetescu, Radu; Pîslaru, Dragoş; Stănculescu, Manuela

Research Report

Specific requirements of the EU structural instruments and policy implications for Romania

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European Institute of Romania

Study no. 6

Specific Requirements of the EU Structural Instruments and Policy Implications for Romania

Authors:

Valentin Cojanu, Senior Lecturer - coordinator

Alina Dima, Assistant

Radu Muşetescu, Assistant

Dragoş Pişlaru, Lecturer

Manuela Stănculescu, Ph.D. Candidate

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I. Introduction

The regional-oriented growth policy in the European Union (EU) has been seen as a crucial companion of the integration process from its very inception. The founding of the European Coal and Steel Community (ECSC) in 1951 was first to produce regionally dislocation effects on labor market as a result of liberalization in the iron and steel industry. Coordinated actions to mitigate such socially adverse impact were subsequently considered in the Messina communiqué of 1955 which emphasized the need for harmonized social norms and expenditure programs to aid poor regions.

The Treaty of Rome (TR) of 1957 gave these concerns legal expression by providing for the creation of the European Economic Community (EEC) in the form of an economic and monetary union with a social dimension. The founding Members included Title III on 'Social Policy' in the Treaty and decided that the financial resources for development would be channeled with the help of two funds, the European Agricultural Guidance and Guarantee Fund (EAGGF) and the European Social Fund (ESF).

It was however not until 1973 that a decision to introduce a regional policy was made and the main financial instrument – the European Regional Development Fund (ERDF) – was set up in 1975. A fourth redistributive instrument – the Financial Instrument for Fisheries Guidance (FIFG) – topped off the set of Structural Funds (SF) in 1993, whereas the Cohesion Fund launched in 1996 was deemed to contribute to projects in the field of environment and trans-European transport infrastructure. Institutions like the European Investment Bank (EIB) were additionally assigned tasks and financial means to promote "the balanced and steady development of the common market" (Article 267¹).

There is no doubt that economics alone could not prevent other factors to interfere with and in some cases decisively shape the nascent regional policy. The sense of this process has made some authors think that "the EU clearly lacks the historical moments

¹ If not otherwise mentioned, references to the EU Treaties are made from *Treaty Establishing the European Community amended by the Treaty of Amsterdam* in "The Rome, Maastricht and Amsterdam Treaties. Comparative Texts", La Documentation Française, Paris, 1999 (1998).

and myths that merged nationhood with solidarity" (Hine and Kassim). With the benefit of hindsight, one may notice that the regional policy evolved irregularly at the confluence of powerful national interests and imperatives of an ever larger organization. In the 1960s and 1970s, the compromise related to purely domestic aspects. The policy of structural transfers became conditional upon policy quid pro quos for harmonization of social regulations at the demands of the French Patronat or for completion of the internal market at the request of similarly influential German businesses (Moravcsik; Hervey).

The successive waves of enlargement showed more conspicuously the influence of Member States in policies involving direct redistribution of income. The accession of the UK in 1971, along with Ireland and Denmark, not coincidentally marked the start of regional development assistance. The extensive regional programs which followed up was documented by Moravcsik as a result of the strong bargaining power of Britain which sought financial transfers to offset for the net contributions to the EU budget. Later on, it became evident that the expansion of structural funds increasingly played the role of an exchange value in support from further market integration (Moravcsik; Hervey; Richardson; Boldrin and Canova). Side payments were demanded by poorer Member States – Greece, Ireland, Spain, and Portugal – and promised in secretive meetings with Germany, Britain, and France "if they signed the Maastricht Treaty" (Moravcsik 446). During negotiations on its accession terms, Spain in a bold move has been even successful to retain a national veto over all EU decisions on regional aid (*The Economist, Joining the West*).

The Community self-assumed ambitions of an economic and monetary union nevertheless raised proper concerns as regards the consistency and limits of a regional policy. The political agreement on the Single European Act (SEA) of 1986 which finally led to the creation of a Single European Market (SEM) by 1992 introduced total freedom of movement of labor. By implication it requested new regulations on harmonization of qualifications, equality of access to employment benefits and other social benefits. A response was the adoption of a Charter of the Fundamental Social Rights of Workers in 1989, which later constituted the 'social chapter' of the 1993 Treaty of European Union (TEU). The TEU included economic and social cohesion among the tasks of the Community (Art.2) and presented an articulate wording of its meaning: "reducing disparities between the levels of development of the various regions and the backwardness of the least-favored regions or islands, including rural areas" (Art. 158).

The lessons from the past are in general a potent indication of the possible evolutions ahead. The regional policy is thus presumed to stay further on at the convergence of integration processes and national determinants. The eastward enlargement provides the most recent illustration of this conjecture. For one thing, it has renewed the interest for further reorganization of the Structural Funds because calculations from European Commission show that 51 of 53 regions in the ten Central Eastern European Countries have an average GDP per head below 75% of the EU average, which under current rules would automatically qualify them for regional aid.. Agenda 2000 and the CAP reform of 2003 initiated changes which would secure a lasting role for regional policies. Increased support for rural development at the expense of production subsidies and enhanced concentration of structural funds on priority objectives claim new approaches and thinking on structural policies.

On the other hand, it is noteworthy to see how enlargement makes interests coalesce again around regional matters. The sheer number of adherents shifts the focus on coalition building along more narrowed defined issues. There is no apparent reason to explain why the main beneficiaries of the developmental EU funds – Greece, Spain, Ireland, and Portugal, plus Italy – count also amongst the most enthusiastic about enlargement according to a survey quoted by *The Economist (Reasons of state)*, although a sizeable part of their aid is to be redirected to poorer Eastern regions. This time, small countries seem to bargain present transfers for future bargaining strength of their own. Even before the EU formal enlargement on May 1st 2004, this sort of arrangements has made inroads into foreseeable political agenda: first, Poland joined Spain to oppose the project of Constitution mainly on voting power grounds; then, Poland anew, plus Estonia enrolled a group of EU countries – Spain, Netherlands, Portugal, and Italy – threatened by the free will of two big Members – France and Germany – in applying the Stability and Growth Pact.

The first wave of accession countries concluded negotiations on Chapter 21 of the *acquis* ("Regional policy and co-ordination of structural instruments") between April and July 2002, except for Poland, the biggest of them in terms of both population and area, which closed the Chapter in October 2002. Although a proper view on the scope of regional policy would necessarily demand inclusion of recommendations which may also arise in application of the *acquis* under various other chapters (e.g. "Agriculture", "Social policy and employment", "Transport", "Environment", "Competition"), the present approach narrows its choice to policy requirements and implications which results directly from the obligations of Chapter 21.

This study emphasizes topics which provide an understanding of the way the regional policy ought to be conducted. The interest successively lays on: theoretical support for a regional policy; administration of structural funds and related experience by means of comparative analysis of a member state (Spain), a former candidate country (Poland) and Romania; issues related to the implementation of pre-accession funds in Romania; ongoing problems related to the administration of structural funds in Romania. Next to these key subjects, the study also presents an ordered view of structural instruments; a comparative scrutiny of the execution of pre-accession funds, as well as the negotiations on chapter 21 in the candidate countries; and a critical assessment of Romanian experience in the field. In-depth attention is drawn on several practical issues which are included for illustrative purpose. Their subjects touch on two sensible areas – preparation of project pipeline and of regional statistics – which the Romanian Government makes strenuous efforts to tackle with. Policy implications for structural funds administration in Romania are accordingly suggested on the basis of theoretical predictions, member states' experience and first evaluations of the enlargement process.

The study is organized as follows: Section II provides theoretical arguments and empirical evidence regarding the effects of economic integration on regional growth performance at the European level, and the role of EU structural funds in that process. Section III is concerned with particular problems the negotiation process of enlargement has revealed. A presentation of the Poland case has been chosen to underline an innovative approach of that country by means of three solutions: redirection of the funds from structural to direct payments; conclusion of voivodships contracts; and early

expertise in implementation of local development measures. Section IV indicates the present stage of SF administration in Romania and outlines the thorny issues of financial management and absorption capacity at the level of institutions and regions. Section V draws conclusions and indicates recommendations both for private firms and public bodies.

A final tone of caution as regards the expected benefits of proper planning and administration of structural funds should be implied by two contiguous facts. First, the main principles of the Structural Funds will continue to govern the Funds until 2006. Beyond that term, as the presentation in Section II implies, enough flexibility of the system of programming is required in order to cope with foreseeable changes in the forms and number of assistance schemes. Second, the regional policy is to a considerably extent a national choice and is accordingly based on fundamental sets of economic principles and social values which are detached for any EU requirements of technical nature. There is an institutional diversity of Europe's welfare regimes which ranges from the neo-liberal to conservative traditions. Although this study supports a reasoned positioning on this continuum, the debate surely is just about to take off.

II. The Regional Policy of the European Union

II. 1 Economics of regional development in the EU context

A scholarship of the literature on regional economic integration reveals a basic economics dilemma between social justice and economic efficiency. The idea has been transposed in the EU context by crafting a regional policy which, according to Hervey, should be seen as an instrument to alleviate the disadvantage suffered by groups of people and geographical regions as a result of the technological, industrial, and economic changes brought about the creation of the internal market (5).

The quest to reveal how much support the economic theory provides to regional policy-making comes across two prominent issues: the effectiveness of redistributive measures (financial transfers) to disadvantaged areas or people; and the development gap or the inequality between poor and rich regions. Although other factors should also be enlisted here, for instance spatial or administrative planning, they go beyond the scope of this study.

Public transfers and capabilities

Much of the tradition in economics has connected the outcome of a competitive market to Pareto optimality, a condition in which no one can be made better off without making someone else worse off. This argument provides the basic rationale for ever closer market integration, where goods, labor and other factors ought to move freely across borders, a process which has actually characterized the historical evolution of the EU from a customs union in 1957 to an economic and monetary union these days.

Trade liberalization is not however supposed to be conducive to a widely desirable distribution of income or even supportive of reducing the income disparities between regions. Empirical tests on both European and international experience with integration have in fact concluded that "the income gaps appear to be growing over time" (Ben-David et al.). In most countries, regional disparities have increased whereas the European common space has kept a relatively constant gap between regions. It is noted (Reiner) that in 1958 the GDP per capita was five times greater in the richest region (Hamburg) than in the poorest (Calabria); in 1996, the same proportion was more than four times and opposed Hamburg again to Ipeiros (Greece).

The socially acceptable distribution of income both within and between countries has thus come to prominence in discussions about the impact of economic integration on regional or local development. The standard solution at hand is the design of policies to promote equality through transfers of resources to poorer regions or populations. The process is largely popular; for instance, the reform package Mitterand proposed in 1981 was labeled "a first step toward a socialist Europe" (Moravcsik 341). The argument however does not make the practical approach easier from an economic point of view. The government runs into informational constraints regarding the eligibility standards, definition of market failures (Stiglitz) or may assume value judgments which deliberately hurt the wealthier class (Feldstein).

Probably the thorniest aspect of redistributive policies is that they inevitably obscure the incentives for work and productive investments and hence lead to losses of economic efficiency. The actual incidence of a public program is highly dependent on the degree of compromising on influences from various political pressures. The regional policy may come to be seen as a highly inefficient form of redistribution: its main effect is seemingly perceived in some European regions as perversely benefiting rich people in poor regions the most (Hine and Kassim).

If left to itself, private response might be more effective in evening out the income discrepancies without distorting the competitive opportunities for growth. That theoretical implication simulated in the case of Spain for the period 1981-1990 and discussed by Hallet looks real: the result shows that an extremely redistributive policy of public investment would have reduced regional disparities by 13.54% at the expense of a 1.62% decrease of Spanish GDP; the alternative extreme policy oriented towards efficiency by allocating public investment according to efficient use would have increased GDP by 1.58% and regional disparities by 18.29%.

The recourse to transfers apparently seems an easier attempt to break up the pernicious causation among unemployment, low incomes and low growth rates. Generally, supporting the unemployed represents the key determinant of any regional policy (Armstrong and Taylor; Sen) precisely because it recovers the access to sources of income. Problems with huge unemployment particularly concentrated in some regions pioneered the modern forms of regional policies in the UK in the 1920s. An European map of regional inequality presented by Steinherr is an illustrative point in case: geographical distribution of low unemployment and low GDP per head coincide for virtually all the regions in Greece; the Mezzogiorno in Italy; most of the regions in Portugal and southern Spain; the most northern regions of Europe; and the regions of East Germany.

Income may be a major factor in defining inequality but a broader picture is nonetheless more useful to understand how it is created. Building on the original exposition of Adam Smith on an individual's social functioning, contemporary scholars (Sen; Sanford) link poverty directly to a person's capability to integrate socially. Sen argues: "Real poverty (in terms of capability deprivation) may be, in a significant sense, more intense than what appears in the income space ". Socially or culturally forged factors like age of the person, gender, location, psychological profile of funds beneficiaries may count as plausible determinants of poverty as well.

From an economic perspective, a catch-up strategy would be more credibly based on targets beyond income-equalizing interventions. Keeping markets competitive and building on local capabilities to spawn occupational initiatives may be seen as part of the same objective to support regional development. For example, authors like Pelkmans consider the worrying developmental gap between EU and accession countries more opportunely tackled by policies to encourage local development of human capital, infrastructure or environmental initiatives. It is so argued that criteria based on "income-generating capability" as opposed to "income gaps" have to play a more prominent role in devising rules of eligibility and transfers within the framework of regional policy programs.

Convergence and regional development

The EU regional policy's objectives have received comments of contrasting evidence from empirical tests (Casselas and Galley; Barro and Sala-i-Martin; Funck and Pizzati; Armstrong and Taylor; Asheim and Dunford; Vickerman at al.). The results reported by these studies alternate optimistic visions of increasing convergence among regions with pessimistic forecasts of increasingly uneven regional development. What surveys of European regions from 1950 onwards in fact find is a picture of slow and inconsistent convergence punctuated by tendencies of regional per capita income disparities to widen relatively faster over small periods.

The catch-up hypothesis would predict that within peripheral countries lagging regions would grow at a greater pace than advanced ones. Yet data presented by Andres for Italy and Spain reveal that this is not the case. In both countries it was mainly the richest regions that grew the most quickly. In the case of Italy, the only three regions that had higher GDP per capita than the average of the EEC in 1980 (Vale d'Aosta, Lombardy, and Emilia –Romagna) grew more than the average of the nation. In Spain, growth was mainly concentrated in the richest regions, such as Madrid, Catalonia, or the Balearic Islands.

The controversy continues in the realm of the beneficial role that structural spending is expected to bring in the cohesion countries. According to the Reiner's estimates, the evident link is sometimes elusive: Greece experienced its most notable catch-up phase during the 1960-73 periods, while for Ireland it was not until the 1990s that it began calling attention to its spectacular success story (43, 46). And it may be that a better understanding of the policy results however requires some qualifications: for example, the employment grew by only 0.2% in the period 1983-93 in Ireland (Bache 118) when much of its robust growth was created.

While justifications of classical economics have showed thus their limits in approaching regional development, new inferences have been lately emerging from explanations (Krugman; Baldwin) trying to reveal the impact of trade on growth in markets characterized by externalities. In this perspective, trade integration engenders agglomerations or clusters of industries. Though the initial drive may be accidental and specialization may occur along essentially arbitrary lines, the cumulative positive effects of such agglomerations arise from well circumscribed factors: the ability of producers to share specialized providers of inputs; the advantages to both employers and workers of a specialized labor market; and localized spillovers of knowledge, especially through personal interaction.

Additional factors of influence such as increased product market integration or government policies help transform the regional or local capabilities in a self-perpetuating process of cumulative causation among industries. The picture of regional growth reveals phenomena of spatial magnitude: some regions – the center – become more interesting for industries characterized by lower average costs the larger the volume of production as location places to serve a bigger, integrated market, while others – the periphery – experience acute de-localization of economic activity.

Even if modern industrial linkages as described for example by Puga and Venables make this reasoning apparently flawless, there still remains the question of the geographical scale at which the expected benefits of regional specialization become sensible. The continental core of Europe is defined by a corridor whose endpoints are Zurich and Rotterdam, neighboring the most economically dynamic regions within Europe: North-eastern Spain, Eastern France, Northern Italy, Western Poland, and South-eastern UK. The least prosperous regions are often located furthest from the core: South-western Spain, South-western France, Southern Italy, Eastern Poland, and North-western UK. Evidence of ongoing spatial effervescence speaks for the possible emergence of a new growth belt from Northern Italy through the South of France and into North-east Spain (El-Agraa 371), as well as a Scandinavian-Baltic space encompassing three developed Nordic countries – Denmark, Sweden, and Finland – and the three acceding Baltic countries.

The seemingly helpful parallel between regions and countries as actors of economic exchanges has the practical result of the EU policy to define recipients of regional aid according to NUTS (*Nomenclature des Unités Territoriales à des fins Statistiques*), a statistical definition according to which regions of various sizes, populations and economic structures are comparable units for analysis². In the 1970s, the EU adopted three regional levels (NUTS 1-3) and two local levels (NUTS 4 and 5) corresponding to the existing administrative borders. At NUTS 2 for example, which represents the official level of analysis of regional disparities at an intermediate level between the local and the national level, differences range from 100,000 to 10 million inhabitants.

According to Martin and Sunley, the spatial organization of industries is more relevant characterized by much smaller and more localized clusters than those broad spatial units used by either theory or policy-makers. Specialization may be accordingly less indicative of the spatial tendencies of industrial development than local processes of industrial diversification. Strong, competitive nuclei of groups of industries display a better capacity to withstand adverse demand shocks and localized structural crises and may be thus more indicative of "the most appropriate regional development policy route" (Martin and Sunley).

At the same time, the regional milieu is not necessarily more important than the national environment particularly when the latter still plays a central role through policies of innovation, legislative initiatives and cultural attitudes in spurring entrepreneurship and regulating businesses. For example, a study of Bjørn and Dunford shows that an examination of the watch-making industry on either side of the Swiss-French border is indicative of profound differences in the two regional production systems which reflect the different national systems of which these two regional economies are a part. A model of economic geography based on growth centers and political influence developed by Paelinck and Polese assumes a distinction between nations where the political capital (the national core) is located near the continental core (the UK) and those where the capital is located at some distance (Austria, Spain, Italy, Poland, ex-Yugoslavia). For these nations,

² Comparable areas for NUTS 1: cities and metropolitan areas (Greater London, Hamburg, Bremen, Brussels), countries (Luxembourg, Ireland, Sweden) or huge rural areas (Calabria, Extremadura).

continental integration will strengthen calls for regional fiscal autonomy and against centrally administered regional income redistribution policies as are the cases of Northern Italy and Catalonia.

Other studies (Rodriguez-Pose; Peschel) also support the view that a regionally more relevant model of spatial organization should go beyond the familiar picture of long established disparities – urban-rural, center-periphery, agrarian-industrial – and place less developed locations in a more dynamic perspective as well. The organization of modern business increasingly demands for a large geographical configuration of value-chain activities (Porter) in order to use geographically dispersed opportunities for growth. That process may involve relocation of production systems – data collection, financial service centers, production units or research and development centers – to peripheral areas. This enhanced flexibility of production systems allows the genesis of new development poles in previously isolated or lagging areas. A redefinition of policy implications would imply, in a way suggested by Vickerman et al., that a more credible alternative to spending on infrastructure connecting agglomerations with low-income regions would be investment programs in transport links within and between peripheral regions.

II. 2 The policy for regional development

The legal basis of the regional development policy of the EU is established in the *Title XVII of the Treaty of the European Union (Title XIV in the Treaty of Rome)*, defining the objective of the regional policy – „reducing the existing disparities between the levels of development of the different regions and the lagging behind of the less developed areas, islands and rural regions” - and the principles that it is founded upon. In addition to the *Treaty* there is the *Council Regulation No 1260/1999*, in which there are stipulated the general directives for the functioning of the *Structural Funds* (amended by *Regulation No. 1447/2001*) as well as other regulations concerning the functioning of the Structural Funds and the Cohesion Fund.

The EU regional development policy is based on the principle of financial solidarity, being funded by the Member States' contribution to the EU budget. The accumulated funds are then redirected towards less prosperous regions and social groups. For the period 2000-2006, these transfers represent almost a third of the EU budget, the total amount being EURO 213 billion. Out of these resources, EURO 195 billion will be spent through the four Structural Funds, and 18 billion will be paid out through the Cohesion Fund.

The principles on the basis of which the structural funds are working have also been modified in the 1999 reform, being strengthened or becoming more specific. The principle of concentration can no longer be found in an explicit form, this nonetheless being the guiding principle of the reform. Thus, if for the period 1994-1999 the operational principles were partnership, programming and internal coherence, additionality (or external coherence) and concentration, in the new variant represented by the *Agenda 2000* these have become: a) principle of programming; b) the principle of partnership; c) the principle of additionality; and d) the principle of supervision, control and evaluation.

a) *The principle of programming* is one of the essential elements of rendering the Structural Funds operational and it refers to the preparation of the *multi-annual development plans*, plans realized on the basis of decisions adopted in partnership with member states in a series of successive stages. Thus, in a first stage, the member states will bring into the attention of the European Commission the *national development and conversion plans* based on the national and regional priorities containing:

- the detailed description of the current state of the respective region/country,
- description of the most appropriate strategy for realizing the national objectives,
- the specification of the form and use of the contribution of the structural funds.

In the next stage the member states have to forward the Commission the so-called *programming documents*, documents realized according to the criteria established by the Commission and which can be of two kinds: *Community Support Framework Documents* (CSFD) – which are then transformed into *Operational Programs* (OP), or *Single Programming Documents* (SPD), the difference being one of scope and not necessarily one of nature.

b) *The principle of partnership* implies a close collaboration between the Commission and the national, regional and local authorities, as well as economic and social partners and other competent bodies, especially by involving them in all the stages of utilization of the structural funds – from the elaboration and authorization of the development plans to their implementation and evaluation. This principle underlines the degree of decentralization and subsidiarity that is typical of the entire regional policy.

c) *The principle of additionality* refers to the contribution of national funds in addition to the community funds (this in order to ensure that EU funding does not replace the national funds assigned to the development of a certain sector, but only supplements these).

d) *The principle of supervision, control and evaluation* is the new element of the structural funds incorporated through the 1999 reform. Thus, according to the new regulation, the member states have administrative duties and the obligation to appoint³:

- for every program of the structural funds, the corresponding national authority,
- supervisory committees.

The responsibilities of the national authorities is in the field of implementation, correct administration and efficiency of the respective program such as: the gathering of statistical and financial information, preparing and transmitting reports to the Commission, organizing intermediary evaluations, etc. The *Supervisory Committees* are headed by a representative of the *national authority for implementation* and are meant to complement its activities by ensuring quality and efficiency in the implementation of the structural measures.

The regional policy finances through the *Structural Instruments* (SI) the multi-annual regional development programs that are elaborated jointly by member states, regions and Commission, on the basis of the orientation for the entire EU that is

³ See HG 497/2004 amending HG 1555/2002.

suggested by the Commission. The Structural Funds are concentrated on a set of clearly defined priorities, as follows:

- 70% of the financing is addressed to regions that are lagging behind in terms of development. These regions host 22% of the EU population (Objective 1);
- 11,5% of the funds are meant to sustain the economic and social conversion of the regions that are confronted with structural difficulties. Around 18% of the EU population lives in these areas (Objective 2);
- 12,3% of the financing promotes the modernizing of the systems for upgrading and training the labour force and of measures targeting employment (Objective 3).

In addition to the three above-mentioned objectives, 5.35% of the funds are directed towards four *Community Initiatives* that are trying to provide solutions to specific problems: trans-border, transnational and inter-regional (Interreg III) cooperation; lasting development of the cities and the decline of urban areas (Urban II); rural development through local initiatives (Leader +); and fighting inequalities and discrimination regarding access to labour markets (Equal).

Finally, there are two more special fund allocations for *adjusting fishery structures* outside the regions included in Objective 1, with a budget of 0.5% of the total SF and for *sustaining innovative actions and technical assistance*, with the goal of promoting and experimenting new ideas aimed at increasing the development level, funded with 0.51% of the existing resources.

The development initiatives financed through the Structural Funds have to fulfil the specific conditions identified at a regional or national level. The approach of the regional development policy in the UE implies placing an emphasis on protecting the environment and promoting equality of chances. The implementation is decentralized, which means that the responsibility rests entirely on the shoulders of the regional and national authorities.

The Structural Funds

At present, four Structural Funds allow the EU to provide non-reimbursable financial assistance in order to solve structural economic and social problems. The four funds are not a single source of finance within the Union, rather, each fund covers its own specific area.

The European Regional Development Fund (ERDF) was created in 1975 and it has become the main instrument of the EU regional policy. This fund contributes to the financing of Objectives 1 and 2. The aims of ERDF are, mainly, to promote the development and structural adjustment of the areas that are lagging behind and sustain the economic conversion, to re-launch and develop the regions that have structural problems, including declining industrial regions, urban areas that are confronted with difficulties, or areas that are dependent of fishery and services. It can finance infrastructure projects, workplace-creating investments, information and communication technology (ICT) investments, local development programs, SME assistance etc. Also,

ERDF finances health and education investments, but only in the areas included in Objective 1.

The fields supported by these measures are: development of the informational society, environment protection, gender equality in the labour force and trans-border and interregional cooperation.

The European Social Fund (ESF) was created in 1958 and it represented, already from its beginnings, the main instrument of the EU social policy. In order to strengthen the economic and social cohesion and to contribute to the implementation of the “European strategy regarding the employment of the labour force”, the ESF is to improve the opportunities for employment for the Single Market workers and unemployed persons by raising their mobility and facilitating their adaptation to industrial changes, in particular by vocational training and re-training, as well as by means of recruitment systems.

The types of measures financed through ESF target the professional reintegration of the long-term unemployed, the professional integration of the young unemployed and the professional integration of the persons that are excluded from the labour market. Also through the ESF measures are funded that promote the equality of chances on the labour market, and to improve the educational systems.

Simultaneously, three horizontal aspects of the EU policies are covered: promoting the local initiatives in the field of employment, the social dimension and professional occupation in the informational society and creating equality of chances between men and women.

The European Agricultural Guidance and Guarantee Fund – EAGGF was created in 1962 in order to finance the common agricultural policy of the EU.

Out of EAGGF, EURO 45.5 billion were spent in 2000, out of which EURO 40,4 billion for the Guarantees Section and EURO 5,1 billion for the Guidance section. The general conditions applying to the allocation of the expenditure for EAGGF and the Financial Instrument of Fisheries Guidance (FIFG), regarding management, control, monitoring and evaluation, are stated in *Council Regulation 1258 on May 17th 1999*. The specific regulations for rural development can be found in *Council Regulation 1257 on May 17th 1999*, and the assistance for informational measures concerning CAP is described in *Council Regulation 814 on the 17th of April 2000*.

The General Directorate for Agriculture (GD) is responsible, together with the management committees, with the elaboration and putting in practice of the CAP. Such a Committee on Agricultural Structures and Rural Development assists the Commission in administrating the Fund and plays a consultative role in formulating opinions to the Commission. The Commission decides on an indicative allocation of EAGGF funds for the stated period. Also, the Commission presents a financial report regarding the administration of the funds to the Council and the Parliament before of July month each year and one report on the implementation of informational measures every two years. At a national level, the member states have to name a ‘payment agency’ or a ‘coordinating

organism’ if several ‘agencies’ are necessary, responsible with the expenditures generated by the CAP.

The EAGGF supports rural development and the improvement of the agricultural structures, being divided in two sections: the guidance section and the guarantees section. Only the guidance section acts as a fully-fledged structural fund out of which assistance is granted for the structural adjustments of less developed regions and which is part of the programs included in Objective 1, as well as the community initiatives in the field (for example, Leader+).

The guarantee section finances measures of common organization of the markets and of sustaining the prices of agricultural products.

Tabel 1: Programs for rural development financed by EAGGF

<i>Guidance Section</i>	<i>Guarantee Section</i>
<ul style="list-style-type: none"> ▪ Investments in agricultural exploitation ▪ Support for young farmers ▪ Qualification ▪ Certain areas for agricultural processing and trade with agricultural products ▪ Other activities regarding the management of forests ▪ Rural development (for example, subventions for land consolidating and for specific agricultural activities). 	<ul style="list-style-type: none"> ▪ Early retiring schemes* ▪ Environmental and agricultural schemes* ▪ Forestry schemes* ▪ Assistance for the least developed regions* ▪ Assistance for semi subsistence farms ▪ Assistance for agricultural producers organizations ▪ Technical assistance

* Accompanying measures provided by the CAP reform (Agenda 2000) and agreed by the Council of Agriculture Ministers of the European Union on 26 June 2003.

The Commission prepares a set of “*indicative policy guidelines*” in order to assist the national and regional authorities to elaborate the development plans and to put in practice any change that intervenes during the process. *Regulation 1257* has introduced new measures in the category of eligible programmes, measures that cover a considerable area of policy actions: marketing of quality products, protection and preservation of rural heritage, diversification of agricultural and non-agricultural activities, and promotion of tourism and handcraft. The national authorities that are responsible can choose from and combine all these measures depending on which measures they consider to respond the best to the objectives of rural development and environmental protection. In addition, through the informational programmes the practical experiences in the field of structural assistance are disseminated by means of seminars, visits and publications (in both an occasional mode and on the basis of annual activities programmes).

The payments are disbursed based on the general rules for structural payments, as follows:

(a) A maximum of 75% of the total eligible and, in general, at 50% of the eligible public expenditures for measures included in Objective 1. The qualification of the country for

Cohesion Fund assistance offers the possibility of covering a maximum of 80% (85% in extreme regions) of the total eligible costs;

(b) A maximum of 50% of the total eligible costs and, in general, at least 25% for eligible public expenditures part of Objective 2.

(b) Up to 50% and even 75% of the costs generated by the informational programmes.

Financial Instrument of Fisheries Guidance (FIFG)

The Common Fishery Policy (CFP), even though it has been included in the regulations of the Treaty of Rome at Article 38, became a set of distinct regulations only in 1983. The *Financial Instrument of Fisheries Guidance (FIFG)* was created in 1993 and formalized as an element of the structural policy through the *Council Regulation 1263 of June 21st 1999*. Through the *Council Regulation 2792 of December 17th 1999* the rules regarding fishery assistance are created. In the period 2000-2006, total committed resources are EURO 1.106 million.

The General Directorate for Fishery, aided by a Committee regarding Fishery and Aquaculture Structures, elaborates and puts into practice the structural policy measures regarding this sector.

The structural measures financed through FIFG are stated in the multi-annual orientation programmes (MAOP) in accordance with the regional context in which they are applied. These refer among others to the procedure for adopting programmes to fishing fleets, the contents of the programmes (description of the situation, strategy, means, implementation), as well as the monitoring rules of MAOP (annual reports on progress, etc).

The structural measures that can be included in MAOP cover a wide area such as upgrading of the fleet, modernizing of the ships used for fishing, creation of a mixed society in order to prevent excess fishing, sustaining small-scale coast fishing, protection and development of aquatic resources, fishery facilities in ports, producers' organizations or compensations for the suspension of activities.

Community initiatives

The community initiatives aim to fulfil the prioritised objectives financed by the structural funds. For the period 1994 – 1999 there have been 13 community initiatives 13, which have been reduced to only 4 after the 1999 reform. Each initiative is financed through one single fund, and together they take up 5,35% of the total structural funds budget.

The community initiative Interreg III – is financed through ERDF and it promotes trans-border cooperation (component A) transnational cooperation (component B) and interregional cooperation (component C).

Component A aims to promote an integrated regional development between Member State regions with a common border, it takes up around 50% of the Interreg budget and its priorities are: promotion of urban, rural and coastal development,

stimulating the entrepreneurial spirit, tourism and local initiatives in those areas, cooperation in legal and administrative aspects, research, education, culture, health, etc., environment protection, ensuring the basic infrastructure of trans-border significance, creating an integrated labour market and promoting social inclusion, improving security conditions on the borders and preparing the human resources necessary for trans-border cooperation.

Component B contributes to the harmonized territorial integration all over the EU, with the candidate countries or with other neighbouring countries. Transnational cooperation consumes 14% of the Interreg budget and it finances the following types of actions: space development strategies, the elaboration of efficient and durable transport systems and improving the access to the informational society, promoting the environment and a high quality management of the cultural heritage and of natural resources; technical assistance in order to create transnational partnerships. This component is important for spatial development programmes and it takes into consideration the recommendations of ESDP (European Spatial Development Perspective).

Component C acts towards improving the regional development instruments and policies by creating networks meant to assist interregional cooperation, in particular those regions that are in a process of economic conversion and that are less developed. It consumes at least 6% of the *Interreg* budget. The priorities of this component are exchange of information and establishing links between public authorities and bodies that are involved in various kinds of projects, as well as the dissemination of best practices of urban development.

The community initiative Equal – is financed by the European Social Fund, and it has appeared as a community programme in 2000, being founded on the basis of the preceding initiatives *Adapt* and *Employment*.

It aims to discover and promote new ways of fighting the existing discriminations on the labour market through transnational cooperation and to facilitate the social and professional integration of asylum-seekers.

In order to obtain funds through this programme, each Member State has to present the Commission a Programme of Community Initiative (PCI), in which the strategy and national arrangements for the implantation of *Equal* are presented and on the basis of which they receive a certain budget.

The activities financed through PCI are divided in thematic areas and implemented through development partnerships that can be of two kinds: *geographical development partnerships*, representing the final beneficiaries of this financial assistance and bringing together actors from within a certain geographical area and *sectoral development partnerships* covering certain industrial sectors.

The thematic areas under which the activities in this programme can be classified follow the structure of the four pillars of the European Employment Strategy, namely:

1) *capacity of becoming employed* – it refers to facilitating the access to the labour market and combating racism and xenophobia on the job;

2) *entrepreneurship* – it aims to assist in the creation of a new business and identifying new employment opportunities in the urban and rural areas, and strengthening the “social economy” of the services that are of public interest;

3) *adaptability* – it promotes continuous learning and it stimulates the ability of workers to adapt to technological changes and using new informational techniques;

4) *equality of chances between men and women* – it aims to reconcile the professional life with family life and to support the employment of women and men that have left their workplace, as well as reducing gender differences and segregation at the workplace.

The measures in every theme area can be implemented through four types of actions: transnational development and cooperation partnerships; the implementation of the working programme of the development and technical assistance partnerships.

Each Member State has to choose one or more areas from each pillar in which they wish cooperate, and then to go through with the four actions that lead to the finalization of the initiative programmes.

The community initiative Leader+ is financed by EAGGF following the community initiatives *Leader I* (1991-94) and *Leader II* (1994-99), which have played an experimental role in identifying the most appropriate resources (for local conditions) in rural areas and the resources that can contribute substantially to development through small-scale projects. The initiative *Leader+* continues these programmes through a budget in value of EURO 2.020 million for 2000-2006. The guidelines regarding assistance granting have been stated in the *Commission Communication of April 14th 2000*.

At a community level, the Commission has created an “Observatory” assigning it the role of created a network of Member States’ rural territories and to render possible the collection and dissemination of experiences with rural development and to assist the national authorities in coordinating the specific activities. The national authorities are responsible for the competition-based and transparent selection of eligible areas for assistance – small rural territories, geographically, economically and socially homogenous, with a population between 10000 and 100000 persons. The final beneficiaries are the so-called Local Action Groups (LAG), which have the objective of elaborating and implementing a development strategy for their territory. These Groups include representatives of the different economic, social, voluntary or non-profit structures of the local society.

The *Leader+* programmes contain measures that are eligible in the orientation section of EAGGF and ESF. Three large categories of initiatives can receive financing: (1) those that are 'pilot' – measures in nature, in the sense that they are promoting something new through products, methods, technology o original and innovative services that capitalize on the economic, cultural or natural local resources; (2) that develop the cooperation between rural areas, including trans-border cooperation; and (3) hose that establish networks of coordination and dissemination of experiences within the field of rural development in the community rural territories.

On the basis of the received financial allocation, each member state elaborates and transmits to the Commission the *Programme of Community Initiative Leader+* (PCI),

where, among others, the elements regarding the evaluation of the planned measures, the procedure and calendar for selecting the LAG, the annual share of financing sources and data concerning the economic management can be found.

As part of each LAG, there is a committee that monitors the financial and structural indicators, as well as the territorial impact of the assistance. At a national and regional level, another committee unites at least once a year to analyse the stage of PCI implementation.

The community initiative Urban II – is financed by FEDR and it is based on a programme established in 1994 (Urban I), in order to respond to the needs of the underdeveloped urban areas.

Urban II has the objective of promoting the creation and implementation of innovative development programmes, in order to economically and socially revitalize urban regions that are in a crisis, as well as strengthening the exchange of information and experience regarding durable urban development in the EU.

The regeneration strategies suggested by this programme imply the following aspects:

- The existence of a critical mass of population (the eligibility values are between 10 – 20.000 persons) and an adequate supportive structure regarding the facilitation of the creation and implementation of innovative urban development programmes;
- The existence of strong local partnerships for the definition of intervention projects, monitoring and evaluation of strategies;
- An integrated territorial approach;
- The integration of economic, social and environmental aspects;
- Promotion of equality of chances between men and women;
- Complementarities with the SF and the other Community Initiatives.

These principles establish the general action framework and are based on the prioritised measures for 2000 – 2006; the fields covered by these priorities are: economic, social, environmental, transport, etc. and within these areas projects are promoted that respond to specific needs.

A distinct feature of the *Urban* programme is the high degree of implication of the local authorities, which directly and naturally derives from their responsibilities, given the fact that *Urban* addresses exactly the problems that these are confronted with on a daily basis. Another interesting aspect is the project for creating a network of development programs within Urban - URBACT, with the objective of exchange of information and experience in the field of durable urban development at a community level.

The Cohesion Policy

The basic idea behind the cohesion policy is that economic disparities affect the sense of community that is desired to prevail in the EU. More so, the disparities between countries and regions can provoke larger tensions than between rich and poor in a certain geographical area, partly due to the existence of a strong nationalist undercurrent in the European space.

The principles of this policy and the main objectives of the EU aim to promote the economic and social progress and the elimination of existing differences between the income differences in the various regions and Member States.

The concept of economic and social cohesion was crystallized as a distinct European policy through the European Single Act (in 1986) and through the Maastricht Treaty (1992) it was correlated with the realization of the economic and monetary union, thus playing a major part in the functioning of the single market and European currency.

Other than through the structural funds, the cohesion policy is realized through a specific instrument called the **Cohesion Fund (CF)**. The Cohesion Fund finances projects that aim to improve the environment and to develop the infrastructure in the member states in which the per capita GNP is below 90% of the community average. In this way, the Fund contributes both to the durable growth of the targeted member states, and to strengthening the cohesion in the EU.

The eligible member states for the period 2000 -2006 are the same as in the previous period: Ireland, Spain, Greece and Portugal. At the end of 2003 there has been an evaluation of the progress that these countries have registered, and pending the results of this evaluation it will be decided if they will still qualify for receiving assistance. The budget of the Cohesion Fund for this period (2000-2006) is EURO 18 million.

The fields in which the Cohesion Fund is active are environmental protection and trans-European networks associated to transport infrastructures; the financial support is structured not as programmes but as projects, each project receiving financing in proportion of 80-85% of eligible costs. The financing of the two areas is balanced, each receiving 50% of the total budget. The projects are selected and implemented by the beneficiary state members, the national authorities being also responsible for their management and financial monitoring.

The budget allocated for the period 2000 – 2006, is distributed between the four beneficiary states in accordance with the percentage decided by the European Council (Berlin, March 1999), as follows:

- Spain: 61-63.5%
- Greece and Portugal: 16-18.0%
- Ireland: 2-6%

Regarding the above mentioned areas, these are configured depending on the characteristics of the respective community policy and of the pre-settled development paths, which means that only the projects that contribute to their fulfilment or are compatible with other community policies within the SF are accepted. Thus, regarding

the **environment**, the projects that will be financed have to contribute to the achievement of the environmental objectives of the EU, namely:

- The conservation, protection and improvement of the quality of the environment;
- Population health protection;
- Creating the necessary conditions for the prudent and rational use of natural resources.

In particular, *the prioritised directions* in this field are:

- Drinkable water reserve,
- The treatment of household water,
- Depositing of solid waste.

Alongside these, the projects that aim to re-forest terrains, to control erosion and conserve nature are also eligible.

In the field of **transport infrastructure** the projects that aim to create or to develop or ensure access to the infrastructure at the level of *Trans-European Transport Network* (TEN) are eligible.

The European Union Solidarity Fund is the newest fund of the regional policy and it was created in November 2002, as a consequence of the flooding that has affected France, Germany, Austria and the Czech Republic.

The Objective of this fund is to facilitate the expression of solidarity of the EU with the population of a Member or Accession State that has been seriously affected by a major natural disaster. In this way, the fund allows for an immediate, efficient and flexible reaction depending on the nature and gravity of the situation.

This fund will be used only in the case of major natural disasters, such as the inundations of 2002, which have led to its creation or the spontaneous fires in Portugal (July 2003), and that have important repercussions on the living conditions, environment and economy of the affected countries.

The maximum amount allocated to the *Solidarity Fund* is EURO 1 billion.

The modality of assistance of this fund is the granting of a single payment for the requesting country/region, which comes to complement national efforts and does not require co-financing from the part of the affected state. In order to obtain this support, the respective state has to submit a request to the Commission, within 10 weeks of the first damage caused by the disaster. As part of this application, information regarding the extent and impact of the registered damages has to be supplied and the requested amount needs to be estimated together with other national/international/community sources of financing. In the case in which the final estimate is considerably smaller than the amount that was settled upon initially (and requested by the beneficiary state), the Commission will request reimbursing the difference.

The fund generally finances actions that are for uninsurable damages.

Eligible actions for financing from this fund are:

- The immediate rehabilitation of infrastructures, electricity plants, water plants (both water supply and cleaning stations), of telecommunications, transport, health and education; providing temporary accommodation and rescue services, to respond to the immediate needs of the afflicted population;
- Providing immediate protection for the cultural heritage;
- Immediate cleaning of the disaster struck areas, including natural areas.

The implementation of the received grant is the responsibility of the beneficiary state. The same goes for the coordination with other community funds regarding the complementation of financing, as long as these are not other regional policy funds. The allocated amount has to be spent in the course of a single year, and the amounts that have not been used in this interval have to be returned.

II. 3 The future of EU regional policy

On February 10th 2004, the European Commission adopted a budget proposal for an enlarged European Union, with 27 states, for the period 2007-2013. The proposal of the Commission is an ambitious one, in the sense that it recognizes the fact that certain parts of the community policies should be strengthened. Specially, the Commission has decided that the cohesion policy needs to receive increased attention in the new financial package, by the allocation of a separate, transparent budgetary category that will allow the necessary certainty for the planning of the next generation of multi-annual national and regional programmes.

The decision of the Commission reflects the path chosen already since the publication of the second Report on Economic and Social Cohesion in 2001, report that has launched the debate regarding the future of the cohesion policy in an enlarged Europe. Recently, through the conclusions of the Third Report on Cohesion, the Commission has presented a detailed proposal for the priorities and mechanisms that should be the basis for a new cohesion policy in accordance with the budgetary perspectives suggested previously.

The report resumes four major challenges that the future cohesion policy should respond to, as follows:

More cohesion in an enlarged Union

The enlargement of the EU to 25 member states, and soon to 27 or even more member states, represents an unprecedented challenge for the competitiveness and internal cohesion of the EU. The recent enlargement of the EU has led to and will lead to the deepening of the development gaps, to the geographical repositioning of the disparity problems towards the East of the European continent, as well as to tensions in the employment process, tensions that can lead to the worsening of the unemployment problem. The socio-economic disparities will double according to Commission estimates, and the average GDP of the European Union will diminish by 12,5%.

Strengthening the priorities of the Union

The entire European Union is confronted with serious problems as a result of the restructuring process caused by the globalisation phenomenon, trade opening, the development of the knowledge-based economy, the aging of the population and growing migration. The weak economic growth of recent years has led to the growth of unemployment figures in many EU regions, aggravating many already important social problems.

In order to respond to these challenges, in the year 2000 the so-called Lisbon Strategy was adopted; it suggests the transformation of the EU in the most dynamic and competitive knowledge-based economy until the year 2010. The cohesion policy plays an important part in attaining the objectives of the Lisbon Strategy, since by reducing disparities, the EU ensures that all the regions and social groups contribute to and benefit from the general development of the community space. More so, the draft constitutional treaty clearly mentions the desired objective of a “harmonized development in the entire Union”⁴.

The promotion of a balanced and durable development

The Third Commission Report on Cohesion shows that the persistent productive and social disparities between the EU countries and regions come from structural deficiencies linked to key competitive factors – the adequate quality of human capital, lack of innovative capacity and of regional governance, and reduced respect for the environment. The opportunity cost of ignoring the need for a strong cohesion policy is measured not only as the reduced individual and collective well-being, but also in economic terms, in terms of reduced income and living standards. Given the defining interdependencies of an integrated economy, these losses are not limited to the less developed regions, or to the less productive persons, but affect all the EU citizens. By providing a more balanced economic development at a EU level, the regional development policy contributes to reducing the over-heating of the developed areas as well as to preventing bottlenecks and potential crises.

A new partnership for cohesion

The reform of the cohesion policy brings the opportunity to raise the efficiency, transparency and responsibility at the political level. The entire process of defining economic and social policies at the community level needs to take into account the importance of the cohesion-related objectives. In this way, the reform of the cohesion policy can contribute to strengthening the institutional capacity at the level of the entire EU.

In accordance to the Lisbon Strategy objectives, and with the additions brought by the ulterior European Councils, the European Commission has proposed to concentrate the regional programmes in a limited number of main themes such as innovation and knowledge economy, environment and risk prevention, accessibility and general interest services. Regarding the programmes for employment, the proposed objectives are total employment, growth of productivity and promotion of inclusion and social cohesion, in accordance with the European Employment Strategy.

⁴ The Draft Treaty of a European Constitution, Part III, Chapter III, Section 3, Articles III-116-120.

The European Commission suggests a number of three community priorities, which are to simplify and render the cohesion policy more transparent: convergence, regional competitiveness and employment, as well as territorial cooperation.

The programmes regarding convergence would be addressed to the less developed member states, those with a per capita GDP of below 75% of the EU average. The main objective of the cohesion policy in this context would be promoting the factors and economic growth conditions that lead to real convergence.

In order to find a compromise between the interests of the beneficiary member states before the EU enlargement on the May 1st and the new member states, the Commission has suggested that the benchmark given by the average GDP/per capita of the EU to remain the same as before the enlargement, calculated for EU15. Thus, the consequences known as ‘the statistical effect of enlargement’ can be avoided”, which would have created a situation in which countries that were eligible to receive assistance through the cohesion policy would have lost this right due to the low level of GDP per capita of the new member states. Adopting as a starting point the fact that conditions in the beneficiary regions (at the present moment) have not changed, the Commission has suggested that the transfer of funds from the less developed EU15 regions towards the new regions will be realized gradually, permitting the former regions to benefit from the existing support until 2013. This suggestion, mentioned as an alternative already in 2001 in the Second Report on Cohesion, seems to be the most rigorous way of negotiating the new framework of the cohesion policy, given the divergent interests of the member states on eligibility and budgetary contributions.

The programmes that will be proposed for this priority would be supported out of the financial resources of the European Regional Development Fund, the European Social Fund and the Cohesion Fund.

The programmes regarding competitiveness and employment have as a starting point the premise that member states, regions and community citizens have to adapt to a world that is going through a period of changes and important socio-economic restructurings. From this point of view, the implementation of the Lisbon Strategy has been disappointing. The European Commission considers that the financial support granted through the cohesion policy can contribute to the mobilization of the necessary resources for accelerating the necessary measures for attaining the community objectives. In addition, the implementation of the cohesion policy in the entire EU contributes to the deepening of the integration process, and to generating a growing support for achieving the common economic development goals. Even for the more developed areas of the EU that are eligible for the cohesion policy, the Commission suggests a dual approach, at both a regional and national level, for a competitive economic development. For the regional programmes, meant to anticipate and to promote competitive transformation, the only financing source will be FEDR. For the national programmes which are meant to aid the population to face the necessary transformations by promoting labour market reforms and supporting social inclusion, the financing will be realized through the European Social Fund.

The programmes regarding European territorial cooperation are strongly supported by the Commission in view of promoting a balanced and durable development.

Starting from the positive experience of the Interreg initiative, the intensification of trans-border, transnational and interregional cooperation is suggested, through the creation and institutionalisation of a regional trans-border authority. The objective is to transfer the legal capacity of initiating and managing cooperative activities from the public authorities to this new structure. These programmes will be financed through FEDR.

In order to raise the efficiency of the activities concentrated in the areas of external EU borders, the Commission suggests the institutionalisation of a New Neighbourhood Instrument (NNI)⁵, in the context of the European Neighbourhood Strategy. Through the NNI, the aim is to strengthen trans-border relations, on the basis of partnerships, multi-annual programming and co-financing.

One of the key characteristics underlined by the Commission as being indispensable for an efficient cohesion policy is the capacity of adapting to the needs and specific territorial characteristics. The Third Report on Cohesion emphasizes the specific situation of isolated areas (mountain areas, islands, Nordic areas), and also of urban areas which are centres of the current economic development but are confronted with pollution, social exclusion and economic restructuring.

In this sense the European Commission supports the integration of the community initiative URBAN in the framework of main programmes of the cohesion policy. In the new framework, called *Urban+*, it will support a large range of actions at the level of cities selected by the member states at the beginning of the future programming period. The cooperation between cities will in turn be supported by the territorial cooperation programmes.

Also, the Commission intends, as part of the convergence objective, to create a specific programme for supporting isolated regions, as was decided at the European Council in Seville, 2002. In addition, through the action „Grand Voisinage”⁶, the territorial cooperation programmes part, it will promote cooperation between neighbouring areas.

Another important line of reform of the cohesion policy refers to the clarification and simplification of the role of the different instruments for supporting rural development and fishery. The current instruments pertaining to rural development will be gathered in a single instrument subordinated to the Common Agricultural Policy (CAP) that will aim to raise the competitiveness of the agricultural sector, protect the environment and rural areas, as well as improving the living standards in rural areas. The current Community Initiative LEADER+ will be integrated in these programmes. Similarly, measures targeting the restructuring of fishery will also be concentrated in a single instrument.

The programming system will be simplified as follows:

At the political level: on the basis of the strategic document adopted by the Council, each member state will prepare a document of economic policy in which it will describe the own development strategy; this document will be negotiated with the Commission and it will represent the framework for preparing the regional and thematic

⁵ New Neighborhood Instrument (NNI)

⁶ translation from French: “The great neighbourhood”;

programmes, but it will no longer play the part of management instrument, as it does at present within the Community Support Framework.

At an operational level: on the basis of the policy document, the Commission will adopt the national and regional programmes for each member state. The programmes will be defined only at an aggregate level, containing only the most important priorities. Additional details, that today can be found in the so-called ‘programmes complement’, will be abandoned, together with the management procedures for each measure in part.

The number of structural instruments will be limited to three (ERDF, ESF, the Cohesion Fund), compared to the existing six programmes (see Table 2). Compared to the current programmes that can be financed in parallel out of several funds, in the future the support granted through ERDF or ESF will be implemented through one single fund per program. This reform suggested by the Commission will permit the simplification and enhanced efficiency of the support programmes.

The Cohesion Fund and ERDF will follow a single **programming** system, which will target the transport and environment infrastructure. Large infrastructure projects will be adopted separately by the Commission, but will be administered together with similar programmes.

Regarding the financial management, the Commission suggests that the payments be made at the high level of priorities and not at the low level of specific measures. The payment system, as well as the rule “n+2” will be unchanged.

The financial **control** will be realized on the basis of the principle of proportionality, depending on the level of community co-financing and on the quality of the national control system. Below a certain threshold, the control will be the responsibility of the national authorities.

The principle of **additionality** will remain one of the most important principles of the cohesion policy. Still, due to the principle of proportionality, the Commission will verify its application only for the ‘convergence’ objective. For the other objectives, the member states will be responsible for the enforcement of the additionality principle.

Regarding **partnership**, this will remain a guiding principle of the cohesion policy. The partnership and coordination between different levels of government within the member states will be strengthened.

In addition, an emphasis will be placed on the concentration of community support for the speediest realization of convergence, and the question of setting benchmarks for performance and quality will be raised.

The financial resources proposed by the Commission for the implementation of the cohesion policy are 0.41% of the GNP of the EU with 27 member states (including Romania and Bulgaria). If we would take into account the transfers towards the single instrument for rural development and the fishery sector, the allocated percentage would be 0.46 of the GNP of EU27. The percentage would correspond to a total amount of EURO 336.3 billion for the entire period (from which EURO 8,6 billion have already been subtracted for administrative expenses and for the contribution to the Solidarity Fund). With the exception of the Solidarity Fund, these resources remain only committed

funds, being subject to the rule of „n+2”. The repartition of these funds on the three identified priorities of the cohesion policy is:

- Approximately 78% of the resources are allocated to the priority of “convergence”. The maximum amount of absorption for every member state remains at its current level of 4% of GDP, including the sums used for rural development and fishery. The relative importance of the Cohesion Fund will grow to up to a third of the financial allocation for the new member states. The motivation is one of continuing to support these countries in the areas of transport infrastructure and environment;
- Around 18% of the resources are allocated to the priority of “regional competitiveness and employment”. The share of regional financing through ERDF and national funding through the ESF is 50-50.
- The remaining 4% of the resources are allocated for the priority ‘territorial cooperation’.

Table 2: Reform of the Cohesion Policy - Instruments and objectives

2000 – 2006		2007 - 2013	
Objectives	Financial Instruments	Objectives	Financial Instruments
Cohesion Fund	Cohesion Fund	Convergence	Cohesion Fund ERDF ESF
Objective 1	ERDF FSE EAGGF – Guidance FIFG		
Objective 2	ERDF ESF		
Objective 3	ESF	Regional Competitiveness and employment ✓ Regional level ✓ National level	Cohesion Fund ERDF ESF
INTERREG	ERDF	European Territorial Cooperation	ERDF
URBAN	ERDF		
EQUAL	ESF		
LEADER+	EAGGF - Guidance		
Rural development and restructuring of the fishery sector outside of Objective 1	EAGGF – Guidance FIFG		
9 objectives	6 instruments	3 objectives	3 instruments

Source: The Third Report on Cohesion, European Commission, Brussels, 2004

Regarding the allocation of resources between member states, an extremely disputed issue at the present moment, especially due to the differing perspectives of the net beneficiary and the net contributing states, the Commission suggests the following solutions:

For the “convergence” priority, the criteria will be based on an objective method used on the occasion of the Berlin Council (1999), having in mind the necessity of a fair treatment of the regions affected by the statistical effect of enlargement⁷;

For the priority “regional competitiveness and employment”, the funds will be allocated by the Commission to the member states on the basis of the economic, social and territorial community criteria;

For the priority “European territorial cooperation”, the size of the population and relative socio-economic conditions will guide the distribution of financial resources.

II. 4 The Experience of Spain

The choice of Spain as a case study for the management of structural funds and regional policy implies a difficult trade-off in tracing a possible parallel with Romania. If the size of this country and its relatively low level of development in the moment of accession into the European Communities may be the main positive arguments, the existence of a functional and genuine regionalism may be thought of as a counterargument for this parallel. The 17 Spanish regional communities - the NUTS II level in the language of Eurostat – are clearly defined political entities which - paradoxically – have different levels of autonomy. The key in this respect is that these administrative structures have a clear-cut political governance – an unicameral regional legislative assembly and a regional president – entities which are responsible in front of the electorate for the management of all public funds.

Spanish regionalism manifested itself relatively early, in the Interwar period, when the progressive government of the Second Republic (1931 - 1938) encouraged this phenomenon by the recognition of the autonomous status of Catalonia (1932), Basque Country (1933) and Galicia (1936). Spanish Civil War was not only an ideological conflict (nationalist right versus internationalist left) but also a conflict between centralism (nationalist right of Franco) and federalism (the left-wing forces). But even under Franco rule (1938 - 1975), the promoter of Castilian centralism and “national uniformity”, a certain special status is kept for regions like Catalonia.

The democratization process that followed the end of Franco rule and the adoption of a new democratic constitution in 1978 meant also a compromise between the two sides: the new fundamental act didn't amend the explicit claims of Catalonia and Basque country for national identity but opted for a “symmetric federalization”⁸: the creation of 17 autonomous communities on an equal foot standing, even if among them there were some relatively artificially created.

The political arithmetic at the national level allowed the affirmation of certain regional political parties which exploited the need for votes in the Parliament of certain minority governments and promoted in this way the regional autonomy: in Catalonia, the *Convergencia i Union* Party (*CiU*), leaded by Jordi Pujol, supported in the national

⁷ The average GNP/per capita of the EU15 will remain the eligibility benchmark for cohesion policy support for EU25 until the year 2013.

⁸ The so-called “coffee for everyone”.

parliament both socialist and conservative governments, obtaining a larger fiscal autonomy for their region⁹.

The strong Spanish decentralization may be also illustrated by the high level of regional and local spending in the total public spending: setting aside the social security (42% of total public budgetary expenses), central governments represented in 2001 25% of the public spending, comparing with 20% regional authorities and 13% local authorities¹⁰.

As it is well known, even in the Franco era, there were certain contacts regarding a possible adhesion of Madrid into the European Communities but it was clear that the political conditions were not ripe. Finally, Spain became an European Community member in 1986, in the same time with Portugal. In this quality, it should be noted the role played by this country, and especially of its socialist Prime Minister Felipe Gonzales, in the creation of the Cohesion Fund and the development of the European Union economic and social cohesion policy. It seems that the negotiations regarding the European Union Treaty (Maastricht Treaty) were almost blocked by the position of Madrid of linking the introduction of the Common Market to the development of a cohesion policy, position shared also by Jacques Santer, the then - president of the Commission. It seems that the Spain succeeded in promoting its position as it became - together with Greece, Portugal and Ireland – not only a beneficiary of the Cohesion Fund but the largest in absolute value. It should also be noted that this first position is not kept when we take the index of structural assistance per capita.

The autonomous communities eligible under objective 1 cover 75% of Spain's territory. They are Andalusia, Canary Islands, Cantabria¹¹, Castile la Mache, Castile Leon, Valence, Extramadura, Galicia, Murcia, the cities of Ceuta and Melilla. Under the objective 2 - areas of industrial decline – there are the regions of Basque country, Rioja, Navarre, Aragon, Catalonia, Madrid, Balearic Islands and Cantabria (til 1993). It is interesting to note that - contrary to the other 3 „cohesion” countries – Spain is the only country which has also objective 2 regions. All these regions comprise 85% of the population, from which 60% in the first category. The following analysis exclusively deals with these regions as it is more conclusive to Romanian case¹².

Structural programming

Programming operates in Spain on a significantly decentralised basis, at the level of each autonomous community. The regional authorities set both general and sectorial development plans. Between the two levels of the public administration - national and regional – there is a genuine process of negotiation for the inclusion in the national development strategy of the regional priorities as well as the permanent consultation with

⁹ Starting in 1997, the Catalanian regional authorities retain 30% of the fiscal income, different from the general level (15%).

¹⁰ As mentioned in „Spain 2003 – Main Social and Economic Characteristics”, Economic and Social Council, Kingdom of Spain, 2003.

¹¹ Cantabria is in the period of 2000 – 2006 in a transitional phase as it will leave the objective 1 as GDP per capita over passed the 75% level of European average. Till 1994, it was an objective 2 region.

¹² Even if in Romania there are regions which have many characteristics in common to the objective 2 regions (big cities, disaffected / restructured industrial areas, high unemployment), the low level of GDP keeps them under objective 1.

different categories of *stakeholders* which are not public entities. This aspect may be the main reason of the high level of absorption as the regional and local authorities are better aware of the financing needs and they are arguably more responsible towards the local electorate for their performance (both for the financial management as well as real utility of the projects). In Spain, the Regional Development Plan at the national level is managed by the Ministry of Finance.

The priorities of the 2000 – 2006 national development strategy, for example, were:

- Improvement of competitiveness by diversification and the modernization of the production, organization and technology;
- Promotion of the informational society by increasing technological capability;
- Better utilization and improvement of the human resources qualification;
- Development and improvement of the energy and telecommunication infrastructure;
- Encouragement of the potential for endogen growth of the regions and the promotion of the urban and local development;
- taking into consideration of the environmental issues by the promotion of a sustainable development.

The National Plan for Regional Development is not the only document at the base of the programming. For example, in Andalusia, for 1995 – 1999 period, there were: an Infrastructure Plan, an Industrial Plan 1994 – 1999, Energy Plan 1993 – 2000, an Integrated Plan for Tourism, an Environment Plan 1995 – 2000. At the horizontal level, we may also count:

- Agriculture: land improvements plans, national irrigation plans, regional development plans;
- Fisheries: Fisheries Sector Plan;
- Infrastructure: auto-routes development plans, Plan MEGA for electrification, cooperation plan for regional development;
- Social affairs: National Employment Plans, Integrated Employment Services Professional Insertion Plans, national plans for evaluation of the training centres.
- Research & Development: National R&D plan for 1992 – 1995 and 1996 – 1999 periods;
- Environment: Plan for Spanish Forestry, National Energy Plan, National Hydrology Plan, National Plan for Waste Water treatment.

All these documents reflect the complex and interdependent character of the programming at national and regional level

Project Management and Monitoring

Spanish government commissioned the General Directorate for Community Funds and Regional Finances (sp. „*Dirección General de Fondos Comunitarios y Financiación*

Territorial”) as Managing Authority for Community Support Framework (CSF) for Objective 1. This unit authority cooperates with the Structural Funds administration units (sp. „*Unidades Administradoras de los Fondos Estructurales*”) from central government and the authorities from autonomous communities. In the case of unisector - multiregion operational programmes, the management authority will be the Structural Fund administration unit with the largest contribution. The unifund programmes will be managed by the respective Structural Fund administration unit. The Managing Authority of the Community Support Framework will coordinate the implementation of the entire structural assistance, with a focus on the symbiosis between regional operational programmes and the multiregional ones. The general responsibility for the coordination of the CSF belongs to the Treasury and Economic Affairs Ministry by its General Planning Directorate, which has bigger responsibilities regarding the national strategy for regional development.

The coordination of the implementation of the community assistance by structural funds will be assured by:

- ERDF: managing authority of the CSF, directly or by its administrative subdirectorate;
- ESF: Labour and Social Affairs Ministry;
- EAGGF (orientation section) and FIFG: Ministry of Agriculture, Fisheries and Alimentation.

The Autonomous Communities commission a liaison unit between the managing authorities and the paying ones in order to coordinate the activities with the regional authorities. The National Network of the Environmental Authorities (sp. “*Red de Autoridades Ambientales*”) ¹³ approves the projects from the environmental point of view. The role of Paying Authority - as article 32 of CR 1269 / 1999 – is assumed by the administration units of structural funds from the ministries of Finance, Labour and Social Affairs, Agriculture, Fisheries and Alimentation.

The project selection process differs by the nature of the project. The big infrastructure projects (highways, railways, waste water treatment facilities, etc.) are “negotiated” between national and regional authorities and included both in the National Development Strategy and Community Support Framework, as the operational programmes identified in the latter are based on those included in the former. Smaller dimension projects are selected in accordance with the level of conformity with the priorities identified in CSF. Among the most important criteria taken into consideration, Spanish authorities include> conformity with the national and regional development strategy, expectations regarding the creation of jobs, expected contribution at the improvement of the socio-economic conditions, capacity of the contractor, previous collaboration with the public authorities, location and usage of innovative technologies.

CSF is monitored by a committee set up at the initiative of the managing authority and which includes as permanent members representatives from all the public authorities involved in the implementation process, including representatives of European Investment Bank. The monitoring committee of the operational programmes have a double layer: regional and multiregional (all the region in the objective 1). Each

¹³ Starting with 1998.

committee includes representatives from the public authorities involved but also from the European Commission, of the Planning Directorate in the Ministry of Treasury and Economic Affairs and administration unit of the structural fund, representatives of the regional authorities.

The audit and control of the structural funds is made at the national level by Public Accounts State Department (*IGAO - Intervención General de la Administración del Estado*) but also at the regional level by the correspondent authority (*Intervenciones Generales de las Comunidades Autónomas*). An annual control planning is approved by each fund.

Evaluation of the impact of the community assistance

The evaluation of the effects of the intervention of structural funds in the development of the economies of the member states is a contradictory – not to say extremely contradictory – process.

Table 3: Effects of the Intervention of Structural Funds and Cohesion Fund on GDP and rate of employment (RE) (% as in case of non-intervention)

Year	Greece		Ireland		Spain		Portugal	
	GDP	ER	GDP	ER	GDP	ER	GDP	ER
1989	4,1	-3,2	2,2	-1,4	5,8	-3,6	0,8	-0,5
1993	4,1	-2,9	3,2	-1,0	7,4	-4,1	1,5	-0,8
1999	9,9	-6,2	3,7	-0,4	8,5	-4,0	3,1	-1,6
2006	7,3	-3,2	2,8	0,4	7,8	-2,8	3,4	-1,7
2010	2,4	0,4	2,0	0,5	3,1	-0,1	1,3	-0,4

Sursa: European Union, Third Cohesion Report (2004)

It should be mentioned that Spain has never been the first beneficiary, from the “cohesion” countries, by the per capita assistance. For the objective 1, this position has been that of Ireland (at least for the period 1989 - 1999), with an assistance of 250 Euro per capita. Moreover, Spain receives in fact, for the current period (2000 – 2006) the smallest amount of assistance from the per capita point of view (104 Euro). Due to the size of its population, Spain has however been the largest recipient in all times.

However, as Table 3 shows, as regards the perceived effect of the assistance on development, Spain has the best results. As main reasons, one can note the high quality of programming, based essentially on the capacity of the public authorities at the regional level to identify better priorities and investment opportunities as well as the political responsibility towards electorate. On the whole period, on the average, the national level of per capita GDP (as of Purchasing Power Parity) increases from 72,5% in 1988 to 83,8% in 2003.

The whole methodology of evaluation of the impact of the structural assistance is at least arbitrarily determined. Obviously, the structural instruments offered by the economic and social cohesion policy of the European Union represent just one of the elements of the policy mix at the disposal of the public authorities, together with other -

more important from different perspective – as the nature of the regime of private property rights, fiscality, labour market regulation, etc. GDP dynamics is not solely - maybe not even mainly - determined by community assistance but the quality of the governance process.

The Eastward expansion of the European Union and the inclusion of new poor developed regions – which will imply a reduction of the European Union's average GDP - will imply a so called “statistical effect”, that is the exclusion of some of the present beneficiaries from the eligibility to receive European assistance (with the greatest impact for Spain in absolute terms). Some Eastern countries even feared an opposition from the “cohesion” countries regarding the process of expansion. European Union chose a “transition period” for these regions while they will receive the assistance even if they do not qualify for it.

III. Structural Funds issues in the enlargement process

The regional politics is not at all a new phenomenon in the central and eastern European countries acceding to the European Union. The special planning within a sectorial framework has been active during the socialist years and the western European regional political actions have been implemented (up to a certain extent) in some countries characterized by more liberal approaches like Hungary and Slovenia. There is also a long and rich intellectual tradition regarding the regional debate and development research in the CEE. In certain aspects, the actual trends must be considered as part of a long history of the regional development in the EEC, although they have been significantly affected by the political system changes as well as economical and fundamentally institutional changes.¹⁴

After 1990, the political reforms and macro economical policies have been granted high priority, therefore, the social and spatial effects of the changes occurred appeared only later. The regional development initiatives have been restrained by the disputes regarding the ministerial responsibility, the necessity of reforming the territorial administrative structures and the lack of financial resources. The studies performed within the first half of the 1990 indicated that limited existence of substantial regional policy, a weak institutional structure and unsolved aspects of the territorial administration.¹⁵

During the past years, the situation changes significantly. The regional policies are operational in all CEE countries, institutions have been created at a national and regional level, as well as a series of regional political instruments. The process of defining the regional policy post-liberalization has been strongly influenced by the perspective of accession to the European Union.

Initiating the adherence negotiations accelerated this process by preparing the institutional structure necessary for managing the structural assistance within EU.

The 2000 agenda published in 1997 proposed a pre-adherence strategy applicable for all ascending countries, including support for agricultural development and structural advisory for the infrastructure and institutional adaptation amounting Euro 45 billion.

The regional policy objectives are similar for all CEE member states, as they lack an explicit fundamental concept or a theoretical base (see Table 1A in Annex). The purpose of the regional policy is to insure the optimal economical growth, equitable life conditions within all regions regarding the employment rate, basic services and a clean environment or to improve the life and employment conditions in rural areas, to diminish regional discrepancies and to solve the specific regional issues (support for all borders areas, the privatization of state owned farms, etc.).

¹⁴ John Bachter, Ruth Downes, Ewa Helinska-Hughes, John Macquarrie, *Regional Development and Policy in the transition countries*, Regional and Industrial Research Paper no 36, December 1999, European Policies Centre, University of Strathclyde.

¹⁵ Bachtler 1991, Gorzelak and Kuklinski 1992, Hajdu and Haorvath 1994, Downes 1996, Gorzelak 1996, Bachter et al. 1997.

Therefore, the regional policy objectives tend to monitor both efficiency and equality. The National Concept for regional development in Hungary is the best example (as it is also applied up to certain extends in Czech Republic, Estonia, Poland), presenting a large number of objectives, principles, guidelines, tasks that may seem many times confusing, contradicting and ambiguous, taking into account the limited resources and the priority grated to the political dimension in this field. Slovenia is an exception.

By reflecting the limited regional discrepancies due to the size of its territory, the regional policy is focused on the support offered to the areas threatened by demographic danger, specially the rural areas – where the solutions are destined to improve the life and employment conditions, to promote additional income opportunities and a more attractive social environment with the purpose to reduce the migration, especially in the case of young people.

The existence of objectives, principles or priorities that may not be clearly defined or may even be conflicting is the reflection of a range of motivations. First of all, the deepening of the regional discrepancies, the existence of serious economical, social and environmental issues in nearly all regions and the needs of the EEC countries for a physical and business infrastructure destined to support the entrepreneurial development and private initiatives. On the other hand, not so long ago, the candidate countries lacked regional development actions, as well as local and regional authorities as compared to western European countries.

Finally, the EU influence started to become more visible in the process of drawing regional policies and the legislation and the current objectives are taking into account the fulfillment of the requirements related to the structural policies in the perspective of the adhesion. Therefore, all the candidate countries have established as main objectives of the regional policies, besides the improvement of life conditions and the increase of the economical competitiveness, the reduction of the significant discrepancies regarding the income per capita as compared to the EU average (in Hungary) and preparing the ground for structural funds administration (Lithuania).

The priorities comprised within the National Development Plan have been much clearly set as well, generally taking the following directions: economical and social development or economic competitiveness, human resources development, agricultural/rural and/or fishing sector development, environmental protection and the infrastructure/development of the production sector.

III. 1 Outcome of negotiations

The *acquis communautaire* mentioned in chapter 21 does not specifically define the way in which the structural and cohesion funds management in the candidate countries should be set, therefore, these matters are to be established by each country. The established administrative structures are different for the small sized countries characterized by weak regional dimension and for the large countries distinguished by a strong regionalization.

Currently the SF are regulated by a specific framework including both general stipulations (such as the EC Council Regulation 1260/1999) as well as a series of

regulations and decisions regarding their implementation without necessarily referring to being put into effect within the national legislation.

Negotiation related to chapter 21 have been set forth starting with Cyprus, Czech Republic, Estonia, Hungary, Poland and Slovenia as of April 2000 following Latvia, Lithuania, Malta and Slovakia in March 2001; negotiations with Bulgaria have started on November 2001 and with Romania on March 2002. The negotiations have been provisionally closed with Cyprus and Czech Republic in April 2002, with Baltic countries in June 2002, with Hungary, Malta, Slovakia and Slovenia, Poland in October 2002 and definitely closed with all the countries in December 2002.

No transition periods have been requested regarding this chapter. The core of the negotiations has focused on the administrative capacity, eligibility and fund allocations.⁵

The Commission assessed the eligibility of the ten candidate states for the FS since the accession date until December 31, 2006 in the following manner:

Objective 1: Support eligibility within the first objective has been determined based on the GDP per regional capita (in PPP) at NUTS 2 level considering as reference years 1997-1998-1999.

Objective 2: 31% out of the non-eligible population within the first objective (Prague, Bratislava and Cyprus) is eligible within the second objective. The commission has determined the population margin as follows: Czech Republic - 370,000, Cyprus - 213,000, Slovakia -192,000.

Objective 3: According to the *acquis*, all regions excluded from Objective no.1 (Prague, Bratislava and Cyprus) will become eligible for support within the third objective.

Community initiatives: the ten candidate countries are also eligible for support within the European initiatives programs INTERREG and EQUAL. For simplification reasons, the European initiatives programs LEADER+ and URBAN will not be implemented in the newly member states during 2004-2006. The eligible actions and projects within these initiatives will be integrated within the appropriate programming documents.

Cohesion Fund: the eligibility for assistance within the Cohesion Fund since the accession date until December 31, 2006 has been determined based on the last available data regarding the GDP per capita (in PPP) considering the reference years 1998-1999-2000. Based on these particular data, all ten countries will become eligible for assistance within the Cohesion Fund.

The amount allocated for the actions to take place within the structural and cohesion funds for the newly member states since the accession date until the end of 2006 has been established at Euro 21.75 billion (out of which Euro14.155 billion destined for the structural funds and Euro 7,590 billion for the cohesion fund). The commitments of the ten countries are to be found in Annex.

⁵ *Report on the results of the negotiations on the accession of Cyprus, Malta, Hungary, Poland, the Slovak Republic, Latvia, Estonia, Lithuania, the Czech Republic and Slovenia to the European Union, prepared by the Commission departments.*

III. 2 Pre-accession funds

Phare

Set up at the beginning of 1989 with the purpose to help Poland and Hungary in the transition process from the communist economy to democracy, PHARE has gradually extended including 13 states from Central and Eastern Europe out of which ten acceding states to the EU: Bulgaria, Estonia, Lithuania, Latvia, Poland, Czech Republic, Romania, Slovakia, Slovenia and Hungary. Following the European Council held in Copenhagen in 1993, when the Central European countries have been invited to adhere to the EU, the PHARE support has been mainly redirected towards the infrastructure investments.

Still, the main target of the pre-accession was emphasized in 1997 as a response to launching the enlargement process by the European Council in Luxembourg. Therefore, PHARE was exclusively directed towards financing the pre-adherence process priorities established within the Accession Treaties.

The basic orientation has been adjusted in 1999 in order to reflect the creation of two financing programs for the acceding countries, namely SAPARD for agriculture and rural development and ISPA within the field of environmental and transportation infrastructure. The main change switched the focus of the PHARE funds towards the economical and social cohesion aspects within the enlargement context⁷.

During 2000-2006, PHARE Program is considering two main priorities: institutional construction⁸ and supporting investment. PHARE takes part in the institutional construction in all sectors, while the financial assistance is insured in order to provide help for the acceding countries to perform the following actions:

- To implement the *acquis communautaire* and to prepare the participation to the EU policies like the economic and social cohesion;
- To fulfill the requirements defined by the first criterion from Copenhagen: stability of the institutions supporting the democracy, the state of law, human rights and the respect for the minority protection. Support is also provided for public authorities and non-governmental organizations in this sector⁹.

Nearly 30% of the PHARE resources are destined for this purpose and are mainly used by member states through twining instruments¹⁰.

⁷ The other three acceding countries: Cyprus, Malta and Turkey are separately benefiting from pre-adherence assistance.

⁸ The first priority is defined as the process of supporting the acceding countries for the structure development, strategies, human resources and managerial abilities necessary to strengthen their economic, social, legislative and institutional capacity.

⁹ European Commission, *Commission Decision on the review of the guidelines for implementation of the Phare programme in candidate countries for the period 2000-2006 in application of Article 8 of Regulation 3906/89*, Brussels, 6.09.2002

¹⁰ *Twining and twining light*. The first one is a long term mechanism, aiming at the formation and preparation of public clerks in candidate countries by offering assistance provided by European experts in all fields covered by the *acquis communautaire*. In 2001, the solutions regarding the strengthening of the

The second priority represented by the investments may take two forms:

- Investments for EU norms and standards compliance (regulating infrastructure)
- Investments for economic and social cohesion through measures similar to those applied within the member states by means of structural funds. These investments are promoting the proper functioning market economy and the ability to handle competitive pressures as well as the market forces within the EU. Approximately 70% of the PHARE resources are assigned to the previously defined investment forms¹¹.

Starting from 2000, the Commission initiated the enlargement process of the PHARE program decentralization in order to strengthen the acceding countries' capacity to manage the pre-accession assistance and to get acquainted with the common responsibility principle that governs the application of the FS. The objective aimed by the Commission is that the acceding countries that will adhere in 2004 to apply the Extended Decentralization Implementation System (EDIS) in the first day of the accession, the latest. To the same effect, the European Commission gradually transferred the responsibility for the PHARE programs management and implementation to the candidate countries national authorities.

If the legislation of the candidate countries have a homogenous character (the Law regarding the regional development¹³ is the main legislative act establishing the development regional principles, institutional structure, competencies and responsibilities in the fields of various organisms at national, regional and local level) the ministerial attribute has a heterogeneous character.

To this effect, the regional policy is invariably coordinated by the Ministry of Regional Development, Ministry of Economy, Ministry of Finance, etc. This policy reflects the influence of the political factors – proved also by the fact that the responsibility regarding the pre-accession funds management has been transferred from an institution to the other (in Poland's case, from the Ministry of Regional Development to the Ministry of Economy or in Lithuania's case, from the Ministry of Public Administration Reform and local authorities to the Department of Regional Development within the Ministry of Internal Affairs and finally to the Department of Financial Assistance within the Ministry of Finance. A relatively unique matter (both in Central and Western Europe) is the set up of the Ministry of Regional Development in the Czech Republic, proving the importance granted to the regional development.

The homogeneous character is defined regarding the establishment of the Payment Authorities, which in most candidate states is the Ministry of Finance for all the

administrative capacity have been supplemented by introducing a new instrument, *twining light*, meant to insure the medium term fulfillment of the objective set for the institutional development.

¹¹ The split between the two priorities is only intuitive and does not reflect the relative importance granted to these two priorities. These proportions are applied flexibly from country to country, considering the necessities reflected in the Annual Reports and Action Plans.

¹³ Except for certain states (Latvia in 2002, Slovakia 2001, Slovenia 1999), the majority of the candidate states adopted the law in 2000 and it represented the foundation for the definition and implementation of the regional policy, just like the planning and coordination of future funds.

funds or a department within the Ministry of Finance (with the exception of the Baltic countries).

The National Fund set up within the Ministry of Finance manages all pre-accession funds (including PHARE) and falls within the National Authorization Officer's responsibility in all candidate states. The essential role held in the management and coordination of the European Social Fund has been assigned to the Ministry of Labor and Social Affairs or, by case to the Ministry of Labor, Social Affairs and Family in all candidate states.

Table 4: Management and implementation authorities in former candidate countries

<i>Country</i>	<i>Management Authority</i>	<i>Payment authority</i>	<i>Implementation authority</i>
Czech Republic	Regional Development Ministry	Ministry of Finance	CFCU ¹² , Regional Development Center, Civil Society Development Organization
Hungary	National Development office	Ministry of Finance	CFCU, National Agency for Regional Development and National Agency
Poland	Ministry of Economy	Ministry of Finance	Five implementation agencies (CFCU for institutional construction Phare projects)
Slovenia	Ministry of Economy	Ministry of Finance	CFCU for Phare and ISPA
Slovakia	Ministry of Construction and Regional Development	Ministry of Finance	Five implementation agencies: CFCU, Civil Society Development Foundation, Slovak post-privatization Fund, National Agency for SME Development Agency for supporting regional
Baltic countries	Ministry of Finance	Treasury (Estonia) National Fund for FEDR and Ministry of Labor (for ESF)	Central authority for project management (Lithuania/limited number out of which CFCU is

Source: European Commission, General Report on Pre-accession Assistance (PHARE – ISPA – SAPARD) in 2002, Brussels, 5.01.2004; Regular Reports from the Commission on candidate countries' progress towards accession, 2000, 2001, 2002, 2003.

Specific intermediary organisms have been created as management or payment authorities within the operational programs by sector for each candidate state either within the most important ministries, either subordinated to other ministries.

For the purpose of PHARE program implementation, a limited number of Agencies of Implementation has been created in most candidate countries, the most important one being the Central Financing and Contracting Unit (for institutional construction PHARE projects including twining). In the Czech Republic for instance, the Central Financing and Contracting Unit has been set up for the investment projects within the PHARE program, the Regional Development Center for cross-border cooperation

¹² Central Financing and Contracting Unit.

projects for projects related to the economic and social cohesion and the Organization for Civil Society Development for supporting the civil society¹⁴.

Structural programming

The efficient and smooth transition to the Structural Funds requires the managerial capacity strengthening and the programming of the candidate countries. Despite the efforts so far, the assessments from the last annual report of the Commission were not very optimistic, even for the countries that became members in 2004.

During 1998 and 2001, the Commission financed through PHARE 503 twining programs¹⁵, which among other objectives, also aimed the preparation of the FS management.

Yet, the conclusions of a Report published in July 2003 regarding the twining projects' efficiency issued by the European Court of Audit indicated that the results were below expectations. Although the results of these projects reacted as a catalyst for the projects undergoing in the candidate countries by gathering specialists from the member and candidate states administrations, the results of the projects previously considered guaranteed, have been partially attained and delayed and an extension of the projects' deadlines or of the starting moment of new projects has sometimes been necessary.

To this effect, although the process of adopting the community legislation recorded a significant progress in all fields of activity, the European institution stressed the need for the candidate countries to intensify the implementation and consolidation efforts for embracing the community legislation.

Synthetically speaking, the criticism incurred by the European institution refers to the following: decreased efficiency and effectiveness by creating a complex administration focused on one project only, time consuming administrative matters in the disadvantage of the main objectives, large time lags between setting up objectives and finalizing projects, the complicated payment system¹⁶, the ongoing status of projects with unsatisfactory results in order to avoid political tension.¹⁷

These administrative deficiencies are on one hand the result of overestimating the twining projects to the disadvantage of other mechanisms that might prove more efficient

¹⁴ *Regular Reports from the Commission on candidate countries' progress towards accession*, 2000, 2001, 2002, 2003.

¹⁵ Total budget was of 471 million de euro, each project having an average budget of one million euro. Several first round projects with an average duration period of 18 months have been completed in the second half of the year 2001 or at the beginning of 2002.

¹⁶ At start, payments for twining projects have been directly performed by the European Commission to the member states, this responsibility being transferred to the candidate countries, within the decentralization policy promoted by the European Commission. Even so, the member states administrations are complaining about the duration of the reimbursement costs which can take months. For instance, in Hungary, Phare funds are managed by the central budget and the payment procedure follows 27 steps, including the twining programs.

¹⁷ Even though the contracting parties are the member and candidate states, the funds are provided by the European Commission. That why no paty has the interest to anel the contarct, if the other doesn't accomplish his obligations

for the candidate countries during the process of strengthening the institutional capacity (participating in the community programs, horizontal support schemes for public services, etc.)¹⁸.

The administrative capacity is not equivalent with the twining, but it also involves adopting some preparing and recruiting programs in accordance with the engagements taken up during the negotiations from chapter 21. In most candidate countries, recruiting additional personnel has been delayed, being in preliminary stages regarding the creation of guidelines and manuals for the operational programs.

A particular issue in candidate countries – also highlighted in the last Annual Reports of the EC – is the lack of a sufficient number of quality projects to be launched, as well as the difficulty and complexity of the project technical preparation in order to benefit at maximum from the increase in financing starting from 2004.

National authorities are also responsible with the identification and development of the projects according to the priorities included in the programming documents (Accession Partnerships, National Program for Acquis Adoption (PNAA)¹⁹, National Development Program (PND)²⁰, Annual EC Reports and the negotiation process).

Financial assistance for the priorities identified in the programming documents is to be granted following the annual financing decisions taken by the Commission. These financing decisions are followed by a Financing Memorandum signed with each candidate country.

Following the decentralization policy identified in the programming documents, the projects bidding, contracting as well as the financial and administrative management is taken over by the national implementation structures of the candidate countries under the close supervision of the Commission and of the EC Delegates in the candidate countries.

At the beginning of the year 2002, most of the candidate countries succeeded to finalize and to send to the European Commission the National Development Plans (except Hungary which sent it in 2003), together with the Operational Programs. These programs have been assessed by the General Directorate for Enlargement and Regional Policy for the purpose of formulating recommendations regarding the preparation of the programming documents related to the SF²¹.

¹⁸ European Communities, Court of Auditors, Special Report no. 6/2003 (pursuant to Article 248(4), second subparagraph, EC) concerning Twining as the main instrument to support institution-building in candidate countries together with Commission's replies

¹⁹ Each candidate country has its own national program regarding the acquis compliance, which establishes in every detail the manner in which the countries should fulfill the priorities included in the Adherence Partnership and to prepare for the EU accession. PNAA completes the Pre-Adherence Partnership as it contains a calendar for accomplishing the priorities and the objectives and mentions the financial and human resources to be assigned where possible and relevant.

²⁰ National Plan for Development is the action program for regional development and set up the strategy, the priorities and the schedule for promoting the economic and social cohesion in each candidate countries.

²¹ European Commission, *General Report on pre-accession assistance PHARE-ISPA-SAPARD in 2001*, Brussels, 4.06.2003 European Commission.

Despite certain delays related to the transmission of the programming documents, the candidate countries succeeded to make significant progress in this field. Furthermore, according to the Commission recommendations the countries adopted a simplified programming approach with a reduced number of operational programs, measures and priorities appropriate to the short programming period until 2006²². Therefore, Poland remitted six operational sectorial programs, a regional integrated operational program and a technical assistance operational program, while Hungary remitted only one operational central regional development program²³. Most of the programs have been the object of high level consulting among the actors at central, regional and local level, economic and social partners and other relevant institutions.

Although the preparation of the Unique Programming Documents started from 2001 in all candidate countries, these have been remitted to the European Commission in March 2003 together with the ex-ante assessment²⁴.

Financial and budgetary management

As far as the budgetary aspects are concerned, the homogenous character may be noticed not only in the institutional structure, but also within the procedures, proving the fact that the candidate states closely followed the EU requirements regarding the future FS.

Therefore, a common characteristic for all candidate states is the fact that the financial management of the pre-accession funds is made by the Ministry of Finance, through the National Fund, coordinated by the Authorization National Officer.

As far as the Internal Public Financial Control is concerned, until 2002 candidate countries succeeded in adopting the legislation compatible with the EU requirements (Financial Control and Financial Audit Law). Audit units have been established in all candidate countries at the level of the payment and management authorities and specific arrangements have been realized for the inter-ministerial coordination both for the programs in progress as well as for the future ones.

At central level, for the internal audit coordination systems, a structure has been created at the Ministry of Finance level (Central Harmonization Department in Lithuania, Poland, Financial Control and Internal Audit Department in Slovakia, the Budgeting Supervision Service in Slovenia).

²² European Commission, *Communication from the Commission to the European Parliament and the Council on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on chapter 21- Regional policy and coordination of structural instruments*, Brussels, 16.7.2003 European Commission.

²³ More details are to be found in the Annual Reports of the European Commission from 2000, 2001, 2002 and 2003.

²⁴ In practice, the decentralized ex-ante control procedure realized by the EU delegates implies four essential checks: 1. approving the bidding file in the moment the bidding is launched; 2. approving the assessment committee structure (responsible to recommend the party launching the offer to the Contracting Authority); 3. checking and approving the evaluation report; 4. the signature of the delegates' responsible on the contract, not as a contracting party but to confirm the fact that the project will be financed by EU.

As far as the external control of the public and community funds is concerned, the issue in all candidate countries is to insure the independence of the organism in charge to perform this control (organism that in most of the countries is called Audit Supreme Office, except for Poland, where it is called the Control Supreme Chamber and Hungary where it is called the State Office concerning the Audit)

The Law regarding the budgetary rules approved in most countries in 2003 represents the framework for the financial transparency, for efficiency and the flow transfer from and towards the community budget, for the co-financing the community funds and introduces the principle of multi-annual programming. Hungary makes an exception from this law, as a multi-annual programming of the budgeted expenses have been established since 1997, and the budget has been set up for the following two years²⁵.

Following the reorientation of the PHARE program towards the pre-adherence strategy and towards the decentralization of the decisional implementation, the initial Monitoring and Evaluation System has been replaced in September 2000 with a Decentralized Monitoring System and an intermediate Evaluation Scheme. This modification is based on the fact that the candidate countries have assumed responsibilities for the progress monitoring regarding the PHARE measures, while the Commission is keeping the responsibility for evaluating the progress through Intermediary Sectorial regular Evaluation realized by Independent evaluators.

Therefore, in each candidate country new Monitoring structures have been established: a monitoring common committee and sub-committees for the sectorial monitoring. The PHARE Monitoring Committee takes action as well as a common Monitoring Committee for all three adherence instruments. The Annual Reports of the Monitoring Committee for each instrument are remitted to this Common Monitoring Committee.

Establishing some monitoring indicators, as well as a computerized system for collection and data transfer according to the management, monitoring and evaluation requirements has been delayed in most of the candidate countries. The Annual Reports of the EC from 2003 underlines the existence of an information system monitoring the FS implementation in a preliminary stage and the necessity of developing this system in order to become immediately operational after the accession of the countries in the first level.

ISPA

Through the support granted to the infrastructure in the important community fields – transport and environment – ISPA contributes to the preparation of the Central and Eastern European countries for accession in two directions:

-by accelerating the improvement of the two sectors up to the community standards, by supporting in this way the beneficiary countries to adopt and to implement the relevant community legislation; and

²⁵ European Commission, Regular Reports from the Commission on candidate countries' progress towards accession, 2003.

-by becoming more familiar with the EU procedures regarding the efficient and transparent FS management as well as the cohesion from which these countries will benefit after the accession²⁶.

The ISPA program is focused on massive investments related to the environment directives whose implementation requires important costs. These domains are: drinkable water reserve, treatment of the residual water, management of the solid and dangerous waste and air pollution. The implementation of these directives is tightly bounded to the health and life quality improvement of the population and has a positive effect in the economical and social cohesion process. Moreover, ISPA supports candidate countries to strengthen their implementation capacity of the key legislation in the environments field.

As far as the transportation is concerned, ISPA contributes to the construction and rehabilitation of the infrastructure in candidate countries and supports the connection to the EU transportation networks. This is a key element of the economic development strategies and represents an essential element for the successful integration of these countries on the community internal market and for promoting effectiveness and efficiency on this market²⁷.

Especially for the ISPA implementation, all relevant legislation in the environmental and transportation field must be respected in which the technical specifications and the quality standards in the environmental field are concerned.

Regarding the environmental protection, all candidate states have been making significant progresses by adopting the law regarding the impact evaluation over the environment.

Yet, there are still a number of legislative stipulations and implementation stages regarding both the evaluation of the impact over the environment as well as the nature protection, waste management that must be completed and whose application is a pre-condition of the structural and cohesion funds implementation²⁸.

Managing and coordinating the ISPA funds has a homogenous character, being attributed to the relevant sectorial ministries or to agencies located within these ministers (Ministry of Environment/ Ministry of Transportation and Waste Management in Hungary, the Ministry of Environment protection and Regional Development / Ministry of Transportation in Latvia, etc.)

²⁶ Since the creation of ISPA was based on the Cohesion Fund, these instruments have many common characteristics, like the approach within a certain project, the high degree of assistance, the focus on environment and transpiration, the member states territory, the assignment on each country, similar project applications, monitoring procedures and evaluation. Therefore, it is expected that from a procedural point of view, the transition from one instrument to the other to be relatively easy. For the countries benefiting from ISPA, which will accede to the EU in 2004, ISPA will cease by the end of 2003 and the Cohesion Fund will be applied starting 2004. In this way, the ISPA engagements to be distributes during 1004-1006 for the projects approved before 2004 will become engagements within the Cohesion Fund.

²⁷ European Commission Delegation in Romania, EU Programs ISPA in Romania

²⁸ European Commission, Communication from the Commission to the European Parliament and the Council on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on chapter 21- Regional policy and coordination of structural instruments, Brussels, 16.7.2003

Regarding the implementation, the situation is exactly the opposite, a variety in the number and naming of the agencies being in force. In the Czech Republic for example, the Centre for Regional Development has been developed within the Ministry of Regional Development, and in Slovenia, the CFCU belonging to the Ministry of Finance is the only agency responsible for the implementation of the ISPA and PHARE projects. In the Slovak Republic there are 3 implementing agencies (for the environment, for road transport and for rail transport) and three regional authorization officers, while in Estonia, the Centre for Environmental Investments also deals with implementing environmental projects, whereas the National Road and Rail Administrations deal with infrastructure projects in the field of transportation²⁹.

In some cases the implementation agencies may delegate some attributions to the final beneficiary as in the case of the Agency for railways for transport and the municipalities for the environment projects in Hungary or the implementation organisms are at the same time final beneficiaries for certain projects, as in the case of the National Fund for Environment Protection for the environment projects in Hungary³⁰

Still, despite the efforts taken by the candidate states, the institutional fragility has affected the administration of the ISPA projects. At the end of the year 2001, the majority of the candidate states did not have fully functional structures for the ISPA management. This was reflected in the poor quality of some of the national ISPA strategies and in the problems faced by the candidate states in submitting the projects with high priority at the standards required by the EU. Thus, even if the Commission adopted three ISPA projects for solid waste in Hungary, in 2000, with a contribution of Euro 29.6 million, the national plan for waste administration was adopted only in September 2001, and the regional and local plans were prepared in 2002³¹.

Structural programming

The pre-accession programs adopted by the Council on the 13th of November 2001 remain the general assistance framework for the three instruments for pre-accession. They are completed, in the case of the PHARE Program, by the National Development Plans, and in the case of ISPA by the national strategies for environment and transport that every candidate state elaborated and presented to the Commission. To these there is also added the Multi-annual Financial Memorandum, which in the case of ISPA, is signed for every single project.

The fulfillment of the legal requirements for a correct, transparent and loyal procedure regarding the public acquisitions was one of the most difficult problems in the implementation of the pre-accession help. Insuring the concordance with the EU principles led in most of the cases to delaying of the implementation of ISPA projects, such as the services of the Commission – especially the EC delegations- had to intervene

²⁹ European Commission, Regular Reports 2000, 2001, 2002, 2003.

³⁰ European Commission, General Directorate for Enlargement, General Assistance Document, Brussels 9 April 2003.

³¹ European Communities, Court of Auditors, Special Report no. 5/2003 (pursuant to Article 248(4), second subparagraph, EC) concerning PHARE and ISPA Funding of Environmental Projects in candidate countries together with Commission's replies

frequently, not only to verify that the procedures were correctly applied, but also to rectify errors, maintain the connection with unsatisfied tenders, or to explain the implementation agencies how certain procedures must be applied. In most cases the quality of the bid documents had to be improved, or the evaluation of the offers had to be repeated, and sometimes- bids were canceled or launched again.

The Commission organized a series of seminars about the Directive regarding water distribution, with the purpose of assisting the candidate states in the elaboration of new politics regarding the administration of water and preparing the ISPA projects (and other projects within the Cohesion Fund) corresponding the requirements of this Directive regarding the elaboration of the bid documents, evaluation of offers and supervising of contracts.

According to the European Court, the financial support offered by the Commission to strengthen the administrative capacity in the environmental area had a partial success. This situation partly reflects the limited level of funds allocated to the environment problems, but also the modest impact that twining and assistance projects had.

In most cases there were noticed administrative deficiencies: lack of qualified technical experience in the Ministry of Environment, the personnel's difficulty to fulfill supplementary tasks derived from the twining convention due to limited time and resources.

To finance as many projects as possible, the Commission tried to reduce the level of grants under 75% out of the total value of the project. But the increase of finances lead in fact to the appearance of some problems connected to the absorption capacity in the majority of the candidate states, despite the huge financing necessities.

Thus, in most cases, the ISPA contracting measures did not respect the calendar settled in the agenda of the Financing Memorandum. The reasons were, besides the fact that preparing the bids for large infrastructure projects need complex efforts, an unrealistic calendar, the lack of experience for most beneficiaries at central and local level, as well as problems connected to the co-financing of projects (due to differences existing in the Commission's and other co-financing organization's – such as EBRD-bidding procedures), as well as misunderstandings between the involved parties³². This way, in Slovenia, at the end of 2001, there was only one contract ISPA signed, worth Euro1.9 million.

Financial and budgetary management

During 2000-2004, the European Commission approved 324 projects with a financial contribution of 7 billions Euro, out of which more than a billion Euro was already allocated for investments (see table 4 from the Appendix).

The institutional structure, the control procedure and the implementation through DIS in the case of PHARE projects is valid also for ISPA projects. The objective sought by the Commission for the states that will adhere in 2004 is the passing as soon as

³² In Romania and Poland

possible (up to the accession moment) to the Extended Decentralized Implementation System (EDIS) to permit them to accumulate enough practical experience in the completely decentralized funds management³³. The implementation of ISPA is governed by the ex-ante approval of bids and projects contracting: local receivers and final beneficiaries have the role of Contracting Authority responsible for the implementation of the project while the Commission should approve each step during the acquisition process. Thus, even though the Commission is not a contracting partner, it bears a part of the responsibility of procedural fairness of the acquisition process (without the Commission's approval, the contracts settled between the beneficiary and the contractors are not valid). The main part of the responsibility is attributed to the Delegations from the beneficiary countries³⁴.

All ISPA projects are the object of ISPA Regulation and of the Financing Agreement for each ISPA measure regarding monitoring and evaluation. The progress of implementation is periodically and systematically revised by the Commission services, especially through the Monitoring Committees. These are organized each year by the national authorities under the supervising of the ISPA National Coordinator³⁵. The results of the meetings are communicated to the ISPA Management Committee³⁶.

The requirements for the ex-post evaluation are made through the Financing Memorandum, which is settled for each project between the Commission and the beneficiary state ISPA. After the finalization of each project, the Commission and the beneficiary state evaluate the way in which it was developed, including the effective and efficient usage of resources, and also the evaluation of the actual impact of the implementation, to see if the initial objectives have been attained. The evaluation tries to underline, among others, the contribution of the measures taken for the implementation of the community policies regarding the environment or common transportation and the extension of trans-European networks. Ex-post analysis must not take place immediately after the finalization of an investment; it is necessary that some time passes, between two and four years in the Commission's view, after the provisory reception of the works. Regarding the early state of the ISPA implementation, no ex-post evaluations were launched³⁷.

³³ up to the end of 2002, the ten candidate states had already initiated the first step to EDIS (Gap Assessment), three of them were already in the second phase (Gap plugging), and one had finalized the third phase (Compliance assessment)

³⁴ European Commission, Report from the Commission, Annual Report of the instrument for structural policy for pre-accession (ISPA) 2002, Brussels, 4.11.2003

³⁵ For example, in 2001 there were organized two rounds of the Monitoring Committee in all the candidate states.

³⁶ Among the responsibilities of the Committee there are the monitoring and implementation of all the projects inside the country, monitoring and implementation of each project in the beneficiary country (based on financial and physical indicators), examining the reports regarding registered progress, and approving annual reports, proposals regarding modifications of sums and conditions based on the monitored activity etc.

³⁷ European Commission, General report on pre-accession assistance PHARE-ISPA-SAPARD in 2001, Brussels, 4.06.2003, COM(2003) 329 final

SAPARD

The SAPARD program represents the third financial instrument of the European Union that supports the candidate states in the preparing process for accession to the EU. On June 21 2000, the European Commission proposed an general allocation of the funds for each of the candidate states. This was realized based on the following objective criteria: rural population, agricultural surface, GDP per capita reported to the parity of purchasing power and the territorial situation existing in each of the candidate states.

Having an annual budget of over one billion Euro in the period of 2000-2006, the main priorities of SAPARD, which are to be found in the SAPARD Regulations³⁸, are those to contribute to the implementation of the *acquis* regarding common agricultural policy and other relevant policies and to solve the specific problems for the sustainable adaptation of the agricultural sector and rural areas of the candidate states.

The legal basis for the SAPARD instrument is the Council Regulation no.1268/1999 (the basis of the SAPARD regulation) for which there is two implementation regulations of the Commission (CE no. 2759/1999 and CE 2222/2000). Due to the fact that the community legislation is not directly applicable in the candidate states the essence of these is to be found in a special instrument, the Multi-annual Financing Report closed with every state.

In all the candidate states, the National Fund within the Finance Ministry, which is in the responsibility of the National Authorization Officer (NAO), is responsible for the administration of the SAPARD funds and of the accreditation of the SAPARD agency.

For the majority of the candidate states, the management authority in the case of the SAPARD program is situated in the Ministry of Agriculture and Rural Development/Regional Development/of Forests and Alimentation or is this ministry itself (Estonia, Lithuania). In the case of the Czech Republic, the management authority is a department in the structure of the SAPARD Agency.

For the implementation of measures in the SAPARD program, in all the candidate states there was created the SAPARD Agency (called the Information Bureau for the Agricultural Registries in Estonia, Agency for Restructuring and Agricultural Modernization in Poland, Agency for Agricultural Markets and Rural Development in the Czech Republic and Slovenia). In some cases it is situated in the Ministry of Agriculture, as a department or distinct service (Service for Rural Support in Letonia, National Payment Agency in Lithuania). In the case of the Czech Republic, the Agency delegated come attributions- the ones regarding the selection of projects- to the Ministry of Regional Development.

The organizational structure of the SAPARD Agency follows the model of payment agencies from the member states that are the object of the regulations of the Commission's Regulation no. 1663/95.

Structural programming

³⁸ The Council Regulation No.1268/1999 concerning community support for pre-accession measures for agriculture and rural development in the candidate countries.

The EU has approved the release of SAPARD funds and offered their administration to the candidate states only after the fulfillment of the following 3 conditions: approval of the National Development Plan, conclusion the International Financing Agreements and accreditation of the SAPARD Agency.

The exercise of the programming, mostly comparable to the rural and agricultural development program from the member states, was entirely new to the administrations from the candidate states. Thus, even if the plans have been approved³⁹ and the negotiation of the agreements has been finalized in 2000⁴⁰, the efforts regarding the founding of the SAPARD Agencies have not been completed up to the end of 2002. In order not to lose the funds allocated for 2000, the deadline for their spending has been extended up to 2003.

The newness of the programming exercise and decentralized management reflects the lack of some unitary evaluations for all candidate states regarding usage of funds and the level of absorption capacity. After the first year of implementation, the main reason in the reduced absorption of funds in the first measure is insurance of own funds of the beneficiaries for investments, to which a restrictive character of eligibility criteria for deposing the projects was added. The weak reply of the beneficiaries was also due to the fact that in parallel with the support given through SAPARD, there were also other financing possibilities offered in the national scheme.

This way, in the period 2002-2003, in Slovenia out of the total of funds approved for the first measure, 50% were absorbed. The SAPARD Agency received in 2002 19 projects, from which 12 were approved. Part of the projects that were rejected was either not complete or did not totally fulfill the requirements, or did not respect the deadlines.

Financial and budgetary management

A significant difference towards the other two instruments of pre-accession PHARE and ISPA, where at least some elements are controlled by the Commission, in the case of the SAPARD program, the Commission is not involved neither at management level, not at the selection of the projects. Thus, in the case of SAPARD, the national authorities from the candidate states assume their entire responsibility, through entirely decentralized management⁴¹.

³⁹ the programs from all ten candidate states (without Malta and Cyprus) were prepared and approved by the Commission in the fall of 2000, and only the one for Latvia was modified in 2001. The content of each program reflects the priorities set by the national authorities that depend on the specific circumstances and the necessities from each country, limited by the regulations of the SAPARD code of rules.

⁴⁰ In concordance with the SAPARD code of rules, the Commission negotiated the Multi-annual Financing Agreements (AFMA) and the Annual Financing Agreements (AFA) with each of the candidate states. The Multi-annual Financing Agreement sets the community rules, including those of coordination and control of funds for all development period of the program. The Annual Financing Agreement sets the financial commitments of the Union for each year (from 2000 up to 2006).

⁴¹ The Commission approved the principles for decentralized SAPARD management on the 26th of January 2000. The Commission's code of regulations that explains in detail the financing rules no.2222/2000 was approved on June 7, 2000 and amended by the CE Regulation from the 20th of November 2001 and the CE Regulation no. 188/2003 from February 2003.

The main reasons that support this decentralization decision are in the first place the necessity of familiarization of the candidate states with the application of similar mechanisms to the ones existing in the member states for the implementation of EAGGF, and in the second place the great number of projects that made impossible from administrative point of view the ex-ante evaluation of the Commission.

In 2002, the SAPARD program became operational in all the 10 beneficiary countries, with the decisions of the Commission to grant help with administration to the Czech Republic (for 7 measures in April 2002), to Slovakia (for 5 measures in April 2002), to Poland (for 5 measures in July 2002), to Romania (for 3 measures in July 2002), and to Hungary (for 4 measures in 2002).

Up to 2001, in all candidate states were founded SAPARD Monitoring Committees. In 2002, they discussed the first results of implementation and approved the proposals made by the Management Authority regarding some modifications brought to SAPARD programs. The annual reports of the Monitoring Committees are presented to the Common Monitoring Committee, which discusses the aspects regarding the control of the monitoring activity during its annual session.

III. 3 The experience of Poland

The communist legacy has not proved particularly harmful for development of economic activity in Polish regions. Hallet concludes that centralized planning was supportive of investment and production decisions according to traditional historical location. At the time of accession, Poland nevertheless exhibited a poor development performance at some of 31% of the average EU GDP per capita, even though regional disparities achieved comparable EU levels with 1:2 ratios between *voivodships* and 1:5 ratios between sub-regions (NUTS-3 level).

In 1990, Poland re-introduced local government and granted rights of self-government to municipalities (*gminas*) relative to a wide range of competence including the formulation of local development programs partly financed by their semi-autonomous budgets. The independence of regional governments was enforced by the introduction in 1993 of regional Clearance Chambers thereby allowing for independent supervision over local finances. Following the State Administration Reform of 1999, the newly created self-government provincial (*voivodship*) and county (*powiat*) authorities became fully operational and started to carry out important regional policy functions in Poland. A governmental sub-committee for regional policy and rural development (KERM) was in charge of drafting proposals and coordinating regional development initiatives from the central level. The Polish Agency for Regional Development (PARD) was created in 1993 to administer foreign assistance within the field of regional policy.

These early experiences with regional administration enabled Poland to evaluate measures of institutional efficiency of local governments even before the country started the accession negotiations. Empirical research conducted in the 1990s and presented by Banasinski Cezary et al. shows considerable differentiation of local authorities in the scope of their willingness to assign funds to development. Relative successes accounted for in the western part as opposed to the eastern part of the country have been primarily

associated with such factors as modern economic infrastructures, good international communications, educational and scientific background. Complementary location values have been also found in the share of the private sector in the economy and the development of civic society. The impact on investors' location decisions and the level of economic activity is remarkable: 54.5% of all business units operating in Poland, 63.3% commercial companies and 68.8% of companies with foreign capital are concentrated in just 4 Western voivodships (Mazowieckie, Slaskie, Dolnoslaskie, Pomorskie).

Accession negotiations

Administrative reorganization, as well as the works of a Task Force for Regional Policy constituted at the end of 1996, framed the setout for the introduction of Community principles of economic cohesion. The Commission remarked the good auspices for a regional policy in Poland: "The system, as it currently exists, provides a solid base for further developments" (Agenda 2000). Poland started accession negotiations in 1998, opened Chapter 21 in 2000 and provisionally closed it in 2002.

Institutional context

The adoption in May 2000 of a Law on Regional Development (LRD) has laid down general rules regarding programming, management, and institutional structures and, in particular, introduced the concept of the regional contract (*voivodship* contract) as the basis for funding of regional development programs throughout the country. This Law also provided for a Council of state regional policy, which was envisaged to play an advisory role. In June 2000, the Ministry of Regional Development (MRD) was created with main tasks in programming, monitoring and evaluation of programs.

Between 2000 and 2002, Poland agreed with the Commission the NUTS classification, which introduced a five-level hierarchical structure consisting of 2489 municipalities (*gminas*) (similar to NUTS 5), 373 *powiats* (NUTS 4), 44 groups of *powiats* (NUTS 3), and 16 *voivodships* (NUTS 2).

The 'regional contracts' conclude between each *Marshal* (elected representative of the *voivodship*) and the MRD. These contracts determine the amount of support provided to regional self-government in the pursuit of its development priorities, under the supervision of the *Voivod* representative of the central government. *Voivods* together with *voivodship* steering committees, which include representatives of the social partners, are allowed to take effective part in the preparation of plans.

In March 2002, a Government Decision designated the Ministry of Economy, Labor, and Social Affairs as the managing authority for the future *Community Support Framework* and for the Cohesion Fund. The Ministry of Finance has been designated as the future paying authority for all the Funds. An amendment to the Law of Public Finance of 1998 came into force in order to ensure multi-annual budget programming and the other specific needs for the co-financing of the Structural Funds and the Cohesion Fund.

In the field of agriculture, the Ministry of Agriculture and Rural Development (MARD) began coordinating the pre-accession funds for rural development. The main tasks were divided between two paying agencies: ARMA (Agency for Restructuring and Modernization of Agriculture) and AMA (Agricultural Market Agency). MARD has been

appointed as the managing institution and ARMA as the Paying Agency and the implementing body for rural development measures. Around 40% of the agricultural budget is currently allocated to ARMA for investments and rural development measures, and 14% to AMA for market-related measures.

In 1999, the Fisheries Department was created in MARD and has been kept responsible, together with the three Regional Inspectorates for Maritime Fisheries and ARMA, for drawing up the operational plan for the Financial Instrument for Fisheries Guidance (FIFG). A Law on Fisheries came into force in 2001, and constituted the basis for the legal introduction of the fisheries acquis in most areas.

Structural Programming

The Preliminary National Development Plan (PNDP) 2000 – 2002 was approved in December 1999. In December 2000, Poland adopted a National Strategy for Regional Development for 2002-2006 which laid ground for the National Development Plan (NDP) for 2002-2006. In early 2003, Poland submitted to the Commission six Draft Operational Programs (OP)¹⁶ and one Technical Assistance OP.

Poland organized an extensive partnership process in the drafting period of the programming documents. Many meetings and seminars were organized and documents were made available over the Internet. An important first effort was made by the Government through numerous events to reach out and involve socio-economic and local partners throughout Poland. Regional and local authorities also organized meetings, sessions and other events to discuss all sorts of issues related to the future implementation of the Funds.

As for the agricultural policy level, Poland pursued the “Medium-term Strategy for Agriculture and Rural Areas Development” adopted in April 1998 and the “Coherent structural development policy for rural areas and agriculture” adopted in July 1999. The “Pact for Agriculture and Rural Areas”, adopted in September 2000, set the stage for two programs: an Operational Program - ‘Restructuring and Modernization of Food Sector and Rural Development’ (SOP), financed from Guidance Section, and the Rural Development Plan (RDP) funded from the Guarantee Section. Structural fisheries measures are planned on the basis of two documents: the Polish Structural Policy in the Fisheries Sector for the years 2000-2006 and the “National Fisheries Strategy”.

Financial management

The Ministry of Finance created the framework for expenditure programs within the principles set out in the LRD and the Law on Public Finance. The EU officials were enthusiastic to notice that “the establishment of the regional contracts ... has contributed somewhat to the further development of financial management and control” (*Regular Report* 2001). Development priorities were supported with a budget just under €1.5 billion over 2001-2003 and helped fund especially infrastructure investments in municipalities threatened by high employment rates and for local restructuring programs chosen by the Government.

¹⁶ They were: “Improvement of Competitiveness of the Economy”; “Transport and Maritime Economy”; “Human Resources Development”; “Rural Development and Modernization of the Food Sector”; “Fisheries and Fish Processing”; and “Integrated Regional OP”.

Poland had to make strenuous efforts to implement the system of financial flows between the Paying Authority, Managing Authorities, Intermediate Bodies and final beneficiaries. A central audit service within the Ministry of Finance has been set up and internal independent audit units have been established in all ministries and in the intermediate bodies. A manual for internal audit procedures was adopted in November 2002. A computerized monitoring system - 'SIMIK' - was established under the lead of the Ministry of Finance in order to allow access to information on both financial and physical progress of projects and programs.

Outcome of negotiations and further challenges

In 2004-2006, Poland is to benefit from a financial envelope of some €11.3 billion within the framework of the Structural Funds and the Cohesion Fund. The EU structural funds for regions (€2.9 billion) were assigned for the development of the infrastructure (55.9%), development of economic base and human resources (21%), and local development (22.4%). They will be supplemented by national public expenditure (€1.13 billion) and private contributions amounting to €0.39 billion. Within the framework of the Cohesion Fund, equal parts of €1.9 billion (plus €0.33 billion worth of national funds) are assigned each to large environmental projects and to the transportation sector.

Within the framework of agriculture, outlays for rural development are distributed in 2004-2006 between RDP and SOP in the value of €3.1 billion, including over €2.5 billion from the EU budget, and €1.9 billion, including €1.0 billion from the EU budget, respectively. Nearly 51% of RDP funds have been intended for the support of agriculture in less favored areas (LFAs), which represent nearly 55% of agriculturally utilized areas. Part of the funds was committed by the Polish negotiators in Copenhagen to top-up the funds for direct payments in a proportion of 80% EU funds and 20% Polish funds.

With regard to SOP, funds concentrate in proportion of 90% on two priorities: support for changes and adjustments; and adjustment of processing to EU standards. Like all other Candidates, agriculture will also benefit from a temporarily annual aid for semi-subsistence farms which reaches a maximum level of €1,250 per farm in Poland. Eligibility will be dependent on submission of a business plan demonstrating the future economic viability of the enterprise, detailing investments required, and including specific milestones and targets.

As regards the management of funds, Poland has chosen a mixed approach. About 80% of funds are administered under national programs and the remainder being allocated as follows: 80% allocated to all regions in proportion to their population, 10% to regions with GDP per capita below 80% of national average, and 10% to provinces with an unemployment rate 50% above the national average (Funck and Pizzati).

Poland had to surpass several obstacles on the way of adopting the EU *acquis* and programming procedures (Table 5). A recent survey of the experience accumulated so far (Grosse and Olbrycht) emphasized the nearly absence of a Polish vision of priorities on country's development as one of the most sensible vulnerability of the National Development Plan. The integration process accelerated probably too fast before a coherent development strategy could be properly set in.

Table 5: Difficulties in complying with Structural Funds requirements in Poland

- Developing an adequate monitoring and evaluation system, including identification of monitoring indicators
- Clear division of responsibilities at the central level, between central and regional levels and at the regional level between *Voivods* and *Marshals*
- Availability of sufficient co-financing, notably at the local level in some of the poorer areas in Poland
- Classification of less favored areas
- Level of education of rural population
- Eligibility for structural funds conditional upon the relevant *acquis* in areas such as public procurement, state aid and environmental protection
- Establishment of the fishing vessel register in practice
- Technical preparation of projects (the project pipeline)
- Development of the Structural Funds overall IT system
- Lack of information on behalf of the potential beneficiaries with regard to the conditions of the structural fund subsidy application

IV. Accession impact on the policy of Structural Instruments in Romania

Romania's negotiating position on chapter 21st was approved in the government meeting of 6th December 2001. This document mentions the adoption in whole of the European acquis in the field as well as the expectation that all the regions of Romania will be included in the objective 1 areas of the economic and social cohesion (development lagging). It describes also the territorial organization of Romania (according to Eurostat language), the regulatory and institutional frameworks of the regional development policy and the mechanisms for the implementation of future structural policy and the principles that lie at the base of the formulation of policy in the field (programming, partnership and additionality). A distinct chapter is reserved for financial management and control. The negotiations on this chapter opened during Spanish presidency (first semester of 2002) and are not yet concluded (beginning of 2004).

We should mention the finalisation of the negotiations and the temporary conclusion of the chapters 12 „Statistics”, 8 „Fisheries”, 13 „Social Policies and Employment”, 9 „Transports Policy” and 28 „Financial Control”, fields connected with the issue of regional development. Chapters 7 „Agriculture” and 22 „Environment” remains open for negotiations.

We should mention that during the whole period 1998 – 2003, the European Commission reports regarding the progress of Romania towards accession mention – regarding the 21st chapter of negotiation – a “limited progress”. The last reports take into consideration the institutional instability and especially the politically induced one (mainly government and ministries reorganizations) and question in this way the political perspective on this field. Even if the progress in institution – building is noticed, the qualitative aspects are repeatedly put into front (management capacity, instruments coordination, audit and control as well as public procurement policy).

The beginning of 2004 has witness an acceleration of the progress regarding regional policy and coordination of structural funds. Thus, after the revision of the position paper which has taken into account the new institutional changes in terms of structural funds coordination (GD 497/2004), at the end of April the revised position paper was submitted to the European Commission for evaluation. The answer of the EC was encouraging as it showed significantly less divergences between Romania and EU common position, as in the past. Moreover, in May 2004, the position paper was again improved and re-submitted to Brussels.

The perspectives to provisionally close negotiations on Chapter 21 are positive, providing good chances for ending this process until fall of 2004. Nevertheless, the lack of a clear acquis in the field of regional development leaves several ambiguities regarding the policy lines to be adopted in Romania. It seems that major political decisions concerning regional policy will be taken after general elections, at the end of 2004, or, even more likely, at the beginning of 2005.

IV. 1 Administrative capacity: legislation, institutions, programming

The importance of the financial assistance provided by the European Union to Romania during transition is not limited to the size of the financial transfers, which

represent during 2000 – 2006, for example, 2% of GDP and 7% of the public budget¹⁷. As currency inflows, these transfers surpassed for certain periods the size of Foreign Direct Investments. However, the most important impact is the conditionality, this financial assistance playing the role of “disciplinization” of the governmental policies and was, for certain cases, even the main factor in the formulation and strategic planning of national strategies for general or sectoral economic development.

In order to analyse the administrative capacity of coordinating structural funds, we need first to evaluate general framework of regional development policy in Romania, then to monitor the results of the pre-accession funds management and then, last but not least, to present the challenges involved by the management of structural instruments.

Regional Development Planning in Romania

The formulation and programming of a regional development public policy is such a case of conditionality. Regional development – as a public policy – appeared during transition in Romania, at least formally, in order to meet the European financial assistance. The legal framework, the institutional architecture as well as public servants abilities were built essentially with the Union’s aid. There are several factors that can explain the lack of such a policy: the “equal” repartitioning of undevelopment (so the lack of need for financial transfers) as well as the centrist tradition of the Romanian national state. In the meantime, the lack of financial resources during transition didn’t afford the “luxury” of a regional policy. The only public measures – very modest – with a flavour of a regional policy were the promotion of certain fiscal and commercial incentives with a geographic focus (free trade zones, free ports, lagging behind regions, etc.) and so on.

Law No. 151 / 15th July 1998¹⁸ on regional development is the fundamental law of Romanian public policy in this area. Supplemented by GD No. 268 / 2000, this act establishes the framework of this policy as well as the institutional architecture involved. At the level of every development region¹⁹, there is formed a Regional Development Council (RDC)²⁰ as well as a Regional Development Agency (RDA).

The Regional Development Agencies are, according to this law, “non-profit, nongovernmental legal entities which act in the field of regional development”. These

¹⁷ According to the joint press conference of the Ministry of European Integration and European Commission’s Delegation in Romania on 29th October 2002 (on the wider subject of the joint evaluation of the progress in utilization of the European funds by Bucharest).

¹⁸ Published in the Official Monitor No. 265 / 16th July 1998 ;

¹⁹ The development regions are no legal entities and are not territorial administrative units, being set up on the basis of voluntary conventions signed between the representatives of the interested departmental (rom. “judet”) councils as well as of the General Council of the Bucharest municipality. With the consent of the Government, these regions can become the framework for regulation and implementation of the regional development policy.

²⁰ The RDC are also no legal entities and play a deliberative role. They are formed by the presidents of the departmental councils as well as a representative of each category of local administrative entity (village, commune, city, municipality), designated by the each department during the mandate. In the case of Bucharest – Ilfov Development Region, RDC is formed by the president of the Ilfov Department Council and representatives of the local councils of ILfov department, at parity with the representatives of the 6 sector of the capital.

institutions functions according to an organizational status approved by RDC and its director is hired after a contest organized by RDC. The Regional Development Agencies:

- elaborate and propose to the RDC the regional development strategy, regional development programmes and funds management plans;
- implement the regional development programmes and funds management plans in accordance with the decisions of the RDC;
- play the role of Implementing Authorities for PHARE programmes – Economic and Social Cohesion component.

At the national level, the law sets up the National Council for Regional Development (NCRD) which is formed by the presidents and vice-presidents of RDCs and, “at parity with the latter’s number”, representatives of the Government designated by Government Decision. The president of NCRD is the Prime Minister of Romania. Among other attributions, NCRD:

- approves the national strategy for regional development and the National Programme for Regional Development;
- approves the criteria, priorities and the allocation rate of the financial assistance;
- approves the utilization of the structural-type funds in the pre-accession as well as post-accession period.

The same law mentions the establishment of the National Funds for Regional Development which will be financed, together with budgetary allocations, by foreign assistance (mainly, European Union’s). The National Agency of Regional Development (NARD), established by this law as an executive body of NCRD, is liquidated in 2000, its role being taken over by the Development and Prognosis Ministry, which will also disappear in 2002. All the structures dealing with regional development will be included in the Ministry of European Integration. In the present – beginning of 2004 – there is, at discussion level, a project for the modification of the 151 / 1998 law.

During the past two years Romania has taken several firm measures in order to increase the administrative capacity of using the community funds.

On December 8, 2003, under the presidency of the Minister for European Integration, the National Council for Regional Development approved the National Plan of Development (NDP) 2004-2006, which was submitted to the Government for approval and thereafter to the European Commission. NDP 2004-2006 is a programmatic document of utmost importance for financing and for using the non-reimbursable funds from the European Union. The document was drawn up in accordance with the methodology used by the EU member states and it was elaborated, for the first time, in agreement with the community practices specific to the Structural Funds. It used the principles of multi-annual programming of the actions to be financed with community funds, actions that are included among the development priorities for Romania during 2004-2006. Furthermore, the financial programming by regional and sectoral priorities was done jointly with the development of the draft budget for 2004 and it also considered the budgetary forecasts up to 2006. Thus, the financing sources for all the types of foreseen actions have been identified.

According to the decision of the Executive Committee for European Integration (December 2003) the process for passing to the Extended Decentralised Implementation System (EDIS) for the funds allocated by the European Union through PHARE and ISPA programs. The process is coordinated by the Minister of Public Finances and it is due to end by 2005. EDIS is the system operated by all EU member states and its implementation presumes complying with some criteria on program management, technical and financial monitoring and public purchases.

In the specific case of Romania technical measures are not enough. Co-financing from the public budget for the European programs is a serious challenge under the conditions of poverty. The institutional frailty and the corruption due to the lack of a systematic and efficient control also are structural issues that are hard to deal without drastic measures that have to be implemented besides the technical ones mentioned earlier.

The main programming document of the national regional policy within the framework of the prospective integration into the EU is the *National Development Plan* (NDP), which stipulates the strategic priorities for the regional and sectoral development for a set period. Until now Romania elaborated three national development plans (NDP 2000-2002; NDP 2002-2005 and NDP 2004-2006). The National Development Plan 2004-2006 has some new elements both as development priorities and as financing and the use of EU non-reimbursable funds. Thus, it identifies five development priorities set on three pylons, as follows: 1. Stimulate the sectors generating economic growth; 2. Address the supply-side constraints and, 3. Address the social deficits and promote a balanced regional development. Each of these three pylons is achieved by implementing one or two development priorities.

The achievement of a balanced participation of all the regions of Romania to the process of socio-economic development (pylon 3) is priority number 5 of NDP 2004-2006. The following actions will be financed with priority within priority number 5:

- Development of the local and regional infrastructure, tourism included
- Development of SMEs sector, mainly of the micro-enterprises
- Renovation of the urban areas and investment in municipal services
- Support for the investments in vocational training (TVET) directed towards the rural local authorities
- Improved local and regional environmental protection (action partly financed by another priority, too).

The rural development is currently financed by a priority other than priority number 5 concerning the regional policy. It is foreseen, though, that as of 2007, the actions for rural development are to be financed within the framework of the regional policy.

NDP 2004-2006 identifies, for the first time, the “context indicators” that are to be systematically monitored in order to decide the corrective measures required at the regional level.

Table 6: Priority 5 – Regional development: Context indicators

Regional Development Indicators	Baseline reference (year)	Target end 2006
Urban population as share of the total (%)	53.3 ¹⁾ (2002)	53.3
Percentage of the active population living outside Bucharest (%)	90.6 ²⁾ (2001)	93.0
GDP per capita in Bucharest-Ilfov Region / GDP per capita in North-East Region	2.96 ²⁾ (2000)	2.96
Share of the population living in NUTS II regions with GDP per capita 15% lower than the national average (%)	43.2 ²⁾ (2000)	43.2
Share of the population living in NUTS III regions with unemployment rate 15% higher than the national average (%)	27.8 ²⁾ (2001)	25.0
Share of the FDI attracted outside Bucharest-Ilfov Region (%)	48.9 ²⁾ (2001)	53.0
Share of the localities ²¹ with access to the water supply system in total localities (%)	24.2 ¹⁾ (2002)	
Share of the localities with access to the sewerage system in total localities (%)	5.1 ¹⁾ (2002)	

Source: NDP 2004-2006: 272. Note: 1) National Institute for Statistics; 2) Determined based on data from the Statistical Yearbook of Romania 2002.

The direct impact of the projects financed from European funds will be monitored by the following impact indicators that are to be used to program PHARE ESC documents, too: business premises developed (m²), modernized local or regional roads (km), renovated urban areas (m²), number of small and medium size towns having tap water supply network or modernized waste management systems, number of towns with extended or modernized public transportation system, number of developed o renovated TVET centres. The impact indicators for the local business environment are as follows: number of newly established SMEs (of which in the rural areas), proportion of investments in production for SMEs, number of jobs created in the assisted SMEs.

Priority 5 on the regional policy has 8.52% of overall financial resources, of which PHARE ESC accounts for about 40%. The European assistance will be directed during the following period towards the level of the development regions on the basis of a complex indicator with the following two components (NDP 2004-2006: 265):

1. “Structural underdevelopment” assessed by the per capita income (per capita GDP) and population size, plus the unemployment rate;
2. “Infrastructure underdevelopment” assessed by indicators concerning the transportation and public utilities infrastructure.

In order to reflect the regional differences the model uses two categories of indicators: geo-demographical (population size, land area and total number of localities) and economic (per capita GDP, unemployment rate, length of roads and railroads, number of localities connected to the coking gas supply network and to the tap water supply network, number of localities with sewage system). Other indicators were not included either because they were redundant (strongly correlated to the ones already mentioned), or because they were not relevant, the decision for 2004-2006 being to direct investments to the declining urban areas.

²¹ Towns and villages.

On the basis of a calculation methodology (see NDP 2004-2006: 266) developed jointly with ARD representatives, it was decided to concentrate the European assistance in the regions with low values of the development indicator, as follows:

Table 7: Allocation of 2004 – 2006 regional funds by region

Country / Region	2004 – 2006 regional funds (% in total regional funds)
Romania	100.00
1. North – East	21,57
2. South – East	13,92
3. South-Muntenia	16,07
4. South – West Oltenia	11,99
5. West-Romania	8,84
6. North – West	11,57
7. Centre	11,03
8. Bucharest – Ilfov	5,01

Source: Ministry of European Integration (NDP 2004-2006: 266).

However, if a region does not come up with a portfolio of eligible project large enough to absorb the available funds (the poor regions have larger requirements but a lower capacity of absorption), the funds will be reallocated at the national level. Thus, the allocation mechanisms described earlier will be managed in a flexible manner in order to maximize the absorption capacity.

Law 151/1998 is to be modified²² in order to correlate the regional institutional framework with the requirements of Chapter 21 of negotiation:

- Explicit nomination of the 8 development regions existing in Romania;
- Clear definition of all NCRD, CRD and ARD attributions;
- Clear statement of the financial contribution of the county and/or local councils to ARD budget as distinct entries in their annual budgets;
- Regulation of the procedures required to change ARD denomination and/or headquarters and the compulsory establishment of a branch in each county;
- The institutions of the central or local administration may mandate by contract some attributions to ARD; in this case their annual budgets have to include in the “expenses” chapter a distinct entry: “Financing the Agencies for Regional Development”;
- Compulsory establishment of an internal audit unit within each ARD;
- Elimination of all references to disfavoured areas;
- Provide for the possibility to use the next year the funds allocated by the state budget for the programs of regional development but which were not used during the year in progress;

²² Friptu Gabriel, *Politica de dezvoltare regională în procesul de integrare europeană* (The policy of regional development within the process of European integration), document presented at the first meeting of the task-force on regionalization in Romania, Sinaia, January 15-16, 2004.

- The NCRD is to be chaired by the leader of the national institution with attributions in rural development.

The fact that the Ministry of Integration has submitted to the Parliament's approval the previously mentioned changes without asking for the opinion of the local actors (county councils) made some regional representatives to the first meeting of the task force for regionalization in Romania (Sinaia 2004) to protest. The amendment of the law as mentioned earlier will induce serious changes in the mechanisms that manage the European assistance. On the one hand, the proposed changes correct several dysfunctional issues (ARD under-financing, no provision for local ARD financing from the budget, the possibility to delegate several responsibilities at ARD level, lower work load for ARD staff by the establishment of branches, etc.). On the other hand, certain counties will see the new responsibilities, particularly the financial ones, as an extra burden.

Development regions and regional statistics

After the formation of Romania by the unification of Transylvania and Vallachia (December the 1st, 1918) and until Romania entered the Soviet sphere of influence, its territory was divided into provinces each of them consisting of several counties. During the early 50s, the Soviet pattern of administrative-territorial organization in regions and districts was enforced. The whole territory was divided into 16 regions, each with 12-18 districts. The Soviet pattern specific to the bureaucratic centralism was replaced on January the 1st, 1968 by the current form of organization with 39 counties plus the municipality of Bucharest in the beginning, and by 41 counties and Bucharest, currently.

In a tight connection with its historic evolution, in Romania, the term of region applies more frequently either to the *historic regions*, or to the *counties* (territorial-administrative units). The historical regions are not administrative units they are based on the territorial and social-political criteria. The eight historic²³ regions of Romania are: Moldova, Muntenia, Dobrogea, Oltenia, Banat, Crişana-Maramureş, Transylvania and Bucharest.

The first study to define and identify statistically homogenous regions in Romania was elaborated on the basis of the 1992 census data. Since at that moment there was no political interest for the development of regional policies the approach "From historical regions to cultural-historical areas" (Sandu, 1996: 229-255) was merely academic. The "Cultural areas" are "territorially continuous groups of cultural similarity". The "cultural similarity" is synonymous to the "same configuration of the dominant value orientation" resulting from the "same profile of the demographic, social, cultural, physic and residential structures and phenomena" (Sandu, 1006: 231). The distance between the "structural-phenomenal profiles" of the counties (author's unit of analysis) was measured with 22 indicators grouped into 10 dimensions (age, education, ethnic group, urbanization, dwelling, relief, migration, population, occupation and policy). An index as

²³ During its history Moldova was mainly under the influence of the Ottoman Empire and Tsar influence. The regions of southern Romania united in 1859 and won their independence from the Otoman Empire in 1877. Transylvania, Banat and Crişana-Maramureş were part of the Austrian-Hungarian Empire until 1918.

factorial score was built for each of the 10 dimensions. Then, based on a cluster-type analysis, the counties were grouped empirically into 18 homogenous subsets named “cultural areas” (Table 8).

The results of the analysis were reconfirmed by the same author on the basis of 1995-1996 data and by another analysis including an additional indicator, the proportion of Orthodox population within the county population (Sandu, 1999a: 131-167). The distribution of the counties by “cultural areas” proved to be consistent with their distribution according to the human capital and with the agricultural regions, too.

Table 8: Historical regions and cultural areas in Romania

<i>Historical regions</i>	<i>Cultural areas and counties</i>	<i>Historical regions</i>	<i>Cultural areas and counties</i>
1. Moldova	1. Bacău, Neamț, Suceava, Vrancea	5. Transylvania	10. Alba, Hunedoara
	2. Galați, Iași		11. Brașov, Sibiu
	3. Botoșani, Vaslui		12. Cluj, Mureș
2. Muntenia	4. Argeș, Dâmbovița, Prahova		13. Covasna, Harghita
	5. Buzău, Brăila		14. Bistrița-Năsăud, Sălaj
	6. Călărași, Giurgiu, Ialomița, Teleorman	6. Crișana-Maramureș	15. Maramureș, Satu-Mare
3. Oltenia	7. Dolj, Olt, Mehedinți		16. Arad, Bihor
	8. Gorj, Vâlcea	7. Banat	17. Caraș-Severin, Timiș
4. Dobrogea	9. Constanța, Tulcea	8. București	18. București-Ilfov

According to the conclusions of Sandu, there are substantial discrepancies within the historic regions, between the “cultural areas” (homogenous subsets of counties):

- Romania is divided into two large cultural blocks (intra-Carpathian) Transylvania, Banat and Crișana Maramureș, on the one hand, and (extra-Carpathian) Moldova, Muntenia, Oltenia and Dobrudgea, on the other hand.
- Muntenia is the only historic region “broken” into groups that strongly differentiated on the north-south axis (cultural area 4 versus cultural area 6 in Table 8)
- Moldova is the most homogenous historic region and includes the cultural area consisting of Botoșani and Vaslui Counties, which have the highest degree of profile similarity.
- Transylvania is segmented into five cultural areas with strongly differentiated profiles: the Romanian-mountain area, the area of German influence, the mixed Romanian-Magyar area and the predominant Magyar area (areas 10, 11, 12 and 13 in Table 8)

Currently, the cultural areas are used as criteria for the stratification of the samples representative at the national and regional levels in most sociological surveys (irrespective of the organization conducting the surveys).

However, neither the historic regions, nor the cultural areas (as statistical regions) were considered as adequate instruments for the development of the regional policy in Romania. On the other hand, the current division of the country in counties too, does not meet the EU criteria for the functioning of the solidarity instruments at the regional level; the Romanian counties fall within the category NUTS 3²⁴. Furthermore, the current division of the territory into counties does not encourage the existence of a relation of insubordination between the central and local authorities and are not a proper support for the local economic development either.

Therefore, the development and implementation of a regional development policy in Romania started (in 1996 at the same time with PHARE program) by outlining some *development regions*. Thus, in 1997, a joint PHARE-Government team developed the “Green Paper of the Regional Development”. The 42 counties were classified on the basis of sectoral and global indicators and the subsequent analyses yielded 8 development regions. The process of defining the 8 regions of development involved the identification of the neighbouring counties having similar social and economic profiles, followed by regrouping the regions of similarity according to the functional relations between the counties, such as communication infrastructure, into development regions.

Additionally, 15 *development sub-regions* were determined – see Table 9 – which represent “counties or groups of counties with similarity that belong to the same region and which face dramatic, global or unspecific problems of development” (Green Paper, 1997: 34), as well as several “priority areas” (“groups of communes or towns”) with specific development problems such as the mining areas, soil degradation, industrial decline or pollution areas.

The eight development regions mentioned earlier were acknowledged by Law 151/1998 on the regional development policy becoming thus both the framework for designing, implementing and assessing the rural development policies, and the framework for collecting European statistics. Thus, the administrative structure of Romania, as territorial organization, corresponds to the following NUTS structures: NUTS 1 – Romania. NUTS 2 – the eight development regions, NUTS 3 – the 42 counties, NUTS 4 – not identified, and NUTS 5 – municipalities, towns and communes.

Table 9: Development regions and development sub-regions

<i>Development regions</i>	<i>Development sub-regions and counties</i>	<i>Development regions</i>	<i>Development sub-regions and counties</i>
1. North-East	1. NE1: Botoşani, Vaslui, Iaşi 2. NE2: Bacău, Neamţ, Suceava	5. West	9. W1: Arad, Timiş 10. W2: Caraş-Severin, Hunedoara

²⁴ The EU NUTS system (Nomenclature of Territorial Units for Statistics) ammended for the last time in May 2003, (Regulation (EC) NO.1059/2003), classifies EU regions according to their population into three categories: NUTS 1 – with the population ranging between 3.000.000 – 7.000.000 inhabitants; NUTS 2 - with the population ranging between 800.000 –3.000.000 inhabitants; NUTS 3 - with the population ranging between 150.000 – 800.000 inhabitants.

2. South-East	3. SE1: Brăila, Galați, Constanța, Tulcea	6. North-West	11. NW1: Cluj, Bihor
	4. SE2: Buzău, Vrancea		12. NW2: Bistrița-Năsăud, Sălaj,
3. South	5. S1: Argeș, Dâmbovița, Prahova		Maramureș, Satu-Mare
	6. S2: Călărași, Giurgiu, Ialomița, Teleorman	7. Centre	13. C1: Brașov, Sibiu
4. South-West	7. SW1: Dolj, Olt, Mehedinți		14. C2: Covasna, Harghita,
	8. SW2: Gorj, Vâlcea		Alba, Mureș
		8. Bucharest	15. Bucharest-Ilfov

Source: Green Paper of the Regional Development, 1997: 35.

The eight development regions are territorial units, but not administrative units too. They have no juridical status, being established by association agreements between 4-6 counties. The development regions do not overlap the historic regions but they follow their traditional structure of polycentric distribution (“favourable to the development”, OECD, 1998) within the country. On the other hand, the development regions are very similar to the “cultural areas” discussed earlier.

It is worth mentioning that the development regions are highly heterogeneous, which makes the statistics at this level hide considerable internal discrepancies. Due to this heterogeneity the development regions are not regarded as adequate instruments for the control of the community/regional poverty or to collect regional statistics, where the homogenous level of the development sub-regions is considered more suitable to the situation of our country.

The first two NDP operated by the development regions and with “priority areas” determined by the experts of the former Ministry of Development and Forecast based on a zoning exercise. Thus, NDP 2000-2002 distinguished three types of priority areas:

1. *Traditionally underdeveloped areas* – characterized by high unemployment rates and by a large share of the population occupied in agriculture; high infant mortality; work force migration towards other areas; poor infrastructure. These regions are located in Northeast, South (Romanian Plain), Southwest and Northwest. Some of these regions were recommended as priority areas by the authors of the Green Chart, too.
2. *Areas with declining industry* – characterized by large-scale reorganization of the manufacturing and mining industries. These sub-regions have a more developed infrastructure than the first category and stand high chances for economic revival. Their distinctive trait is the high potential for social disturbances due the reorganization of sectors with intense labour unions activity and properly organized professionally. NDP authors have identified such areas in six of the eight development regions, except in Bucharest-Ilfov and Northwest.
3. *Areas with frail economic structures* – characterized by a “dangerously high” proportion of the population occupied in the heavy industry (ironworks, chemistry and mining); they are predominantly single-industry or single-enterprise areas. These factors correlate strongly with a low number of SMEs. These regions are therefore running a high risk of becoming type 2 areas (described earlier). Five development regions (except Bucharest – Ilfov, West and Centre) include this type of areas.

Furthermore, NDP 2000-2002 also made reference to *D²⁵ areas (disfavoured areas)*, which, by definition, are territorially delimited entities that fulfil at least one of the following two conditions:

- a. The share of unemployed registered with the Employment Office from the total population between 18-62 is at least three times higher in that area than the national average during the previous three months before applying for the status of D area;
- b. An isolated area with poor infrastructure and without means of communication.

NDP 2002-2005 operates with all the types of areas presented earlier and introduces the concept of “assisted areas”. The priority areas with industrial decline are specified and identified. The relations between these types of priority areas, as well as their relations with the development regions are neither analysed, nor explained. Noteworthy, however, is the conclusion of NDP 2002-2005 concerning the existence of major disparities inside the development areas.

This conclusion justifies the change of paradigm of the regional policy in Romania from development regions to priority areas, more precisely to *areas of industrial reorganization* (AIR). AIR are not statistical regions, they are determined by SWOT analysis. They are located in seven of the eight development regions and concentrate a quarter of the country’s population. The SWOT analysis used two sets of criteria: 1. “Severe problems of industrial reorganization” and 2. “Potential for economic growth” (AIR overlap largely the type 2 areas used by NDP 200-2002). AIR are, by definition, delimited territories of urban concentration that fulfil a series of eight traits (see NDP 2002-2005: 217, 218).

Pascariu *et al.* (2003: 145-151) analysed this exercise of zoning and showed that the number of population and the inclusion in the RICOP European program (rather than the development level or the region profile) were the two key factors in the identification of the 11 areas of industrial reorganization. The relation between the areas of industrial reorganization and the region/county profile is rather ambiguous. Balogh *et al.* (2002: 56) also noticed the lack of harmonization between the areas of industrial reorganization and the regions/counties, because the towns composing these groups belong to several neighbouring counties and sometimes to several regions. Therefore, AIR are not compatible with the existing regional institutional arrangements. Furthermore, as the authors mention it, the regional policy is “fragmented” since it operate simultaneously both with development regions and with an array of areas, which provides no coherence and synergy to the different instruments.

The National Development Plan 2004-2006 gave up the different types of “priority areas” and returned to the development regions in its exercise of financial planning. The academic critiques were accompanied by the recommendation of the European Commission to give up/”avoid” designs of sub-regional assistance and the alignment of Romania to the European principles of granting assistance. “Exceptions will

²⁵ The policy of disfavoured areas is a distinct component of the regional development policies in Romania. The legislation framework was enforced in 1998 by OU No. 24/1998 and ammended in 1999, 2000 and 2001. The areas that have acquired afficially the status of disfavoured areas in Romania are the mining areas where large staff reorganization took place. For a comprehensive analysis, see Drăgan, 2003.

be possible in agreement with the Commission only for the initiatives of rural development and, limited, for the pilot stages of implementation, so as the local communities may have enough time for a gradual preparation or for special situations of shocks on the labour market that require emergency measures ” (NDP 2004-2006: 267).

A large number of empiric studies include a chapter on the regional disparities, analysing the demographic aspects, the economic development or poverty, the employment or unemployment, the human capital, the consumption and election behaviour, etc. These surveys do not propose new territorial “classifications” but rather, they develop the analysis at the level of the residential areas, cultural areas, historic regions or development regions (NUTS 2), at the county level (NUTS 3) or at the locality level (NUTS 5). Most surveys that include analyses in territorial profile take the historic regions or the counties rather than the development regions as reference. Besides the recent emergence of the development regions the most often argument concerns their nature of statistic areas, which however, do not represent functional, administrative or economic units and much less units in the common conscience of their inhabitants.

Romania has a rich experience in regional or zonal surveys. The regional misbalance from Romania is documented even for the period between the two World Wars. After 1990, there have been systematic concerns for the regional analysis and ethnographic (Ghinoiu, 2004), geographic, sociologic (for instance, Abraham, 2000) and religious atlases have been produced.

Although during the socialist period the territorial misbalances alleviated, the regional convergence was rather superficial. After 1990, within the context of the structural economic and social transformations, the regional misbalances deepened.

Generally, most studies, irrespective of their level of analysis, oppose the Northwest, South and Southeast to the West, Centre and the Capital. Most authors underline that the disparities between regions are lower than between the composing counties, which are lower in turn than the disparities between localities. Furthermore, the strongest disparity was recorded between the rural and urban areas. Therefore, Romania is marked by multiple territorial disparities that have to be addressed by the regional policy.

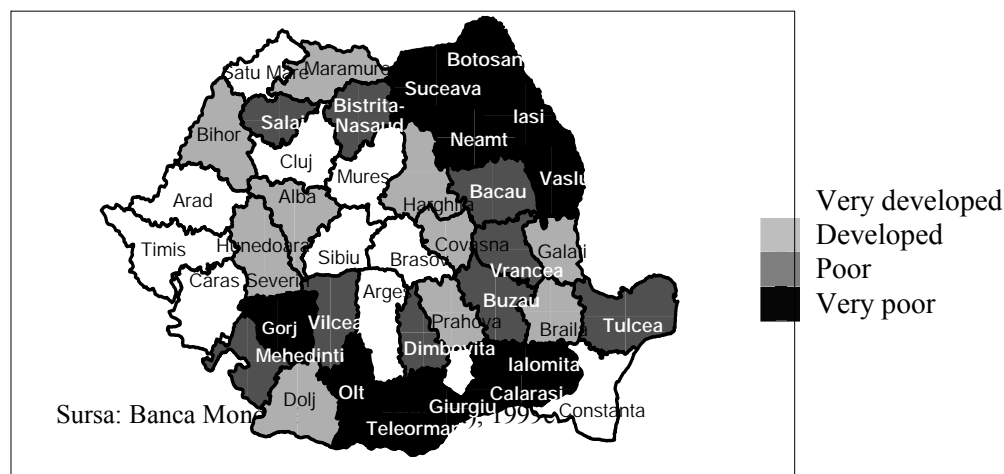
The most recent analysis (NDP 2004-2006: 195) reveals key aspects of the disparities between the development regions:

- Growth misbalance between Bucharest – Ilfov and the other regions;
- Stressed development misbalance between the East and the West of Romania;
- Severe underdevelopment of the Northeast regions, at the border with the Republic Moldova, and in the South, along the Danube
- Substantial intra-regional (intra-county) misbalances, the economic development of most regions being mosaic-like;
- Economic decline of the small and middle-size towns;
- Strong adverse impact of the reorganization on the single-industry areas.

At the European Union level, the most important and relevant statistic indicator on the level of regional disparities is the value of GDP per capita. In this respect, the

proportion of GDP per capita (PPP) of the average EU value is very low ranging between 19.1% for the Northeast region and 35.3% for Bucharest-Ilfov region, which shows a low economic convergence (2000²⁶ data) with the EU.

Figure 1: Development index at the county level



By comparison to the rather underdeveloped regions, the developed regions draw considerably larger investments, both domestic and foreign; they have a more functional labour market, higher job offer and higher wages; a larger share of the population occupied in services and a lower share of the population occupied in agriculture; a lower share of rural population in overall population; they do not include counties with deficit of human capital (low educational level, school enrolment, infant mortality, etc.) compared to the national average; they have social patterns largely characterized by interpersonal trust, tolerance and high relational capital, they display a lower incidence of the poor households and communities (see the studies from References).

Almost half of the Romanian population (47%) lives in rural areas (2002 Census, NIS), which distinguishes our country from the European space. After 1989, within the context of the structural changes, the differences between the urban and rural areas deepened, the rural areas being more disadvantaged as infrastructure, comfort and access to educational health care services (UNDP, 1996, 2000, Chircă and Teșliuc, 1999, Rural EuroBarometer, 2002).

In 1998, the National Institute for Statistics started to gather statistical data on the development regions (NUTS 2) in agreement with the EUROSTAT system. The regional disparities are analysed and monitored on the basis of this data. The regional statistics are quite limited, according to NDP 2004-2006. A system of General Directorates for Regional Statistics was developed at the level of the eight development regions and a database was created that includes an array of indicators on the population, (economic and social) infrastructure, economic structure (agriculture and forestry, industry and SMEs), employment (structure by sectors of the national economy, unemployment equal

²⁶ The European Commission, 2002, *The first report on economic and social cohesion*, cited in NDP 2004-2006: 166.

opportunity), environment (quality of the air and water, pollution level, waste management, forest clearing). This was done by a PHARE project (RO9703-01) and by the project of technical assistance “Support for the socio-economic analysis for the National Development Plan”.

CE regulation 1059/2003 brought essential changes to the definition of territorial NUTS units in the EU member states. On the basis of this regulation, a system of common and compulsory indicators will be developed based on a common methodology. Furthermore, the member states will have to reorganize by 2006 the regional statistics in agreement with the NUTS units redefined according to a set of criteria, the main one being the size of the population. It is also recommended that the NUTS units represent administrative units, mainly NUTS 2 eligible for the Structural Funds.

Table 10: Redefinition of NUTS classification

<i>NUTS level</i>	<i>NUTS 1</i>	<i>NUTS 2</i>	<i>NUTS 3</i>
Size of the stable population (number of inhabitants)	3-7 million	800.000-3.000.000	150.000-800.000

The redefinition of NUTS classification induces a range of extremely difficult political problems and decisions. If Romania joins the EU in 2007 according to the calendar, then it will probably have to comply with this new system as of 2010. According to the new definitions, two of the current development regions of Romania – Northeast and South – would no longer fall within the NUTS 2 category, but in NUTS 1 category because they have over 3 million inhabitants. In other words, the two regions would no longer be eligible for the Structural Funds. On the other hand, Iași (North-East) and Prahova (South) Counties with population in excess of 800,000 would fall into NUTS 2 category, while the other counties would preserve their current NUTS 3 status. Therefore, the redefinition of the development regions is a matter of political decision and of negotiation with the EU of crucial importance concerning the eligibility for the Structural Funds. In agreement with the final political decision the regional institutional construction, the databases, the sampling designs (developed for the regional representativeness), finally all that has been developed so far in connection with the regional statistics, will have to be changed.

The management of pre-accession funds

Phare

PHARE Programme remains oriented even in the present towards a general support towards integration, offering the wider framework of European Union’s assistance by PHARE Management Committee. As already seen, the programme knew in 1997 some important reforms by which it was reoriented towards specific goals as well as modified in order to operate in a more efficient manner. Among these changes, the transfer and management of all kind of assistance was channeled through a single entity (National Fund of the Ministry of Public Finances) whose chief became the National

Authorising Officer, directly responsible towards the Commission for the utilization of the funds.

By GD 1011 / 24th December 1999, the Government of Romania approves the Memorandum of Understanding with European Union regarding the creation of the Central Finance and Contracts Unit (more literally, “PHARE Payments and Contracting Office” - PPCO)²⁷ signed on 16th July 1998 as well as the Memorandum of Understanding signed on 20th October 1998 regarding the creation of National Fund. This institutional infrastructure replaces the former system of Project Management Units of the “old” PHARE²⁸. CFCU has the responsibility in the procedural and administrative aspects of the contracting, organization and supervising of the auctions as well as financial reporting²⁹. The National Fund concludes Financing Accords with CFCU.

At the programming stage, the Preaccession Partnership, signed by Romania and EU on 13th November 2001 together with the other candidate countries, offers the general assistance framework for all the 3 preaccession instruments. In the case of PHARE, it is also taken into account the National Development Plan, the Preaccession Economic Programme, the National Plan for the Adoption of Acquis as well as the Regular Reports on the Progress towards Accession offered by the Commission. PHARE Programming is the main responsibility of the National Coordinator of the Assistance (in the case of Romania, the Ministry of European Integration), starting from the preparation phase till the coordination of the Annual Financing Memoranda.

The National Authorising Officer is named by the Government of Romania and has the main responsibility the financial management of the National Fund. He is also responsible with the designation of the Project Authorising Officers (PAO) who manage the Implementing Agencies. Each PAO is also responsible with the financial management of the programmes implemented by the respective agency (specifically, auctions, contracting and monitoring).

The implementation of the PHARE programmes involves two dimensions:

- Technical implementation: realized at the level of different implementing authorities / public institutions by certain specialized structures, Project Implementation Units;
- Financial implementation: realized by Implementing Agencies. In Romania, there are 4 such agencies: PPCO from the Ministry of Public Finances, the Ministry of European Integration (taking over the whole regional development structure from the former Development and Prognosis Ministry), National Administration of Autoroutes and Romanian Railways Company.

²⁷ PPCO was set up in 1997 by GD 865 and starting with 1998 was transferred inside the Ministry of Public Finances.

²⁸ With the goal of transforming the Implementing Agencies in “excellence centers” in order to develop the implementation capacity of the projects in the context of integration.

²⁹ The rules, regulations and procedures followed by CFCU are those included in the DIS Manual and for projects launched after 1st January 2001 according to Practical Guide regarding the Contracting Procedures (which replaces the old manual).

Both PHARE and ISPA were implemented by the Decentralized Implementation System (DIS³⁰), first used for PHARE programmes starting 1990 and reised in 1998. Following Nisa Summit Recommendations, the Commission and the beneficiary states will put efforts in order to transfer the management responsibilities to the latter by implementation of the Extended Decentralized Implementation System” (EDIS). For the present, the Commission has delegated certain responsibilities to its Delegations in the candidate countries in order to simplify the procedures (the so called “deconcentration”³¹).

The Roadmap to EDIS³² notes the 4 stages necessary for the implementation of EDIS in coandidate countrie: gap assessment, gap plugging, compliance assessment and the decision of the Commission. European Union’s Delegation at Bucharest commissioned a report of evaluation of the first stage of implementing EDIS. The report, finalized in January 2002, was accepted by the National Authorising Officer in November 2002 as representing the official position of Romania. As a consequence, Romania is in the second stage of gap plugging and has the target of finalizing it in June 2004 and the third stage in November the same year³³.

Monitoring and Intermediary Evaluation

As a consequence of the reorientation of PHARE towards a strategy of preaccession as well as the decentralization of its implementation, the former centralised monitoring and evaluation system (engl. “PHARE Monitoring and Assessment System”) was replaced in September 2000 by a decentralised system by which the candidate countries assume the responsibilities for the general progress of the PHARE measures while the Commission, through some independent evaluators, puts the stress on sectoral intermediary evaluation.

In every state, there are³⁴ new supervising structures: a Joint Monitoring Committee and Sectoral Monitoring Sub-Committees. The Joint Monitoring Committee acts as a common monitoring forum for all the preaccession instruments and analysis the reports of evaluation for every instrument.

In the case of Romania, the programmes monitoring is in place starting with September 2000 by the PHARE Joint Monitoring Committee and 8 Sectoral Monitoring Sub-Committees. The former is formed by representatives of the European Commission and the candidate countries (National Coordinator of the Assistance and the National

³⁰ Care în realitate nu este prea „descentralizat” – vezi diferența față de EDIS, care funcționează efectiv pe baze descentralizate.

³¹ By this process, started in 1998 and finalised in all candidate countries in June 1999, the Chiefs of the Commission’s Delegations in these countries have the responsibilities to approve all contracts with a value under 5 milioane Euros (innitally, just 500.000 Euros). Starting with 2000, this upper limit is waived and the accent falls on the observation of the procedures and standard documents.

³² This document “Raodmap to EDIS in ISPA and PHARE” was sent to candidate countries in October 2001.

³³ According to the document “Priorities in the process of adhesion into European Union: December 2003 - December 2004”. These timing targets are probably justified by the “strong encouragement” of the Commission to finalise the implementation of EDIS till the end of 2004 (Roadmap to Romania and Bulgaria, 31st November 2002).

³⁴ Starting with September 2000.

Authorising Officer). In the case of Romania, the Ministry of European Integration and the Ministry of Public Finances play, as already seen, the two roles.

The Sectoral Monitoring Sub-Committees are formed by representatives of European Union's Delegation and the candidate countries (as well as NAO, represented by the chief of the implementation agency which makes the payments). Each Subcommittee has two meetings a year, organized by the Ministry of European Integration as national coordinator of the assistance offered by the European Union.

In parallel with the process of decentralization of the control and monitoring of the implementation of the programmes, the European Commission and the Court of Auditors maintain the right to make whenever deemed necessary checks and audits of the accounts and operations of the National Fund and of the implementing agencies or CFCU³⁵.

The European Commission proposed the introduction of a new approach in the programming, that is the multiannual perspective instead of the former annual one. In the case of Romania, this approach was adopted in 2004 (for the period 2004 – 2006). The structure of this programming will be different, focusing on the financing of the following programmes: the sectoral programmes priorities identified by the roadmap, programmes aiming at the adoption of the *acquis* in other fields than the ones identified by the priorities, economic and social cohesion and the participation at the Community initiatives.

The size of PHARE assistance

Between 1990 and 2000, the size of the European Union assistance towards Romania by PHARE was around 1440 millions Euros. The contracts signed totaled a value of 917 milioane and the actual payments reached 785 milioane Euros³⁶. Following this period, the figures are:

Table 11: PHARE Annual Assistance to Romania (Mil. Euros)

Year	Size of PHARE Assistance	Economic and Social Cohesion component	Institutional construction	Investments
2003	275	112	13	93
2002	242	107	20	87
2001	287	109	15	85
2000	225	88	13	75

We should note the attempt made by the Romanian authorities in the programming to “concentrate PHARE 2001 funds – economic and social cohesion – and the co-financing funds from the national budget to the industrial restructuring zones with a growth potential“, defined as “geographical concentrations of localities in difficulty

³⁵ According to CR 2185 / 1996.

³⁶ See “PHARE Annual Report 2000”

with high rates of unemployment, environmental problems but with economic growth potential”³⁷.

Studies³⁸ reveal the various programs of the operational PHARE programs for Romania. Most analyses focus on the technical aspects concerning the process of selection, contracting, monitoring, implementation and financial management. Following are the main problems specific to the PHARE programs that run in Romania:

1. *The process of selection*: The guide for applicants and the Request for financing have unclear expressions; ARD staff had to cope with the parallel processes of project development and implementation, so they “learned” in the process.
2. *The process of contracting*: the deadline for contract signing was much delayed; cooperation with NARD was difficult and slow during the contracting.
3. *The process of monitoring*: the prolongation of the contracting period shortened the period of implementation.
4. *Implementation*: the shorter period of project implementation caused difficulties; some projects could not even be finalized during the period stipulated in the contract; the lack of staff training; unclear assignment of the institutional responsibilities.
5. *Monitoring*: difficulties due to insufficient human and material resources of ARD; unclear indicators of achievement (and the relative records), some of them not clearly stipulated when the contract was signed.
6. *Financial management*: the procedures for financial reports were changed several times during project implementation; the payments in ROL and the conversion to Euro reduced substantially the initial value of the grant; communication deficiencies between the relevant institutions and the lack of a joint, integrated system of information and reporting.

To the technical aspects, Balogh (2002) adds the major role of the political environment in the elaboration, implementation and monitoring of these projects and the limited involvement of the private actors.

ISPA

The second pre-accession instrument offered by European Union in the economic and social cohesion field, after PHARE, is ISPA³⁹. From the point of view of

³⁷ The industrial zone of North Eastern Moldavia, the complex industrial area of Central-Western Moldavia, the industrial zone of central Subcarpathians, the industrial and services zone of Lower Danube, the industrial zone of Muntenia's Subcarpathians, the industrial zone of Mehedinti plateau, the industrial zone of South Banate and Petrosani area, the mining industrial zone of Apuseni Carpathians, the mining industrial zone of Maramures and Northern Transylvania, the complex industrial area of central Transylvania.

³⁸ Such as Pascariu and Trăistaru, 2001, Delegation of the European Commission for Romania, 2002, *Compendium - Ex-Post Evaluation*, Balogh, 2002 or Pascariu, 2003.

³⁹ As already noted, ISPA is an exercise for the Cohesion Fund which operates for the member states. The financial assistance for each candidate country is based on the same criteria. The difference consists in the ex ante control maintained by the Commission, at least til the implementation of EDIS.

programming, implementation and monitoring, ISPA copies and utilizes the mechanisms of PHARE. Taken into account the criteria for the repartitioning of funds per candidate country (population, GDP per capita, and territory), Romania receives between 20 – 26% of the 1040 millions Euro a year total funds (208 – 270 millions a year for Romania). Starting with May 2004 (the accession of the first wave of countries from the East), the assistance for Romania and Bulgaria will increase by steps (20%, 30% and 40% til 2006). As a member of European Union, Romania will receive by Cohesion Fund (maintaining the same conditions and criteria) 8 times the level of assistance offered by ISPA

The programming documents for ISPA are Accession Partnership as well as National Strategies in the fields of environment and transports, integrated in the National Development Strategy.

In the environment sector, ISPA will focus on the so-called investment heavy directives of EU which deal especially with significant environment issues (drinkable water, waste water, solid waste management and atmospheric pollution). We should mention the focus on “mature” projects which needs no other assistance but financing⁴⁰.

The orientation of the Transport component of ISPA is towards improving the future Trans-European Transport Network (Decision 1692 / 1996 of the European Parliament and the European Council of 23rd July 1996) as it is defined by “Transport Infrastructure Needs Assessment” Report. According to this document, there are 10 corridors of transport at the European level from which 3 pass Romanian territory. The Romanian government defined as priorities in the financing of ISPA the modernization of the 3 Pan-European corridors transpassing the country as well as a balancing the type of transports (auto, rail and fluvial).

The program of pre-accession for transport and environment infrastructure (ISPA) focused on the project portfolio. With the financial backup and the technical assistance of the Government of Denmark, Romania developed the largest portfolio of projects among the candidate countries and secured the largest financing in this program. Romania is therefore ready to spend more than the budget allocated to the transportation and environment programs if compared to other programs where the capacity of spending the funds is much lower (Stănculescu, 2002). EU representatives also had positive remarks in this respect: “Romania has shown a proper capacity to prepare the projects and provided for a correct balance between the transportation and environment projects. Higher efforts are necessary, nevertheless, to increase the administrative capacity, particularly in staffing and in setting transparent rules” (European Commissioner Michel Barnier⁴¹). Therefore, the factors that might endanger the proper functioning of the program depend on the institutional frailty on the implementation of clear rules for selection and of a rigorous control on funds spending.

Institutional Structure

The Implementation authorities of ISPA projects are the Ministry of Transports, Constructions and Tourism - for the transport infrastructure component – and the

⁴⁰ This is the reason why atmospheric pollution – field with no “utility” companies but with impressive problems – does not constitute the objective of IPS AProjects.

⁴¹ Press release of the Delegation of EU Commission for Romania, Bucharest, October 11, 2002.

Ministry of Environment and Water Management – for the environment component. In each ministry, there are special units of coordination of ISPA projects.

The implementing agencies have as responsibilities the organization of auctions, contracting and monitoring projects. The implementing agencies have to receive the approval of the European Union's Delegation for each stage of the procedure. For the current projects, there are four Implementing Agencies: for the environment, this role is played CFCU from the Ministry of Public Finances⁴² and for the transport infrastructure; the role is played by National Administration of Autoroutes, Railways National Company and the Implementing Agency of the Danube Projects.

The Ministry of European Integration is the National Coordinator for ISPA projects, according to the Prime Minister's Decision 189 / 2001. MEI forwards the financing requests towards the European Commission, organizes the Monitoring Committees and coordinates the involved ministries (through National ISPA Secretariate). The final beneficiaries of ISPA projects are local public authorities as well as national utilities.

According to the agreement between Romania and European Union of 20th October 2000, the National Fund from MPF will be used also for ISPA projects. The supervising role belongs to ISPA Monitoring Committee, set up by Prime Minister Decision 272 / 2001 accordingly to the Memorandum of Understanding regarding the utilization of the National Fund signed between the two parties. In this Monitoring Committee, there are representatives from the main institutions of central public administration involved in the derulation of the projects (MEI, MPF, MAFDR, etc.), the beneficiaries, representatives from European Union and main international financing institutions (European Bank for Reconstruction and Development, European Investment Bank, World Bank, etc.). The president of this Committee is the minister of European Integration, designated by Prime Minister Decision 189 / 2001 as ISPA National Coordinator.

Till the beginning of 2004, there were signed Financing Memoranda for 33 projects and other 6 were given a favourable opinion totaling € 1.635.002.151, from which the financing grants from EU represented 74%. Romania uses all the allocated funds to date and the repartition is relatively balanced among the two sectors. The implementation of ISPA projects began in 2000 and there are signed 66 contracts which total € 494.650.532.

An important role in the financing of ISPA projects is played by the international financing institutions. IN the case of Romania, European Investment Bank cofinanced 8 projects (2 in 2000 - Craiova and Braila – 3 in 2001 – Cluj, Focsani and Pascani – and 3 in 2002 – Satu Mare, Buzau and Piatra Neamt) and the European Bank for Reconstruction and Development 8 projects (2 in 2000 – Constanta and Iasi – 4 in 2001 – Arad, Oradea, Timisoara and Targu Mures – and 2 in 2002 – Brasov and Sibiu). A project – Piatra Neamt – is cofinanced by the Danish Environment Protection Agency⁴³.

⁴² Because the great part of the beneficiaries (local utility companies, municipalities) do not have the contracting and implementing capacity for great projects, this rol is played by the PHARE Payments and Contracting Office of MPF. The technical monitoring aspects are delegated to these beneficiaries.

⁴³ Till the end of 2002, 494 mil. Euros are offered by such international financing institutions.

SAPARD

The programming base is, together with Accession Partnership (see the other 2 instruments), the National Plan for Agriculture and Rural Development (NPARD). The plan was approved by the Parliament by Law No. 157 / 28.09.2000, forwarded to the European Commission on 27 april 2000 and accepted by the latter on 12th December 2000 (Decision 3742 / 2000). NPARD was amended by the Commission Decision 638 / 2002.

NPARD establishes 11 intervention measures⁴⁴ considered important to Romania, selected from a number of 15 offered by the Commission (by Regulation “SAPARD”⁴⁵), grouped in 4 priorities: 1) improvement of the processing and marketing of agricultural and fishery products; 2) development and improvement of rural infrastructure; 3) the development of the rural economy (investments in agricultural holdings, economic diversification, infrastructure); 4) human resources development (professional activity improvement, technical assistance, including studies supporting the preparation and monitoring of the programme, information and publicity campaign).

We should mention that the European Commission confers to the SAPARD Agency the right of management separately for each measure⁴⁶. In July 2002, the conferral of management for the first 3 measures (1.1, 2.1, 4.2)⁴⁷ is obtained. SAPARD Agency is at the beginning of 2004 responsible also for the management of measures 3.1, 3.4 and 4.1.

Because the technical and financial management, as well the responsibility of funds management are entirely conferred to the national authorities (totally different from PHARE and ISPA), European Union demands a specific institutional system with extended decentralization of the community assistance. Year 2001 represented for Romania an important regulatory and institution building effort, lacking however the same evolution for the independence and quality of auditing and control systems.

SAPARD Agency (under the Ministry of Agriculture, Forestries and Rural Development) plays the role of Implementing and Paying Authority. The Agency was set up by Ordonance 142 / 2000 and approved by Law 309 / 2000. It has 8 Regional Implementation Bureaus, each for one of the development regions established by Regional Development Law.

⁴⁴ The 11 measures taken into consideration by Romania are: 1.1 Improvement of the processing and marketing of the agricultural and fishery products; 1.2 Improvement of the structures involved in the quality, veterinary and plant health controls, for the quality of foodstuffs and or consumer protection; 2.1 Development and improvement of rural infrastructure, 2.2 Agricultural water resources management, 3.1 investments in agricultural holdings, 3.2 setting up producer groups, 3.3 agricultural production methods designed to protect the environment and maintain the countryside, 3.4 development and diversification of economic activities, providing multiple activities and alternative income, 3.5 Forestry, 4.1 Improvement of vocational training, 4.2 Technical assistance

⁴⁵ Regulation 1268 / 1999.

⁴⁶ By Regulation 2222 / 7th June 2000, European Commission establishes the financial criteria for the application of the Regulation SAPARD regarding the conferral of management, modified at a later time by Regulation 2252 / 2001.

⁴⁷ Regulation 638 / 2002.

At the end of 2001, these were the conclusions of the *Early Warning Report* concerning the SAPARD program for pre-accession for agriculture and rural development: “From the beginning SAPARD did not get the deserved attention. The early delays continue to affect the proper progress of the program despite the attempts to close the gaps. (...) The delayed development of SAPARD reflects the low interest which all the governments – the present one included – have displayed for the agricultural issues. (...) The Romanian authorities are very optimistic and they consider that the 2000 funds directed to 2001 on condition that they are used before the end of 2002 are not lost. However, they do not take into account that in 2002, the starting year of the agency, the institution will have to administer a two-fold higher amount of money (150 + 150 million Euro) under the conditions in which the working procedures are not yet smoothed, the staff has just began to work and the offers for projects are limited to three domains and have almost no advertising.” (UNDP and SAR, 2001).

In 2002, SAPARD agency was credited and the volume of financial assistance for the domestic market and agriculture tripled. SAPARD program was mentioned as an example of success by the representatives of the Delegation of the EU Commission for Romania (2002): “Romania was the last country where this program was launched, but the delay was fully recovered. In the shortest period Romania travelled the longest way to accreditation going ahead other countries that had started long ago the required approaches”.

It seems, that institutionally the lag was recovered. In 2004 the agency already had 542 projects contracted for the development and improvement of the rural infrastructure. However, the positive image darkens upon reading the most recent press release of SAPARD (Adevărul, 2004). Of the 156 SAPARD projects that have been checked (256 are under checking), 58⁴⁸ (37%) revealed conflicts of interest. The survey showed that the members of the assessment board are or have been, stock holders, associates, administrators or employees of one of the bidding companies, employees of the County Council, of the designing companies, or experts in the design or construction companies, site supervisors or foremen for some construction projects they were supposed to approve or assess. Therefore, despite the effort of building institutions, of regulating the activity, of co-financing it, the efficiency of the action is endangered by the institutional frailty due to the considerable influence of the informal groups of interest.

How much is the rural population ready for accession, what do they know of SAPARD or CAP? (Luca in Rural EuroBarometer, 2002):

- Over 44% of the rural population considers that the agriculture of Romania is not yet ready for accession, while 29% have no opinions on this essential issue for the modernization of the Romanian village
- The expectations of the rural population on the Common Agricultural Policy, assessed by the forecasts on the household income showed that 37% do not know what to expect but 32% expect an increase. The increase is thought to be the effect of subsidies: 38% expect the subsidies to increase as compared to the current situation (41% can not assess what will happen). Most of the population (41%) sees no interest in the discussion on the

⁴⁸ Most of them are located in 5 counties: Suceava, Dâmbovița, Buzău, Vâlcea and Argeș.

odds of organising a farm and therefore they do not answer that question. Slightly over one quarter (27%) of the rural population hope that the new CAP framework will provide considerably higher opportunities to develop an animal farm.

- Considering that when the data were gathered the selection of SAPARD projects had already started, the degree of information concerning this program substantially financed by the EU is quite low: 68% of the rural population never heard of SAPARD. Of the 32% who heard of SAPARD, only half consider the program is addressed to them.
- The main source of information for the population on the SAPARD program is the mass-media and not the town hall, although one of the actions for which the selection of projects started is the investment in infrastructure; the town hall has to prepare the documentation for these projects and the involvement of the population is one of the criteria in granting the funds.

The level of information is considerably higher at the local authorities. In just 21% of the communes surveyed by the Rural EuroBarometer, another local institution rather than the town hall applied for development programs/funds. In most cases it was the school, a local entrepreneur or a peasant committee of initiative.

The management of structural funds

The Government Decision no. 497 of April 2004 is replacing GD no. 1555/2002 regarding the appointment of institutions responsible with coordination, implementation and management of Community financial assistance through structural instruments.

By this legislative act, the Government defines structural instruments (Structural Funds and Cohesion Fund) through which the European Union acts in order to alleviate economic and social disparities among regions with the aim of reaching economic and social cohesion.

At the same time, the Government transposes in the Romanian legislation the definitions of programming documents, institutions and key actors involved in implementation of structural instruments, as follows:

The *Community Support Framework* is the document approved by the European Commission after negotiations with Romania as a Member State, as a result of evaluation the National Development Plan. The Community Support Framework includes information regarding Structural Funds contribution and the other financial resources, in order to accomplish the priorities and measures mentioned in the National Development Plan. The provisions of this document are implemented through Operational Programmes.

The *Operational Programmes* are documents approved by European Commission for implementing the sectoral and / or regional priorities from the National Development Plan, which are approved for financing through the Community Support Framework.

The *Programme Complement* represents the document elaborated by the Managing Authority of the Member State (i.e. Romania after accession) in order to detail the implementation of the measures contained in the sectoral and regional Operational Programme.

The main institution involved in the coordination of Structural instruments is the *Managing Authority*, appointed by Romania. Following EU requirements, Romania has selected the Managing Authority for the Community Support Framework, the Managing Authorities for each of the Operational Programmes and for the Cohesion Fund and, also, Managing Authorities for the Interreg Community Initiative.

The main body monitoring the administration of Structural Instruments, which also is evaluating the effectiveness and quality of implementing Community assistance, is the *Monitoring Committee*.

The institutional framework provides one Monitoring Committee for the Community Support Framework and Monitoring Committees for each of the Operational Programmes and for the Cohesion Fund.

The institution elaborating and submitting payment requests and receiving from the EC the amounts corresponding to Structural Funds and Cohesion Fund is the *Paying Authority*.

The Managing and Paying Authorities may delegate power to Intermediary Bodies for implementing measures from the Operational Programmes, as well as for projects financed through cohesion fund. The process of delegating power is done on contractual basis, yet, the Managing and Paying Authorities remain responsible for the correct fulfilment of the operations financed through Structural Instruments.

Through the same Government Decision (GD 497/2004), Romania has already selected the responsible institutions related to implementing Structural Instruments after EU accession.

The Managing Authority for the Community Support Framework will be the Ministry of Public Finance (MPF), institution bearing the responsibility of coordinating the implementation of all Structural Fund Community assistance. As a result, the Ministry of Public Finance will have the following new tasks:

- Elaborating, in partnership with the involved central and local institutions, and together with the socio-economic partners, the National Development Plan, and negotiating the Community Support Framework with the European Commission;
- Coordinating and supervising the enforcement and implementation of Community policies, especially in the field of competition and state aid, public procurement, environment and gender equal opportunities;
- Providing a transparent, effective and efficient implementation of the Community Support Framework;
- Elaborating the annual implementation report for the Community Support Framework, and submitting it to the European Commission for comments and recommendations, after the approval of the Monitoring Committee;
- Organising, in partnership with the European Commission, the intermediate evaluation of the Community Support Framework, and submitting the results and conclusions to the Monitoring Committee;

- Participating, in partnership with the European Commission, at the ex-post evaluation of the Community Support Framework, and submitting the results and conclusions to the Monitoring Committee.

The institutional framework for coordinating structural instruments in Romania is presented in Figure 1A in Annex.

The main tasks of the Managing Authorities related to Operational Programmes are the following:

- Elaborating the Operational Programmes and the Programmes Complement;
- Correlating the measures from the sectoral OPs with those from the regional OP, under the supervision of the Management Authority of the Community Support Programme;
- Implementing the Operational Programmes according to the recommendations of the Monitoring Committees, in line with EU regulations, principles and policies;
- Ensuring the efficient and transparent use of the funds financing the OPs, as well as the fulfilment of tasks at the level of Intermediary Bodies.

The Ministry of Public Finance was selected as the institution in charge with the coordination and management of the Cohesion Fund. At the same time, the Ministry of European Integration will be the Managing Authority for the Interreg Community Initiative.

The Ministry of Transport, Constructions and Tourism and the Ministry of Environment and Waters Management are the Intermediary Bodies for infrastructure projects in the field of transports and environment, respectively, financed through the Cohesion Fund.

The legal framework also defines the *Paying Authorities* as the institutions receiving from the European Commission the amounts to be paid to the end beneficiaries. For the European Agriculture Guidance and Guarantee Fund (EAGGF) – Guidance section, and for the Financial Instrument for Fishery Guidance (FIFG), the Ministry of Agriculture, Forests and Rural Development will have the functions of a Paying Authority.

For the other components of the structural instruments – the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, the Paying authority will be the Ministry of Public Finance.

Paying Authorities receive from the end beneficiaries the reimbursement applications for their expenses and must examine if the payment requests are corresponding with the approved operations, and include only expenses undertaken in the reference period that are duly justified and documented.

If any unused amounts remain, or if any misappropriations occurred related to the payments done from the Structural and Cohesion Funds, the Paying Authority is responsible with reimbursing them to the European Commission.

An independent internal Audit Unit will function for each Managing Authority, Paying Authority and Intermediary Body.

The Managing Authorities for the Operational Programmes, both sectoral and regional, may appoint Intermediary Bodies to implement measures financed through Structural Funds.

There is a degree of flexibility in the design of the framework for the structural instruments. If the priorities or measures identified in the National Development Plan will change over time, Romania may ask for adding other Operational Programmes and/or measures within the Community Support Framework, as well as for adjusting the institutional framework.

Structural Funds and the regional aid policy

Through its structural funds, the EU aims at reducing the disparities among the different development levels of regions all around the Community, and tries to reduce the lag behind of the disfavoured regions, including rural areas.

Regional aid is designed to assist the development of poorer regions through investment support and sustainable job creation. Regional aid promotes the expansion; modernising and diversification of activities for the firms located in those regions and encourages the establishment of start ups in the same areas. In order to reinforce such development, and reduce the potential negative effects of relocation, regional grants are conditioned by maintaining investment and securing the newly created jobs for a minimum required period of time.

If the structural problems of a particular region are too serious for a regional aid to have an effect, an operating aid may be granted, in order to reduce the current expenses of entrepreneurs in the area (e.g. wage costs, transport costs, rents etc).

Regional aid should fulfil certain principles and rules. In fact, such an aid is allowed in the EU only if used carefully and remains focused on the most disadvantaged area. If the aid would be generalised, it would lose its stimulation effect and its economic impact would be cancelled. At the same time, the aid would interfere with the normal action of market forces and would reduce the efficiency of the Common Market.

At the same time, the activities financed through the Structural Funds should be compatible with the other Community policies, and should be in line with the European legislation, in the fields such as environment, consumer protection, take-overs or competition.

As stipulated in the EC Treaty, the state aid that distorts competition on the common market is illegal. However, certain exemptions are allowed (Article 87 of the Treaty), where state aid schemes may have a positive impact for the entire Union.

In the framework of Structural Funds operations, the most relevant exceptions are the following:

- Article 87(3)(a) allows the aid for supporting the economic development of the areas with a standard of living extremely low or with serious unemployment;
- Article 87(3)(c) allows the aid for encouraging the development of certain economic activities or regions, where such aid is not adversely affecting the common market.

We may distinguish three main categories of exceptions:

Regional aid, as both articles mentioned above create a legal basis for accepting state aid aimed at solving regional problems, as follows:

- Article 87(3) applies to regions which are at a disadvantage as compared to the EU average. Such regions need to be NUTS II regions, with a GDP/capita under 75% of EU average. Almost all regions eligible for Objective 1 under the Structural Funds framework may benefit by the provisions of Article 87(3); the sparsely populated regions are the only exception, as they are eligible under Objective 1 but not under Article 87(3).
- Article 87(3)(c) gives Member States the possibility to support regions which are at a disadvantage as compared to the national average. The list of regions qualifying for this exception is approved by the European Commission, but on the basis of proposals made by Member States.

Horizontal rules (or cross-industry rules) are set by the Commission for specific categories of aid and are meant to solve the difficulties which may appear in any industry or region. The Commission approved the framework or the guidelines, setting the criteria applied to the following types of aid:

- Aid for SMEs;
- Aid for research and development;
- Aid for environment protection;
- Aid for safeguarding and restructuring distressed undertakings;
- Aid for promoting employment;
- Aid for undertakings operating in urban areas with unemployment;
- Aid for training and vocational training.

The Commission adopted also sectoral rules (rules specific to industry) which define the approach to particular industries, as follows:

Sensitive sectors, which have experienced severe specific economic problems (coal and steel industry, synthetic fibre sector, automotive industry and ship building). For these sectors, the state aid rules are, generally, more restrictive than for other sectors. In some cases, aid is allowed only accompanied with downsizing measures. For almost all these sectors, Member States are obliged to notify each individual case of state aid.

Agriculture, fishery and aquaculture, for which specific rules apply, as set in the Community Guidelines for state aid in the agricultural sector.

Transport. The general rules concerning state aid apply to road transport (with the exception of transport equipment not eligible for aid), and do not apply to rail, air, domestic water or maritime transport.

IV. 3 Managerial capacity: financing and budget

On the 10th of February 2004, the European Commission presented the European Parliament a proposal for a financial package for Romania in the period 2007-2009.

Provided it will become a Member State of the EU in 2007, Romania will benefit from structural actions commitments of almost 6 billion euro (EUR 5973 million). The phasing-in of the assistance will be done gradually, based on the fact that Romania's absorption capacity will increase in time. This approach is similar to the one applied to the ten new member states. Romania will be eligible to structural actions amounting 2,4% of its GDP in 2007, 3,2% in 2008, and 4% in 2009.

According to the EC strategy, the financial envelope for structural instruments will be divided so that two thirds will go through the Structural Funds and one third will be available through the Cohesion Fund.

The financial package for Romania will follow the rules already applied in the current EU legislation, which limit the total amount of Structural and Cohesion Funds to a maximum of 4% of GDP. The Commission also suggested the introduction of a procedure which would allow renegotiations, if the financial package will need readjustments after finalizing the accession negotiations.

At this time, an evaluation of the management capacity in terms of structural actions cannot be done based on existing experience, as Romania will be eligible for structural funds only after its accession date in the EU. However, this section tries to use a proxy, by analysing the administrative capacity related to the pre-accession funds.

There are important limitations of such an approach. The management of pre-accession instruments is different from the management of structural funds. The implementation of programmes significantly differs from PHARE and ISPA to structural instruments. Out of the PHARE programmes, maybe only the *Economic and Social Cohesion* component is closer to the coordination needed after accession. Only the management of the SAPARD programme is to a certain extent comparable with the administration of structural instruments.

Giving these limitations, this material underlines some of the main rules of the financial management of structural funds, followed by a presentation of the Romanian experience with pre-accession funds, which will be done by both reviewing the already existing institutional analysis, and by evaluating the results of PHARE 1997 and 1998, the only projects for which full activity reports were available.

The commitments from the Community budget are based on the previously decided structural funds allocations. The first commitment will be taken by the European Commission at the same time with the decision for approving structural assistance. Subsequent commitments will be taken until April 30 of each year.

The European Commission will automatically cancel any of its commitments, which have not been settled through payment, or which have not been matched by acceptable payment applications by the end of the second year after the year in which the commitment was taken. This rule is known as the N+2 rule. As a result, Romania will be conditioned to accelerate the implementation of projects financed through structural funds.

From the viewpoint of payments, the European Commission will proceed with the payments from the structural funds, starting with the first opened commitment.

The payments can be in advance, intermediate or payments of the final balance. The *advance payment* involves a 7% payment from the allocated total amount of assistance and is transferred together with the first EC commitment. The advance payment may be divided in maximum two budgetary years and will be used by the Paying Authority in order to pay the Community contribution related to the respective assistance. The advanced payment will be reimbursed to the EC, fully or partially, if no payment application is submitted in 18 months from the EC commitment decision.

Intermediate and final balance payments are meant to reimburse end beneficiaries for their expenses. The expenses need to be properly justified and documented (the EC will approve *intermediate payments* in maximum two months since receiving an acceptable payment application). Applications for intermediate payments need to be submitted to the Commission in packages, three times per year, the deadline being October 31, each year. The maximum amount payable through intermediate payments is 95% of the total value of the commitment structural instruments. The *final balance payments* are of minimum 5% of the entire structural assistance. The unused annual commitments are automatically transferred to the next year, whereas payments are strictly yearly.

Moreover, starting with the year 2000, the *performance reserve* was introduced, as an additional incentive for the efficient use of the structural instruments. The performance reserve consists in a 4% bonus of the remaining unused credits, and is granted according to the effectiveness of each Operational Programme.

Institutional analyses

Before presenting the main conclusions of the institutional analyses conducted by a large number of experts we have to say that the positive evolution of the past few years in the institutional framework and arrangements relevant to the regional development policy are incontestable and were highlighted by most analysts. Yet, the studies stressed the dysfunctional issues with the purpose to offer support by identifying the critical points and by imaging an array of possible solutions.

Institutions that are stable at different levels of the public administration, a better public management and administration and an efficient public administration are essential to a functional market economy (World Bank⁴⁹, 2001). Decentralisation is therefore essential to the development agenda of Romania, an important driving force to this issue being the process of accession to the European Union⁵⁰. The European regulations require the access of the local administrations to adequate financial resources enabling them to fulfil their duties and stipulate the fiscal balance that has to exist between the entities of the local administration (Wetzel and Dunn, 1999). The legislative reforms of the past years, particularly the Law of the local public finances (1998), changed

⁴⁹ World Bank: *Country Strategy for Assistance - Romania*.

⁵⁰ The EU policy on the role of the local administrations is included in the *European Chart of Local Self-Administration*.

fundamentally the fiscal relations between the levels of the public administration and the finances structure of the communes, towns, municipalities and counties.

The analysis of the decentralisation process⁵¹ (World Bank, 2002: 11-15) revealed the main changes including the critical issues with political implications that took place until 2000. Although the fiscal autonomy of the local administrations increased considerably, the efficacy of this transfer of responsibilities was seriously affected by: 1. The lack of administrative capacity (the communes have the lowest capacity of income collection), 2. The unpredictable character of the income sources given the fact that the central administration preserved its prerogative to change the income allocated to the different levels of the public administration, 3. The uncertainty of the system of transfers between the levels of the public administration, 4. The lower share of income distributed in order to balance the fiscal situation of the local administrations and, which is more important, the allocation of the available funds is not done according to clear-cut criteria, they are rather negotiable and are at the discretion of the political or personal deals. The efficacy of the transfers for balancing (from the state budget directly to the county councils who redistribute them to the local councils) was limited by the deficit of transparency and predictability in allocating the transfers (both from the centre to the county and from the county to the locality) and the poor targeting of the resources. The budgetary expenditure has the following major problems: the control of the central administration over the expenditure, the lack of clarity in assigning the expenditures and the frequent changes in expenditure assignments.

Other World Bank studies (Sandu *et al.*, 2000a) revealed the problem of the local budget and its administration at the level of the communes, the lack of clear criteria in allocating the funds and the importance of the political or personal relations to the transfer from the county councils to the local councils of the communes, as well as the assignment of resources among the villages belonging to the commune. The villages belonging to a commune, particularly the small, isolated and aged ones receive significantly lower resources from the local budget of the commune as compared to the villages that are hosting the commune local authorities and where most of the local counsellors live. The unbalanced distribution of the resources according to criteria that do not take into consideration the needs and that are not supported by coherent projects of local development is, as already mentioned, an influent source of the rural community poverty, therefore of the consistent disparities inside the communes of Romania. A vicious circle acts in the communes: lower capacity of income collection → insufficient local budget → the institutional level adopts too, the survival behaviour, which is dominant at the level of the population → poor village with poor community participation, lacking development projects. The proportion of communes caught in this vicious circle is a determinant factor for the differences between the counties in accessing the current grant projects (Voicu *et al.*, 2002).

We also have to add the existence of a substantial deficit of the capacity of implementing and managing development projects, particularly if they include a component of community participation. The support and expertise from the county level

⁵¹ The legislative framework of the decentralisation process was completed by Law 215/2001 – *The Law of the local public administration*.

proved to be vital in the successful conclusion of some projects of community development such as the Romanian Social Development Fund and the World Bank.

The involvement of the politic in the redistribution of the balancing funds from the county level to the local level is, according to some authors (IPP, 2001) the main mechanism of “politicising the local public administration”. Thus, the massive political migration of the independent majors and of those from the parties that lost the parliamentary elections towards the party in power, 22% of the country’s majors (more in the rural than in the urban areas, both in the developed and in the poor counties) in just one year (2000 to 2001), is “a consequence of the manner in which the local resources are distributed and redistributed and, given their scarcity, of the access to the national resources which the central administration controls directly or indirectly.” (IPP, 2001: 37).

The balancing of the local budgets (reallocation of the public funds toward localities, counties and regions) is based on two principles: the solidarity with the poorer administrative-territorial units and the stimulation of those having a higher potential for development. Since the counties are asymmetric as economic development, their contribution to the state budget is different. While the government invokes each year the principle of solidarity in order to solve the current needs and problems of the poor counties, the less developed counties tend to avoid the principle of solidarity. Due to the tensions existing between the representatives of the rather developed counties and the managers of the central budget the opinion emerged that due to the redistribution the money from the more developed regions such as Banat and Transylvania go to the poor areas from Moldova, Muntenia, Oltenia and Dobrogea or are wasted by the “centre” by mechanisms of corruption/poor management. What Pop (2001) shows by financial data from 2000, is that the mechanisms of public money management respect both the principle stimulation and that of solidarity. The principle of stimulation is observed by the percentage of 62.5% of the income tax that remains locally to be used by the counties, which is a real advantage to the prosperous counties⁵². The principle of solidarity is also observed, the poor counties receiving larger balancing funds⁵³ than their contribution to the state budget. For instance, the ratio of the amount reallocated to Botoşani County to its contribution to the state budget (the lowest of all counties) was 350.7% in 2000. Other examples are Vaslui County with a ratio of 289% or Călăraşi 245%. Bucharest with a ratio of 17% and Cluj County with 41% are at the opposite end.

Table 12: Stimulation and solidarity in the allocation of public funds by region and by county

<i>Region</i>	<i>Counties that receive less funds than their contribution to the state budget</i>	<i>Counties that receive more money than their contribution to the state budget</i>
<i>Banat</i>	Aradul and Timişul	Caraş Severin
<i>Moldova</i>	Bacău and Galaţi	Botoşani, Vaslui, Suceava, Neamţ, Vrancea, Iaşi

⁵² The extreme examples for 2000 are conclusive: Constanţa – 1.300 billion ROL; Prahova – 1.050 billion ROL; Cluj – 1.010 billion ROL and, at the opposite end,, Sălaj and Călăraşi – 150 billion ROL, Giurgiu – 135 billion ROL. Ministry of Public Finances data: *Statistics on the local budgets, 2002 draft*. (Pop, 2001)

⁵³ They are calculated with the formula of financial capacity, which uses assessments of the average income per county inhabitant and the ponderable mean of the income per capita in Romania, without Bucharest.

<i>Oltenia</i>	Olt, Dolj, Gorj	Mehedinți, Vâlcea
<i>Transylvania</i>	Bihor, Brașov, Mureș, Sibiu, Cluj	Sălaj, Bistrița Năsăud, Maramureș, Satu Mare, Harghita, Alba, Covasna

Source: Pop, 2001: 148.

Each of the historical regions has counties that receive less money than their contribution to the state budget as well as counties that receive more than their contribution. Most of the public money remains in the region of origin being directed from the wealthier counties to the less developed ones. “In fact, the financial circuit of the public money is not managed on the basis of the logic associated to the historic regions but, rather preponderantly of the logic of modern regional policies of alleviating the intra-county disparities and of stimulation of the regional competitiveness” (Pop, 2001: 148).

The central administration, as a major actor of the process of EU integration is not yet ready to react adequately to the messages of the real economy with the view to promote an adaptive and efficient management. The responsibilities of the central administration concerning the EU integration and the management of the pre-accession funds are not clearly defined, there are no informational and public relations structures, there is no unitary database on the international assistance (not even on the European one) which to allow solid analyses and efficient planning, the partnerships with the services of private counselling and with the academic world outside the administrative structures with the view to develop analyses and strategies are rare. All these factors decrease significantly the efficiency of European funds management (Manoleli, 2002).

The problems concerning the establishment and activity of the regional institutions and their relation with the central institutions are also analysed in detail in studies such as those of Pascariu and Trăistaru (2001) or Balogh *et al.* (2002) and they were synthesised in a previous impact survey conducted by IRE (Pascariu *et al.*, 2003). ARD statute is problematic, while ARD relation with MPD/NARD is not clearly specified. The working conditions within ARD are precarious, the wage is not attractive, the work is done under pressure, the large number of project managed by one person increased the staff fluctuation, made the staff focus on administrative-bureaucratic activities to the detriment of the counselling services for the beneficiary of of the services of regional planning. The uncertainty of financing ARD expenses and the lack of an environment favouring the partnerships add to the series of constraints that the regional institutions have to cope with.

CRD also have a disputed statute due to the involvement of the politic in the distribution of the non-reimbursable European funds to the counties: the major decisions concerning the financing of large regional investments are the result of negotiations or they are imposed by the county public authorities forming the council. On the other hand, in the case of the small projects (support to the SMEs, agrotourism, etc.), although legally CRD should do the selection of projects at the regional level, it only has a formal vote, the final call being that of the agencies. That is why the CRD does not succeed to become a single “voice” for the represented counties, the impact of the financed projects being rather local than regional (Ghinea, 2002).

Globally, the current regional structures are quite marked by the rivalry existing within the development regions (between counties or between localities), partially also because the development regions do not have cultural identity. Furthermore, the regional authorities are very little visible to the public opinion and they have limited competence, which obstructs their functioning as autonomous and efficient institutions.

At the county level, although the non-reimbursable European funds are an important source of maximising the investment funds, the county authorities only accessed them to a limited extent. On the one hand, this is the effect of the human (few, poorly trained and unmotivated public officials, precarious logistics) and material (lack of funds for the co-financing of the development projects) resources deficit; on the other hand, this is the effect of the problems marking the institutional arrangements on regional development, the main two ones being the lack/deficiency of communication between the relevant institutions and the absence of partnerships (Ghinea, 2002).

The list of problems related to the access to funds must be completed with the difficulties of information on the programs and on the financing opportunities, as the county/local representatives say. In fact, the difficulties of information depend rather on the lack of the habit to seek and access information mixed with the habitude of giving importance only to the information received by institutional channels from the higher levels of the hierarchy.

The impact of the 1997 and 1998 PHARE operational country programs

This section gives a synthetic picture of the way in which the 1997 and 1998 PHARE programs were managed. These are the only ones concluded at this time. The analysis was done on data from the (2002) Compendium of ex-post assessment of the two programs including 23 PHARE 1997 and 16 PHARE 1998 programs (see the Annex). The methodology for assessing the *relevance* (addressed priority needs), *effectiveness* (matched initially stated objectives), *efficiency* (gave value for money), and *sustainability* (have lasting effects even in the absence of continued EU support) of the programs was taken from the authors of the ex-post assessment, this paper making just a synthesis of the impact that the two cycles of PHARE assistance had.

Without significant differences between the two cycles of the 1997 and 1998 PHARE operational country programs:

1. Most of the implemented projects were only **partially effective**, that is they fulfilled only part of the objectives stated in the beginning:
 - In legislative-administrative terms, 31% of the 39 assessed projects were effective, that is they fulfilled the objectives stated in the beginning, 50% were partially effective, while 10% (4 projects) did not aim any impact in legislative-administrative terms;
 - In socio-economic terms, 73% of the projects were partially effective, one project only fulfilled all its objectives, two projects were reformulated so that they did not fulfil any of the initial objectives, while 19% did not aim any such impact.

2. Most projects are, however, **sustainable**:

- In legislative-administrative terms, 74% of the projects brought changes that will, most likely survive during the following years and 13% had partially sustainable results. According to this assessment only one project (Human resources development) is not sustainable. 10% (4 projects) did not aim any impact in legislative-administrative terms;
- In socio-economic terms, 68% of the projects are assessed as fully sustainable, 3 projects are partly sustainable, two projects (Statistics and the project for CEC reorganisation are not sustainable. 19% of the projects did not aim any such impact.

3. The **efficiency** (whether the results of the projects could have been obtained on significantly lower costs) could not be assessed for most projects mainly due to the absence of relevant impact indicators. The efficiency of 59% of the projects could not be assessed, 13% (5 projects) were assessed as partly efficient, while 28% were efficient. The 11 efficient projects are: Harmonisation of the food standards (3 projects), Enhanced Pre-accession Assistance, the Program for the development of municipal utilities (3 projects), SMEs development, Assistance to customs administration, Strengthening of the institutional and administrative capacity on the environmental policy and Institutions in relation with the domestic market (the National Bank and CEC).

The **relevance** of the projects concerns the extent to which they addressed priority requirements acknowledged by the country strategy. The two cycles of PHARE projects differ significantly in this respect. Thus, while most of the 1997 PHARE projects were not relevant, the 1998 PHARE projects addressed problems that the country strategy defined as having priority:

- In legislative-administrative terms, 78% of the 1997 PHARE projects were not relevant. The remaining 22% (five projects) were assessed as relevant (Statistics, Harmonisation of the food standards and Development of the local public administration). 75% of the 1998 PHARE projects were relevant, one project (Strengthening the institutional and administrative capacity concerning the environmental policy in Romania in agreement with the community acquis) was partially relevant, while 3 projects were not assessed for relevance;
- In socio-economic terms, 83% of the 1997 PHARE projects were assessed as not relevant. Two projects (Harmonisation of the food standards) were relevant, while another two projects gave no information to this respect. In contrast, 69% of the 1998 PHARE projects have a high level of relevance, one project (CEC reorganisation) is partially relevant, while 25% (4 projects) were not assessed due to the lack of information.

In conclusion, the global impact of the PHARE projects from the first two operational country programs (1997 and 1998) concluded so far is rather equivocal. They have fulfilled partially their objectives, they are sustainable, their efficiency is hard to assess because of the missing data and of the lack of clear impact indicators; they had a

positive evolution as relevance, from a low relevance for the 1997 PHARE projects to a high relevance for the 1998 PHARE projects.

The authors of the ex-post assessment also conducted five detailed case studies. Among these case studies are the two PHARE projects concerning the regional development (RO970801 and RO980701). The two projects aimed to develop a comprehensive framework for the regional development including the elaboration of policies, legislation, instruments and the increase of the administrative capacity for the management of ISPA, SAPARD and PHARE programs. The European assistance was supplied in several stages. The first stage was the project “Regional development, institutional construction” (RO970801), with a budget of 1.5 million Euro, whose objective was the development by the end of 1998 of the administrative infrastructure for the implementation of the regional development policy both at the national and at the regional levels. In this stage the project supplied technical assistance and equipment to the institutions that were to be established. The second project, “Regional and social cohesion policy” amounting to 33 million Euro (almost one third of the assistance supplied in 1998) included three components and 20 sub-components. This project supplied support to a series of regional and sectoral programs. Thus, there were 26 million Euro in investments, of which 18 million were grants and 8 million were used to prepare the projects on the environment and on the transport infrastructure.

In the case of these two projects of regional development, the authors of the ex-post assessment determined better-outlined impact scores as follows:

- The legislative-administrative effectiveness is “high” while the socio-economic effectiveness was assessed as “average”;
- The legislative-administrative sustainability is “average” while the socio-economic sustainability was assessed as “low”.

The budget analysis of the first two PHARE cycles reveals:

1. **Substantial increase of the total budget** of 1998 PHARE compared to 1997PHARE. Thus, the 23 projects assessed for 1997 PHARE amount to 88.8MEURO, adjusted subsequently to 82.3 MEURO. On the contrary, the total budget for the 16, 1998 PHARE projects amounted to 146.7 MEURO, adjusted to 145.56 MEURO.
2. **Funds concentration** (by relevant projects as seen earlier): The projects from the second PHARE cycle are significantly larger (therefore more costly) than the projects implemented during the first cycle.
3. **The adjustment of the initial budgets was low:** For the 1997 PHARE projects the adjusted budget represented between 40% (TEMPUS II) and 105% (Pre-accession Assistance), most of them ranging between 96% and 100% of the initial budget. The budget adjustments were minor too for the 1998 PHARE projects except for the projects or Agricultural and veterinary assistance, Institutional construction for the Ministry of Finances and for the Improvement of the competitive environment concerning the public services and utilities, whose budget represented 68%, 88% and 88.5%, respectively, of the initial budget.

4. **The average proportion of the budget that was contracted decreased significantly⁵⁴** from 96% for the 1997 PHARE projects to 90% for the 1998 PHARE projects. The proportion of the adjusted budget that was contracted varied between 63% (Project of institutional construction for the Ministry of the Interior) and 100%, with an average of 93%.
5. **The actually spent budget varied much more than the contracted budget**, with a minimal value of 26% of the adjusted budget, a maximal value of 100% and an average value of 85%. The lowest rates of spending were observed in the projects on the customs, transportation, power supply and justice.
6. **The proportion of the adjusted budget that was actually spent decreased** from 93% for the 1997 PHARE projects to 71% for the 1998 PHARE projects.

In other words, the larger the allocated funds and the more diverse the projects and beneficiaries, the more difficult was the absorption of funds despite the improvement of the operational institutional capacity.

Technical and managerial expertise in structural programming

The capacity of the acceding countries to make full use of the structural funds predominantly rests on an anticipatory process of creating a robust database of eligible projects, which in the EU parlance represents the process of developing "the project pipeline". Normally, the more the value of such projects exceeds the committed assistance, the higher the expectations are to absorb greatly increased resources and to adapt rapidly to Structural Funds' procedures.

After the accomplishment of an 18-month *twinning* program on developing regional and sectoral projects in Romania, the final report concluded at the end of 2003: "At this stage, priority should be given to understanding the complex process for accessing Structural Funds ... It was premature to look at individual projects for financing as the project had planed". The lucid warning suggested here implies that the learning skills should come first on the policy agenda before any practical assessment could be meaningfully considered. Attention here is accordingly given to a closer look at the components required to build up feasible and viable pipelines of projects.

The project pipeline

Assessment reports issued by the Commission largely appreciate the learning experience the pre-accession funds have provided the SF beneficiaries, especially of ISPA and SAPARD programs because of their longer programming perspective, but an inherently institutional incapacity to deal with the complexity of ensuring an appropriate absorption of the EU funds by means of effective project pipelines can not be nevertheless disregarded. In this respect, the EU officials emphasize three priorities which the acceding countries should embark on, namely

- Good preparation of documentary resources, which may amount to even as much as 5% of the project value;

⁵⁴ Significance was tested with an analysis of one-dimension variance, $p = 0.05$.

- Shape administrative imagination and long-term planning skills to make most of the assistance during the full project cycle, that is both before approval and during implementation;
- Establish specific technical assistance measures for project preparation, particularly for large projects where more time is required to develop mature proposals.

The challenge to prepare an adequate pipeline of new projects varies with the type of project: proposals for large projects need periods of preparation usually exceeding one year before they can be approved for assistance by EU Funds; less complex measures may be developed and included in operational programs in a somewhat shorter time.

Complex applications, for projects in infrastructure for instance, whose eligible costs should amount to more than €2 m, with an EU contribution of less than €5 m, in general have to pass through an elaborated selection process. In the first stage, the projects are submitted for approval to Regional Development Boards (RDB) under the supervision of the National Regional Development Board and the EU Delegation in Romania. The Ministry of European Integration (MEI) acts as the Implementing Agency and on receipt of the regional pre-selection proceeds to a national overview with the help from an external consulting company (the “Technical Assistance”) which will specifically undertake a more comprehensive assessment of all documents on the selected projects.

The key actor however in preparing the stock of eligible projects remains the Regional Development Agencies (RDAS). They primarily are entrusted the role in promoting projects, sharing information and guiding potential beneficiaries to score high as to the eligibility, administrative and technical compliance of the applications. Projects are automatically ranked according to their score and subsequently forwarded to the MEI. It is the rule of no limit to the number of eligible applications which paves the way that a “pipeline” for projects be established. In the aftermath of National Overview process, some funds could not be allocated regionally according to the commitments and thus a procedure of re-distributing the projects on the reserve list with the highest evaluation score would normally follow. The capacity of higher absorption essentially depends on that RDA's diligence to fill the "pipeline".

A project proposal should typically result from proactive efforts as regards targeted budgets or timetables, objectives development or crafting social partnerships. These elements are included in guidelines and program-manuals the EU are being developed together with national authorities to support the required technical and managerial competence in preparation of high-quality investment projects. A basic set of criteria, which are included in the technical evaluation matrix, should be met in order to establish synergies within the framework of structural programming. They refer to capabilities to provide

- coherence with the objectives and priorities stated in the National Development Plan;
- expected regional impact in the form of job creation, socio-economic benefits (such as improvements to health, education and environment), development of new tourism attractions, expansion of regional transport, and redevelopment of industrial sites;

- maturity regarding *inter alia* quality of the engineering details, relevance of budget breakdown, experience in the management of projects of a similar scale and complexity;
- proven commitment of the local beneficiary demonstrated by the efforts and capacity to attract local co-financing; and
- sustainability as distinguished between financial, institutional, and policy level aspects.

Managerial and technical capability

The objective of a proper response to those criteria is considerably eased by the standard form of the application which necessitates developing several important documents such as the Feasibility Study (FS) with a budget breakdown, the Marketing Study/Business Plan, the Design Brief or “Memoriu Tehnic”, and the Environmental Impact Statement. Preparing a structural project becomes thus locally a work well circumscribed by specific managerial and technical tasks.

First, this work should reach European exigencies, both formally, because the editing should be done in English in standardized outline, and effectively, as it should reflect at once proven market needs, sound financial projections and credible risk management. A proper FS should comply with the “Guide to Cost-Benefit Analysis of Major Projects” used in the context of EC regional policy. Either public or private beneficiaries have to undertake extensive research to find such economic and financial figures as the rate of return and the net present value or to deliver a reliable budget breakdown founded upon measures of quantities and prices prevailing in the marketplace. Table 10 presents a sample of the required financial indicators used by the TA consultants to assess the quality of projects and to rank them using the evaluation matrix.

Second, the application should get together and value the local capabilities to assemble a technically valid proposal. The evaluators differentiate among projects according to the manner they provide consistent solutions to issues like: key activities to be carried out; sequence to produce the expected results; means required to implement these activities (e. g. personnel, equipment, training, studies, supplies, operational facilities, etc.); or conditions outside the project’s direct control which may have to be present for the implementation of the planned activities.

Romanian experience

Romania has gathered a valuable experience in submitting Phare projects of sizeable complexity especially since 2000. The type of infrastructure projects proposed to be financed has included industrial parks, business centers, special projects like marketing/fair-centers, modernization of airports, national roads and bridges with trans-national relevance, tourism-related projects, rehabilitation of historical buildings and environmental rehabilitation projects mainly water and waste-water infrastructure modernization. The list also includes an inter-regional project prepared through bilateral international assistance.

Additional competences were created at the public level by accomplishing of an “Industrial Policy Twinning Project RO2000/IB/OT/03”, a project which produced seminars and workshops on industrial policy in each of the Romanian regions.

Complementary internships in the UK Department of Trade and Industry and the Regional Development Agency in the North-East of England were based in key offices for economic development.

The project examined *inter alia* how to make better use of acquired capabilities in order to prepare the local beneficiaries for increased absorption of the Structural Funds. Regional policy has been included among the priority themes for the new General Directorate for Industrial Policy, established in March 2003, and a Working Group on Structural Funds and one on Regions and Industrial Policy were set up in the Ministry of Economy and Commerce (MEC). Official and regional representatives agreed on priority areas for funding using the SF which were accordingly identified in the field of infrastructure (for transport and environment); human resources (development of entrepreneurship); development of economic competitiveness; tourism and agro-tourism; development of communications; technology transfer; environmental protection; and investments for sustainable development; and development of public administration.

While an important first step has been made in defining the boundaries of structural assistance, further improvement of capabilities in delivering viable proposals implies gradual development of private-public partnerships. Recommendations were accordingly made for a presence in the regions for MEC to replicate planning for structural funds in small offices in each of the regions, as well as for a significant insertion in the decision-making process especially through integration of the industrial policy with the NDP.

Tabel 13: Technical Assessment Matrix – Excerpt of Financial selection criteria

No	Subject	Score
1	Financial Rate of Return (select only one of categories below)	10
	Value negative	0
	0 – 2.9%	2.5
	3 – 5.9%	5
	6 – 8.9%	7.5
	Greater than 9%	10
2	Net Present Value (select only one of categories below)	5
	- Value negative	1
	- Value below initial investment but positive	3
	- Value above initial investment	5
4	Quality of Marketing Study/ Business Plan (score all categories below)	10
	- Project meets an identifiable gap in the market	4
	- Target groups clearly identified, quantified and described	4
	- Overall quality of marketing study	2
6	Multiplier Effects from project (score all categories below)	5
	- High level of new private investment likely to be induced to area	3
	- Improvements to the competitiveness of local economy	2

Source: The Delegation for the European Union in Romania and Government of Romania. "Phare 2004 – 2006 Economic and Social Cohesion Programme. Regional Large Scale Infrastructure Projects. Guidelines for Applicants to Call for Proposals", Bucharest, 18 December 2003.

V. Conclusions and policy implications

V. 1 The framework of regional policy

Regional policy is based on two main theoretical arguments:

(1) *Emergence of poles of growth*: Trade liberalization and free movement of factors determine agglomerations of industries to irreversibly settle in some geographical areas. Other regions are less apt to attract economic activities conducive to long-run growth and are thus deprived of the benefits which would normally accrue to them in a competitive environment. Structural instruments are accordingly required to compensate the inherent losses and reduce disparities between regions. The empirical observations are conclusive in supporting a general tendency of industries to cluster in some core regions at the expense of other peripheral areas, a process which indeed leaves behind a landscape of uneven growth opportunities.

The EU experience has accumulated however over a sufficiently long period of time to allow for some corrective policy lessons. First, transfers of funds produce the expected benefits only in combination with a sound and comprehensive national policy of development. The funds could be and were in fact often misused or allocated in discretionary way in the absence of a principled regional policy. Second, the economic factors of agglomerations are usually accompanied by centers of political decisions and local initiatives which do not necessarily cluster initiatives toward established pole(s) of growth. Some other regional centers may appear and prosperity becomes dependent on factors belonging to peripheral activities. Commercial exchanges in similar goods and production ventures between equivalently developed economies seem to be more powerful factors in constructing a regional wealthy economy.

(2) *Financial assistance to support incomes in poorly developed regions*: When assisting disadvantaged populations and regions an ordinary observation comes first – the poorer a region, the more abundantly the monies should pour in. However equalitarian this recommendation may sound, it is based on the flawed conclusion that poverty is naturally associated with a loss of sufficiently high incomes.

Regional programs directed to alleviate poverty should take into account that poor regions are inherently less able to absorb funds and the more so to use them effectively. If local capabilities are not proficient to generate prosperity in the first place, there is justified mistrust to empower them with generous aid at the expense of other areas or institutions more apt to show a profit from them. There would be thus more appropriately to assist such regions in developing "capabilities" to generate income from economic activities. This conclusion turns attention instead on the regional latent ability of self-development.

As proposed by the European Commission, the future institutional framework for the structural instruments at Community level will bring more transparency and simplicity to the regional policy. The priorities for the future: convergence, regional competitiveness and employment, and territorial cooperation, respectively, are meant to optimise the efforts aimed at reducing development discrepancies within the EU. Consequently, the reduction in the number of structural instruments and their objectives

can only be seen as a positive evolution in increasing the effectiveness of the cohesion policy.

V. 2 Implications from the enlargement process

The candidate states from central and Eastern Europe have already created a legislative and institutional mechanism for regional development, after the West-European model, which will allow them the transition towards FSC management from the moment of accession. Still, the administrative capacity remains their sensitive point. Despite the sustained preoccupation of the Commission to find and experiment new instruments to facilitate the creation of some efficient structures for administration of projects and management of the future FSC, the evaluations indicated in most cases results under the expected ones. The causes can be synthesized in the following:

1. Setting overly ambitious, unrealistic objectives, reported to the human and financial resources needed. The most significant progress was made in the adopting of the community acquis, through the legislation, and less in the case of the concrete implementation and application. An analysis made by the European Audit Court over 45 twining projects showed that the objectives were partially attained, and further projects were needed. In the field of preparation for structural funds, some important objectives regarding FSC management were not achieved and in the environment sector, performance is under expectations. In Hungary, the twining project called “The Special program for preparation for structural funds” (SPP) worth EURO 2.6 million was very ambitious in terms of objectives and time allocation. Out of the 40 objectives there were only 15 to be considered by the Delegation as finalized. The worst results were registered in the components of the Social European Fund and SAPARD. The essential objective of the SAPARD component was to allow the Ministry of Agriculture and Regional Development to administrate the pre-accession SAPARD measures. At the end of the project (January 2001 for the SAPARD component), the SAPARD Agency had not yet accredited, and more efforts were still necessary. This was mainly due to the decision to transfer the agency from the Centre of Agricultural Intervention to the Ministry in the middle of the development period of the project. This way, only half of the objectives initially set were achieved in the SAPARD component.
2. The existence of some inefficient procedures between the stage of identification of objectives and the realization of the project. Before it starts to effectively function in the candidate states, a project should pass some stages, which means passing of some time from the initial objectives setting stage and to the one of effective implementation. This way, 30% of the projects found in the selection round in the year 2000 had not started yet to function in February 2002. Two years were necessary in these cases for them to pass through some stages: in the case of twining projects- identifying the objectives, writing the project outline, the bid, selecting the partners, writing the convention, approval of the financing, signing the convention, approval by the Commission, notification of the convention and finally, starting the project. This way, some elements from the project were often surpassed at the moment of implementation, and modifications were necessary even from the start. All the same,

fixation of the training costs or payment of experts proved to be inefficient, and further modifications were necessary. In Poland, even though the costs of twining project elements were before the beginning of the project, in July 2001, the daily allowances of the experts from the member states have increased with 60% (out of Euro 229 to Euro 367 per day).

3. Bureaucratic procedures existing at the level of each stage of the project made the implementation even more difficult, and led to important delays reported to the initially set period. The ISPA and PHARE financing represents only a small part of the huge necessities of financing from the environment sector of the candidate states, as it can be seen in Table 5 from the appendix. To ensure that the rare resources available for the project are used as efficiently as possible, prioritizing of the projects is necessary, as well as financing in the first place those with the highest impact in their field. In practice, the national environment strategies contained long lists with various projects that have to be implemented without any classification or prioritization for preparing and implementation.
4. The level of salaries in the public sector, the lack of experience of public servants from the candidate states, as well as culture and approach differences between the partner states have reduce the efficiency of some projects. The relatively low level of salaries in the public sector made that a part of the public servants prepared in some projects, especially young ones, orient themselves towards the private sector.
5. Often, the applications sent by the administrations of the candidate states have not been prepared at the standards required by the EU. Thus, the Commission asked for supplementary financed technical assistance in the PHARE program to improve the quality of suggestions and to permit this way the contracting of the allocated sums. Still, since this measure was applied relatively late, to which was added the fact that the supplementary tasks had to be realized in a relatively short period, the foreseen results were not obtained. Moreover, the capacity of the Commission to evaluate the applications, as well as to ensure the consultancy of experts was limited. This way, for the greatest beneficiary of funds, Poland, only one official representative was sent for the environment sector until November 2001. Another constraint was the lack of technical expertise in the Commission. To solve this problem an expertise contract was signed with the European Investment Bank, although the limited budget did not permit the systematic usage of this assistance.

From 2000, ISPA replaced PHARE in the preparation of project financing. Despite of the limited capacity in this area, the take-over of these funds went on in a difficult way. This way, in the year 2000, only two technical assistance projects were committed with a total of Euro 3.7 million.

The ISPA measures contracting was delayed in comparison with the schedule included in the Financing Memorandum. At the end of 2001, only one ISPA contract was closed in Slovenia, with a value of Euro 1.9 million. Along with the fact that the preparation of bids for large infrastructure projects is a difficult task, the calendar set by the Commission in the memorandum was unrealistic, to which other reasons are added. In the first place the lack of experience of most beneficiaries, at local level as well as at central level, in the preparation of documents for the bid and to use the procedures

of the Commission and the Engineers' International Federation. Although the Commission allocated Euro 7 million in 2000 to finance engineer jobs in Delegations to supervise the implementation of ISPA, including bids, only half of these jobs were taken up to September 2001 and later. In some cases, even though bids were finalized, some problems appeared in the implementation stage of some projects. In Lithuania, for example, the development of a project valued for Euro 7.2 million suffered serious difficulties due to bad preparation of the project, but also the disputes between the beneficiary and the contractor in the absence of an independent engineer.

V. 3 Implications from the experience of Romania

The regional development policy has not in Romania a formal and documented tradition. One may even say that the regionalism is, as a political phenomenon, in antithesis with the idea of a national state in the Romanian public political discourse. This may be the reason why the public authorities preferred as a framework for the current regional policy 8 regions that cannot offer visible criteria for their construction and try at least to avoid the historical factor. The regional development law of 1998 mentions the “voluntary” association of local administrative units.

The forced industrialization policy of the socialist regime had as effect a certain “uniformity” of the development level, even if that meant the construction of industrial facilities that didn't follow any competitive advantage and, as a consequence, they were often disaffected during the process of transition. In 1990, Romania was a country with relatively low development discrepancies – mainly due to the general low level of development – and, associated with the low budgetary resources, let no room for a formal regional policy. Romania's regional policy appeared only and exclusively in order to meet the financial assistance offered by European Union. The whole mechanism was put into place with European assistance.

Romania has independently used however certain policy tools that may be considered targeting regional development objectives and that is the legislation that offered incentives for the institution and development of free zones, open ports and so on, maybe after the success of the Chinese Special Economic Zones. This perspective is however rejected by the European Union and international multilateral institutions so they were not effective. However, this kind of policy avoids financial transfers and focuses on fiscal and commercial incentives and has no cash cost. The same idea was also continued with the concept of underdeveloped regions.

As a consequence, the whole regulatory and institutional framework of the current regional policy was essentially built after the 1998 regional development law. The following period witnessed however a significant institutional turmoil that puts under question whether Romania has a coherent and durable of this public policy mechanism, especially from the political factor.

In the present, even if Romania has this formal framework, there are uncertainties regarding the management capacity of this assistance and the efficiency and independence of the monitoring and control mechanisms. Taking into account the role played by SAPARD as a “test” in the direction of decentralization encouraged by the

European Commission, possible question marks may affect the other instruments and the whole mechanism of the assistance. The preaccession assistance remains an exercise of public policy, their “learning” dimension being maybe the most important aspect.

The fundamental challenge is for Romania the development of an operational capacity independent of the arbitrariness and influence of the political factor. In the meantime, the capacity to put into practice regulations and required documentation represents another challenge.

The Spanish example seems to offer the argument that the countries which benefited from a developed regionalism have known the highest success in leveraging the European structural assistance. This suggests the supplementary efforts that should be made in countries like Romania in order that the European assistance should not become a “pork barrel politics” but serve the general development interests.

The regional development policies cannot be the main axe for the general development of a state. There remain redistributionist policies whose effects on the economic growth can only hardly be exactly quantified. The greatest danger posed by the preaccession assistance is the impression that the funds it provides are sufficient for the development. Regional development policy is not the only essential public policy: the property rights regime, taxation, industrial and antitrust policies and so on are more important tools in the public policy mix available to any government. The case of Ireland and partly Spain is a strong example in this direction

Whatever the perspective one adopts regarding the regional development, it should be underlined that the economic and social cohesion is not a “value free” policy but implies an explicit option regarding the economic and societal development. This European policy (second as a budget only to Common Agriculture Policy but, distancing from the latter, increasingly important) remains a redistributive mechanism (that consumes not creates) whose impact is not only difficult to evaluate but may have no intended effects. There are ever more many voices inside European Union – and paradoxically, even from the “cohesion” countries – that argue that this kind of policy generates distortions in the motivations of private entrepreneurs: they develop not abilities to serve the consumers but to fill paperwork for asking financial assistance.

The coordination and management of structural funds will be a great challenge for the years following Romania’s accession to the European Union. Besides the complexity of the institutional framework, which should become functional in a record time, one of the main problems facing Romania is the *implementation of a communication and cooperation system with the actual and potential end-beneficiaries*. Such beneficiaries need to be able to identify and prioritize their needs for assistance, in order to permanently contribute to the creation of new projects worth financing. Even if the design of Romanian regional policy were state of the art, without the existence of proactive entrepreneurs, motivated to obtain Community support in order to become more competitive, the results in terms of the absorption capacity would be extremely negative.

Romania may benefit of massive flows of funds through the structural instruments, but such inflows depend not only on regional policy, but also on the rest of economic policies regarding the enterprise sector, business environment etc.

Starting with 2005, Romania should start gathering development projects, which are eligible for financing through structural funds. This process has extremely serious *consequences on the capacity to finalize the economic reform process* and to accelerate the convergence within the EU.

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