



GOVERNMENT OF ROMANIA

NATIONAL STRATEGIC REFERENCE  
FRAMEWORK  
2007-2013



Final Version  
2007

## CONTENTS

EXECUTIVE SUMMARY .....	3
INTRODUCTION.....	9
1. SOCIO-ECONOMIC ANALYSIS.....	11
1.1. MACRO ECONOMIC CONTEXT .....	11
1.2. INFRASTRUCTURE AND ENVIRONMENTAL SITUATION .....	22
1.3. COMPETITIVENESS OF THE ROMANIAN ECONOMY .....	34
1.4. HUMAN CAPITAL .....	47
1.5. ADMINISTRATIVE CAPACITY .....	64
1.6. TERRITORIAL DIMENSION.....	66
1.7. PRE-ACCESSION EXPERIENCE – LESSONS LEARNED .....	77
2. SWOT ANALYSIS .....	81
3. STRATEGY.....	85
3.1. STRATEGIC VISION .....	85
3.2. THEMATIC PRIORITIES .....	95
Development of Basic Infrastructure to European Standards .....	95
Increasing the Long Term Competitiveness of the Romanian Economy .....	103
Development and More Efficient Use of Romania's Human Capital .....	110
Building Effective Administrative Capacity .....	117
3.3. PROMOTING BALANCED TERRITORIAL DEVELOPMENT.....	121
4. OUTLINE OF THE OPERATIONAL PROGRAMMES UNDER THE CONVERGENCE OBJECTIVE .....	133
4.1. SECTORAL OPERATIONAL PROGRAMME TRANSPORT.....	133
4.2. SECTORAL OPERATIONAL PROGRAMME ENVIRONMENT .....	135
4.3. SECTORAL OPERATIONAL PROGRAMME INCREASE OF ECONOMIC COMPETITIVENESS .....	139
4.4. REGIONAL OPERATIONAL PROGRAMME .....	141
4.5. SECTORAL OPERATIONAL PROGRAMME HUMAN RESOURCES DEVELOPMENT.....	144
4.6. OPERATIONAL PROGRAMME ADMINISTRATIVE CAPACITY DEVELOPMENT .....	147
4.7. OPERATIONAL PROGRAMME TECHNICAL ASSISTANCE .....	149
5. FINANCIAL PLAN .....	152
6. IMPLEMENTATION AND COMPLEMENTARITY .....	161
7. PARTNERSHIP AND CONSULTATION.....	181
LIST OF ABBREVIATIONS.....	184
ANNEXES.....	186

# Executive Summary

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## Introduction and background

The key aims of the National Strategic Reference Framework 2007-2013 (NSRF) are to strengthen the strategic focus of Romania's Economic and Social Cohesion Policies and to make the correct and appropriate linkages to the European Union policies, notably the Lisbon Strategy, which builds policies for economic growth and the creation of jobs.

The NSRF has its genesis in the National Development Plan (NDP) which was developed as a tool to guide the use of national, European Union (EU) and other funding sources available to Romania. It justifies and prioritises public investments related to the European economic and social cohesion policy and defines Romania's multi-annual strategic planning and financial programming.

The NSRF relies also on the long-term guidelines of the Strategic concept of spatial development and integration into the European spatial structures 2007-2025 (SCSD), thus adding the territorial cohesion dimension to the approach.

The NSRF demonstrates how Romania intends to build the sustainable development objectives and equality of opportunity to fight social exclusion into the strategies. The NSRF explains the implementation arrangements for the Structural Instruments. The document was developed in partnership with key players and public consultation exercises were conducted to elicit opinions from a wide range of stakeholders.

## Economic Situation

Romania is the seventh largest EU Member State (population 21.6 million in July 2006). The economy lags significantly behind the majority of EU countries. In 2005, GDP per capita was 34.8% of the EU-25 average and around 55% of the new EU Member States average. Romania's recent macroeconomic performance has been favourable (6% annual GDP average growth over the last six years) in spite of the worsening world economic outlook. GDP growth has been driven by high fixed investments and private consumption, fuelled by strong growth in credit to the private sector. The EU conferred functioning market economy status on Romania in October 2004 due to the significant progress made in the implementation of economic reforms.

The industrial structure of Romania has changed substantially since 1990. Manufacturing has steadily declined, with large reductions in employment, in steel, chemicals and machine production. Agriculture is in serious decline, which has created significant problems in the rural economy. Deep regional disparities exist and the gap between urban and rural areas is wide and growing. ILO unemployment is relatively low - 7.2% in 2005 - but the official figures mask many deeper social and structural problems, related especially to the high levels of subsistence farming.

The Romanian Government's fiscal policy is based on reorienting the taxation system to encourage growth, economic and social development and to reduce inflation. The economy has been able to rapidly capitalise on the opportunities. Foreign direct investment has been attracted to the country by comparatively low wages, rising productivity (although from a low base), as well as by the market size. Romania's geographical location within the EU is a further positive factor.

## Analysis – Key Issues

There remain serious deficiencies to overcome in order to boost Romania's economy. Major and long-term structural interventions are required in the following areas:

- Basic infrastructure – Poor quality and inadequate coverage in the supply of drinking water, sewerage and waste management. Inadequate road, rail, water and air transport facilities and a lack of inter-connectivity, all inhibit growth. These are coupled with low levels of environmental awareness, an under managed natural environment and the wasteful use of energy.
- Economic competitiveness - Low productivity, outdated and obsolete production equipment and technologies, highly energy-intensive industry, underdeveloped entrepreneurship, a difficult business environment and inadequate business support infrastructure, poor access to finance and insufficient R&D and ICT investment, all hamper business growth.
- Human Capital – Limited adequacy of education and CVT to meet the needs of a modern knowledge-based economy, low value placed on education, insufficient articulation between education, initial VET and CVT. Inequality of opportunity leads to social exclusion amongst vulnerable groups, such as women, disabled people and Roma.
- Administrative Capacity – Public services are weak and provide low customer satisfaction. Lack of sufficient administrative capacity is reflected by poor management structures, insufficient skills of civil servants, inadequate inter-institutional cooperation, which ultimately lead to poor quality of the services delivered to the society, and thus jeopardize socio-economic development. Particularly, management of EU funds needs further strengthening so as to efficiently use the funds to foster economic and social development.
- Territorial Dimension – Following industrial restructuring, regional disparities rapidly appeared and they have continued to grow. Disparities between urban and rural are significant and increasing; this is particularly noticeable between Bucharest Ilfov Region and the rest of the country. FDI locates in the more developed Regions and this leads to widening disparities with other regions. Both urban and rural areas are confronted with problems related to infrastructure (caused by under investment), local economic development and social environment. Furthermore, rural areas are over dependant on agriculture and infrastructure and support services for business are very poor or non-existent. There is a need of a more structured approach at territorial level of various sectoral and inter-sectoral development policies and derived measures.

## The Strategic Response

The Vision: To create a competitive, dynamic and prosperous Romania

NSRF Objective: To reduce the economic and social development disparities between Romania and the EU Member States, by generating a 15-20% additional growth of the GDP by 2015

## Priorities and Actions

The NSRF Priorities have been formulated as the Government's strategic response to current economic weaknesses and in order to create the opportunities Romania desires. The NSRF seeks to draw the priority strands together in a uniform strategy that is suitable for Romania but also conforms to the strategies of the European Union including the Lisbon Strategy and that will deliver economic growth and jobs:

- Development of Basic Infrastructure to European Standards – Infrastructure investment will improve road and rail networks, and navigation on the River Danube (TEN-T priority axes no. 7, 18 and 22) and support business growth and job creation. Investments will also improve accessibility and the inter-connectivity of the national, county and local roads, railways, airports and river services including improved links to TEN-T routes. Investment will increase access to wider markets and all actions will reduce travel time and transport costs. The environment infrastructure support will improve drinking water and waste management to meet EU standards. Improved energy efficiency in the entire energy chain – production, transportation, distribution and end-use – will enhance economic competitiveness, improve air quality and support sustainable development. Efforts will focus on improved management of the natural environment and more sustainable use of natural resources.
- Increasing Long-term Competitiveness of the Romanian Economy – The strategy will help build a dynamic entrepreneurial and productive business base, support business start up and growth – particularly, through investment in higher added value products and services. Innovation will be encouraged as well as the application of R&D to market opportunities; access to finance and ICT connectivity will be improved. SMEs will benefit of investment aid and will be supported with quality business advice and the services they require to expand and create jobs. Tourism will also be encouraged as an important driver of development.
- Development and More Efficient Use of Romania's Human Capital – The strategy aims at supporting the education and training systems to provide flexible and better education and skills to individuals, at increasing access and participation to education and training and at ensuring that education and training deliver the knowledge and skills needed by Romania's modern and expanding economy. Increased adaptability, entrepreneurship and life long learning will be at the heart of the policies and business will be encouraged to invest in their human capital. The modernisation of the education and CVT infrastructure, including the provision of school equipment and ICT will be required to provide quality education and training systems. Actions will be supported to tackle social exclusion and promote social inclusion of vulnerable groups (women, ethnic minorities, disabled persons) who are at disadvantage in the labour market, so they can benefit from the new jobs being created. Improved health care and related services will assist economic regeneration by reducing costs and the number of lost days from work.
- Building an Effective Administrative Capacity – The strategy will improve governance in the public sector. Investment will help to improve policy formulation and public management decision making processes, to develop a modern, flexible and responsive civil service system and to improve the quality and efficiency standards in the delivery of public services. Actions will be targeted to the sectors of the administration where the greatest impact can be achieved to aid economic and social development, support business growth and to fight deficiencies of the Romanian economy.
- Promoting Balanced Territorial Development – The aim is to stop and hopefully reverse the widening trend of regional development disparities by supporting and promoting a balanced economic and social development of the Regions. The actions will support Regions' development by creating the necessary conditions to stimulate economic growth in the lagging behind regions and restructure the urban and rural areas. Investments will be targeted at improving infrastructure and ensuring local connections to the national, European and intercontinental networks connecting Romania to European and wider markets. Actions will target existing or emerging development corridors or centres and create the conditions for integrated development, with connections to regional, national and trans-European networks. Support will help

to consolidate the local and regional business environment and enhance the natural and cultural heritage to support tourism and urban development. The achievement of territorial cohesion will benefit from the long-term framework of the Strategic Concept of Spatial Development and Integration into the European Spatial Structures 2007-2025.

### Operational Programmes

The NSRF is implemented through Operational Programmes under Objectives “Convergence” and “European Territorial Cooperation”. Table 1 presents the list of OPs prepared by Romania and the OPs that Romania prepares in cooperation with EU members and other countries, as well as the institutions responsible for the management of these programmes. An outline of the OPs under “Convergence” Objective is included in the NSRF.

Table 1

Operational Programme	Managing Authority	Intermediate Bodies	Fund
Convergence Objective			
SOP Increase of Economic Competitiveness	Ministry of Economy and Finance	- Ministry for Small and Medium Sized Enterprises, Trade, Tourism and Liberal Professions - Ministry of Education, Research and Youth (National Authority for Scientific Research) - Ministry of Communication and Information Technology - Ministry of Economy and Finance (Energy Policy General Directorate)	ERDF
SOP Transport	Ministry of Transport	-	ERDF + CF
SOP Environment	Ministry of Environment and Sustainable Development	8 regional IBs coordinated by MESD	ERDF + CF
Regional OP	Ministry of Development, Public Works and Housing	- Regional Development Agencies - Ministry for Small and Medium Sized Enterprises, Trade, Tourism and Liberal Professions	ERDF
SOP Human Resources Development	Ministry of Labour, Family and Equal Opportunities	- National Agency for Employment - 8 regional IBs coordinated by the MoLFEO - Ministry of Education, Research and Youth - National Center for Development of TVET	ESF
OP Administrative Capacity Development	Ministry of Interior and Administrative Reform	-	ESF
OP Technical Assistance	Ministry of Economy and Finance	-	ERDF
European Territorial Cooperation Objective			
OP Cross-border Cooperation (CBC) Hungary–Romania	National Development Agency (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority	ERDF

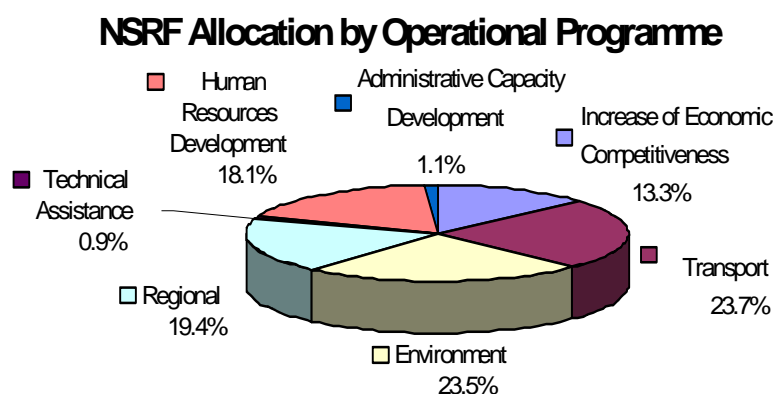
Operational Programme	Managing Authority	Intermediate Bodies	Fund
OP CBC Romania–Bulgaria	Ministry of Development, Public Works and Housing	-	ERDF
OP CBC Romania – Serbia	Ministry of Development, Public Works and Housing	-	ERDF (transfers to IPA)
OP CBC Romania – Ukraine - Moldova	Ministry of Development, Public Works and Housing	-	ERDF (transfers to ENPI)
OP CBC Hungary - Slovakia – Romania - Ukraine	National Development Agency (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority	ERDF (transfers to ENPI)
OP CBC Black Sea Basin	Ministry of Development, Public Works and Housing	-	ERDF (transfers to ENPI)
OP South-East European Space	Ministry of Local Government and Spatial Development (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority and National Contact Point	ERDF
OPs Inter-regional Cooperation <ul style="list-style-type: none"> <li>▪ INTERREG IV C</li> <li>▪ URBACT II</li> <li>▪ ESPON 2013</li> <li>▪ INTERRACT II</li> </ul>	France France Luxembourg Austria	Ministry of Development, Public Works and Housing in Romania will act as National Authority and National Contact Point	ERDF

### Structural and Cohesion Funds Allocation

The overall Structural and Cohesion Funds allocation for Romania is 19.668 bn Euro of which 12.661 bn Euro represent Structural Funds under the Convergence Objective, 6.552 bn Euro are allocated under the Cohesion Fund and 0.455 bn Euro under the European Territorial Cooperation Objective (including transfers to the Instrument for Pre-accession Assistance – IPA, and to the European Neighbourhood and Partnership Instrument - ENPI).

The NSRF financial table presents the breakdown by Operational Programme of the Structural Funds under the Convergence Objective plus the Cohesion Fund, which amount to the total of 19.213 bn Euro. Diagram 1 shows this allocation.

Diagram 1



## Implementation Arrangements

In 2007, the former Managing Authority for the Community Support Framework within the Ministry of Economy and Finance has been renamed as the Authority for the Coordination of Structural Instruments (ACIS) and represents the Member State in matters related to the programming and implementation of the Structural and Cohesion Funds.

The Council Regulation no. 1083/2006 laying down the general provisions for the European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund (CF) requires Member States to set down rules governing the management of Structural Instruments. The Romanian institutional responsibilities were established by GD No 497/2004 and subsequent amendments and completions. Given the adoption of the new Cohesion Policy acquis, a dedicated normative act will replace GD No 497/2004 in order to reinforce coordination and management mechanisms, in line with the new EU rules. The coordination of the NSRF implementation will be managed as follows:

- National Coordination Committee for Structural Instruments, established under GD No 1200/2004, which will provide strategic guidance and decision-making at political level;
- Management Co-ordination Committee, which will address management, administrative and horizontal issues with relevance to the OPs;
- Regional coordination committees, established in the 8 Regions, in order to assist in the correlation of interventions amongst the Operational Programmes.

Management of Operational Programmes has been designated under GD No. 497/2004 and its subsequent amendments and completions, as illustrated in Table 1.

As regards the financial management and control, the Ministry of Economy and Finance is designated to fulfil the role of Certifying Authority for all OPs. The competent body for receiving the ERDF, ESF and Cohesion Fund payments from the European Commission in respect of all OPs is the Certifying and Paying Authority within the Ministry of Economy and Finance. The bodies responsible for making the payments to the Beneficiaries are: a) the Certifying and Paying Authority for SOP Environment and SOP Transport (direct payment); b) the Paying Units established in the ministries which have the role of Managing Authorities (indirect payment). An independent body associated to the Romanian Court of Accounts has been designated as Audit Authority.

## Partnership

The Ministry of Economy and Finance, in cooperation with a wide range of institutions and organisations, has prepared the NSRF. Furthermore, partnership consultations conducted for drawing up the National Strategic Reference Framework and the Operational Programmes, as well as the consultations conducted for the National Development Plan 2007-2013 provided substantial feedback from the relevant partners, which was duly taken into account in the preparation of the NSRF. Several rounds of public consultations took place during the programming process.

# Introduction

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The key issues in the National Strategic Reference Framework (NSRF) are drawn from the 3<sup>rd</sup> Cohesion Report published in March 2004 and the Community Strategic Guidelines on Cohesion published in October 2006, which establish the EC objectives for the EU Cohesion Policy. The key aims of the National Strategic Reference Framework are to strengthen the strategic focus of the Economic and Social Cohesion policies across Romania and to make the correct and appropriate linkages to the European Union policies and the Lisbon Strategy, which focuses on policies for growth and the creation of jobs.

The NSRF has its genesis also in the National Development Plan (NDP), which was approved by the Romanian Government in December 2005. The NDP 2007-2013 was developed as a fundamental tool to guide the use of national, European Union and other funding sources available to Romania in the period 2007 to 2013. It prioritises public investment, related to the European economic and social cohesion policy and defines Romania's multi-annual strategic planning and financial programming. The NSRF was developed through partnership working and consultations and takes into account the Regional Development Plans of the eight Regions.

The legislative regulations and structural reforms are covered by other programming documents, such as the National Reform Programme, the Pre-accession Economic Programme and the Convergence Programme. This suite of documents provides linkages to the NSRF.

The NSRF demonstrates how Romania intends to integrate the sustainable development objectives as defined in the renewed Lisbon Agenda and the Gothenburg Strategy. The NSRF explains the economic challenges facing Romania and the disparities that exist within her eight Regions. It also explains the opportunities that will be available and how the Country will address them. The NSRF explains the policy principles upon which the preparation of the Operational Programmes have been undertaken and how they will deliver the Structural and Cohesion Funds in Romania during the period 2007 to 2013.

The NSRF aims:

- To lay down the guidelines of the Romanian strategy for the delivery of the Structural and Cohesion Funds (SCF) in line with the EU objectives and taking into account the development trends of both the European and world's economies;
- To illustrate how Romania intends to ensure the concentration of the SCF on the key national and EC priorities;
- To address the serious weaknesses that face the country and to show the development potential of her regions and cities;
- To demonstrate how Romania's strategic geographical location, improvement in the current levels of services, environment protection, innovation, entrepreneurship, and the development of the knowledge-based economy will lead to growth and the creation of more and better jobs;
- To demonstrate linkages between and compliance with the Community Strategic Guidelines priorities, the Lisbon agenda and the Romanian Operational Programmes under the Convergence and European Territorial Cooperation Objectives.

The NSRF explains the unprecedented change that has occurred in the Romanian economy since 1989 and the effects this has had on the Country and her people. The SCF will be a further major agent for change and will assist the acceleration of the reform process. The NSRF gives the framework for the implementation of that change process.

The NSRF is a strategic document and therefore does not focus on the technical details. These can be found in the Operational Programmes. However, the rationale for the priority actions in the early years is illustrated by some example statistics - 43 schools in Romania have no electricity, 2,805 schools have no mains water, 32% of the population have neither mains water nor sewerage facilities. These grim figures are purely illustrative but help to demonstrate the legacy of the past and the enormous task of striking a balance between the major needs in terms of infrastructure, competitiveness and human resource development, on one hand and reducing regional disparities, on the other hand. However, Romania has recorded consistently high rates of annual GDP growth averaging 6% during the last six years that demonstrate that rapid progress is possible. The process of managing this economic revival will require determined, committed and visionary leadership.

# 1. Socio-Economic Analysis

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## 1.1. Macro Economic Context

### Overview

With a population of 21.6 million inhabitants, Romania is the seventh largest EU Member State. The country's economy bears the hallmarks of an economy on the verge of completing the transition from centralised planning to a fully-fledged market economy. Romania is lagging significantly behind the majority of European countries in terms of economic development. GDP per capita recorded in purchasing power standard (PPS) was just above one third of the EU-25 average in 2005 and only around 55% of the average GDP per capita of the new EU Member States.

Between 2001 and 2006, Romania's macroeconomic performance improved despite the fact that international context hasn't always been favourable. GDP growth has been strong and driven by high fixed investments and private consumption. Annual GDP growth averaged 6% during the period and was accompanied by a high macroeconomic stability. At the same time inflation, unemployment and the budgetary deficit decreased steadily. The current account deficit was maintained within sustainable limits during the period.

The main factor which sustained the economic growth in 2006 was the investments. The gross fixed capital formation increased by 16.1% and the private consumption expenditure by 13.9%. The public consumption expenditure increased by 2.5%, mainly on account of the resources redirected to areas such as education and health.

In the recent years, the monetary policy has been strongly linked to economic sustainability and reduction of inflation in the medium term. In March 2007 the annualised inflation declined to 3.66%. The public deficit increased from about 1.5% of the GDP during 2003-2005 to an estimated 1.9% of the GDP in 2006, mainly driven by higher expenditure related to infrastructure investments.

Both foreign and domestic investments increased significantly in recent years creating long-term growth potential. During 2004-2006, gross fixed capital formation increased by an yearly average growth of 13.2%, being with over 45% higher as against 2003. Foreign investments were of above 20 billion Euro during 2004-2006, which is two times over the stock from 1990-2003 period.

### Evolving economic structure

After 1990, the economic structure has changed significantly, with a shift from industry and agriculture to services. In a first phase, restructuring of industry led to a reduction in its contribution to GDP growth from about 40% in 1990 to almost 27% at the end of the 90's. After 2000, the structural decline was halted and the contribution industry makes to GDP growth remained at a constant level. These changes meant substantial reductions in employment, particularly in traditional heavy industries, such as steel, chemicals and machine production. The increase in the Romanian service sector is comparable with other modern economies, and the figures show that the service sector has increased its contribution to GDP growth, from 26.5% in 1990 to 49.6% in 2006 (See Table 2).

Table 2

## Structure of GDP by Sectors

- % -

	2000	2001	2002	2003	2004	2005*	2006**
Gross value added, of which:							
Industry	27.3	27.7	28.1	25.0	24.7	24.1	23.9
Agriculture	11.1	13.3	11.4	11.6	12.6	8.5	8.1
Construction	4.9	5.3	5.8	5.8	5.9	6.3	7.0
Services	46.3	44.5	45.3	46.4	46.0	49.4	49.6
Net taxes	10.4	9.2	9.4	11.2	10.8	11.7	11.4
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* Semi-definitive data.

\*\*Provisional data

Source: National Commission for Prognosis, based on data from the National Institute of Statistics

Nevertheless, this evolution has had serious consequences for local economies in those towns and cities, which previously depended on a single industry for employment. The service sector has developed at a steady rate but is heavily concentrated in Bucharest. In other areas of the country, it has not increased sufficiently to compensate for the decline in manufacturing and agricultural employment.

## Real GDP growth

Romania's GDP has improved in 2006 for the 7<sup>th</sup> consecutive year, with an average growth rate of 5.5% between 2000 and 2006. After a GDP growth of 4.1% in 2005 because of internal and external difficult conditions, in 2006 it has registered a growth of 7.7%, one of the highest in Europe.

Table 3

## Real GDP annual growth rates 2000 – 2006

- % changes compared to the previous year-

2000	2001	2002	2003	2004	2005	2006
2.1%	5.7%	5.1%	5.2%	8.5%	4.1%	7.7%

Source: National Commission for Prognosis, based on data from the National Institute of Statistics

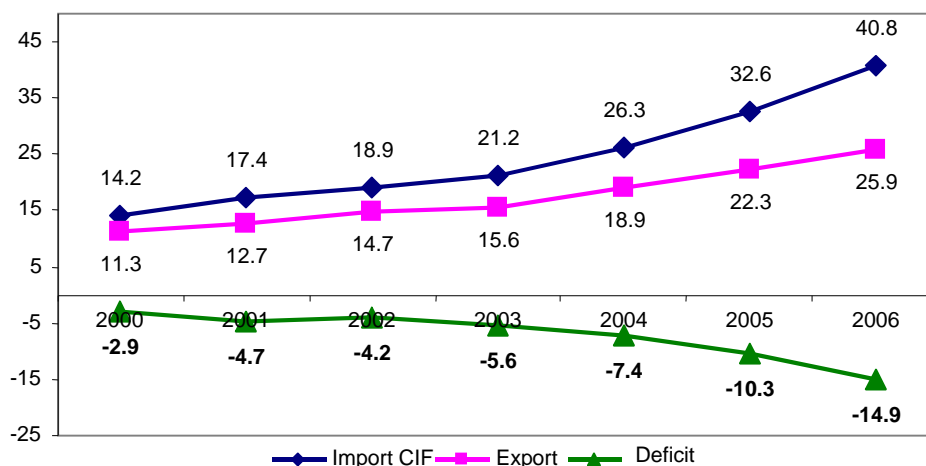
## Foreign trade

Romania's foreign trade increased significantly, as the economy structure is modernising with the prospect of EU Accession. During 2000-2006, both exports and imports increased, with a growth rate of 18.3% and 22.3% respectively. The higher increase in imports as compared to exports led to an increase in the trade deficit as a percentage of GDP from 4.6% in 2000 to 12.1% in 2006. Two thirds of foreign trade is realised with the EU member states (52.8 billion Euro) (See Diagram 2). However, 65% of the EU trade was carried out with 4 countries - Italy, Germany, France and UK.

Diagram 2

## Evolution of trade exchanges during 2000-2006

- billion Euro -



Source: National Institute for Statistics

The share of outward processing trade export of goods is high. The structure of exports has considerably changed in recent years, with outward processing trade from the light industry being progressively replaced with machinery.

At the same time, Romania increased the exports of products which have a high value added. The weight of exports of high complexity products was in 2006 over the one registered in 2004 by 8.2 percentage points (23.4% against of 31.6%). Following the significant investment process Romania imported more and more high complexity products. Their weight in 2006 was 38.5%, compared to 35.9% in 2004. It also increased the weight of raw and energy materials imports, which are low complexity products.

### Foreign direct investment

Foreign investors who are willing to relocate production or to develop new business in Romania are attracted by comparatively low wages, the improving productivity (although from a low base), attractive market size, location and the prospect of EU accession. FDI rose by around 20 billion Euro in the last 3 years. The cumulative stock of FDI was of almost 31 billion Euro in 2006. FDI investors reinvested their profits significantly (1.2 billion Euro in 2005 and 2.0 billion Euro in 2006) in the country, showing their business confidence in Romania.

These factors have changed the relationship between Romania and the other states from the region regarding FDI. Thus, in 2006, the ratio to GDP of net foreign direct investments (9.3 percent) was much higher than in the new EU member states.

### Current account

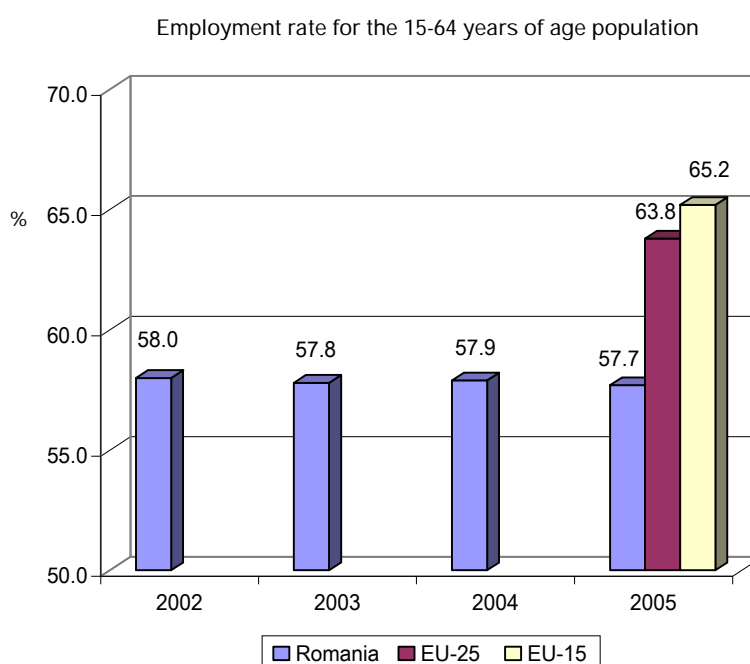
The ratio to the GDP of the current account deficit has increased from 5.8% to about 10.3% during 2003-2006, mainly because of the increase of trade deficit, especially on the account of the acceleration of investment, which led to the increase of capital imports. Usually, the current account deficit is covered by FDI (which amounted to 9.1 billion Euro in 2006, compared to 5.2 billion Euro in 2005).

## Employment

The economic modernization and development have been reflected in employment, as well. Economy reorganization affected the active population and the level of employment and contributed to the acceleration of structural changes towards increasing employment in high productivity activities.

Between 2003 and 2005, the employment rate of working age population has slightly decreased (See Diagram 3), whilst ILO unemployment rate increased marginally, from 7.0 percent to 7.2 percent. Therefore, employment rates remain significantly below those registered in the EU-25 and EU-15.

Diagram 3



Source: National Institute of Statistics

The participation rate was 64.2% in the first 9 months of 2006 compared to 62.6% in the same period in 2005, and employment rate was 59.3% compared to 57.8%.

The variations in the employment rates exist both at inter-regional level and within the regions, in 2005 the highest employment rates being recorded in the South-West Oltenia Region (60.1%) and the North-East Region (61.5%) while the lowest are found in the Centre Region (54.2%) and in South-East (54.7%). In Bucharest-Ilfov Region the employment rate was 59.7%.

In structural terms, the last years (2005 against 2002) revealed the following trends:

- Employment decreased in agriculture by 4.3 percentage points and in extracting industry by 0.3 percentage points;
- Employment increased in services by 3.4 percentage points and in constructions by 1 percentage point;
- In the manufacturing industry and in the energy, oil and water sectors, the employment remained steady.

The Romanian labour market has been also affected in the last year by an increasing emigration process. A study conducted in November 2006<sup>1</sup> reveals that the share of adult population who worked abroad in the past 17 years was 10%, at the time of survey. The option to work abroad had a significant variation on categories of population, such as: there were more youths than elderly; men had a higher share than women; for men aged 18-59 the migration was more intense from the rural areas; for women, the migration residential model was more differentiated (the temporary migration was higher for women aged 18-29 in the rural areas, than for the same category in the urban areas; on the contrary, the temporary migration was more prominent for women aged 30-59 in urban areas, as compared to those in the rural areas).

### Privatisation

Financial discipline in state-owned enterprises needs further strengthening but at the same time the privatisation process of targeted enterprises has faced some delays. Nevertheless, major privatisation initiatives have taken place recently in the industrial and energy sectors. In the energy, mining and railway sectors, progress on privatisation has been made. However, efforts remain to be done to tackle the accumulation of arrears of state-owned companies and to pursue bankruptcy procedures.

The transfer of the assets owned by state to the private sector is playing an important role in the transition process, but the resulting disintegration of several significant activity sectors and the closing of some economic units have led to large-scale discharges, which have not been fully absorbed by the under-developed SME sector.

### Fiscal policy

The Romanian Government's vision within the field of fiscal policy is based on the reorientation of taxes and duties to encourage economic growth, development and reducing of inflation. In December 2004, a major tax reform was adopted, which introduced a flat-rate income tax of 16% and lowered the profit tax rate from 25% to 16% starting with January 2005. This is coupled with plans to accelerate fiscal decentralization and to increase public expenditure transparency.

The key aims of the Government's fiscal policy are to improve the business environment, to stimulate private initiative and reduce Romania's substantial black economy. Out of the total number of the black economy employees (around 1.1 million people), about 20% has been made official, as result of the new fiscal policy. Other examples of this policy are the increased expenditure on research and development, the increased investment in human capital and improvements in medical infrastructure.

Efforts have continued to bring inflation under control following price liberalisation in 1997 when inflation reached 151.4%. Since 2000, there has been a continuous annual decrease of inflation, reaching 8.6% in December 2005. The process continued also in 2006 (the annualised inflation was 4.87% in December 2006) and in the first quarter of 2007, with annualized inflation declining to 3.66% in March 2007, comparable to the level of the new EU Member States.

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<sup>1</sup> „Temporary Dwelling Abroad, Romanians' Economic Migration: 1990-2006”, Open Society Foundation, November 2006

The speeding up of the disinflation process was due mainly to the favourable effects of the monetary and fiscal policy mix, the improvement of market expectations as regards the sustainability of the disinflation trend and increase of the competition in the retail sector. As regards the demand, the inflationary potential created by the increased consumption, due more to the credit expansion than to the population incomes, has been mitigated by the favourable evolution of the import prices, under the conditions of the appreciation of national currency.

## Public Finances

Budget deficits, calculated in accordance with ESA 95, were relatively higher during the period 1999-2000 (4.5% and 4.4% of the GDP respectively), as shown in Table 4. This was the result of the non-performing credit influence within the banking system, taken over by the public debt. Against the background of increased macroeconomic stability, strong economic growth and structural reforms, the deficit decreased to about 1.5% in the period 2003-2005. A slight increase to 1.9% of the GDP was registered in 2006, when expenditure as percentage of GDP increased by 1 point compared to 2005. Macroeconomic stability has improved the country rating, which has led to a decrease in public debt and a reorientation of public funds.

Table 4

### Budgetary revenues and expenditure and the public deficit

- % of the GDP -

Indicators	1999	2000	2001	2002	2003	2004	2005	2006*
Budgetary revenues	35.4	34.0	32.4	33.3	31.6	31.7	31.8	32.2
Budgetary expenditures	39.8	38.4	35.9	35.3	33.1	33.2	33.1	34.1
Public deficit	-4.5	-4.4	-3.5	-2.0	-1.5	-1.5	-1.4	-1.9

Source: Ministry of Economy and Finance; the data are calculated in accordance with the ESA 95 methodology.

Note: the sub-sectoral financial flows have not been considered in the calculation

\* Estimates

Government debt has gradually decreased as a percentage of GDP, from 24.8% in 2000, to 15.9% in 2005. This has resulted in a low debt level, considerably below the maximum limit set by the Maastricht Treaty of 60% of the GDP. The domestic government debt has decreased from 8.5% of the GDP in 2000 to 3.2% in 2005, due to the utilization of privatisation receipts and the revenues from banking assets recovery for the redemption of domestic debt, while the ratio of external government debt in GDP has decreased from 16.3% in 2000 to 12.7% in GDP in 2005, due to the low financing needs of the budget deficit and reduced costs of foreign financing as result of continue improvement of sovereign rating of Romania.

## Fight against corruption

Corruption and the perception of corruption are major factors holding back the economic development of Romania. The Government has adopted measures to ensure greater legislative clarity and stability, transparency in decision-making and the de-politicization of judiciary system. The main anti-corruption measures as regards the business environment are:

- Gradual and irreversible withdrawal of the state from the administration of the economy, including decreasing state monopolies in provision of public utilities
- Restraining the field of coverage of public decision
- Clarification of the subsidies system in the economy
- Strengthening the transparency in public procurement
- Development of the financial markets, especially of the stock and commodity exchanges.

According to the Government's vision, free competition and free access to public information, alongside the market itself, represent the most efficient forms of fighting corruption. Substantial progress in this regard is still required, particularly concerning the functioning of the judiciary, but the steps taken are in the right direction.

#### Macroeconomic perspectives for the period 2007-2013

The 2007-2013 economic forecast for Romania is based on the assumption that the economic growth of her main trading partners will not significantly decline and that the international business environment will remain stable. EU accession in 2007 will accelerate Romania's social and economic development. Human resource development, together with increased domestic capital will be needed to support continuous and sustainable growth, in line with world trends, i.e. globalization, development of IT&C technologies and environment protection.

According to the macroeconomic forecasts of the National Commission for Prognosis<sup>2</sup>, Romania's GDP will increase on average by 6%, with the possibility of recording above the average rates at the beginning of the period (see table 5). This will lead to a reduction in the economic and social differences between Romania and EU member states. The economic growth will be based on the domestic demand, especially on Government's investments (including those financed with the support of the EU funds). The increase in the final consumption will diminish after 2007 to an annual average rate of 6.4%. The net exports will keep their negative contribution to the GDP growth, about 2%.

Table 5

#### GDP per elements of use

	- percentage changes -	
	2006	Average rate 2007-2013 (%)
Domestic demand, out of which:	12.8	7.6
- Final consumption	11.5	6.4
Private consumption expenditure	13.9	7.3
Public consumption expenditure	2.5	2.7
- Gross fixed capital formation	16.1	11.2
Exports of goods and services	10.6	8.4
Imports of goods and services	23.0	11.9
Gross Domestic Product	7.7	6.0

Source: National Commission for Prognosis

According to the result of the macroeconomic modelling exercise, based on HEROM model (HERMIN-type model), it is estimated that Structural and Cohesion Funds will generate an additional 15-20% increase in Romania's GDP by 2015, meaning that the additional annual growth will be about 2-2.6%. These projections reflect the difference between two scenarios: the basic scenario ("with funds") with Structural and Cohesion Funds expenditure at the level established in the NSRF and a "without funds" scenario where it is assumed that there will be no SCF intervention.

Investments will increase, fuelled by the domestic and foreign financing, together with the opportunities presented by European funding. The gross fixed capital formation will increase by an estimated average annual rate of 11.2%. Under these circumstances, the investment rate will increase from 24.6% of the GDP in 2006 to 33.7% in 2013. The contribution of the

<sup>2</sup> The macroeconomic forecast for 2007-2013 was established on the basis of a set of econometric methods and techniques and its consistency was verified mainly with the RMSM model – the version developed by the National Commission for Prognosis and the Dobrescu macroeconomic model.

Structural Instruments, as resulted from the macroeconomic impact assessment, carried out with HEROM model, would be an additional increase of 28.4% in the level of investments by 2015.

Foreign trade is expected to continue to develop at a sustainable rate, higher than the GDP growth. It is expected that, in the context of Romania's membership to the EU, geographical orientation of trade flows will lead to reinforcement of the position of EU member states as main trading partners. Exports of goods and services will increase, on average, by 8.4% annually, while imports of goods and services imports will increase by 11.9%, which will negatively influence the trade balance.

From the supply point of view, it is estimated that constructions and services will have higher increase rates as compared to the average GDP growth rate (see Table 6).

Table 6

## GDP per Sectors

	- percentage changes -	
	2006	Average rate 2007-2013 (%)
Industry	6.9	5.3
Agriculture	3.3	2.7
Construction	19.4	10.8
Services	7.3	6.0
Gross Domestic Product	7.7	6.0

Source: National Commission for Prognosis

It is estimated that the ratio of the current account deficit to the GDP will decrease from 10.5% in 2007 to 8.4% in 2013. The integration into the EU will create a solid basis for ensuring the sustainability of the current account deficit, both through the important FDI inflows and by the use of the transfers from the EU (e.g. Structural Instruments).

For the period 2007-2013, the bringing down and maintaining the inflation between 2-3% is an important objective within the context of meeting the Maastricht criterion of nominal convergence. Romania's recent track record in controlling inflation sustains an evolution of price growing under the maximum level, starting 2010.

On medium term, during 2007-2009, it is estimated that the disinflation process would continue due to the maintenance of the tight monetary policy and to the promotion of real positive interest rates. Moreover, the gradual reduction of the increase of administered prices, promotion of a cautious salary policy and continuing of the structural reforms will keep the disinflation process on a sustainable trend. Furthermore, the acceleration of disinflation process will help the additional decrease of the inflationary expectations. Another efficient way to anchor the inflationary expectations will be to keep steady the trend of real appreciation of the national currency related to Euro. This is possible if it is taken into account the perspective of a more accelerated increase in the labour productivity in the Romanian economy as compared to the foreign partners.

The timetable for adoption of Euro depends on a sound cost-benefit analysis, taking into consideration the following requirements: (i) to accomplish the nominal convergence criteria on sustainable basis; (ii) to achieve a satisfactory level of the real convergence criteria; (iii) to limit the period under ERM 2 to the minimum required of 2 years.

Given the need of implementing the additional structural reforms in order to ensure the capacity and flexibility of the Romanian economy to cope with asymmetric shocks, Romania will not be in a position to join the Euro zone earlier than 2012.

Human resource development, within a global labour market, was an important factor taken into account when these projections were made. Romania's population will continue to decrease, as the birth rate continues to decline. The labour force will grow and the employment rate will reach almost 60% until 2013 (see Table 7). The estimation was based on the statistical data of the first 3 quarters.

Table 7

## Labour force

	2005	2006	2007	2008	2009	2010	2011	2012	2013
	- percentage changes as compared to the previous year -								
Labour force*	-1.1	3.5	1.5	1.4	1.0	0.5	0.4	0.3	0.3
Employment*	-0.1	3.4	1.7	1.5	1.2	0.7	0.6	0.5	0.4
Employees	-1.9	5.6	2.6	2.2	1.6	1.2	1.2	1.1	1.0
	- % -								
Participation rate*	62.4	64.5	65.5	66.5	67.2	67.6	68.0	68.2	68.5
Employment rate*	57.7	59.6	60.7	61.6	62.4	62.9	63.3	63.7	64.0
ILO Unemployment rate	7.2	7.3	7.1	6.9	6.8	6.6	6.4	6.2	6.1

<sup>\*)</sup> calculated for the working age population (15-64 years)

Source for 2005: National Institute of Statistics, Household Labour Force Survey (AMIGO), annual averages

Source for 2006-2013 period: National Commission for Prognosis. The estimations for 2006 are based on statistical data of the first 3 quarters 2006.

Romania's entry into the EU labour market will increase the mobility of labour, by losing workers in favour of the European area, on one side, and attracting additional labour force from other states, on the other side. It is envisaged that Romania will have a relatively balanced position within this process.

A recent study<sup>3</sup> on the Romanian's economic migration reveals that the share of adult population who worked abroad in the past 17 years was 10%. As regards the intentions to work abroad, according to the survey approx. 11% of the Romanians aged 18-59 would like to work abroad in 2007. Furthermore, approx. 40% of the people who worked before wish to return abroad. These tendencies will maintain on the medium term, taking into consideration that the majority of those intending to work abroad in the next two years have temporary work arrangements. The work abroad is in the most cases a strategy for a determined period, in order to accumulate financial resources to be invested in the home country. However, for the next decade, it is estimated that the number of migrant workers will have a certain decrease, as the Romanian economy develops and offers, progressively but sure, more and better employment opportunities.

It is estimated that there will be an increase in the number of employees by about 700,000 persons by 2013 compared to 2006. This figure reflects the net increase in the average number of employees on overall economy, as a result of the offset between new jobs created and staff reductions. Increases will occur especially in the services sector, which is expected to increase its contribution to the economic growth. The ILO unemployment rate will continue to decrease, reaching an estimate of 6.3%.

<sup>3</sup> „Temporary Dwelling Abroad, Romanians' Economic Migration: 1990-2006”, Open Society Foundation, November 2006

The recent changes in the employment structure, namely the reduction in agricultural employment and the raise of employment in construction and services sector, will continue in the next years. The results will be:

- a reduction in non-payroll population involved in agriculture, mainly among the people aged 64 and over, by various measures including going out from the labour market;
- an increase in the employed population and in particular in the number of payroll employment in the service and mainly in the construction sector.

Although the risks regarding the achievement of the economic growth objectives are considerably lower, some internal and external disturbing factors (such as: an unexpectedly negative evolution of the international prices, an economic growth of the EU well below the current forecasts, a lower than expected rate of EU funds absorption) could intensify their action.

As regards the economic risks on medium term, if the potential economic growth of Romanian economy is taken into consideration, as well as the external capital inflows (EU funds and foreign investments) that make aggregate demand to be maintained at high level, it can be appreciated that economic risks that could determine a significant slowdown of economic growth are very low.

However, some internal and external disturbing factors (such as: an unexpectedly negative evolution of the international prices, an economic growth of the EU well below the current forecasts, a lower than expected rate of EU funds absorption) could intensify their action, impeding the achievement of the economic growth objectives.

Thus, some risks persist and are mainly associated to factors that could affect the domestic supply's answer to demand, such as:

- Decreasing of the competitiveness of some activities having as result the decrease on domestic market and export of some products as compared to other products from European countries;
- Delay of restructuring and investments in order to maintain the quality standards (e.g. for food industry capacities) that could affect some capacities; the problem is if the other domestic producers would take on the demand surplus or will increase imports, having effects on external deficits;
- Bad weather conditions for agriculture, reflected in reduced output;
- Much too rapidly de-location of outward processing trade in the light industry, that would delay the recovery of this branch;
- Too high annual rates of nominal increase in the salaries, which may lead to weaker performance as regards inflation and to the increase of the current account deficit (due to the more accelerated pace of consumption);
- More accelerated increase of administered prices, with consequences on inflation and competitiveness.

In the mean time, the risks related to the external economic environment continue to be present, such as:

- an unexpected evolution, in a negative sense, of international prices, including for energy resources;
- lower than expected EU economic growth, taking into account the high weight of the exports to EU countries within the overall Romania's exports;

- the competition of less expensive products from Asia (especially of textile products and footwear).

If these risks occur, the external deficits could deepen and could become unsustainable if their coverage from domestic financial resources, capital transfers and foreign investments, respectively, would decrease.

It is estimated that such factors could negatively influence the development, by reducing the economic growth, on average, by 1 percentage point yearly, on the account of slowing down of the exports dynamic, as well as by increasing the current account deficit, whose ratio to the GDP could rise, on average, by about 1.5 percentage points yearly.

Under such a scenario, the diminishing of economic activity would be reflected in a slightly higher unemployment rate as compared to the basic scenario, as well as in reduced economic competitiveness.

## 1.2. Infrastructure and Environmental Situation

Romania suffers from severe underdevelopment of its basic infrastructures caused by decades of under-investment and neglect. Deficiencies in transport and environmental infrastructure today act as a brake on socio-economic development by reducing accessibility for Romanian companies to important markets, discouraging business investment in Romania and limiting the quality of life for a large proportion of citizens to levels well below the EU norms.

### Transport infrastructure

Romania occupies a key location at the Eastern border of the new enlarged Europe and will be a "gateway" to the East and South. Three TEN-T Priority axis cross Romania, namely Priority Axis no. 7, 18 and 22. The TEN-T priority projects for Romania agreed until 2011 are Nădlac–Sibiu motorway, the railway Curtici-Braşov-Bucharest-Constanţa, as well as the elimination of bottlenecks on the Danube.

### Road Transport

The quality of the road infrastructure (traffic volume, load bearing capacity, surface conditions, accident risk, impact on environment) is poor in Romania and the roads do not generally comply with European Community standards. The density of public roads (33.5 km/100 km<sup>2</sup> in 2005) is very low compared to the EU-25 average (110.1 km/100 km<sup>2</sup> in 2003). On the major axes, the limited road systems are increasingly congested and cannot compete with current demands.

The total length of the public road network in Romania in 2005 was 79,704 km, with a relatively uniform distribution (except in Bucharest-Ilfov where the density surpasses other regions). Of the total, 15,934 km (19.9%) are national roads and 63,970 km are county and local roads. The work undertaken in recent years has focused mainly on repairing and upgrading the network of national roads. Around 3,000 km of the national roads network have been rehabilitated or are under rehabilitation; however, needs remain high, mainly given the high deficiencies in design and the reduced amount of maintenance works. Most of the national roads fail to ensure a connection to the centre of the cities and the majority of cities and towns located aside the national and European roads do not have ring roads. Moreover, the negative effects of floods are to be seen in many areas and the risks in this respect are significant. Limited financial resources also led to county and communal roads being neglected and their usage and quality have declined. Only 28.36% of roads have been repaired and this has had a negative effect on regions and their economic activities. Communal roads are generally not suitable for business usage.

At the end of 2005, the motorway network in Romania consisted of only 228 km (0.95 km/1,000 km<sup>2</sup>). The density of the network remains under-developed when compared to both the EU-25 average (13.8 km/1,000 km<sup>2</sup> in 2002) and the new Member States (e.g. 52.3 in Hungary, 10.6 in Poland and 50.8 in the Czech Republic).

In 2005, car ownership in Romania was the lowest in EU-27, with 156 cars per 1,000 people. This compares with the EU-15 average of 495 and the EU-25 average of 463. Further rapid growth in car ownership is therefore expected over the next 10 years, considering also the trends in other NMS (109% in Poland, 51% in the Czech Republic, compared to only 29% in EU-15 during 1999-2002). Road traffic in Romania has increased from an annual average daily

traffic (AADT) of 3,200 in 1990 to 4,500 in 2005. This shows an annual yearly average increase rate of 3.7% since 2000. Continuation at this rate will increase congestions and add to pollution, with negative effects on the economic activity, on the environment as well as the welfare of the population.

Road public transport (in terms of passenger-km) represents around 13% of the total passenger traffic on roads (estimated at 71.9 billion passenger-km in 2004).

The traffic safety is affected by the local and transit traffic going through the centre of the town or village; in practice, the villages and towns develop along the roads. The number of road accidents is high, considering the low number of cars in Romania (743 deaths/1 mil passenger-vehicle, compared to 239 in EU-25).

Road transport plays an important role in building the economy not only in terms of access and mobility, but also in terms of movement of freight and goods. The volume of road freight transported in Romania is high, accounting for 65% of the total freight transport in terms of thousand tonnes. Road freight traffic has increased from 262.9 million tonnes in 2000 to 307 million tonnes in 2005, an increase of 16.8%. At the same time, the number of million tonnes-km has increased from 14,288 to 51,531, an increase of 261%. However, without urgent investment in the road network, growing demand generated by increased economic activity and domestic traffic will exacerbate the current problems and suffocate growth.

### Rail Transport

In 2005, the Romanian railway network covered 10,948 km, out of which 3,999 km (36.58% compared to 51% in EU-15) were electrified and 3,010 km (27.5% compared to 41% in EU-15) operated as double track lines. The railway network is relatively evenly spread across the regions but the infrastructure is well below European standards.

Upgrading the TEN-T rail network has been given special attention. It is estimated that 50% of the total rail traffic in Romania is on the TEN-T, which covers 20% of the total Romanian rail system length. A rail rehabilitation programme started in 1999 on TEN-T priority axis 22, but only 90 km of route have been completed so far, in spite of the much higher needs (in 2001, 4,000 km of railway were estimated to require rehabilitation, but financing was not available).

The density of railway is approximately 45.9 km/1,000 km<sup>2</sup> that is below than the average in EU-25 (51.2 km/1,000 km<sup>2</sup>). Rail passenger-km/inhabitant per year is also low in Romania compared to EU-15 and EU-25. For example, Romania has an average of 400 passenger km/inhabitant per year compared to 800 in EU-15.

In 2003, there were 303 speed limits imposed on railroads due to the poor state of the railroad track and signalling equipment. 27% of the rail network has an imposed speed limit of 50 km/h and 39% of the network has limits of 80 km per hour. In addition, there are a number of dangerous spots that have been identified as being of high risk. This number is increasing because of the lack of rehabilitation works. These are worrying issues both for the TEN-T and national network.

The locomotives of the state owned operators have an average forecasted age of 30 years and passenger carriages are on average 25 years old while the industry "norm" has a 20 year lifespan. Lack of financial investment has resulted in drastic cuts in infrastructure maintenance and rehabilitation. Rolling stock is old and in poor state of repair and it is incapable of providing a modern, quality rail transport system. These factors have led to a significant degradation both

of the quality and efficiency of the services provided. This, coupled with poor security of the railway transport system has led to a sharp reduction in usage.

Rail freight transport in 2005 was over 69 million tonnes. As a ratio to GDP, it is 10 times more than in EU-15 (although mainly as a consequence of Romania's low GDP). However, the trend is downward. In the past 15 years the market share held by Romanian rail transport has fallen more significantly than in the EU-15, in spite of its advantages - energy efficiency, reduced pollution of the environment and lower number of accidents. The same trend was recorded throughout Eastern Europe given the increasing competitiveness of the road traffic.

#### Water transport

The Romanian waterborne transport network includes maritime transport from seaports and transport on inland waterways. Maritime transport operates through the Black Sea ports of Constanța, Mangalia and Midia. There is also maritime access from the four Danube River ports of Brăila, Galați, Tulcea and Sulina, which form part of the TEN-T.

Constanța is the largest port on the Black Sea and it is located at the intersection of the TEN-T Priority Axes no. 7, 18 and 22. It has the potential of becoming the main gateway for the Europe-Asia corridor and it is linked to the European inland navigation systems via the Danube River and the Black Sea Canal. The traffic capacity of Constanța Port is approximately 105 million tonnes/year following the commissioning of the container terminal. However, the condition of the infrastructure is old and in many cases extended 20 years beyond its economic life. In the 1990s, because of the unstable economic and political conditions in the region, the port has experienced fluctuations in demand. It has however known a significant growth since 2000, sustained by the strongly increasing international trade.

The Danube flows into the Black Sea through the Sulina branch of the Danube, while the Danube - Black Sea Canal provides a direct link to the port of Constanta. These transport links provide Romania and other states with major commercial opportunities for the development of inter-modal transport.

The Danube River also offers increased opportunities for the tourism industry (areas adjacent to the Danube and the Danube Delta) and for the development of river ports.

In Romania, there are 32 ports on the Danube that offer commercial loading facilities. Currently the total tonnage carried through these ports is 52 million tonnes/ year. The five Danube's ports on the TEN-T (Constanța, Galati, Braila, Tulcea and Sulina) are the most important and handle 34 million tonnes annually. To develop the opportunities provided by the Danube River, remedial works are needed to improve the river navigation (navigation speed and safety) and to exploit the advantages provided by the navigation canals. These actions will lead to improved commercial usage and will increase the attractiveness of the river for tourism.

During 2004, 95.6% of the inland water transport was transported in private ships and freight on inland waterways accounted for 14.6 million tones. This was high in comparison with the new Member States (e.g. 2 million tonnes in the Czech Republic, Hungary, and Slovakia, and 10 million tonnes in Poland, figures for 2001), but very low in comparison with other Member States (e.g. 128 million tonnes in Belgium, 329 million tonnes in the Netherlands or 91 million tonnes in Finland).

Whilst shipping transport has the advantage of lower costs and the ability to transport larger quantities, loading/unloading costs and the lack of modern port equipment on domestic

navigation systems prevent the development of the inter-modal transport. In 2004, the river traffic had a share of only 3.7% in the total freight transport. Lack of investment in this field is leading to a significant decrease in the share of this transport means, in favour of the transportation of goods by road.

#### Air transport

In 2005, the total air traffic in Romania through the 17 airports reached a total of 4.3 million passengers, increasing from 3.4 million in 2004. 11 of the airports are on the TEN-T (Arad, Bucharest Băneasa, Bucharest Otopeni, Bacău, Cluj Napoca, Constanța, Iași, Oradea, Sibiu, Suceava, Timișoara), with only 5 of them recording traffic numbers over 100,000 in 2005. The most important of these is Bucharest Otopeni ("Henri Coandă") International Airport, the main international gateway to the country that handled 2.6 million passengers in 2004, representing approximately 76.4% of the total air traffic and about 80% of the total freight traffic. This airport is expected to maintain its share of the Romanian air passenger market and it is forecasted to handle 7 million passengers per year by 2010. The quality of the air transport infrastructure is below international standards and will fail to cope safely and effectively with the anticipated increase in capacity. Bucharest "Henri Coandă" International Airport terminals require extending to cope with the increase in arrivals and departures. Luggage handling facilities are inadequate and poorly organized and additional space is required for airport services equipment.

Other important airports are "Aurel Vlaicu" Băneasa Airport Bucharest, Timișoara and Constanța, located on the TEN-T. Over the last few years, the air traffic has intensified also for the airports from Cluj and Sibiu.

In 2003, a modern air traffic management (ATM) system was brought into operation to improve air safety over Romania, in accordance with the European harmonization and integration programme of EUROCONTROL air traffic control.

#### Transport Inter-modality

The European agreement on major combined international transport networks and their related installations (AGTC) was ratified by Romania in 1993. This agreement defines the inter-modality of the transport infrastructure across the country. This is particularly important as the road usage increases pressure on the environment. The current lack of interconnectivity between road, rail and water transport exacerbates the problems.

Railways play an important part in this agreement, as they offer an environmentally friendly alternative to roads for national and international transport. Currently, the Ro-La system (rail transport for motor vehicles) only operates over one route from Glogovăț-Wels (Austria). The facilities for moving trucks by rail are very few and the inter-modal handling of goods at national level is quite low.

Ferries operate from Constanța to Derince (Turkey) and to Batumi (Georgia). These routes add to the inter-modality of Romania's transport network with Europe and provide links with the Danube River.

The shipping transport has the advantages of lower costs and the ability to transport larger quantities. Nevertheless, high loading/unloading costs and the lack of modern port equipment on the domestic navigation systems prevent the development of the inter-modal transport. Moving maritime containers by rail between the sea and river ports or secondary lines

represents the main operation in the inter-modal transport in Romania (same for other European countries). Over 40% of total number of containers are moved this way, more than in Western Europe; however, the majority of handlings (80%) are done through private secondary lines, which is unusual for Western Europe.

Lack of investment is leading to a breakdown in the logistics chain and to significant increases in the transportation of goods by road (65% of the total freight traffic), thus reducing the share of railway transport in the total freight traffic. This trend is exacerbated by the new economic trends for a door-to-door service that can be provided by road transport operators.

The data for 2004 shows a predominance of the road transport both for the freight traffic and the passenger traffic (where 75% of the transport is done by private cars and only 13% by public transportation means). The railway transport has a share of 29% for freight traffic and 12% for passengers, while the river transport counts mainly for freight traffic (7%).

## Environmental infrastructure

The majority of Romania's environmental infrastructure in terms of water supply, wastewater treatment, solid waste management, air quality and nature and wild species' protection is in poor condition and significantly below modern European standards. In addition, Romania is confronted with environmental problems such as has high levels of pollution resulting from past industrial activities and a high risk of disasters – particularly from floods and earthquakes.

The total estimated cost for compliance with the environmental EU Directives is about 29.3 billion Euro up to 2018, which are to be covered from various financial sources: state budget, local budgets, EU funds (pre-accession and post-accession), private funds, other sources [Environmental Fund, international projects (other than those financed with EU support), foreign loans]. Detailed implementation plans, specifying the financing sources, have been issued in the context of the accession negotiations related to Chapter 22 "Environment".

### Water infrastructure

Drinking water supply. In Romania, only 65% of the population is connected to the drinking water supply network - 98% of the urban population and only 33% of the rural population (3.4 million inhabitants). This compares very unfavourably with the situation in Europe where 96-100% of the population is connected to the water supply network - 100% in urban areas and 87% in rural areas.

86% of the resident population of 256 urban localities (11,551,096 inhabitants) is supplied with drinking water through the public networks. The figures show that in only 55 urban localities (21.5%), the population is connected in a ratio of 100% to the public system for water supply.

In Romania, there are 1,398 drinking water treatment plants. For areas of more than 50 persons and less than 5,000 inhabitants, 25% of the public systems for drinking water supply are not in compliance with the limit values for some of the chemical parameters, while in areas with a population higher than 5,000 inhabitants, 10% of the public systems for drinking water supply are not compliant with the standard limit values for chemical parameters.

The volume of population potentially exposed to the risk due to the age of the distribution networks, quality and parameters of water source, for which currently there is no specific data, could be estimated at about 9.8 million inhabitants in urban areas.

Sewerage network. At the end of 2005, 693 localities were endowed with sewerage network. Population benefiting of the sewerage service is around 11.5 million inhabitants, out of which 10.3 million inhabitants in the urban areas (representing 90% of the urban population) and 1.15 million inhabitants in the rural areas (10% of the rural population).

Correlating the two types of endowments - drinking water supply and sewerage systems – the country population can be grouped in three categories:

- Population benefiting of both services – 52%;
- Population benefiting of water supply but not of sewerage system – 16%;
- Population benefiting neither of water supply nor sewerage system – 32%.

Wastewater. In 2005, out of the total volume of wastewater that needed to be treated, 21% has been sufficiently treated, approximately 45% was represented by untreated wastewater and 34% of the wastewaters have been insufficiently treated. Therefore, almost 71% of the wastewater coming from the main pollution sources was discharged into the natural receivers, especially rivers, untreated or insufficiently treated. 51% of the wastewater discharged came from thermal and electricity production and 36% was produced by public utilities, the rest of 13% resulting from other activities.

Taking into account the total number of 1,310 wastewater treatment plants (both municipal and industrial), investigated in 2005, 492 plants, representing almost 37.6%, have adequately functioned, and the remaining 63.4% have inadequately functioned. Out of the total of 2,609 human agglomerations of more than 2,000 population equivalents (p.e.), 340 human agglomerations have wastewater treatment plants.

#### Waste management

The quantity of waste<sup>4</sup> generated in Romania was of around 36.7 million tons in 2004 (8.19 municipal waste and 28.51 production waste). The ratio between the two categories varied year on year, the average being 29% municipal waste and 71% production waste.

Municipal waste in urban areas is managed through specialized services belonging to the municipalities or through sanitation companies. The ratio of urban population covered by sanitation services increased from 73% in 1998 to 90% in 2002-2003. However, in rural areas there are no organized services for waste management. The transportation of waste to dumping sites is generally made individually by each generator. Only a limited number of rural localities, mainly adjacent to cities, have organized collection services. This is producing a burden on the environment and failure to meet EU standards. In 2003, only about 5% of the rural population was covered by sanitation services, whilst in 2004 this ratio has increased to about 6.5%.

The household waste and similar waste represents around 60% of the total municipal waste, the remaining being represented by waste from municipal services, construction and demolition waste and not collected waste. Around 40% of the municipal waste components are recyclable materials, out of which about 20% are potentially recoverable. At present, as a result of selective collection (pilot projects) only 2% of the total recyclable materials generated are actually recovered. The rest is disposed to landfill.

Land filling is the main method for municipal waste disposal. In Romania, there were 252 municipal landfills in 2005. Of these, only 18 units were complying with the EU legislation and there were registered 234 non-complying landfills.

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<sup>4</sup> Excluding mining waste, hazardous waste and nuclear waste.

In rural areas, there are 2,686 dumping sites (surface area of 1 ha or more). The closure and cleaning of these sites will be completed by 16 July 2009, in parallel with the extension of collection services in rural areas.

Production waste. Production waste is represented by industrial and agricultural waste, including the one resulted from the energy production process. Special categories of production waste are represented by the mining waste, hazardous waste and nuclear waste.

As a rule, the responsibility for the management of industrial waste rests with the producer, by own means or by contracting services of specialised companies for waste disposal. Currently, there are only a few companies that deal with industrial waste management and the services they provide are generally limited as far as the types of waste and the processing capacities are concerned.

In 2004, the total quantity of waste generated by industry was about 355 million tons, of which 326 million tons represent mining waste. This type of waste is managed under specific national regulations<sup>5</sup>. Mining waste represents not only an environmental problem, but also a social and economic one. The Government addresses this issue in specific strategy and programmes aimed to mine closure, environmental rehabilitation and social problems mitigation in mining areas. The government policy and strategy for the rehabilitation of mining areas is being supported financially by a loan from the World Bank (120 million USD). Thus, the projects "Mine closure and social mitigation project" started in 2000 is continuing currently through the project "Mine closure, environmental and socio-economic regeneration project" (2005-2010), coordinated by the National Agency for the Development of Mining Areas.

An important part of the production waste generated (excepting waste from extractive industry) is represented by waste from energy industry, about 16 million tons in 2004. There are 20 non-complying power plants, which burn solid fuels and use hydro-transport of the waste generated and dispose the waste in their own ash and slag dumps. These plants must change their disposal technologies in order to comply with environmental standards. Following the accession negotiations, they have obtained transition periods between 2 and 7 years in order to comply.

The main quantities of hazardous waste are the result of the chemistry, oil-chemistry, metallurgy, machines industry and transport. Currently, around 335,000 tons of hazardous waste are landfilled in the 51 landfills for hazardous waste, including those to be eliminated. Starting with 2007, more than half of this quantity will be disposed through other techniques (physical-chemical treatment, co-incineration/incineration).

From the total amount of production waste, excluding mining waste, about 30% is recovered, the rest being disposed of by landfilling or incineration. In 2003, about 2 million tons of waste were disposed through incineration/ co-incineration and resulted in energy recovery.

At the beginning of 2004, 169 industrial landfills (covering approx. 3,000 ha) were functioning, these being classified as follows: 51 landfills for hazardous waste, 116 landfills for non-hazardous waste and 2 landfill sites for inert waste. 15 of the 169 landfills are in compliance with the provisions of EU regulations and will continue to operate until the depletion of their capacity. The other 154 landfills will be gradually closed, in accordance with the commitments undertaken by Romania through the Accession Treaty to European Union.

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<sup>5</sup> Mining Law No 85/2003 regulates the mining activity and the responsible authorities for these issues (Ministry of Economy and Finance, National Agency for Mineral Resources, National Agency for the Development of Mining Areas)

There are seven incinerators for hazardous waste belonging to four private operators, which incinerate hazardous waste generated in their own activities and 7 cement kilns are authorized for the co-incineration of waste.

In the mining industry, in 2006 there were 75 mining ponds and 557 dumps (of which 100 active and 457 inactive). Out of the 75 mining ponds, 15 are currently exploited, 27 are in a closure and cleaning process and 23 are to be preserved.

Nuclear and radioactive waste is another waste category with impact on the environment and human health. A National Strategy for the management of radioactive waste has been elaborated and a specific authority was established – the National Agency for Radioactive Waste, subordinated to the Ministry of Economy and Finance. Radioactive waste is the result of the Cernavodă nuclear reactors activity, the use of radioisotopes in industry, research, medicine, mining activities (uranium extraction). There is no available public data on nuclear and radioactive waste quantities.

Medical waste. 75-90% of the total amount of medical waste is not dangerous, similar to domestic waste, and only 10-25% is hazardous waste.

Currently, hazardous medical waste is disposed as follows:

- By burning in 346 installations for thermal treating of medical waste from hospitals (which are not compliant with EU requirements and must be gradually closed by 31.12.2008);
- By incineration together with hazardous industrial waste in 4 incinerators owned and operated by private sector (only a small quantity).

Contaminated sites. The pollution of contaminated sites has many sources, such as pollution coming from mining activities, ponds, mining dumps, non-complying landfills, inorganic residues and waste, oil pollution.

Previous measurements (before 1989) on soil pollution in Romania showed that around 900,000 ha were affected by different types of pollutants on certain levels of pollution.

Generally speaking, a reduction of certain types of pollution was recorded after 1989, due to decrease of fertilisers and pesticides quantities, NO<sub>x</sub> emissions, or closure of certain industrial and agricultural units. As regards the historical soil pollution, new quantities of potential pollutant substances and elements were identified, as highlighted in the monitoring process carried out by the National Institute of Pedology and Agrochemistry (ICPA), within the National Monitoring System of first level (16 x 16 km) and second level (impact areas).

The new preliminary data provided by ICPA shows that for around 350,000 ha the soil quality is affected by different types and degrees of pollution, out of which around 30,000 ha are heavily affected. However, more data is needed and a risk analysis must be done in order to substantiate project development for soil improvement or remediation, especially for non-complying landfills, ponds, and mining dumps.

## Air Quality

The emissions of the main pollutants decreased over 50% during 1989-2000, after which became relatively steady. Air emissions of pollutants from Large Combustion Plants (LCPs) still have a significant negative impact on environment. In 26 of the largest municipalities, LCPs are

the main sources of thermal energy and household hot water, but also the main air pollution sources due to fossil fuels (coal, fuel oil) used by these installations. Pollutant emissions from the district heating systems have a significant negative impact on human health and environment and represent the most important part of total emissions of SO<sub>2</sub> and NO<sub>x</sub> in urban areas, emphasizing the phenomena of acidification and tropospheric ozone formation.

As Romania committed herself to comply in 2010 with the level of emissions thresholds laid down in Gothenburg Protocol, concrete implementation measures have been taken into consideration, such as emissions reduction programmes for SO<sub>2</sub> and NO<sub>x</sub> from LCPs, energy producers and other activities (refinery, petro-chemistry, etc.).

As regards the obligations under Kyoto Protocol<sup>6</sup>, Romania committed itself to reduce the greenhouse gas emissions (GHG) by 8% comparing to 1989 (base year) levels in the first commitment period 2008 – 2012. According to the inventory for the period 1989-2004, the GHG emissions (without LULUCF<sup>7</sup>) have decreased with 41% since the base year. Thus, Romania is very likely to meet the Kyoto Protocol commitments on GHG emissions in the first commitment period (2008-2012).

### Biodiversity and Nature Protection

Natural protected areas status. In Romania, there are 13 National Parks and 13 Natural Parks, as well as the “Danube Delta” Biosphere Reserve. The total surface covered by Natural Parks, National Parks and Biosphere Reserves is 1,687,512 ha (121,780 ha maritime surface). Besides these parks, there are 935 scientific reserves, natural monuments and nature reserves of 180,000 ha. Therefore, in 2005, the total area of the natural protected areas represents around 8% of the Country. By the end of 2013, this percentage should reach 15%.

The most important protected area in the national network is the Danube Delta, which has a triple international statute: Biosphere Reserve, Ramsar Site (International Importance Wetland) and World Heritage Site.

Up to now, within the Romanian network of protected areas there have been identified 113 Special Protected Areas (SPAs) and 274 proposed Sites of Community Interest (SCIs), which fulfil the criteria of the Nature 2000 network.

Currently, because of the poor management, protected areas are confronted with high pressure from illegal exploitations, uncontrolled tourism and construction development, illegal hunting, leading to irreversible losses of biodiversity. Consequently, there is a need to improve the management of these sites, in order to preserve the bio-diversity and to ensure a wider promotion and understanding of the importance of conservation.

### Natural Risks

Over the time, Romania faced different natural risks, such as floods, earthquakes, drought, soil and coastal erosion, etc. When considering the frequency and intensity of these phenomena, both in terms of lives losses as of material damages, the most important natural risk that affected Romanian territory was floods.

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<sup>6</sup> Romania signed the Kyoto Protocol in 1999 and ratified it in January 2001, being the first Annex I country Party that ratified it.

<sup>7</sup> Emissions from Land Use, Land-Use Change and Forestry have a positive effect on GHG emissions.

Floods. The frequency and proportions of floods have increased mainly because of the climate change, unauthorized river constructions and deforestation. Major concerns exist about the prevention and protection against flooding. The most vulnerable areas are those in the river basins: Crişuri, Someş, Mureş, Târnave, Timiş, Olt, Argeş Siret and that of the Danube River.

The number of human life losses (283) registered in the last decade is unacceptably high, whereas the significant economic damages (houses, buildings, flooded arable land, roads, bridges) amounted to a total value of 3.5 billion Euro (out of which 2 billion Euro only in 2005 and 2006).

In spite of investments from state budget funds and external loans, major investments are still needed to protect 2,050 localities of more than 5,000 inhabitants, which are exposed to natural floods.

Coastal erosion. The Black Sea shore area has been suffering from serious beach erosion problems, 60-80% of the seashore length facing serious damages, whilst the width of the beaches is reducing each year. In the area of the Danube Delta Biosphere Reserve, the beach has lost in the last 35 years more than 2,400 ha (around 80 ha/year), while accumulations have been of only 200 ha (around 7 ha/year). The sea shoreline has moved towards inland with 180 – 300 metres, whereas in some sectors it reached 400 metres.

## Energy efficiency and infrastructure

Prior to 1989, the Romanian economy was characterized by highly energy-intensive industries. Industrial restructuring has led to a 40% decrease in energy intensity during the period 1989–2000. However, this is mainly due to the contraction of industrial activity rather than to energy reduction measures. Romania remains an inefficient user of energy.

In 2004, the internal electricity consumption was of 49.2 TWh<sup>8</sup>, while the electricity production was 56.48 TWh. In 2005, the primary energy import represented 35% of the total energy resources<sup>9</sup>.

It is estimated that the rate of dependency on imports will increase to over 50% from the total primary resources consumed by 2015. Approximately 60% of the electricity is produced from fossil fuel (coal, natural gas), with high production costs.

In 2004, an amount of 29% of the total electricity production was produced in hydro-power plants and about 9.8% of total energy produced at national level was produced in Cernavodă nuclear plant, the rest being sourced from fossil fuels. The capacity of the Cernavodă plant will be increased in 2007 by putting into function the second reactor, with a capacity of 700 MW, which will raise the share of nuclear energy in the total energy production to an estimated 16-18%, starting with 2008.

Other types of renewable sources of energy are under exploited and conducted in low output units. The potential for considerable expansion of renewable energy sources exists (the strategic target is that the electricity produced from renewable energy sources represent 33% of the national gross electricity consumption by 2010). Solar energy and wind power have been identified with the adequate environmental and topographic-geographic conditions. Hydro-

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<sup>8</sup> National Institute for Statistics data

<sup>9</sup> National Institute for Statistics data

electro power is generated from the main rivers, whereas expansion or upgrading of small capacity hydro power plants is a seriously considered opportunity.

The GD No 1844/2005, whose provisions are in accordance with Directive No 2003/30/EC, has set a target of 5.75% regarding the minimum share of biofuels to be placed on the Romanian market until 31 December 2010.

The country's technically exploitable hydro energy potential is 36 TWh/year, whereas the wind technically exploitable energy potential is estimated at 8 TWh/year. The energy potential of solar-thermal systems is estimated at about 1,434 thousand toe/year and that of the photovoltaic systems is about 1,200 GWh/year.

Romania has a high biomass energy potential assessed at about 7,594 thousand toe/year ( $318 \times 10^9$  MJ/year), which accounted for almost 19% of the total consumption of primary resources in 2000. Geothermal energy offers further potential of approx. 167 thousand toe/year in geothermal resources of low and medium enthalpy, out of which 30 thousand toe/year are already exploited.

The value of the primary energy intensity in Romania was 0.511 toe/ $10^3$  Euro in 2005, and the value of the final energy intensity was 0.358 toe/ $10^3$  Euro, according to the statistical data from the National Energy Data Center. In 2005, the final energy intensity in Romania was around 3 times higher as compared to the EU-25 average (0.109 toe/ $10^3$  Euro). During 1999-2004, the energy efficiency increased by 1% yearly, due to the closure of activities of inefficient economic units, as well as creation of new energy efficient companies.

According to the National Institute for Statistics, in Romania, the highest consumption of electricity belongs to the industry sector (about 70% of the total electricity consumption).

In Romania, out of 174 LCPs (power plants and thermal plants with a rated thermal power equal or greater than 50 MW, which use mainly fossil fuels), 72 mainly provide electricity for safe maintenance of the National Energy System (industrial users), and secondly technological steam and thermal energy for the population. These 72 LCPs ensured in 2003 (droughty year with a low level of hydro energy generation), 86% and in 2005 (medium level hydrological year), about 45% of the national electricity production, operating based on the load curve during the whole year.

Special consideration has to be given to the negative impact that the energy production has on the environment, especially CO<sub>2</sub> gas emissions or the emissions with an acidifying effect (SO<sub>2</sub>, NO<sub>x</sub>, NH<sub>3</sub>). All Large Combustion Plants (LCPs) are serious polluters of the environment but the coal burning LCPs present the greatest problems (with over 88% of the NO<sub>x</sub> and CO<sub>2</sub> emissions and over 90% of those of SO<sub>2</sub>). According to the provisions of the Position Paper on Chapter 22 Environment, and the EU Directive 2001/80/EC, Romania has to comply with the limits on the emissions from large combustion plants (LCP). The need is for investment in environment protection measures within the energy sector. These are high cost operations and investment is needed to reduce sulphur (SO<sub>2</sub> emissions), NO<sub>x</sub> and dust emissions. Recycling plants are required to manage ash and tar waste products for conversion into safe and potentially useful products for the constructions industry.

As a result of economic restructuring, the primary energy consumption decreased by 30% in 2004 compared to 1990, and the final energy consumption decreased by 40% in 2004 compared to 1990, due to reduction of energy losses over the entire cycle: production-transport-distribution-end use.

In 2004 the energy intensity<sup>10</sup> of the Romanian economy was 1226.95 kgoe<sup>11</sup>/1000 Euro 1995 at constant prices compared to EU-15 average energy intensity (187.48 kgoe/1000 Euro 1995), and the same indicator for EU-25 was 204.89 kgoe/1,000 Euro 1995<sup>12</sup>.

Romania has a developed district heating system. Approximately 29% of the total number of households receives thermal energy for heating and consumption hot water through centralized systems, the percentage for the urban areas being 55%. Around 32% of the total final energy consumption and a high value of the final energy intensity are attributed to the residential sector.

The systems are based on the technologies used prior to the 1972 energy crisis and, despite the fact that during the past years, especially in 2005, there have been revamping, modernization and development works, especially with regards to transport and distribution, they continue to record low performances, high losses (between 25-35%) and high production costs. Most operators cannot afford the investment necessary to tackle the waste and relatively high production, transport and distribution costs remain a disincentive. This situation is made worst by the fact that housing and apartment blocks are poorly insulated and suffer significant thermal energy losses. Owners cannot afford to address the poor insulation and waste remains high. In areas affected or threatened by social exclusion, this situation often hinders the local economic and social regeneration.

The power plants are old and the equipment is outdated. This increases production costs and energy loss. The majority of the thermal power units (approximately 82%) have been in use for more than 20 years. Most of these units surpassed their operating period, with negative impact on the environment. Also, 37% of the hydro power plants have exceeded their operational life span. As regards the energy transport grid, the depreciation level of the electricity power lines is 50% and 60% for electricity sub stations; 69% of gas transport pipelines have exceeded their rated lifetime. The same situation is recorded for the distribution grids: the electricity distribution grids have a relatively high degree of wear and 40% of the gas distribution grids in the system are older than 15 years.

The power network has a coverage ratio of 98% with a uniform coverage for urban and rural areas. Connections to the gas networks are 71.4% in urban areas and 7.4% in rural areas.

In order to improve the efficiency of the national energy system it will be necessary to rehabilitate and expand the national grids as well as to expand and interconnect the operational networks for electricity transmission with the European networks. An important factor in this respect is the admission of the national company for electricity transmission - Transelectrica SA as a full rights member in the UCTE and the Association of the Transport and System operator.

Specific studies undertaken by the National Energy Data Centre show that energy intensive products are typical for most industrial sectors. In this context, it is necessary to improve the efficiency for the entire energy chain, including the end use.

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<sup>10</sup> Gross inland consumption of energy divided by GDP

<sup>11</sup> Kilogrammes of oil equivalent

<sup>12</sup> Eurostat data

## 1.3. Competitiveness of the Romanian Economy

### Economic Competitiveness

Low competitiveness is one of the major factors holding back Romania's economic development. The 2006 survey on the competitiveness of the countries of the world carried out by the World Economic Forum (WEF) ranked Romania 70<sup>th</sup> out of 127 countries, behind all the new EU Member States. Romania's lack of competitiveness can be attributed to the following main factors:

- Low productivity mainly due to the technical and technological gap;
- Low levels of entrepreneurial activity and insufficiently developed management skills;
- Difficult business environment, as well as inadequate and insufficient business support infrastructure;
- Low/ difficult access to finance;
- Insufficient investment in research and development and business innovation;
- Low penetration of information and communications technologies (ICT) in business;
- Substantial mismatch of skills in the workforce and the demand of a modern economy\*;
- Severe underdevelopment of physical infrastructure\*.

\* These crucial factors for Romania's competitiveness are treated in the respective sections of the analysis.

### Productivity

Romania has a very low labour productivity by European standards, with a level in 2005 of only 39.2% of the level recorded in the EU-25 and lower than all the other EU Member States (except for Bulgaria). In the manufacturing sector particularly, the less performing technologies and equipment, outdated management practices and inefficient use of energy contributed to extremely low levels of value added per worker (approximately 6,500 Euro/ employee in 2004).

The trend in productivity in Romania is positive and in the years 2000 to 2003, labour productivity in industry increased on average by 11.6% per year. This is higher than in new MS such as Poland (9.8%), the Czech Republic (7.7%) or Hungary (8.9%).

### Foreign Direct Investment

Despite the attractiveness of low labour costs – which represent the main source of competitive advantage with an average gross monthly salary of about 285 Euro in February 2006 - Romania still has one of the lowest levels of foreign direct investment (FDI) per inhabitant in the region, below the leading performers amongst the 10 new Member States. The majority of FDI in recent years has been in large-scale privatisations rather than green-field investments. The ability of Romania to attract FDI is hampered by poor accessibility to and from the rest of Europe and the poor quality of the country's internal transportation and communication network, as well as the perception of widespread corruption and a difficult business environment.

The multinational companies operating in Romania do not generally sub-contract with local companies because of deficiencies of management, professional skills, quality of products and technology. As a result, many multinational companies import most of their components. Only a small proportion use national suppliers. This situation limits the national benefits that can result from the presence of foreign investors.

## Enterprises

Romania does not have a tradition of entrepreneurship, with an average number of 24 SMEs per 1,000 inhabitants in 2005, 2 times lower than in EU-15 (52 SMEs per 1,000 inhabitants). There are also major differences in the distribution between the regions, with Bucharest as top destination. In 2005, SMEs represented 99% of the total number of firms operating in Romania and more than half of total employment. About half of the total number of SMEs (523,015 in 2004) operated in the trade sector. A relatively small proportion of SMEs are in the productive sector and particularly, there is a small number in manufacturing industry (13.6%). The need is to increase investment aid to the productive sector and to increase entrepreneurship and innovation amongst this wealth-producing sector to improve Romanian competitiveness.

All the sectors recorded positive increase in SME share; the most dynamic sector growth registered in 2004 was in construction – 23.2%; services – 13.1% and manufacturing – 9%. The notable evolution in the construction sector arises out of several factors, including the expansion of the real estate sector, as well as industrial and infrastructure works (highway construction, road rehabilitation and water supply in rural areas etc.), which benefited from EU pre-accession support and government programmes.

By definition, SMEs are connected to the local market and their number correlated with the number of inhabitants is an indicator of the size of this market. There are major differences in the distribution of SMEs among Regions, with Bucharest-Ilfov Region having the highest concentration. The analysis indicates three levels of disparities between the development regions, in 2005:

- 43 SMEs/1000 inhabitants - Bucharest-Ilfov Region;
- 19-22 SMEs/1000 inhabitants - South East, West, Center and North-West Regions;
- 12-14 SMEs/1000 inhabitants – North East, South and South West Regions.

SMEs as employers, account for only a marginally lower proportion of employees in employment than the European average (56.6% in Romania in 2004 and 69.7% in EU, in 2002 (see Table 8). However, the trend of employment rate in SMEs has been positive during 2002-2004 period (16.7%).

Table 8

## SMEs in economy (comparative data)

	% no.SMEs in total enterprises	% SMEs Employees in total economy	Employees / SMEs	Turnover / SMEs (Mil Euro)	% export in SMEs turnover
Romania 2002	99.5	51.1	5.9	0.145	10.6
Romania 2004	99.5	56.6	5.8	0.161	10.4
Europe 19	99.8	69.7	5.0	0.900	12.0

Source: National Institute of Statistics, SME European Observatory 2003

SMEs face difficulties in establishing themselves because of the legislative framework, a lack of suitable premises (many still operate from residential apartments), the lack of access to finance and the quality of business support services. According to the National Institute of Statistics, in 2004, 35.1% of the owners of new business 'start ups' were women. To promote equality of opportunity, efforts have to be made to encourage and assist more women into businesses, through training and improved support mechanisms.

The SMEs have to improve the quality of their products and need to meet international standards to make them competitive; in addition, they have to ensure they comply with

environmental legislation. All these bring additional challenges for SMEs and compound the problems SMEs experience and restrict the expansion of the SME base.

In 2002, a study<sup>13</sup> rated as 'innovative' only 21% of the Romanian SMEs in industry and 17% of SMEs in services sector and this was regarded as very low. Internet access varies greatly between large enterprises (90%) and SMEs (50%).

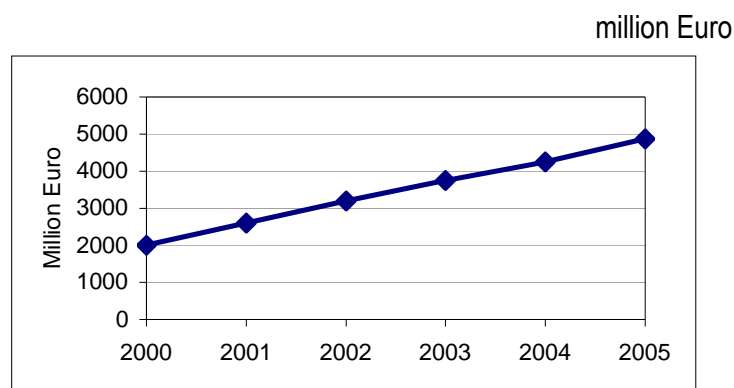
There are few organizations that support SMEs development and dissemination of knowledge and best practice. The limited entrepreneurial culture in Romania means that self-employment or small business creation has not been seen as a natural response to loss of employment in a large industrial employer.

The balance sheet data indicates the total turnover of the SME sector to be 65,055 million Euro (current prices) for 2004. The figures show that medium-sized enterprises contributed 35.4% to the overall SME turnover, small enterprises – 34.6% and micro-enterprises – 30%. In 2004, the highest growth rate (17.6%) was recorded by small enterprises, mainly due to the strengthening of fiscal stability. The SMEs in the service sector reached a total turnover of 45,028 million Euro compared with 13,835 million Euro in industry, 4,758 million Euro in construction and 1,435 million Euro in agriculture.

Very few Romanian SMEs are involved in export activities. The available statistical data for 2005 indicate an SMEs export value of 7,365.4 million Euro, accounting for 37% of the total exports volume. Regarding the industrial sector, SMEs exports accounted for a share of 24.6% of the total manufacturing exports. Diagram 4 below presents SMEs exports in the manufacturing sector, in million Euros, during 2000-2004.

Diagram 4

#### SME Exports in Manufacturing Sector



Source: National Institute of Statistics and National Customs Authority, calculations from NASMEC aggregated database

Exports from SMEs in the processing industry sector in 2005 amounted to 4,850.9 million Euro, which represented 65.8% of total exports in the SMEs sector. Textile and clothing was the largest exporting sector with 2,214 m Euro (49% of total value of exports).

Only 2% of the companies in the manufacturing industry are large. Out of these, only 16.2% have more than 1,000 employees and only 7.8% have a turnover higher than 50 mill. Euro, which represent a certain specificity of the sector in Romania. Despite their low number, they employed 50.3% of the work force and achieved about 61% of the sector turnover in 2005. The

<sup>13</sup> „Romania: An Assessment of the Lisbon Scorecard”, the Romanian Economic Society 2003.  
Ministry of Economy and Finance

increase of manufacturing industry competitiveness depends to a significant extent on the technological modernization of these large enterprises.

The value of exports tripled during the period 1999 to 2004 from 7,975 million Euro to 26,280.7 million Euro. High technology exports increased from 2.5% to 5% of the total and low technology products decreased from 49.6% to 43.1% whilst the 'average' technology products significantly increased from 16.1% to 22.3%. Raw material exports decreased from 16.1% to 15.6%.

The volume of imports of high and 'average' technology products is approximately equal to that of low technology products.

### Business Environment and Support Infrastructure

The measures taken by the Romanian authorities with the aim of improving the business environment complement and contribute to the achievement of the objectives set through the NSRF. The areas in which significant progress has already been registered in the pre-accession period include: the simplification of the procedures for setting up a new business as well as reduction of the associated administrative costs; stimulating the development of the SME sector and actions towards the reduction of the risks faced at start-up; promotion of business transfers; strengthening financial discipline and reducing tax arrears; simplifying the exit procedures for the companies, as well as improving the functioning of the judiciary system, with a specific focus on creditor protection and recovery procedures in case of bankruptcy. Efforts have also been undertaken as regards restructuring, privatisation and liquidation of loss making companies.

However, progress is still needed and the actions in the above mentioned areas will continue to represent a priority for the Romanian authorities, as stated in the National Reform Programme, the Pre-accession Economic Programme, the Convergence Programme and various governmental strategies and action plans. By stimulating the development of the business environment, these measures will actively contribute to the successful implementation of the strategy envisaged in the NSRF and the Operational Programmes.

In general, there is inadequate infrastructure and basic services that support businesses in Romania. More specifically, Romania lacks the business infrastructure that would enable her to compete in the national and international markets, especially in innovative and high tech sectors. In this context, attention needs to be paid to the business support structures, which are in many cases insufficient, due to a lack of logistics, equipment, utilities, and space needed to carry out economic activities. At the same time, some of them are not fully operational, and need to be further assisted in order to be able to improve the services rendered to enterprises. Moreover, support should also be given to the development and creation of new business support structures of national dimension, providing advanced equipment and utilities and business services. In order to grow, it will be important to attract to the "playground" innovative enterprises, operating in national and international markets, which will perform or benefit from research activities.

On the other hand, given that conditions for business location are insufficiently developed in most of the regions and the SMEs, especially the micro-enterprises, have difficulties in getting financing, particularly in the lagging behind regions and areas, a focused approach is needed as well at regional and particularly at local level. Therefore, there is a need to identify specific solutions and to promote suitable projects, with a potentially high contribution to the strengthening of local business environment.

A number of industrial parks have been developed in order to encourage economic development and to reduce unemployment particularly in areas affected by the industrial restructuring process. Currently, there are 34 authorised industrial parks at various stages of development and these have a disproportionate regional distribution (with 11 parks in both the South and Centre Regions and only 1 park in the West Region). 14 of these parks are currently operating, while 7 are in the process of being let. 13 sites are still green-field projects awaiting development. Some of these parks have difficulties in operating, due to lack of finance, as well as a small number of SMEs using the facilities.

There are currently 21 business incubators spread around the country, with most of the incubators located in South West (24%) and Centre Region (19%). There is an intention to double this number. These incubators host on average 11 SMEs, which is far below EU average of 34. However, many of these incubators suffer from lack of resources and expertise in business development.

The availability of support to small businesses is particularly poorly developed, especially in the area of quality and in professional areas like finance. Associations and non-profit foundations are generally the institutions that provide consultancy services. There is a lack of breadth and quality of expertise in these services to support successful SME development in a market economy. Moreover, the distribution of consulting firms is uneven across the country, with most consulting firms being found in Bucharest and to a far lesser extent in other cities and regions. Very few consultancy firms are located in Regions such as South or South West.

Businesses need to develop their competitive base and improve their penetration of the domestic and international markets. This will be achieved through support for capital investments, improved standards, increased marketing through international trade fairs, 'meet the buyers' events and similar actions.

#### Access to Finance

Despite a wide array of support programmes available, insufficient access to finance is still a problem for the business sector, and the SME sector specifically. In particular, access to finance is worrying for micro-enterprises (less than 10 employees) and for innovative green-field initiatives. Given the limited existing support, most SMEs are still severely undercapitalised. The mortality of business start-ups is very high in the first year, mainly because of a shortage of finance, lack of business support services, limited entrepreneurial skills and experience and insufficient knowledge of how to enter markets.

In March 2007, a gap assessment study was carried out under the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative, in order to assist in choosing the most efficient innovative ways to support SMEs access to finance in Romania. The study was elaborated by a team of independent experts from the Group of Applied Economics (GEA), at the request of the European Investment Fund and confirmed the existing problems on the access to finance market in Romania.

The need is to create a range of funding sources including micro loans to meet the various demands from SMEs. The national and local administration has to create the environment where the market can flourish and the desire is to attract the private sector to support these actions and benefit from the success and share the risks involved.

In this context, the role of micro-finance institutions (MFIs), given the sector's excellent repayment rates and a wide distribution across the country, is important. Overall, in 2005, the

micro-finance market portfolio reached approx. 27.4m Euro, 60% higher compared to 2003. The potential credit demand is estimated at 400m Euro, with a remaining gap to fill of 372.6 m Euro. Banking micro-credit covers partially this gap, however a lot of micro-enterprises would be discouraged to apply due to bank procedures and more difficult rules. On top of this, a new loan facility of 88 m Euro was launched in December 2006 by EBRD, the European Commission, the Romanian Government and a syndicate of commercial banks. The facility was created to address the financing needs of micro and small enterprises in Romania, especially those in remote and rural areas and has an important role in reducing the identified financing gap.

On the other hand, banks are by far the most important source of financing for businesses in Romania, with an outstanding amount of debt finance provided to the corporate segment situated at 11.36 bn Euro in May 2006. However, banks do not provide sufficient business development support to their SME clients and their exposure to risk is very low. Small firms also generally find it hard to access capital; the guarantees required by commercial banks are often beyond the means of entrepreneurs, and there are few other sources of finance and in particular venture capital. A survey carried out in 2006 shows that approx. 78% of all enterprises financed themselves through own resources, as compared to only 47% which declared that they used bank credits. Moreover, only 0.08% of the SME entrepreneurs used guarantees from the National Credit Guarantee Fund for SMEs.

Special lending programmes have been gradually developed to cover the financing needs of particular groups of customers, as the market is becoming more sophisticated. However, significant progress is still needed. When applying for bank loans, SMEs are encountered with a lot of problems such as banks reluctance to lend and to create specific programmes for SMEs, high interest rates, severe collateral requirements, as well as a focus on short term loans. The insufficient capacity of the credit guarantee institutions adds to the problem.

The National Bank of Romania does not accept the guarantees of the credit guarantee institutions as an eligible credit risk mitigation instrument regarding provision by banks, given that – according to the provisions of the bank law - credit guarantee institutions are non-banking financial institutions, which are not supervised by the National Bank of Romania. For these reasons such credit guarantees do not affect the level of provisions to be made by the lending banks.

Currently there are four credit guarantee institutions providing products for SMEs in Romania: the Romanian Loan Guarantee Fund established in 1993, the Rural Credit Guarantee Fund which started in 1994, the National Credit Guarantee Fund for SMEs founded in 2001 and the Export-Import Bank of Romania (EXIMBANK) established in 1992.

All four guarantee institutions cover exclusively the risk of bank loans – and only the principal and not the interest of the loans too. Guarantee instruments for risk capital, i.e. for mezzanine and equity capital are either unknown or not yet seen as a worthwhile instrument for enhancing access to finance for SMEs. All four credit guarantee institutions issue mainly short-term guarantees (for working capital) compared to medium or long term guarantees for investment loans.

The Romanian Loan Guarantee Fund operates only one general guarantee programme, which does not address in a specific manner special target groups in the wide field of SMEs. The share of start-up enterprises in the guarantee portfolio is as low as 1% as businesses that are generally considered to be of higher risk are not targeted because the fund is a private profit-oriented company. With no regional network, the guarantee business of the fund is

concentrated in the area in and around Bucharest. The annual volume (6.9 m Euro in 2004) and number (67) of new guarantees are below a critical size and the sustainability of the Romanian Loan Guarantee Fund will depend on the willingness of its private shareholders to continue to invest capital into a fund which produces a relatively low profit compared to the risk involved and has a low macro economic impact given its limited scope.

The Rural Credit Guarantee Fund grants credit guarantees to all private farmers and related agricultural businesses. With the major part of the guarantees granted being short term, the Fund has a noticeable impact on improving access to bank loans of this sector of the economy due to both the variety of activities which are guaranteed - from agricultural primary production of private farmers to finished goods of agro-commercial companies - and the sheer numbers and volume of his guarantee business achieved (ten times the size of the other two above-mentioned guarantee funds). The Rural Fund demands no collateral for granting credit guarantees and therefore developed into a widely accepted risk taker for agricultural businesses and especially for SAPARD projects.

The National Credit Guarantee Fund for SMEs provides guarantees for bank loans with one general credit guarantee programme for all SMEs irrespective of their stage of development, sector, technology or region. Consequently, the share of start-up in the guarantee portfolio is only 1% and only starting October 2004, the Fund introduced a special guarantee programme for micro-enterprises. Since its start in 2002, the fund take-up has significantly increased especially during 2005 and 2006. Compared with 2004, the guarantees given in 2006 (based on estimate figures) represent an increase of more than 13 times in number of guarantees, and about 14 times in the total value of guarantees, respectively from 6.75 million Euro up to 116.47 million Euro. The analysis shows that the highest number of guarantees have been granted in the retail sector (45%) and the micro-enterprises were the main beneficiaries (about 78% of the total number of guarantees granted in 2006). In order to develop the fund's regional network, three local guarantee funds were established in 2006. However, the overall coverage is patchy and the need is to expand and improve the facilities available. The efficiency of the fund is limited (ten times lower than the industry benchmark), while the high refusal rate of guarantee applications of 30% is a sign that the guarantee risk policy of the fund is not clearly communicated to the banks, nor to the SMEs. In overall terms, the Fund's impact in mitigating the difficulties that SMEs face in obtaining bank loans is still modest.

The Export-Import Bank of Romania (EXIMBANK) main objective is to support Romanian exporters by financing, insurance and guarantee instruments, in order to improve their competitiveness and to cover commercial and political risks related to foreign trade transactions. As a result, in 2006 EXIMBANK entered the market as a key guarantee provider with three products: micro-guarantee, export guarantee and SME guarantees, with the role of supplementing collaterals. To accomplish its role and given the high demand for guarantees, EXIMBANK has established partnership relations with a number of commercial banks.

The identified gaps in the debt financing market – such as high interest rates, lack of collaterals, high fixed costs of loans and high banking fees – as well as its lack of flexibility according to the needs of the SMEs and the low exposure to risk of the banks need to be progressively removed in order to sustain the economic development of Romania.

An important role in the process could be played by the development of an efficient system of guarantees, tailored to the companies needs, with targeted guarantee products, e.g. for start-ups, early stage or innovative enterprises.

As regards venture capital, until recently, investors in this field were reluctant to invest in Romania because of the unavailability of professional skilled management teams and limited alternatives on exit. Romania's advances in the preparation for EU accession and the progress in terms of macroeconomic stability and the demand for growth capital in many sectors reflected in the increase of invested capital. In 2004, the private equity investments in Romania rose to 32.5 m Euro, not including an additional 51 m Euro in transfers among venture capital investors. However, though higher than the EU minimum as % of GDP, venture capital remains limited in Romania.

Besides the general shortage of venture capital, other problematic issues characterize the financial market in Romania, such as: systematical denial of financing to companies from manufacturing sectors, uncovered early stage gap, lack of liquidity in the development stages of the companies and even a management gap. In monetary terms, the gap between early stage venture capital in EU-12 and in Romania is estimated at approx. 70 m Euro for the period 2007-2013.

Improving access to finance and risk capital for SMEs constitutes a key element of the Lisbon Agenda and an important factor in fostering economic growth. In order to support improved access to finance for SMEs and development of micro-credit for the next programming period, an important instrument can be represented by the JEREMIE initiative, as proposed by the European Commission together with the EIB group. JEREMIE is an useful instrument both in assessing the gap in terms of financing demand and supply, as well as a financing instrument, intended to promote innovative financial engineering tools to support the access to finance of small and medium sized enterprises in the EU regions.

#### Research, Technological Development and Innovation

The level of RTDI activity in Romania remains very low, despite the existence of an academic tradition covering more than 50 scientific and technological areas and Romania's efforts to align to EU standards. Romania spent 0.40% of its GDP on R&D in 2005 (of which 0.22% public expenditure), less than half of the average in the new Member States<sup>14</sup>, and one fifth of the EU-25 average (2% of GDP). Although the public budget allocation on R&D expenditure has almost doubled in 2006 to 0.38% of GDP, in order to achieve the target of 2% of GDP, the private sector investments in R&D expenditure must also increase significantly.

The National RDI Strategy was elaborated in 2006 and identified 9 thematic areas of interest for applied-research and precompetitive-development activities (ICT; energy; environment; health; agriculture, food security and safety; biotechnologies; advanced materials, products and processes; space; socio-economics).

R&D infrastructure in Romania is generally regarded as outdated in terms of technological level. There is a declining number of researchers (3.13 researchers/ 1,000 employed persons) at about half of EU average. Crucially, there is a low level of R&D expenditure by firms and weak links between industry and the research facilities leading to low take up of results by business.

The main source of innovation is through the import of technology and equipment, rather than the result of Romanian research and development activity. Foreign companies are the promoters of research and technology transfer. However, this is often related to low value-

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<sup>14</sup> Examples of R&D expenditure in the new Member States: Slovenia – 1.6% of the GDP, Hungary – 0.9% of GDP, Poland – 0.6% of GDP.

added products or out dated technology. In Romania, there are 40 centres of excellence, but business-to-business relationships are lacking. Similarly, business relationships and partnerships with R&D and education need to be improved to foster innovation and stimulate growth. The National Programme for the Development of the Innovation and Technological Transfer Infrastructure – INFRATECH provides financial and logistic support for institutions specialising in innovation and technology transfer infrastructures, as well as for scientific and technology parks.

The framework for technological transfer as well as some information centres and business incubators have been set up but they have not yet had a sufficient impact on the national economy. Infrastructure for the support of these technological transfer and innovation remains poor and development remains a major plank of the Government policy. There are 7 scientific and technological parks in Romania that are unevenly distributed in the eight Regions. Currently, only 3 are operational (Galați, Iași and Brașov). The 4 remaining parks are not functioning due to lack of business residents, financial constraints and lack of partnership support from local authorities.

Other national programmes provide support for partnership developments and are grouped in the National Plan for R&D and Innovation. 30% of the budget for this Plan is provided by the private sector. In the period 2005-2008, the Programme „Research for Excellence” is implemented with the scope of developing the research potential in the thematic priorities of the future EU Framework Programme 7, and preparing the scientific community for a successful participation in this Programme.

Romania lags behind other European countries in terms of business innovation. In the period 2002-2004, only 19.7% of the companies carried out successful innovative activities. This percentage is much lower than in the EU-15, where 44% of the companies were considered innovative in the period 1998-2000. Only 16% of small enterprises and 25% of medium-sized companies are innovative, and the share of SMEs cooperating with national and foreign companies is below 3% for small companies and 5% for medium-sized enterprises. Most of the innovation activities (67%) in Romanian enterprises relate to products and processes and 62% of innovation expenditure result in the acquisition of new machinery and equipment (of which SMEs represent 69%).

On the other hand, a large part of the innovative companies (86%) are SMEs, out of which 55.2% are small enterprises and 30.9% are medium sized enterprises activities (data source: the Romanian Innovation Survey carried out by the National Institute of Statistics, where an innovative enterprise is defined as enterprise which introduced or implemented at least one new or significantly improved product - goods or services - or process on the market).

In 2005, 50 applications for the registration of international trademarks were submitted from Romania (as compared to, for example, the Czech Republic - 500 registrations and Hungary – 400). Businesses in Romania lack awareness of the risks they face in not registering the trademarks. Increased awareness is needed through the State Office for Inventions and Trade Marks.

At regional level, after the Bucharest-Ilfov Region (which concentrates the largest potential of innovation capacities and resources), the next region with a strong development of innovation activity is the South Region, whose innovation expenditure accounts for 18% of the overall national expenses. At the opposite end, lies the West Region, with the lowest volume of innovation expenditure (about 4.2%).

The consequence of low levels of innovation, coupled with low productivity as a result of outdated technology and management, is that Romanian exports are restricted to predominantly low value added and low cost sectors. To improve the Romanian economy, the need is to stimulate company growth in international markets particularly those in the high added value markets areas. The trend for exports has been moving from low value added to higher value added products. The actions proposed will support the continuation of this positive trend.

Romania participates in the sixth EU Framework Programme for RDI (2000-2006), is preparing for the participation to FP7 (2007-2013), and is committed to implement the European Research Area. Romania has signed bilateral and international agreements and treaties on science and technology. Apart from the national funds, the R&D sector has also financial advantages deriving from its connection to the RDI system of the EU, in particular the RDI Framework Programmes and the Euratom Programmes, as well as other European, and international initiatives like NATO, EUREKA, COST.

#### Penetration of Information and Communications Technologies (ICT)

Although it has one of the highest growth rate in the Central and Eastern Europe region, the Romanian progress in information society and its future opportunities are far from being satisfactory. In terms of national expenditure on Information Technology, Romania is characterized by a level that is barely 2/3 of the EU average (1.9% of GDP in Romania in 2005, compared to 3% in EU-25 in 2005). Though rising rapidly, PC availability and Internet penetration still lag well behind the EU average.

Romania lags behind in terms of computer penetration and electronic communications infrastructure access, not only compared to EU-25, but also to the new Member States average. Computer penetration among the population at large is much lower than the EU-25 levels (24 PCs/100 households at the end of 2005 compared with approximately 58 PCs/100, even though the average sales growth was more than 31% in 2005 compared to 2004 (European Information Technology Observatory 2006).

The same situation is for the educational sector (2.75 PC per 100 pupils in lower secondary schools compared to 10.8 in EU-25 and 8 PC per 100 pupils in high schools compared to 12.5 in EU-25). The percentage of schools connected to Internet is only 30.2%, way below the EU-25 level – 96.2%.

In Romania, the number of regular Internet users/100 inhabitants increased constantly, the penetration rate reaching in 2005 approx. 17% as compared to an EU-25 average of 43%.

Considering the entire population, broadband connections penetration rate was approximately 3.5% at the end of 2005, lower than EU-15 average (14.3%) and EU-25 (12.7%)<sup>15</sup>. Regarding the percentage of enterprises with broadband connections, if in 2004, the rate of penetration registered a very low level (7%) compared to EU-25 average (52%), the gap has decreased in the last years.

By the end of 2005, broadband Internet connections accounted for 41% of the overall Internet connections. These rates are based on the broadband definition (National Regulatory Authority for Communications), respectively a data transmission rate exceeding 128 kbps.

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<sup>15</sup> COM06-12 FINAL - Broadband access in the EU: situation at 1<sup>st</sup> January 2006, Eurostat  
Ministry of Economy and Finance

Although these figures for Romania are low and major investments are needed across the country, the under-served rural areas are more adversely affected, existing serious risks of a growing digital divide, as these areas are being cut off from access to ICT services.

The fixed telephony penetration rate (20.3%) is lower than the overall European penetration rate (41%) and much lower than the EU 25 average (approximately 51%), limiting the number of households that could eventually subscribe to broadband services provided over fixed telephone lines. The fixed telecommunications infrastructure is very poorly developed in rural areas (which represents about 45% of the Romanian population) leading to higher investment costs for ensuring the access to broadband.

The present development degree of mobile communications and the future strategies of the operators that are on the market, substantiate the high level of competitiveness on this market segment (penetration rate of mobile phones reached in 2005 the level of 61.8%). In spite of this, the coverage of the mobile broadband services is limited because the operators still prefer to address only to big cities and main cities at county level. Unfortunately, a large number of users are excluded in this way.

In spite of an increased offer dynamics, and consequently, of broadband communications services market, the focus of growth was permanently on urban areas. Under such conditions, high commercial attractiveness of urban areas compared to a low level of profitability estimated in suburban and rural areas, have led to a significant divide between urban, suburban and rural areas.

A first estimation<sup>16</sup> regarding the size of digital divide at the end of 2006, carried out on the basis of a methodology similar to the one used by the European Commission, indicates a ratio regarding the coverage of broadband services of 2.5:1 for the urban/suburban comparison and of about 6:1 for the urban/rural comparison (it is worth mentioning that the estimated broadband penetration rates in rural areas are very low for ADSL – 15% and CATV – 1.2%).

The market failure areas should be addressed mainly through public intervention, until now, there were initiated several projects targeting some under served areas. The most important projects are Knowledge Based Economy Project (initiated by MCIT in 2005 for facilitating the access of the disadvantaged communities to knowledge based economy and society) and the tele-centers carried out by National Regulatory Authority for Communications in order to ensure universal service access in the field of electronic communications.

Given the high investment need in the market failure areas, there is strong rationale for further public intervention to ensure equal opportunities for broadband access to Internet, the availability of broadband services being one critical element in assisting local communities in attracting businesses, in enabling tele-work, providing healthcare, improving education and government services and a critical link to information.

Since 2001, measures have been taken to create the legislative framework and supported development for e-Government and e-Business applications. However, there has been a lack of investment by the public authorities in e-government, e-health and other services.

Steps have been made, for instance the National Electronic System, the one-stop shop portal for electronic access to public administration, or services as electronic assignment of international transport licenses, online visas, online customs declarations, online processing of

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<sup>16</sup> Diagnosis Analysis – National Broadband Strategy, Roland Berger Strategy Consultants  
Ministry of Economy and Finance

driving licenses, online payment of local taxes and health related services. Another example is the e-Procurement system with more than 1300 registered public institutions and over 1000 private companies, at the end of 2006.

But at the level of central public administration, from the total number of 616 services, there have been identified 240 services provided through electronic means, representing a percentage of about 39%, of which 70 are only in the stage of information, 137 are unidirectional, 29 are bidirectional and only 4 allow online transactions.

According to a study of the National Association of IT Specialists from Public Administration, at the end of 2005 only 9.65% of the local public institutions had access to a broadband connection<sup>17</sup>, the lowest penetration being registered at the rural level (4.15%).

At the central public administration level, Romania has a low degree of sophistication of the public services available online – 20% availability compared to 50% in EU-25.

As for the demand side, in 2004, according to Eurostat data, 5.8% of the individuals who used the Internet in the last three months, accessed it for interaction with public authorities (downloading official forms), whereas for enterprises this percentage was 22% (EU-25 comparison figures are 20.1% and 41% respectively).

The low ICT penetration in the health system is mainly due to insufficient funding. In 2004 only 43% of hospitals and 33% of clinics had Internet access. The present situation has negative consequences on treatment efficiency, inter-institutional communication and control.

Due to Information Educational System project initiated in 2001, 610 high schools are connected to Internet, and are using the AEL – Educational Assistant for Schools and High schools. Through this project, 530 digital lessons have been made available, covering 40% of the curricula. In order to implement successfully this project, training programmes for teachers have been organized. Even in these conditions, significant disparities between urban and rural areas have been noticed.

Electronic commerce is still underdeveloped, but growing. In 2004, the share of e-commerce in the overall turnover was 1.3% in Romania compared to 2.1% in the EU-25. The banks and card processors reported an increased number of transactions in 2005: 368,352 transactions cumulating over 45.6 mil Euro, with growth rates above 150% annually. Nevertheless, according to the Romanian National Computer Network, in October 2006, there were only approximately 200 active traders that accepted online payment through credit cards. 30% of the counties didn't have even one trader interested in business over Internet, and 30% of the counties had less than three such entrepreneurs.

The situation of ICT use is reflected also in the 2005 Economist Intelligence Unit Report, where Romania received 6.25 points for business environment, 2.25 points for ICT uptake by population and business environment and 5.75 points for e-services support. With an average of only 4.19 points, Romania was on the 47<sup>th</sup> place, behind most European states.

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<sup>17</sup> Over 128 kbps data transmission rate

## Tourism

Since 2001, the Romanian tourism has recorded a continuous growth, due to the almost integral privatisation of the tourism facilities, the increase of the investments in the modernisation of the accommodation facilities and restaurants and the increase of the green-field investments. The regions have an important tourism potential from the point of view of the natural, cultural and historic landscape. Romania has a valuable and attractive cultural-historical, ethnic and folklore heritage. There are over 700 cultural heritage sites of international and national interest, which have been included in the Universal Heritage of UNESCO (e.g. fortress churches, churches with frescos). The natural parks are habitats for endemic plant and animal species or shelter monuments of nature. Romania still preserves an unspoilt natural environment, flora and fauna species which are extinct in other countries or which can only be seen in captivity.

In spite of an increased interest in Romanian tourism after 2000, the contribution of this sector to the national economic growth is still low (2.19% of GDP in 2003 compared to Bulgaria 4.6%, Hungary 4.1% or 6.3% in France). Regional differences exist for tourism potential due to their history, natural heritage and geographical features and location. Lack of national planning, promotion and co-ordination has led to the tourism facilities being developed unpredictably and varying in quality. General lack of infrastructure and low accessibility prove obstacles to the development of the domestic tourism, affecting also the incoming tourism flows.

In the recent period, the tourism increased slightly its share in the GDP and the currency cash-ins generated by tourism activities. However, both indicators are still very low, considering Romania's tourism potential (USD 700 million currency cash-ins from tourism activities in 2003). The need is to improve quality of services offered as difficulties arise from the instability of the institutional framework in charge of developing tourism strategies and policies, as well as from the poor quality of the infrastructure – mainly in terms of transportation, communications and services. There is also a need to increase marketing to promote Romania as a tourism destination, as well as the provision and access to tourism information and to counteract the negative perception of the Country. This also requires the development of a proper network for tourism promotion.

For the year 2005, approximately 18.04% of Romania's tourism accommodation capacity can be found on the shores of the Black Sea (which is in fact only used 2-3 months/ year), 29.79% in Bucharest, and the county capitals (except for Tulcea), 19.4% in the spa/wellness resorts, 0.9% in the Danube Delta, and 15% in other tourism destinations.

Tourism that is based on niche markets will offer growth opportunities particularly to SMEs (e.g. agri-tourism, mountains, forestry tourism, spas and hot springs, eco-tourism). In addition, these developments will assist rural regeneration considerably. Improvements in the range of services offered will be required and the ability to generate capacity to hold tourists in rural locations and increase length of stay will be important. This development needs to take place in conjunction with tourism in the coastal resorts and city based tourism. Improved domestic and international marketing will be necessary, the latter being often linked to or even stimulating business tourism.

## 1.4. Human Capital

Since 1989, Romania population has declined from 22.8 million to 21.6 million (-5.2%). This has been driven by a sharp fall in the birth rate, especially in urban areas, increased mortality and infant mortality rates and emigration. Although emigration has slowed since 1993, the phenomenon is still worrying as almost two-thirds of the permanent emigrants had a university, post-high school or technical education. In addition to those who emigrated permanently, about 1.7 million Romanians have been economic migrants, seeking work outside the country.

### Education and Training

Education. Romania committed herself to the strategic objectives in the field of education and training as set out by the European Commission in 2002 in Barcelona and embraced the „Bologna process”. These policy decisions have led to the speeding up of the educational reform and restructuring. Legal reforms extended mandatory education from 8 to 10 grades and restructured the university studies.

In terms of systemic restructuring, decentralization of pre-university education and initial VET is a key challenge for the years to come. The process of decentralization was initiated since the end of 2005 and is currently piloted in 50 schools. Based on the results of this pilot phase, the decentralization will be extended in pre-university education. This process addresses the issues of financing, decentralization of HR management at local level, improvement of the relevance of curriculum for local needs and competence demands (by increasing the relative weight of local curriculum) etc. It will support the development of a system providing flexible, accessible and better education to individuals.

In this respect, the issues of quality assurance and the involvement of all stakeholders in quality management become crucial. According to the Law of Quality of Education (Law No 87/2006), the implementation of the quality management systems at national and school unit levels will become operational in 2007, under the supervision of the Romanian Agency for Quality Assurance in Pre-university Education (ARACIP).

Concerning the university education, the Bologna process triggered its restructuring by three cycles - bachelor, master, PhD, in force since university year 2005/2006.

Life long learning is not approached in a coherent and comprehensive manner at system and policy making levels and limits, thus, the coherence and flexibility of individual learning routes throughout lifelong. Despite the progress made in regulating the validation of prior learning, the insufficient use of the existing legal framework regulating (except for initial VET) remains one of the limits of introducing life cycle approach in education and training. Also, at policy making level, more coherence between education and initial training policy and CVT policy is needed in this respect.

The validation of learning in all contexts, a better articulation between education and initial training and CVT, improved definition and transparency of qualifications are issues to be addressed through the development and implementing of a National Qualifications Framework (NQF). Progress in this respect was made in terms of institutional development (the National Adult Training Board was appointed National Authority for Qualifications and the National Agency for Qualifications in Higher Education and Partnership with Economic and Social Environment – ACPART was assigned as national authority for the development and updating of the National Qualifications Framework in Higher Education). Progress was also registered as

regards the development and activities of sectoral committees<sup>18</sup> (progress is still insufficient and the financing of sectoral committees limits their effectiveness), as well as the development and validation of qualifications. NQF will create a transparent system of qualifications in vocational training that will allow a coherent development of the current initial and continuing vocational training system, having regard on the perspective of long life learning and having the support of the social partners.

The current structure of education and initial training system aims at ensuring flexibility and openness of individual educational routes. During the last 5 years, progress in increasing attractiveness of educational and initial VET routes was made. The current educational model provides for pupils both the opportunity to either attend higher levels of education (after 10<sup>th</sup> grade in case of progressive professional route) or to enter in the labour market.

The restructured education system (in force since the school year 2003/2004) has been planned as having the aim to enhance the access to initial TVET. The Ministry of Education, Research and Youth undertook measures aiming at improving access to initial education and training, as well as improving the attractiveness of TVET, providing equal opportunities to TVET in disadvantaged areas (such as rural areas). Also the development of competence based curriculum, outcomes oriented certification, pilot system of quality assurance, improved strategic planning, involvement of social partners in planning and development of the content of education are the main achievements produced in initial VET which are in the process of being mainstreamed.

The early school leaving rate increased from 21.8% in 2001 to 23.4% in 2004 and then decreased to 20.8% in 2005, but remains above the 10% benchmark set up at European level for 2010. The early school leaving rate is higher in case of male population, since most of them are in the situation of leaving schools for inserting in the labour market and ensuring financial support for their families. Poverty, low educational attainment of parents and the risk of social exclusion are the most important factors leading to the increase of early school leaving rate<sup>19</sup>. Also, the surveys<sup>20</sup> available identify the low attractiveness of education among the motivations for early school leaving (only 33% of the students surveyed consider the education provided in schools as useful for their social and professional life). By categories, Roma community, rural population and low achieving students are among the groups most exposed to early school leaving<sup>21</sup>. Particularly, early school leaving and non participation in education is more frequent in case of Roma population as compared to the national average. The relatively high rate of early school leaving will impact on the labour market in the medium and long term.

In the Roma community, 12% of the 7-16 years age group are leaving school before graduating and about 18% are not enrolled for, nor attend any form of education. 80% of those not attending any form of education are Roma population, that results in 28.6% of the Roma being illiterate. The most severe situation in case of Roma is for women due to the poor living conditions and traditions. The absence of pre-school education and poor Romanian language speaking abilities of most Roma children negatively affect their performance in school. Segregation is a sensitive issue in case of Roma equal access and participation to education. There is no discrimination/

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<sup>18</sup> The Sectoral Committees are structures for social dialogue organized at the level of sectors of activity and are set up by the National Adult Training Board, through the common agreement of the representative social partners at sector level. The Sectoral Committees contribute to the development and upgrading of the qualifications by sectors of activity.

<sup>19</sup> European Commission, „Study on Access to Education and Training, Basic Skills and Early School Leavers” (Ref. DG EAC 38/04), Final Report European Commission DG EAC, September 2005

<sup>20</sup> Institute for Educational Sciences, ”Motivation for learning and school performance”, 2004

<sup>21</sup> Idem footnote 19

segregation made in terms of policy and content of education. In case of Roma population, apart from geographical segregation, mentality represents another issue that may nourish discrimination/segregation. Roma population generally lives in the outskirts, ill famed neighbourhoods and the schools located in these areas, in which Roma children are learning, provide poor learning conditions and leads to geographical segregation. The persistence of discriminative mentalities existing in schools and communities affects also the quality of education provided and the performances of Roma pupils. Thus, in the schools where pupils are mainly Roma, the rate of repeating is on average by 11.3% above the national average (3.5%).

In case of rural areas, there are serious problems of access to education due to poor access possibilities and poor learning conditions. The access and participation to education are seriously affected by the poverty in rural areas and the relatively high costs of education (including basic education) that these communities cannot afford.

According to PISA appraisals of 2003 (The International Student Appraisal Programme) worrying results have been highlighted regarding the level of literacy. In 2002, over 40% of students aged 15 had a very low level of literacy. The causes for these results are linked primarily to the quality of the teaching-learning process: obsolete teaching methodology, low degree of participation to the permanent training of the teaching staff and lack of motivation to learn on the side of the students which is due to the low relevance of the education's products on the labour market.

According to the Third International Mathematics and Science Study (TIMSS) concluded in 2003, Romania is on a middle position compared to other countries with regard to attainments in maths and science and on the last position for literacy.

In case of university education, changes in the structure produced starting with 2005/2006 academic year. At present, university education is structured on three cycles, according to Bologna process. Reforms are expected to be pursued in the near future in terms of quality assurance and management. The enrolment rate into university education increased from 27.7% in 2000/2001 to 40.2% in 2004/2005. The increasing participation in university education is explained by the development of private university education, development of university networks and increased interest in this type of education due to larger labour market absorption of highly educated people and lower unemployment risk for university graduates. For rural population, Roma community and other vulnerable groups, the access and participation to university education remains low due to relatively high costs of university education and the high rate of early school leaving affecting these groups.

Improvements are needed in terms of educational standards and quality assurance in order to support the development of flexible learning/educational routes and offers adapted to individual learning and labour market needs, effective and accessible guiding and counselling, development of initial VET, financial support for vulnerable groups (e.g. Roma, other ethnic minorities).

Quality Assurance. The issues regarding quality assurance in education are regulated in the Law of Education No 84/1995 and the introduction of reform measures of the quality assurance system in education is ongoing. There is an emphasis being placed on the accreditation and external quality evaluation measures and on the quantitative aspects of this process. There is a need to develop internal mechanisms to assure and manage the quality in education (in terms of results, knowledge gained, skills, values and attitudes). Progress in this respect has been recorded, prior to 2005, in case of initial VET. During the last two years (2005 and 2006), progress was made in defining the institutional framework for quality assurance in education and initial VET. The two

Agencies for Quality Assurance in Pre-university Education and in University Education were created. For the next period, new standards, quality assurance methods (based on internal and external standards - stipulated by the new legal framework adopted in 2005-2006) will be developed and implemented by Romanian Agency for Quality Assurance for pre-university education and Romanian Agency for Quality Assurance in university education.

Human Resources in Education. In 2005/2006, unlike the previous years, the share of qualified teaching personnel slightly diminished in case of preschool education from 94.7% in 2004/2005 down to 94.0%, with differences by residence (96.6% in urban areas, as compared to 90.7% in rural areas). It maintained unchanged in case of primary education, while in case of lower secondary and high school education, the share of qualified teaching personnel slightly increased by one percentage point in average in 2005/2006 as compared to 2004/2005 and maintained on the ascending trend recorded since 2001/2002. The relatively lower share of qualified teaching personnel in rural areas as compared to urban areas remains among the factors with negative influence for ensuring access to quality education in rural areas.

The forecasted decrease of the school population by 20% in 2013 (as compared to 2005) will have serious effects on the school network, recruitment policy and qualifications of teaching personnel; this demographic trend is expected to trigger a decrease of the personnel employed in education and initial training by about 10%.

Educational infrastructure. Educational infrastructure remains poor, despite increased spending through Government, EU and the World Bank programmes. The buildings are old and in poor condition and refurbishment and modernisation are required (in 2004 over 70% of the undergraduate units were in need of rehabilitation; in the North-East region the figure was 90.8%, while in Bucharest-Ilfov region the figure was 32.9%). Lack of equipment is a specific issue for the rural environment. From a technical and public utility point of view, the most serious situation is in the rural environment where there are still 43 schools with no electricity and 2,805 units with no running water. In only 28% of the schools furniture and equipment is assessed as good, but in 5-10% of the pre-schools, high schools and professional schools the situation is assessed as very poor. During the last two years, investments in educational infrastructure increased significantly as compared to the period 1990-2005.

Information and Communication Technologies is a core subject in all 9th grade studies. In 2001, only 30.5% of schools were connected to the Internet. Improvements have resulted in increased provision, so that now there are 10.8 PCs for 100 pupils across all schools where as for high schools the figures rise to 14.3 PCs for 100 students. Nonetheless, there is a still huge gap between the rural and urban areas. Internet access in schools still remains at a low level - Romania was ranked 53<sup>rd</sup> out of 104 states in an international study on Internet access.

Education and the Labour Market. The existing skills gap/mismatch between the qualifications provided by education (at all levels) and the demands of a knowledge-based economy have consequences on youth unemployment (19.7% in 2005 as compared with 7.2%, the value of ILO unemployment rate registered at country level). Some of the studies available indicate that recent graduates need a longer period for adapting to the job requirements, unlike in the case of older persons. The lowest degree of correlations is specific to intermediate qualification levels.

The competitiveness of the human capital is directly influenced by the educational attainment. Between 1999-2005 the share of persons having attended at least upper secondary education in the 25-64 age group rose from 67.9% in 1999 to 70.1% in 2005. There are differences by gender, higher values, above 75%, being recorded during the reference period in case of male

population and lower values in case of female population, reaching 67.7% in 2005. In the same period, the percentage of people with a university degree increased by 2.4 percentage points, to 11.5%. Compared to other countries (at the level of 1999) such as USA - 27.7%, France - 16.4% or United Kingdom - 15.4%, this figure remains low.

Life Long Learning. Increased competitiveness of the human capital could be achieved through life long learning. The possibilities for continuous learning for the population are scarce, the options being limited to continuous vocational training. Increased continuing education opportunities are needed to complement postgraduate programmes. The lack of the transferability of qualifications and recognition between the various learning options hampers flexibility and limits the options for the population.

Adult education needs to recognize the competences acquired in the labour market to improve the skills and qualifications of the working population. There is a tradition of preference for long-term complex study programmes rather than modular studies. Evening and reduced frequency courses are normally restricted to "Second Chance" programmes. Traditional educational offer remains very inflexible.

Under the Competitiveness Situation Analysis business education partnerships are highlighted and within Education the converse situation applies. The need is to create a 'two way street' where both groups of partners are working towards common goals.

The Entrepreneurial Culture is taught at all levels of the education curriculum as a crosscutting skill. The involvement of employers in developing this part of the curriculum is minimal, as is the connection between schools and private companies. Internships in companies have reduced and difficulty is encountered in finding suitable placements.

The Guidance and Counselling in Education underpins the development of flexible and labour market oriented learning routes/opportunities, higher progression rates, increased employability and the narrowing of the existing gap between the output of the education and labour market needs. Analyses and studies conducted at European level<sup>22</sup> highlight the contribution of the guiding and counselling to the achievement of three of the Lisbon benchmarks in education and training. In Romania, the availability of the guiding and counselling services remains limited in educational system, at all levels. The pupils/counsellor ratio in pre-university education is very high (over 800 pupils/ counsellor).

## Employment and Unemployment

Being one of the largest cities in Eastern Europe, Bucharest will have the ability to sustain and attract an educated workforce that will provide for the continuing development of the knowledge-based economy. This will provide a competitive advantage for the country as a whole but needs to be balanced to ensure sustainable growth is achieved across the entire country. The privatization and restructuring processes, as well as the urban-rural internal migration and external migration of the labour force are only few of the factors that have determined significant changes of the labour force market in Romania.

There has been a decline in the number of young people below working age and this will have a knock on effect on labour supply in future years. These changes have already had an effect and created skill shortages and led to the reduction of the availability of qualified and

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<sup>22</sup> European Commission, "Education and training 2010", Working Group "Lifelong Guidance", Progress Report, December 2004;

professional labour, particularly in urban areas where new jobs have been created and growth potential exists. The decline in the working population caused through emigration and increased proportion of the retired population has added to the problem. The result of this is an increase in the dependency ratio to 2.27 persons of working age for each child or elderly person. This change is placing increased pressure on health and social services.

The estimates are that the total employed population in Romania will experience a slight decrease each year (0.1%). Moreover, the working age population (15-64) will increase by approx. 0.2% each year, which will lead to improved participation rate. The rising in number of the age group 50-64 years will determine the ageing of the active population, with consequences on the employment policies.

Employees in Employment. The demographic changes and economic restructuring (see Table 9) which resulted in a reduction in the employed labour force also contributed to increased unemployment that has been accompanied by skill shortages in growth areas. However, the demographic profile remains marginally less positive than that of the EU-25, where the proportion of the population in the economically active age groups (15-64) is 70.2% compared with 62.4% in Romania. In the total population of the 15-64 age group, only 57.7% are employed people, compared with 63.8% in EU-25 and 65.2% in EU-15.

Table 9

Main employment indicators during 1999 – 2005 (annual average)

Indicator / Year	Romania							EU25	EU15
	1999	2000	2001	2002	2003	2004	2005	2005	2005
Total active population (thousands of persons)	11,566	11,585	11,447	10,079	9,915	9,957	9,851		
Activity rate 15-64 y.o. (%)	68.7	68.6	67.5	63.6	62.4	63.2	62.4	70.2	71.0
Total employed population (thousands of persons)	10,776	10,764	10,697	9,234	9,223	9,158	9,147		
Employment rate 15-64 y.o. (%)	63.5	63.2	62.6	58.0	57.8	57.9	57.7	63.8	65.2
LO Unemployment rate (%)	6.8	7.1	6.6	8.4	7.0	8.0	7.2	8.8	7.9
ILO Long term unemployment rate (%)	3.0	3.6	3.2	4.5	4.3	4.7	4.0	3.9	3.3
ILO Unemployment rate amongst young people (%)	18.8	18.6	17.5	21.7	18.5	21.0	19.7	18.2	15.6

Sources: For EU-25, EU-15: EUROSTAT, New Cronos, annual average data 2005.

For RO: The National Institute of Statistics, Household Labour Force Survey (AMIGO); data for 2002-2005 were extended on the basis of the Population and Housing Census of March 2002; data referring to 1999-2001 period are not fully comparable to data series 2002-2005 period due to the revision of the definitions related to the main population categories (economically active population, non-economically active population, employment, unemployment).

At regional level, the North-East, South-West Oltenia and Bucharest-Ilfov Regions have the highest employment rates of working age population (61.5%, 60.1% and 59.4% respectively), whilst the lowest employment rates are in the Center (54.2%) and South-East (54.7%) Regions – See Table 10. It must be emphasised that, the high employment rates in the North-East and South-West Regions are determined by the „protection” of the so-called subsistence employment in rural areas which both regions experience (the highest percentage of population employed in agriculture, with decreasing trends during 1999-2005).

Table 10

## Regional Employment Rates (15-64 age group)

- % -

Region	Employment rate						
	1999	2000	2001	2002	2003	2004	2005
North-East	65.9	66.1	65.5	60.1	59.9	62.4	61.5
South-East	60.3	60.3	59.5	55.3	55.8	54.7	54.7
South Region	64.6	64.4	63.7	58.2	58.1	58.1	58.1
South-West	68.6	68.6	69.0	61.8	62.0	59.9	60.1
West	62.8	62.1	61.2	57.6	57.1	56.9	56.6
North-West	63.5	63.2	63.8	57.8	57.2	56.1	56.0
Centre	59.7	59.7	59.7	55.9	55.2	53.9	54.2
Bucharest-Ilfov	62.0	60.2	57.0	56.9	56.5	59.7	59.4
Romania	63.5	63.2	62.6	58.0	57.8	57.9	57.7

Source: National Institute for Statistics, Household Labour force Survey (AMIGO, annual averages; data for 2002-2005 were extended on the basis of the Population and Housing Census of March 2002)  
Data referring to 1999-2001 are not comparable with data series 2002-2005 due to the revision of definitions related to main categories of population (active, inactive, employed, unemployed).

During 2002-2005, the share of civilian employment in the agricultural sector decreased by 4.3 percentage points and has been in part compensated by increases in the service sector (by 5.2%). These changes impact on the various Regions in different ways and have a significant impact on the economic growth of the Regions (See Table 11 below). The construction industry, if taken as a barometer for investment and change, shows that the West, North-West and Bucharest-Ilfov Regions are leading the economic change. This is further reflected by the increases these Regions have experienced in the service industries. However, the West Region shows a different profile and has recorded an increase in industrial employment as opposed to service industries where a small decrease has been recorded.

Table 11

Civilian Employment – differences between 1997 and 2005  
by region and economic sector

- thou. persons -

REGION	Total	Agriculture	Industry	Constructions	Services
Romania	-632.3	-711.3	-476.0	23.4	531.6
1. North-East	-178.1	-132.0	-88.0	-2.9	44.8
2. South-East	-125.9	-106.4	-36.2	-4.6	21.3
3. South	-195.2	-130.3	-100.8	-7.6	43.5
4. South-West	-146.5	-99.3	-50.2	-14.3	17.3
5. West	-46.5	-60.2	9.2	2.6	1.9
6. North-West	-28.2	-100.2	-25.4	3.7	93.5
7. Centre	-107.0	-76.2	-108.3	-2.9	80.4
8. Bucharest-Ilfov	195.3	-6.7	-76.3	49.4	228.9

Source: NIS, Labour Force Balance

The changes in employment are also reflected in the migratory flows of the population from the rural to urban areas and correlate with the creation of new jobs in the urban area. These figures demonstrate the stark employment gap that is occurring between Bucharest-Ilfov and the other Regions across the Country, which is fuelled by the growth in the service sector (particularly in the telecommunications sector).

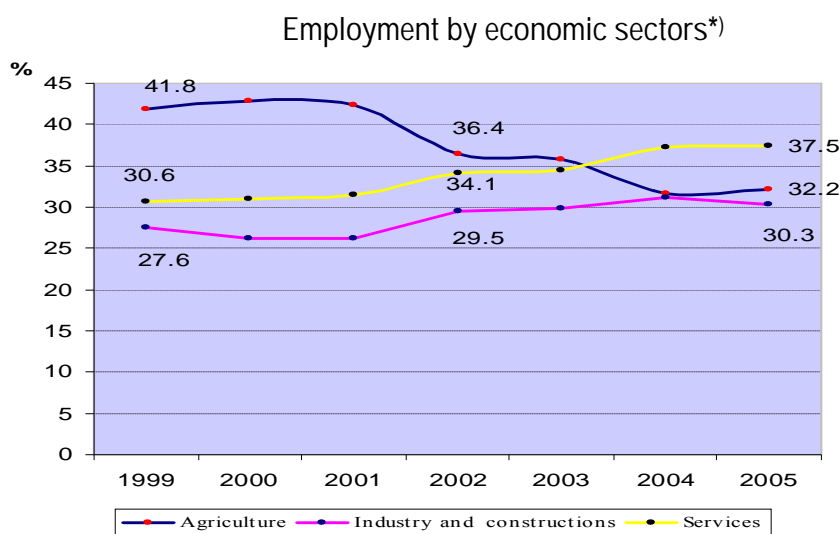
Employment by age groups. The 15-24 years old group registered a 4.9 percentage points decrease of the employment rate during 2002-2005, reaching 25.6% in 2005, lower than the EU-25 (36.8%). The 25-54 years old group registered an increase by 0.5 percentage points

during 2002-2005, reaching 73.3% in 2005, lower than the EU-25 average (77.2%). The 55-64 years old group registered an increase of 1.7 percentage points during 2002-2005, reaching the value of 39.4% in 2005, compared to EU-25 (42.5%). The 2005 employment rate of 39.4% for the 55-64 years old group situates Romania at 10.6 percentage points distance compared to the Lisbon objective for 2010 – 50% employment rate for this target group.

Employment of women. In the period 2002-2005, the number of women in employment decreased from 4.203 thousand to 4.136 thousand persons. Also for 2005, the employment rate of women aged between 15-64 years of age was 51.5%, 12.4 percentage points lower than the male employment rate (63.9% in 2005). This rate is also 8.5 percentage points lower than the Lisbon objective for 2010. As to part time employment, by comparison to the EU indicators, differences are sharp. The share of women working part time in the total number of employed women in Romania stood at only 10.5% in 2005, as compared to 32.4% in the EU-25. It is worthwhile to notice that the same low share of part time employment is registered also in case of men.

Employment by economic sectors. The industrial restructuring post-1989 resulted in a constant level of agricultural employment in Romania of around 41% until 2001, only to drop during 2002-2004 from 36.4% to 31.6%. In 2005, the share of population employed in the agriculture, including forestry and fishery, has recorded a slight increase to 32.2%. Over the 2002-2005 period, there has been a growth in services employment, from 34.1% to 37.5% in 2005. Industry and construction activities have increased from 29.5% in 2002 to 30.3% in 2005.

Diagram 5



Source:

NIS, Household Labour Force Survey (AMIGO); data for 2002 -2005 have been extended on the basis of the Population and Housing Census, March 2002

\*) Data referring to 1999-2001 are not perfectly comparable with data series 2002-2005 due to the revision of definitions related to main categories of population (active, inactive, employed, unemployed).

Another feature is the constant increase of the employment share of private sector (from 69.9% in 2002, to 76.6% in 2005), followed by a corresponding decrease for the public sector (24.8% in 2002 to 21.0% in 2005). There has been also a decrease of the share of self-employed in total employed (from 38.3% in 2002 to 35.5% in 2005).

Recent estimates show that employment in the sector of unregistered economy (black economy) is at a level of 1-1.2 million persons, the equivalent of 11% of the total employed population. This does not include subsistence agriculture. Because of its nature, it is difficult to

quantify and assessments are compounded by migration for work abroad that is regarded as the alternative to the “unregistered” labour at a national level. In spite of these, the introduction of the flat tax rate starting January 2005 has impacted significantly on the black economy, with about 20% of the unregistered work being formalised.

Employment by education level. The current distribution of the employed population by level of education reflects both the actual structure of the economy in Romania and the shortage in the population with higher education, even after 16 years from the start of the transition phase to the market economy. The persons with medium level of school education represented 61% of the employed population in 2005, compared to 59.3% in 2002. High added value sectors within the Romanian economy are facing problems in finding and recruiting appropriately qualified labour. There is a decrease in the number of employed persons with low levels of education (from 30.3% in 2002 to 26.4% in 2005). This group is mainly made up by the older workers who are gradually retiring from the labour market.

The proportion of the employed people with higher education increased constantly from 10.4% in 2002 to 12.6% in 2005. The increase in the number of graduates from medium education institutions is common across the entire economy level, which resulted into an increased rate of medium educated persons accessing the labour market.

In the Bucharest-Ilfov Region in 2005, 30.2% of the employed population had higher educational qualifications and only 9.9% had a low level of education. In the other Regions the differences are less significant, but extreme variations are identified in the North-East Region where only 9.3% of the employed population had higher education and 35.9% had a low level of education. In the Centre Region only 16.7% had a low level of education.

Company investment in HRD and training. Little hard data exists on in-company vocational training (type and extent) or on the level of investments in continuous vocational training (CVT). The data available suggests that in 1999 only 11% of companies provided training for their employees (in the same period the EU-15 showed 70%). The percentage of companies that had a policy of CVT was only 7.6%. The highest rates of participation to vocational training were recorded in the transport, financial-banking and insurance industries. The lowest rates were recorded in construction and trade activities. Access to CVT courses was higher for employees with higher education, that hold management or administrative position and the lowest participation rate was for the professional group of technicians. The funds allocated by companies for CVT represented 0.9% of the indirect personnel costs and 0.3% of the total labour force cost.

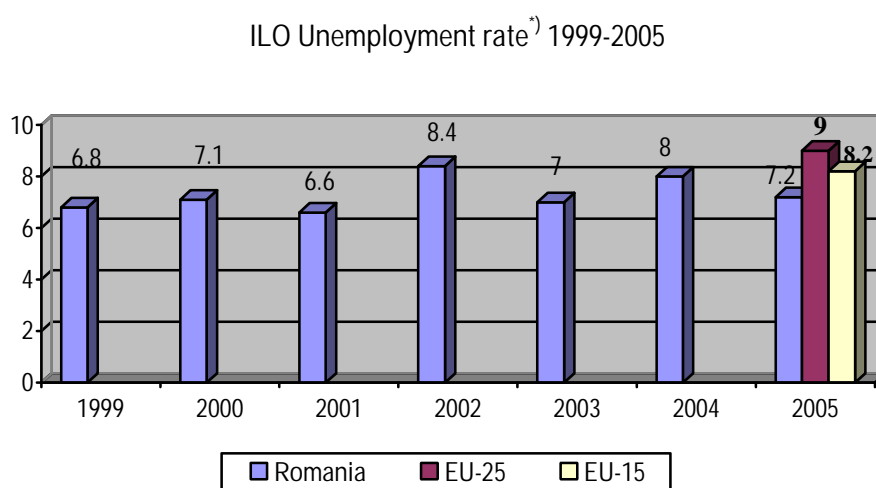
The reasons for low take-up and interest in vocational training are represented by the cost of the training, and lack of availability locally. The training offered tends to address individual not employer needs. Very few companies have a permanent liaison with the training provider. Greatest demand is recorded for short-term modular courses with qualifications certificated nationally. The surveys carried out regarding the demand of CVT show that there is a clear interest and motivation in what regards CVT but funding is seen as a constraint. The majority of Romanian companies believe the responsibility for funding CVT is not the responsibility of the company, but that it rests more with the individual.

During 1998-2005 service industry vocational training has increased and agriculture decreased. This trend reflects both domestic and foreign investments that have had an impact on the employment market.

Health and Safety at Work. The national legislation provides that the employer is the only party responsible for providing the measures regarding the health and safety of employees at the workplace. The legislation sets out the insurance system for work accidents and professional disease, a form of social protection, a system that became functional from the 1<sup>st</sup> of January 2005. There are high risks of injury at work in some industries and the number of accidents is still too high. The culture of risk prevention is still insufficiently developed in businesses.

Unemployment. During 2002-2005, ILO unemployment rate had a slightly decreasing evolution (from 8.4% to 7.2%). However, the level in 2005 was below the average in EU-25 (9.0%).

Diagram 6



Source: for EU-25, EU-15: EUROSTAT, New Cronos data referring to second quarter 2005 for RO: NIS, Household Labour Force Survey (AMIGO); data for 2002-2005 were extended to based on the Population and Housing Census of March 2002.

\*) Data referring to 1999-2001 are not perfectly comparable with data series 2002-2005 due to the revision of definitions related to main categories of population (active, inactive, employed, unemployed).

The data available for 2005 reveals the following facts compared to 2004:

- decrease of ILO unemployment rate (7.2% in 2005 as against 8.0% in 2004) and of long term unemployment (from 58.9% out of total to 56.2%);
- decrease the youth ILO unemployment rate by 1.3 percentage points (from 21.0% to 19.7%);
- increase of the employment population in construction and services;
- the constant increase of the employment share of private sector (76.6% in 2005, as against 73.0% in 2004).

Over the 1999-2005 period, there were more significant decreases in the number of ILO unemployment in urban rather than in rural areas. The ILO unemployment rate dropped from 11.2% in 2002 to 8.8% in 2005 for urban areas, and from 5.4% in 2002 to 5.2% in 2005 in the rural areas, with variations in evolution during this time span.

Wide regional variations in unemployment exist due to the residual factors of economic structuring. The more dynamic regional economies (e.g. Bucharest-Ilfov) have transformed more successfully and rely far less on subsistence measures. The less developed regions remain weak and have substantial levels of hidden unemployment. In 2005, the highest ILO unemployment rate was in South Region (9.2%) and Centre Region (8.4%) and the lowest in the North-East (5.7%) and North-West (5.9%) Regions.

ILO long-term unemployment (LTU) rate decreased from 4.5% in 2002 to 4.0% in 2005. In comparison, in 2005 the EU-25 rate was 3.9% and 3.3% in EU-15. During 2002-2005, the ILO unemployment rate was higher for men and the persons in urban areas. The youth LTU rate decreased from 14.7% in 2002 to 13.1% in 2005; its value is, however, 4 times higher than the unemployment rate for the persons of 25 years and over (3.3%).

### Emigration of labour force

After '90, the emigration became a very influencing process on the Romanian labour market. A first stage of temporary migration for work purposes was between 1990 and 1995, when the migration rates did not exceed 5‰. The second stage unfolded between 1996 and 2001, and the migration rate reached 6-7‰. After the removal of visa requirements to enter the Schengen area, in January 2002, the process increased and the temporary migration rate fluctuate between 10‰ and 28‰.

A study conducted in November 2006<sup>23</sup> reveals that the share of adult population who worked in the past 17 years abroad was 10%, at the time of survey. The option to work abroad had a significant variation on categories of population, such as: there were more youths than elderly; men had a higher share than women; for men aged 18-59 the migration was more intense from the rural areas; for women, the migration residential model was more differentiated (the temporary migration is higher for women aged 18-29 in the rural areas, than for the same category in the urban areas; on the contrary, the temporary migration is more prominent for women aged 30-59 in urban areas, as compared to those in the rural areas).

As regards the intentions to work abroad in the next year, the Open Society Foundation's study reveals that approx. 11% of the Romanians aged 18-59 would like to work abroad. Furthermore, approx. 40% of the people who worked before wish to return abroad. In the decision to migrate matters not only their own experience but also their families. The most dynamic segment is the group of people aged 18-29, whereas in the group of over 40 years old the intention is almost absent. The share of men compared to women is double.

These tendencies will maintain on the medium term, taking into consideration that the majority of those intending to work abroad in the next two years have temporary work arrangements. The work abroad is in the most cases a strategy for a determined period, in order to accumulate financial resources to be invested in the home country. However, for the next decade, it is estimated that the number of migrant workers will have a certain decrease, as the Romanian economy develops and offers, progressively but sure, more and better employment opportunities.

### Public Employment Service

The National Agency for Employment (NAE) is the institution responsible for training, job placement and counselling of people seeking employment. NAE was established in 1999 as a public institution with tripartite management, in order to implement the national policies for employment and towards complying with the most important requirements concerning the quality of the organizing path and the quality of the employment services provided for unemployed people.

Towards making the employment services more efficient and modern, having in mind the Joint Assessment Paper for Employment Policy (JAP) recommendations to modernize the Public

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<sup>23</sup> Temporary Dwelling Abroad, Romanians' Economic Migration: 1990-2006, Open Society Foundation, November 2006

Employment Service, NAE has directed its interventions towards developing the territorial agencies network and leading its services (local agencies or working points) closer to its clients. The territorial structure of NAE contains 42 county agencies for employment, 89 local agencies and 175 working offices. In order to increase the capacity for providing vocational training for unemployed, within the structure of NAE there are established 6 regional centres for adults' vocational training, 20 county centres for vocational training, 3 Romanian-German foundations and one centre for vocational training of NAE' staff. Also, at the level of NAE territorial structures, there are 173 Centres for vocational information and counselling. However, the necessary infrastructure for providing employment services on the labour market is not yet enough consolidated.

Starting with 2001, the activity of NAE and its subordinated units is performed on the basis of annual employment programmes and performance indicators. In 2002 NAE has taken the first step towards modernizing the management of the services offered, by developing and approving "The strategy for improving the quality of employment services".

The total amount of money allocated during 2003-2005 for the modernization of the Public Employment Service were insufficient and PES still needs substantial investments for an appropriate and modern organization of the clients free access spaces, vocational training of agencies' staff, individual documentation regarding employment services, job offers and vocational training for clients, preparing the documents needed in order to access the services offered and also establishing a direct and confidential contact with the employment agents.

The insufficient financial resources and the lack of its own space for carrying out programmes of vocational training, were real obstacles in developing staff' competencies which could allow a compliance of the personnel skills with the requirements of providing specialized services.

In 2004 the number of NAE staff which was trained was about 30% of the total number of personnel, while in 2005 the percentage was only 25%. This weight is not satisfactory since NAE, through staff training, wants to achieve: a continuous improvement of professional competencies as regards labour market; the development of staff skills for face to face approach of working with clients (individual or by groups) and also skills for developing partnerships with all the major actors on the labour market (local and county authorities, social partners, NGOs etc.); continuous improving of knowledge within the area of ICT; the development of competences for monitoring the implementation of active measures etc.

In order to give the possibility of finding vacancies within the entire country, PES launched in 2000 "The Electronic service for job mediation". This programme was extended to the level of local agencies, but it is not any more complying with the labour market evolutions and requirements. Currently, the programme requires modernization and admeasurements in order to become a real tool for active job searching and for keeping a permanent contact between beneficiaries and labour market.

Within the NAE system for vocational information and counselling, in 2005 a number of 111,045 jobseekers registered with the agencies for employment have benefited from vocational information and counselling services (which stands for 17.14% of the total number of unemployed in NAE's records) out of which 5,737 have been counselled through private providers contracted by the NAE services, according to the law.

The vocational training is also one of the most important active measures implemented for increasing the employment rate. In 2005 NAE organized 2,194 vocational training courses, covering 42,996 persons, out of which 39,932 unemployed registered with the employment

agencies (out of which 12,256 persons living in rural areas and 1,601 Roma). 16,096 persons were employed after graduating the training courses.

Despite the important role of the active measure for meeting the current labour market demands and for anticipating future labour market changes, their share in the GDP registered a slow decrease in the last years: from 0.16% in 2003 to 0.11% in 2005. The share of active measures expenditures in the Unemployment Insurance Fund expenditures was 19% in 2005, as against 16.5% in 2004.

The implementation of active employment policies on the basis of increasing the institutional capacity of NAE for providing quality services on the labour market had immediate effects reflected into maintaining the unemployment rates within reasonable limits. On long term, the impact of employment policies will be reflected into increasing the employment rate, and also increasing the quality of the labour force concerning the vocational training, in order to ensure the competences needed for the European labour market.

### Social Exclusion

The social protection system provides support measures targeted at personal needs and improvements in the services have resulted in quicker solutions, higher efficiency and the minimisation of the risk of social exclusion. The current legislative framework fosters social inclusion and access to fundamental rights, such as social assistance, employment, health, education etc.

At the same time, programmes were developed in order to support families, children and other vulnerable groups or ethnic minorities. The needs identified are to develop the social services so as to avoid fragmentation of services; improved supply and use of resources; training to identify the needs of people in difficulty, increases in the NGO's as main providers of such services. The weakness of the administrative capacity endangers the social and economic development and cohesion. So far, major progress has been achieved in this respect through the development of coherent policy and legislative framework, building towards a knowledge-based economy.

The social groups at risk of social marginalisation are especially: children in the state care system, young people over 18 that leave care institutions, the Roma population, disabled people and ex-prisoners. All these disadvantaged categories face many problems related to their social integration or reintegration into the labour market. The groups are also affected by discrimination in relation to access to education that inhibits their labour market opportunities. The provision of equal access to education and the increase of social inclusion for persons belonging to vulnerable groups, including Roma and ethnic minorities, have already started but it needs to be continued so that the performance of the labour market will have benefits in the future and eventually lead to the growth of social cohesion.

Young people over 18 that leave state care institutions face a lack of access to housing and difficulty in integrating into the labour market, due mainly to a lack of adequate professional skills. Other groups of vulnerable children include "street children", and the associated issues are social integration, child exploitation in the labour market, school drop-outs, children affected by trafficking and those involved in juvenile criminality.

The share of persons with disabilities of the total population has maintained around 1.8-2.1% between 1999 and 2006, with fluctuations determined by the applicable legal framework which also set up various definitions as to what disability was deemed. The number of institutionalized

persons decreased steadily from 20,270 in 2003 to 17,560 in the 3<sup>rd</sup> quarter of 2006, whereas the number of non-institutionalized persons rose from 387,850 to 461,828 in the same period. The decrease in the number of disabled people living in residential centres and the increase in the state support granted to families to provide the disabled persons home care are still limited by the underdevelopment of the community services in terms of coverage, diversity and quality. The number of day centres at country level offering therapy services and social inclusion programmes to the handicapped is extremely small. With the development of quality health care services and support for families which look after dependants, there will be made significant steps towards the de-institutionalization of these people.

The policy to integrate disabled children is still not working as effectively as it should; however, about 30% of the disabled children (6-18 years old) are now integrated in public schools. Alternative measures to provide equal access to education are also promoted.

The number of disabled people in employment is low due to discrimination, lack of opportunities, lack of and poor education and professional skills. Lack of physical access further reduces opportunities. Those disabled people living in institutions suffer from a lack of specialised staff and social services and the threat of becoming institutionalised.

Single parent families and those with more than 2 children suffer from a higher risk of poverty and exclusion from benefits and this inhibits their participation in the social and economic life.

The Roma population totalled 535,140 people at the 2002 census (2.5% of the population), representing the second largest ethnic minority group, after the Hungarian minority, which accounts for 6.6% of the total population. Comparison shows that in 1992, the Roma population represented only 1.8% of the total population. However, independent estimates carried out by Romanian and foreign sociologists, as well as by representatives of the Roma, estimate that the number of Roma is between 1 and 2.5 million persons. For instance, the European Commission estimated in November 2004 a figure of 1.8 – 2.5 million Roma<sup>24</sup>.

This group faces a wide range of problems such as: poor education facilities that leads to low educational attainments, lack of skills and experience on the labour market, insufficient participation in the formal economy, large number of children, lack of housing and bad living conditions, lack of identity cards, as well as a state of health that is worse than that of the rest of the population and lack of ownership of land for people living in the countryside. The Roma population is the victim of a genuine vicious circle and marginalisation due to the multiple lacks of conditions they suffer, which fuel the prejudices and lead to discrimination and social exclusion.

Apart from the material reasons (of economic or logistical substance), the educational level of the parents and elder Roma heavily influences participation in education of current Roma youngsters. Also, the non participation in pre-school education and deficiencies in communicating in Romanian of many Roma children affect their performances in education. Certain discriminatory practices of teaching personnel in relation with Roma population, among which Roma segregation in separate classes, produce the same effect, as regards poor participation to education and integration of Roma children. To combat this, evening and short-course programmes help address education needs of the groups facing social exclusion, as it is the case of the Roma population for which the Ministry of Education, Research and Youth is running specialised programmes.

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<sup>24</sup> European Commission, "2004 Regular Report on Romania's Progress Towards Accession", p.29  
Ministry of Economy and Finance

Only 22.9% of the Roma population are economically active and of these 71.5% are in employment. In 2003, NAE organized the jobs fair for the Roma. In the first edition, 8,243 jobs were supplied for the ethnic Roma and 633 jobs for persons at risk of social marginalisation. In the jobs fair for the Roma held in 2004, 11,304 jobs for the ethnic Roma were supplied and 268 jobs for persons at risk of social marginalisation. 9,845 Roma persons took part in the event, out of which 2,257 persons were placed into employment.

### Equal Opportunities between Men and Women

In 2005, women accounted for 51.2% of the population. The Human Development Report 2004, prepared by the United Nations Development Programme, ranks Romania 69<sup>th</sup> in the human development index out of 175 countries. For the gender disparity index, the ranking was 56<sup>th</sup> out of 175 countries. The National Agency for Equal Opportunities between Men and Women (NAEO) was set up in 2005 and is responsible for the delivery of the National Action Plan and for monitoring equal opportunities. In 2006, GD No 319/2006 approved the National Strategy for Equal Opportunities between Men and Women, which set out the implementation arrangements. These arrangements will ensure that greater emphasis is placed on equal opportunities and they will contribute to improve working conditions, social protection and increased responsibility on employers. The Labour Inspectors and the National Council for Fighting against Discrimination are responsible for the inspection and control of the legislation and the implementation.

Female Unemployment. During 2002 – 2005, female unemployment fluctuated between 7.7% and 6.4%. This compared to 9.8% in EU-25 and 8.9% in EU-15. In comparison with female unemployment in the same period, male unemployment was consistently higher by 1.2 percentage points in 2002, 1.1 percentage points in 2003, 2.1 percentage points in 2004 and 1.3 percentage points in 2005. As to the ILO unemployment rate in 2005, for the age group 15-24 years, it attained the value of 20.5% for men, respectively 18.4% for women. For the same age group, as compared to 2002, in 2005 the ILO long-term unemployment rate (6 months and over) decreased for women by 3.7 percentage points and for men by 0.2 percentage points.

Income of women. The salary of women in Romania has varied between 82% and 83% of that of men in the period 1999-2003, but rose to 87% in 2005. Research in 2005 showed that 67.6% of women employed were working in industries, such as food and textiles and had salaries under the gross average salary.

### Health and Welfare

In the last decade, the birth rate, mortality rates have deteriorated and will over time affect the demography and have an effect on the labour market. The birth rate decreased from 13.6 infants per 1,000 inhabitants in 1990, to 10.2‰ in 2005 and there was a significant increase in the death rate from 10.6 deaths per 1,000 people in 1990, to 21.1‰ in 2005. During 2003-2005, the average life expectancy in Romania was of 71.76 years, with significant male-female differences (68.19 years for men and 75.47 for women). By comparison, the EU-15 average life expectancy is of more than 75 years for men and 80 for women.

Until 1998, primary health-care was mainly performed through a countrywide network of about 6,000 dispensaries, which belonged to the former Ministry of Health and Family and were administered through the local hospitals. Community-based clinics provided health care for children under the age of five, housewives, pensioners and the unemployed living within a specific area. There were also enterprise-based clinics for employees (sometimes for a number of adjacent enterprises) and school clinics providing medical care for anyone in full-time

education. Patients were not allowed to choose their dispensary, but were assigned to one according to their residence or of their job location.

In 1998 the modernization of the health system started with the privatization of the primary healthcare through the de-institutionalization of the family doctors and, consequently the patients could choose their family doctor. The Romanian network of family doctors' comprises 10,500 doctors, with an average of 2,000 patients each and the services provided are basic consultations and prescriptions. The state budget and the International International Financing Institutions, mainly the World Bank, have financed the primary care services infrastructure.

Starting with 2006, the law for the reform in the health sector (Law no 95/2006) provides for the development of a modern system for treatment and prevention, accessible to all categories of people, as well as for an efficient system for emergency situations. The infrastructure for these services is well below European standards, and the lack of a proper management and of investments has resulted in on-going process of deterioration.

Against this background, the health system has been unable to cope in due to lack of capacity and poor facilities. The need is to improve the country's poor health infrastructure and promote the efficient provision of services that will support economic development in the regions. The actions will look at ways to improve the levels of services and supply the appropriate technology to support modernisation of the medical services, such as improvements in primary health care, non-invasive surgery, tele-medicine and the cost-saving potential linked to e-health services.

Hospital Infrastructure. In Romania, according to the Statistical Yearbook in 2005 there were 422 public hospitals, with 142,377 hospital beds and 11 private hospitals with 6,504 beds; on average, 6.6 beds per 1000 inhabitants, above the EU average of 6.1‰, but buildings need rehabilitation as the quality of services provided is below the EU standards. The hospital infrastructure is in a precarious condition, the majority of hospitals in need of rehabilitation being older than 50-100 years. Many hospitals function in buildings that do not have functioning authorizations (South-West Region - 94%, North-West Region - 86% and West - 70%), which affects the quality of the services provided and the safety of the hospitalised patients. Also, Romania lacks state of the art medical equipment, the existing high performance medical equipment accounting only for approximately 50% of that needed.

As compared to the situation of the new EU member states, Romania's health infrastructure is deficient, mainly with respect to primary health care units per 100,000 inhabitants, this indicator having a value of about half that of NMS-10. At the same time, the share of private investments in the health system is very low (0.05% of the hospital beds belonged to the private environment, with a share of 3.56% in NMS and a comparative number of hospital beds).

There are inequities as to the access to medical services between the urban and the rural areas. In the rural areas, the number of doctors in proportion to the population is 6 times less than in urban areas. There are also significant regional differences in the provision of services. Life expectancy in the urban areas is higher than the rural areas. However, rural populations are ageing and this adds increased pressures to the already limited medical services. Relatively large categories of individuals are not assigned on family doctors' list, even though they benefit of a health insurance, according to the law.

The lack of investments in the health system is also reflected in the overall state of the emergency medical system. It operates through the emergency hospitals and emergency departments in county hospitals, as well as through ambulance services.

Improved computerisation and e-health services will contribute significantly to health system reform objectives, and contribute to improved performance, integration, accessibility, effectiveness and equity of medical provision.

Emergency Medical Services. These services operate from the emergency hospital departments located at the county hospitals, in the ambulance services and in the Mobile Emergency, Reanimation and Extrication Services (SMURD). There are currently 38 emergency hospitals that have poor infrastructure and are insufficiently equipped to meet effectively the demands of the 8 Regions.

In 2004, the emergency services had 3,303 ambulances and covered 111 million km<sup>2</sup> during the year. The ambulance service is mainly focused in the urban areas, having a 15 minutes emergency-call response, while the emergency-call response for the rural areas varies on average between 30 and 45 minutes. The SMURD handles emergency calls and activates integrated response team that includes county fire fighters' and hospitals. The service is co-financed by the local authorities (the hospitals provide specialized medical staff, and the fire fighters' department paramedical and technical staff).

Social Services Infrastructure. The analyses have outlined the poor situation of social services infrastructure and the need to invest in the rehabilitation, modernization and equipping of the buildings where social services are delivered. There has been an attempt to re-structure/modernize the infrastructure in the field. Thus, the „classical” high-capacity institutions (between 100 and 3-400 places) were restructured, attempting to reduce their capacity and to modulate them, in order to offer more space for each person, in an environment as close as possible to that of a family. Not all of the placement or residential centres were thus transformed; the lack of money and experience made the process a slow one, in several phases.

Poor infrastructure has also led to deterioration in the performance of social services assistance at regional level. Thus, the need for investment follows the setting up of minimum standards for social services, which need to be fulfilled by the social centres. During the past ten years however, at community level there has been an active involvement of the private providers of social services. Out of the total number of social services providers, only 8% are local authorities. Also, a very large share of NGOs provide social services, alone or in public-private partnership with the local authorities, who own the vast majority of buildings. There are also important disparities at regional level between the social services providers, as well as high urban/rural differences.

## 1.5. Administrative Capacity

The public opinion barometers have shown that citizens' opinions on the public administration are not positive. Only 30% of the citizens trust the government, and 43% have trust in the town halls. The public services performance in different sectors is perceived to be weak and the satisfaction level of the citizens is quite low. The lowest ranked activities were in the field of jobs, health and living standards. These perceptions of Government, whether true or not, can have a negative effect on Economic Development and lead to an undervaluing of the services and policies provided at the locally or centrally.

Although concrete actions were taken in the last years under the administration reform plan, focusing mainly on creating the necessary legislative and institutional framework for improving and strengthening public administration, analyses revealed the need to continue the efforts to obtain significant changes in the public administration.

Institutional capacity in central and local administration. The management of public institutions has mainly been a political one, ignoring the importance of strategic planning and management. The lack of a modern public policy management in Romania has been a concern of the donor community, including EC, World Bank and bilateral donors. The professional and technical knowledge and competences in these areas are limited and need to be significantly strengthened to achieve the policy management reform (weak human resource policies, lack of staff, weak strategic capabilities, structural and procedural problems). There has been serious neglect over the past years of the importance of public policy cycle management in most of the institutions at central level.

To succeed now in the ambitious undertaking of reforming public administration, a number of root problems will have to be addressed:

- Lack of culture for strategic management, as well as lack of specialised personnel;
- Inadequate skills to undertake legislation and policy planning under a sectoral strategic framework, due to lack of practice (particularly, inadequate skills for policy formulation and planning in the case of high civil servants with management positions in the system);
- Lack of skills, methodology and practice in monitoring and evaluating the performance of the sectoral policies and programmes;
- Insufficient development of networks and co-coordinating structures to support an integrated approach to the efficient implementation of policies. In particular, the inter-ministerial cooperation is still weak and the capacity of the 11 inter-ministerial councils established through GD No 750/2005 is insufficient.

While there has been good progress in developing the legal and institutional framework that supports the process of decentralisation, much remains to be done in terms of developing decentralization strategies and mechanisms of actually implementing the new decentralised responsibilities.

At the level of the local administration, the underlying cause of poor performance and unsatisfactory level of services is the inadequate institutional capacity in the following areas:

- Planning and strategic management;
- Capacity to identify and design local development projects and to get funding for these projects;
- Human resource management, particularly performance management of personnel.

In addition to the cross-cutting reforms needed, priority has to be given to the administrative sectors which can trigger a significant impact on the social and economic development through reduced red-tape, better regulation, improved delivery of customer services (especially on a decentralised basis) and, generally, enhance conditions for sustainable development.

Administrative capacity to manage the EU funds is one of the building blocks for achieving higher levels of economic and social development in Romania. Building on the experience with pre-accession funds, increased efforts are needed to set up the new system for managing efficiently and effectively the Structural Instruments. Currently, there is a certain level of unsystematic and uneven knowledge among the staff of the future institutions managing and implementing Structural Instruments. Also, a large number of civil servants have been newly employed within this system, so they require training and coaching. In Romania there is still an insufficient level of access to the general information on Structural Instruments and there are few sources of information regarding the mechanisms for Structural Instruments implementation.

The "Single Action Plan aiming at improving the management systems for the operation of the EU funds in Romania (pre-accession funds and structural instruments)" was approved by the Government in 2005 and its implementation is in progress. The plan will provide a very useful basis for targeting actions to enhance the capacity for structural instruments implementation.

## 1.6. Territorial Dimension

The spatial implications of the actions concerning the economic and social development of Romania within the context of EU membership involve developing a balanced network of urban centres as growth poles at national and regional level, increasing the overall accessibility of the territory, developing the infrastructure for the delivery of services of general interest and public goods, recovering the developmental balance between urban and rural areas of different regions, connecting the national, continental and international territorial networks and spaces. This approach is aimed at reaching territorial cohesion according to the European Spatial Development Perspective and the 3<sup>rd</sup> Cohesion Report.

When compared with EU Member States, Romania entered the transition period of the 1990s with a relatively low level of regional disparities. Nevertheless, disparities rapidly increased as industrial restructuring took effect. Romania's economy is under-developed when compared internationally with other industrialised Nations. The inter-regional disparities broadly follow a similar pattern to other EU Member States i.e. the most developed region includes the capital city, which attracts large investments, and the most underdeveloped regions are the border ones, particularly where the border regions are adjacent to the former socialist countries (in case of Romania, except for the border with Hungary). The serious weaknesses are caused by under investment and translate into disparities between Regions.

### Spatial planning

An important dimension of the planning and implementation of the national and regional development policy is the territorial dimension. For Romania, an efficient spatial and land use planning is an important factor for ensuring sustainable development and integration into the European economic development structures. This will involve the development of growth poles and support networks, actions to stimulate economic and social development and cooperation to address the gaps between the urban and rural areas.

Until recently, Romania's land and urban planning policy has been somehow separated from the economic planning but the prospect of EU accession has fostered an integrated approach of the development process. In October 2005, the Romanian Government initiated and approved the guidelines of the Strategic Concept of Spatial Development and Integration into the European Spatial Structures 2007-2025 (SCSD).

The guiding lines of the SCSD focus on the orientation of national efforts towards creating a Romania capable of defining and taking responsibility for its future development and the role it can play in the EU and globally. Having in mind the European Spatial Development Perspective, the Lisbon Agenda and the Gothenburg Strategy, the SCSD facilitates the valorisation of Romania's potential at regional, inter-regional, national, cross-border and trans-national levels, based on polycentric development, balanced accessibility to physical and knowledge infrastructures, new urban-rural relationships and the proper management of natural and cultural patrimony.

This concept will integrate the actions envisaged by the National Spatial Plan, the Regional Spatial Plans, the Area Spatial Plans (micro-regions) – which are currently in an initial stage of elaboration and the County Spatial Plans. Integrating the territorial dimension into the planning processes will enable a systemic approach to environmental issues, internal accessibility and the connection with the European and international systems.

Spatial planning in Romania is currently regulated by Law No 350/2001 on spatial and urban planning, which stipulates the following:

- the main goal of spatial planning is to harmonize, across the entire Romanian territory, all economic, social, ecological and cultural policies, developed at national and local level, in order to ensure the balanced development of the country's various areas, with a view to increase cohesion and the effectiveness of their economic and social relations;
- the objectives of spatial planning are: to reach a balanced economic and social development of all regions and areas, in keeping with their particularities; to improve people's living standard; to properly manage natural resources and environmental protection; rational land use;
- the national spatial plan has a guiding character and is the synthesis of all sectoral medium and long terms strategic programs, for the entire Romanian territory;
- the national spatial plan is made up of specialised sections.

Currently, Romania's National Spatial Plan (NSP) has the following sections:

- Section I - Means of Transport and Communication, approved under Law No 336/2006;
- Section II - Water, approved under Law No 171/1997;
- Section III - Protected areas, approved under Law No 5/2000;
- Section IV - Settlement network, approved under Law No 351/2001;
- Section V - Natural risk areas, approved under Law No 575/2001.

By the end of 2007, the sections on rural space, education and tourism will be finalised. Also, new sections deriving from the SCSD will be developed.

The NSP coherently synthesises and harmonises regional, county, sub-regional (intercommunal) and local (urban/rural) spatial plans both during the planning and implementation phases, to achieve the highest impact of the development investments. So far, Regional Spatial Plans (RSP) have been drawn up for the North-East and North-West regions. At local level, the county spatial plans (CSP) and general urban plans (GUP) for cities, towns and communes are being updated.

The NSP represents an instrument that helps ensure the harmonization of public objectives and investments that support them on short, medium and long term. For the areas facing special problems, for example – specific areas, cross/border issues, inter-communal, peri-urban, tourism developments – it provides a basis for decision making. Spatial development is also defined within the framework of EU objectives and political options and helps in the design of the delivery strategy of the Structural and Cohesion Funds and the European Agricultural Fund for Rural Development (as envisaged through the National Strategic Plan for Rural Development), by mapping the critical development issues and prioritizing potential interventions derived from the sectoral policies and programmes.

## Regional Disparities

The Regional Development Policy is elaborated based on the Regional Development Law (Law No 315/2004). The law brings into force a process of decentralisation and links to a series of other relevant laws that support the policy. The Regional Development Policy also takes into consideration the Community Strategic Guidelines for Cohesion for 2007–2013 and the Lisbon Agenda.

The key regional disparities issues identified within the socio-economic analysis of the National Development Plan are:

- Increasing development disparities between Bucharest-Ilfov Region and the other Regions;
- Unbalanced development between the eastern and the western parts of the country, respectively between North-East, South-East, South, South West Regions on one hand and West, North-West, and Centre Regions on the other;
- Concentration of chronic under-development in the East, on the border with Moldova and in the South, along the River Danube;
- Existence of important intra-regional disparities that reflect a mosaic pattern of the economic development and within some regions the coexistence of underdeveloped areas with relatively developed areas;
- Decline of the small and medium-sized towns, especially of the mono industrial towns, generated by the industrial restructuring
- Socio-economic decline of many large urban centres and the diminishing of their role they have on the development of adjacent areas;
- Insufficient local experience in the management of the regional/local development programmes.

The Bucharest-Ilfov Region, which includes the capital city, enjoys a more favourable economic climate, due to its attractiveness for investors, which resulted in strong economic growth. Apart from Bucharest, economic growth has followed a broad West – East direction, owing to the proximity to Western European markets, which acted as a growth spurring factor. The Romanian regions nearest to these markets have therefore higher levels of development. Although the statistical data shows some variations over time, because of their geographical position and other local factors, the regions in the East, on the border with Moldova and those in the South along the Danube are the most underdeveloped. This underdevelopment manifests itself mainly in high unemployment, especially for the rural communities, extensive rural activities and the reduced capacity to attract foreign direct investments (FDI). Table 12 below is a summary of key regional development indicators.

Table 12

Key regional development indicators in Romania (national average = 100)

-%-

Region	Per capita GDP		Unemployment rate (NAE)		FDI per capita		SMEs per capita <sup>25</sup>		Rural population	
	1998	2004	1998	2005	1998	2005	1998	2005	1998	2005
North-East	79.8	69.2	133.6	115.2	15.3	7.7	71.3	64.5	123.9	125.5
South-East	100.1	90.7	112.5	108.5	42.7	63.8	101.4	91.4	94.7	98.7
South	85.8	83.4	97.1	123.7	65.5	41.2	77.0	67.7	129.0	129.3
South-West	90.0	83.3	104.8	125.4	11.9	31.9	85.9	70.2	120.8	116.4
West	100.9	114.7	101.9	86.4	99.1	76.3	91.2	105.7	83.8	80.7
North-West	95.5	97.2	84.6	67.8	41.9	45.4	106.5	109.0	104.9	104
Centre	105.9	104.2	98.1	123.7	87.7	62.9	101.1	105.7	87.1	88.9
Bucharest-Ilfov	162.2	191.5	47.1	40.7	598.3	593.5	194.1	228.2	24.8	21.1

Source: Calculations based on Statistical Yearbook of Romania 1999, 2006

The North-East Region suffers from traditional heavy dependence on agriculture. Similarly, the South Region is to a large extent dependant on agriculture. In this Region, the Danube has

<sup>25</sup> It comprises the local units active in industry, construction, trade and other services, with less than 250 employees in 1,000 inhabitants.

acted as a barrier to cross-border trade. The West, North-West and Centre Regions attracted more investments due to their proximity to the Western markets and historically lower dependence on the primary sector. These factors made a significant contribution to the development of these regions.

The major causes that led to and continue to increase regional disparities are: the location and the volume of FDI in the regions, as well as the increasingly less competitive business base when compared with internal and external markets, due to the use of outdated and inefficient equipment, under investment in technologies (especially in the Eastern regions), poor business support services and limited access to finance for SMEs. Foreign direct investments into Romania have taken place in the regions that are functioning more efficiently and have better geographical locations. Quality and adaptability of the management has also been a factor that has influenced decisions on investment. After 2000, the foreign capital focused more in the regions Bucharest-Ilfov, West, North-West, and Centre, which has had a positive impact on those regions' labour markets, creating permanent jobs for qualified labour force and developing business services.

In 2005, Bucharest-Ilfov Region had attracted 60.1% of the total FDI in Romania (21,885 m Euro) because of the fact that the capital city is the main attraction for foreign investment. This is confirmed by the large number of foreign-capital companies located in the Region. The port of Constanța also attracts investments and most of the foreign investment in South-East Region is located in Constanța.

The economic base of the regions is severely hampered by several factors. The transport and environment infrastructure is the main reason for inter and intra regional disparities. The transport infrastructure is of poor quality and lacks good connections to the county and national networks (roads and rail systems). Water and sewerage infrastructure, particularly in the rural areas, has poor coverage and there are wide variations between the regions.

The social services provided for rural communities are particularly poor and building and equipment is out of date and in need of repair. This leads to unacceptable standards of delivery for the social services.

Achievement of growth will demand the availability of a highly qualified labour force as an important factor in attracting investments. As the economy grows, improved facilities will be needed to meet demands for an increasingly highly qualified labour force. Better facilities will be needed to educate and train local people.

Also in the rural areas, the education and social infrastructure is very poor and creates an environment unattractive to investment. Examples of this are the 43 school units without electricity and the 2,805 school units which have no main water and sewerage facilities. Only 28% of school equipment in rural schools is in a satisfactory state. The level of teaching material equipment is low and the percentages vary between 5-10% for preschool, primary, gymnasium and vocational levels, and between 15-20% for high-schools. Over 70% of schools require rehabilitation and in the North-East Region this figure rises to 90.8%, whilst in Bucharest-Ilfov the figure is 33%.

## Urban Development

In 2005, the urban population accounted for 54.9% of the total population, placing Romania among the less urbanized countries in Europe. The Romanian urban network comprised 319

towns and cities with a population of approx. 11.9 million inhabitants. It is characterised by many small and medium towns (90% of the total). These towns have poor facilities and inadequate infrastructure. The cities and large towns are evenly spread across the country.

The greatest concentration of urban population is in Bucharest-Ilfov Region (90.6%) and in the West region (63.7%). More than half of the urban population (55%) lives in 25 cities with over 100,000 inhabitants. Industrial restructuring has led to the economic decline of urban centres and a migration to rural areas that was accompanied by degradation in the quality of life. After 1990, the movement from urban to rural areas was 6.5%. After 1997, the flow was 26.8% from urban to rural together with a reverse trend (rural-urban flow) of 22.6%. As a consequence, but also because of the decrease of birth rate and international temporary migration for working, the urban population continued to decrease from 12.4 million inhabitants (1995) to 11.9 million inhabitants (2005), an unparalleled process in the EU.

The result of these changes in demographics has meant that most towns with over 100,000 inhabitants, which are normally the driving force for the Regional economies, have experienced significant decline in their populations and at the same time, their influence in terms of development potential in the area has decreased. Moreover, services and infrastructure have declined. This trend needs to be reversed to ensure continued economic growth and balanced regional development and the links between urban and rural areas need to be strengthened. A few small and medium sized mono-industrial towns still exist where the economic growth process is relatively blocked. Weak transport networks exacerbate the problem. Economic diversification in these areas has not happened and migration has continued to the rural areas with people returning to subsistence farming. Alternatively, many people have moved to the capital, Bucharest or emigrated to other countries.

Urban employment. In urban areas, during 1999-2005, the share of the employed population (15-64 years) decreased in industry and constructions (from 44.1% in 1999 to 40.7% in 2005) and in agriculture by 1.9 percentage points (from 5.8% to 3.9%). As regards the share of the working age population employed in the services sector, this registered an increase of 5.3 percentage points (from 50.1% in 1999 to 55.4% in 2005). In 2005, the employment rates for the working age population in urban areas showed higher rates for Centre (55.8%) and Bucharest-Ilfov (60.1%), the lowest rate being registered in South-West (46.2%). In 2005, the ILO unemployment rate in urban areas reached the highest value in the South Region (12.6%) and the lowest in Bucharest-Ilfov (6.7%).

Urban infrastructure. The quality of life in urban areas is influenced both in a quantitative and qualitative way by poor infrastructure, the existence of brownfield sites and poor quality services. From the total of 314 towns and cities that the Romanian urban network recorded in 2005, only 217 (69%) were connected to the natural gas network and 129 (48%) to the district heating systems. From the environmental point of view, the situation is not much better as regards the water supply and the sewerage system.

In 2005, over 40% of the 25,696 km of urban roads have not been modernised. This underdevelopment hinders access to goods, services and labour markets and inhibits economic development. High levels of congestion characterise many cities and have a significant impact on the quality of life, a negative impact on the environment and on the population's health as well as an adverse impact on the economic growth. Well-structured modern urban road networks are essential for effective urban development.

The rate of modernisation of urban roads varies between the Regions but the poorest region is Bucharest-Ilfov, where Bucharest predominates, the result being that only 47.3% of the roads

have been modernised. This is particularly evidenced in the residential outskirts of the capital where the roads are in a particularly poor state. Large cities remain generally unattractive and run down, but they have a cultural heritage that could, with investment, offer significant tourism potential.

Urban transport. An effective urban public transport network plays an important role in the functioning of an urban economy and ensures links between residential, industrial, recreational and cultural areas. Lack of investment during 1990-2004 and generally a poor quality of service has led to a fall in usage.

Bucharest is the only city with a metro (62.2 km of double lines); buses and trolley buses are increasing in the capital but there is a decline in trams. In other cities, there has been a decrease in the number of trams and trolley buses in use. These changes are linked to the declining urban population. Generally, public transport vehicles are obsolete and contribute to urban pollution. Another change in the urban transport services has been the appearance of low occupancy private/public minibuses.

## Rural Development

According to the Law No 350/2001 on spatial planning and urbanism and Law No 351/2001 for approving the National Spatial Plan – Section IV – Localities network, rural area refers to those localities where either the majority of population is occupied in agriculture, forestry or fisheries, or in terms of endowment with public utilities, do not fulfil the legal obligations to be declared as urban localities, even if the majority of population is occupied in other sectors than those mentioned before. Thus, from an administrative point of view, the Romanian territory is organized, at NUTS5 level, in 319 towns making up the urban area and 2,851 communes, making up the rural area (data for 31 December 2005). In their turn, communes are mostly made up of more than one village (12,946 villages in total) without any administrative responsibilities.

In July 2006, the population in Romania was 21.6 million, of which 44.8% were living in rural areas. The rural population is characterised by an ageing population (between 1999 and 2006, those aged 65 and over increased by 7.5% to 18.7% of the rural population), a declining birth rate (evidenced by a decrease in the 0-14 age group by 10.6 percentage points between 1999 and 2006), and over dependence on agriculture, particularly subsistence farming. The infrastructure and socio-economic problems are exacerbated by excessive fragmentation of the land (in over 15 million plots) and by numerous farms that are not economically viable.

Education. In rural and mountainous areas, there are serious problems of access to education consisting of poor learning conditions and educational infrastructure, insufficient development and poor quality of transport infrastructure. The relatively lower share of qualified teaching personnel in rural areas as compared to urban areas adds to the problems related to ensuring access to quality education in rural areas. During 2002-2005, the number of persons of 15 years and over with low level of education decreased in rural areas from 61.3% in 2002 to 59.1% in 2005. The number of persons with medium level of education increased from 36.9% to 39.1%, whereas the number of persons with higher education remained steady (1.8%).

Labour force. Different sectors of agriculture and auxiliary services, as well as food industry have recorded various increases and developments but still there is a need to improve the occupational structure in these areas. During 1999-2005, the share of active population working in agriculture in rural area has decreased by 7.5 percentage points (from 67.7% in

1999 to 60.2% in 2005), at the same time with the increasing of the working population involved in the industry and constructions (from 15.9% to 20.8%) and in the services sector (from 16.4% to 19.0%).

The weight of agriculture in the overall GDP has decreased during the last period, from 13.5% in 1998 to 8.5% in 2005. The labour productivity in this sector had also a decreasing trend, down to a level of 27.5% in 2004, which translates into a gap in labour productivity between the agricultural sector and the national economy of 1:3.64.

In 2005, 14.4% of the SMEs in Romania were operating in rural areas. The SMEs in the rural areas operating in the non-agricultural sectors represented 13.4% of the total non-agricultural SMEs and were mainly operating in handicraft production, rural tourism, agro tourism, agricultural raw materials processing, transport etc. These activities have a positive impact on the rural communities and contribute to the growth of the areas. However, these rural non-agricultural activities remain low and most of the businesses are micro enterprises. An analysis of SMEs in the rural areas in 2002 showed a relatively low capacity of SMEs to provide additional employment for the local village populations, due to their inability to grow and the skills available.

As alternatives to occupation in agriculture, besides raw materials processing, opportunities exist in tourism, agro-tourism and handicraft, all having high development potential that can be further developed. The number of the accommodation places in the rural area was about 28,000 in 2003. The territorial distribution of the tourism and agro-tourism guesthouses indicates a further need to develop in all the areas. There is a greater concentration of the guesthouses to be found in the Centre, North-East and North-West Regions. However, the unsolved issues of the rural area, coming from the impossibility of satisfaction of the basic needs, including the poor development of basic infrastructure, as well as basic services impact on the overall growth of the areas, their contribution to development and the improvement of living standard for the population.

The ILO unemployment rate in the rural areas was 1.7 times lower in 2005 than in urban areas, due to 'hidden' unemployment and reliance on subsistence agriculture. In the same year, the ILO unemployed in the rural areas made up for 32.9% of the total ILO unemployed in Romania.

Rural infrastructure. The number of dwellings in the rural area decreased from 3,854 thousand in 2002 to 3,745 thousand in 2005. Throughout the same period, improvements have been recorded as regards the drinking water distribution networks in the rural area and the length of such networks increased from 17,062.2 km in 2002 to 22,666.7 km in 2005 (the 32.5% increase is greater than the national average of 18.6%, and than the 8.5% increase in the urban area, respectively). In 2005, 47.3% of the total length thereof was located in the rural area and 52.7% in the urban area. The difference between the rural and the urban area is also very large in terms of sewerage infrastructure, with 92.3% of the pipes length being located in the towns and only 7.7% in the villages, in 2005. A major contribution to these improvements is due to the SAPARD Programme.

At the end of 2005, the county and communal roads covered 63,970 km (6,774 km represented modernized county and communal roads). The communal roads covered 28,460 km, in 2005. The quality of the road infrastructure is also very poor with only 10.8% of the county and village roads modernized in 2005, in spite of the relatively uniform distribution of the roads across the country (mainly as regards the county roads).

In Romania, the rural population represents about 45%, but the urban/rural digital divide is estimated at the level of a multiple between 10-15 (according to the results of the Analysis-diagnosis of broadband communications sector development in Romania, November 2006). A first estimation, regarding the size of digital divide indicates a ratio regarding the coverage of broadband services about 6:1 for the urban/rural comparison (it is worth mentioning that the estimated broadband penetration rates in rural areas are very low for ADSL – 15% and CATV – 1.2%).

Health services in the rural areas are affected by reduced staffing levels with less than 15% of the medical staff serving 40% of the country's population. Regarding to the number of medical units in this area, the general trend is also descending. Thus, in 2003 there were only 1,626 medical units as against 4,428 in 1998.

These grim statistics show a significant gap between the urban and rural areas and a general state of non-satisfying the basic needs of the citizens, with negative effects on the living standards for the population living in these areas.

Administrative capacity. The local administration faces significant problems as regards the the responsiveness capacity, which seriously affect public service delivery. These aspects are even more present in rural areas due to insufficient financial resources allocated to the development of institutions and specific skills of the personnel. Moreover, demand on administrations and institutions in rural areas, especially in the context of service decentralisation, could increase the gap with the urban centres. Therefore, public administration in rural areas should be given particular attention.

## European Territorial Cooperation

Romania's economic and social development and the integration of its border areas with the regions on the other side of the borders are weak in comparison with other European border areas. The Romanian border regions face similar challenges with border regions of its neighboring countries. Thus, they had to get involved in cross-border cooperation programmes for overcoming the common difficulties and promoting a territorial development which respects environmental issues and enables a long term sustainable growth of the neighboring regions. With the aim to contribute to the territorial cohesion in the South-Eastern part of Europe, Romania cooperated with similar local, regional and national authorities and research institutions from the area. The Romanian authorities and institutions were involved as partners by some lead-partners in the area for cooperating in specific transnational projects.

In the process of improving their administrative capacity and learning from the European best-practices by exchanging experiences, some Romanian regions worked together with other European ones aiming at improving regional development and territorial cohesion. Some municipalities and spatial planning institutes were involved in the European interregional cooperation.

### Cross Border Cooperation

#### Internal borders of the European Union

Romania participated in its first cross-border cooperation programmes since it was declared as an eligible country under the European cross-border cooperation programmes with the coming into force of the EC Regulation No. 2760/98 on the Phare CBC Fund. The eligible areas for the CBC programmes were only the border counties situated along the borders with other two

candidate countries: Hungary and Bulgaria. The eligible eleven NUTS III areas were 4 counties on Romanian - Hungarian border, and 7 counties on the Romanian - Bulgarian border.

#### The Romanian – Hungarian Cooperation

The first Romanian cross-border programme started in 1996, when the European Commission extended the programme – for the first time in its history – to a border region between two candidate countries. The experimental Romania-Hungary programme in 1996 proved to be a success one and the European Commission continued making funds available for this cooperation after 1998, when the Phare CBC Fund was established.

The programme was implemented alongside the border between the two countries, with a length of 448 km, out of which 415.8 km are land borders and 32.2 km is made up of rivers. The eligible areas for this programme are 8 border counties NUTS III level, out of which 4 in Romania: Timis, Arad, Bihor, Satu Mare and 4 in Hungary: Csongrád, Békés, Hajdú-Bihar, Szabolcs-Szatmár-Bereg.

The overall level of economic development of the co-operation area is very low comparing to the EU-25 average. In relative terms however, while the Hungarian cooperation area is lagging behind as compared to the rest of Hungary, the Romanian cooperation area belongs to some of the most developed regions of Romania. The unemployment is higher in the Hungarian border area than the national average while on the Romanian side the unemployment is the lowest in the country.

On both sides of the border, the major strengths are the human settlement network supported by eight big urban centres and extensive network of various higher education institutions, characterised by high quality traditional education and academic activities. Some of the major universities of Hungary and Romania are located here. Availability for cooperation across the border in economic and business activities and educational sector characterises the actors in the programme area. Good quality of the natural environment and good access to the area via five international airports reflect the attractiveness of the area for the external actors, expressed by increasing FDI in the border area.

As weaknesses of the area could be mentioned: the poor accessibility of main road from smaller settlements, insufficient development of business and R&D infrastructure facilities and unsuitable industrial waste management.

The traditional economic cooperation and the Phare CBC programme investments in the area represent a good basis for an ongoing cross border cooperation under the European Territorial Cooperation Objective.

#### The Romanian – Bulgarian Cooperation

The cross border cooperation on this border started in 1999, once Romania and Bulgaria became eligible for Phare CBC assistance. The 2003-2006 Phare Cross Border Cooperation Programme aimed to contribute towards harmonizing economic and social conditions on both sides of the border, to smoothen disparities and to improve contacts and relations between individuals, institutions and enterprises.

The programme is implemented alongside the border between the two countries, with a length of 631.3 km, out of which 492.2 is water (470 km being represented by the Danube River and the 22.2 km of the border is on the Black Sea) and the rest of 139.1 km is made up of land. The eligible areas for this programme consists of seven Romanian counties (NUTS III level) and nine

Bulgarian districts along the border: on the Romanian side, the counties of Mehedinti, Dolj, Olt, Teleorman, Giurgiu, Calarasi and Constanta, and, on the Bulgarian side, the districts (NUTS III) of Vidin, Vratsa, Montana, Veliko Tarnovo, Pleven, Ruse, Dobrich and Silistra.

The river Danube separates the two countries for three-quarters of the length of the border, and presents a substantial natural barrier, with more similarities to a sea than a land frontier. There is currently only one bridge along the entire length. All other crossings, except at the eastern coastal region, are by obsolete ferries. The eligible area is therefore characterised by problems of isolation and marginality from the economic and decision-making centres, split by an important water barrier, limiting economic, social and cultural exchanges and the joint management of the territory. Combined with linguistic and alphabet differences, these characteristics are unique to a border between EU member states.

The cross border area is not homogenous and lacks an identity as a region. The analysis of the current socio-economic situation indicated delays in economic development, growth and job creation, plus only selected potential for effective cross border cooperation. The biggest potential for cooperation can be found in the field of managing the shared natural environment. With the Danube at its heart, the territory possesses rich, varied but highly vulnerable landscapes, ecosystems and morphology. However, the main challenge is to create opportunities for bringing together the communities to develop a framework in which cross border co-operation can take place efficiently.

#### External borders of the European Union

The 2004-2006 Neighbourhood Programmes have been launched along the external borders of the future enlarged European Union based on the European Neighbourhood and Partnership Instrument (ENPI). The aim was to support the cooperation programmes whose implementation will start in 2007, based on the Commission's Communication from July 2003 entitled "Opening the Road toward the New Instrument on Neighbourhood". The European Neighbourhood Policy will strengthen the current types of regional and sub-regional cooperation and will provide the framework for their future development.

#### The Romania – Serbia & Montenegro Cooperation

The border between the two countries is 546.4 km long and it is partially a land border (256.8 km), while the remainder is the course of the river Danube (289.6 km). The bilateral cross border relationships are positive due to a relatively high level of economic development of the regions located in the vicinity of the border.

The aim of the Neighbourhood Programme for Romania-Serbia and Montenegro was to create joint frameworks for promoting neighbourhood co-operation and multi-annual programmes elaborated in each of the following areas: business support co-operation, environmental protection, local public services co-operation, small-scale infrastructure improvements, local tourism development.

#### The Romanian - Moldavian Cooperation

The border between Romania and Moldova is 681.3 km long and follows the river Prut, being included in between two contact points with Ukraine.

The relationship between the two countries is influenced by the complex political and economic factors that are rooted in the historical and cultural traditions and common language. The regions located in the vicinity of the border are both regions with a significantly low economic

development, and a relatively high rate of unemployment. Environmental protection requires special consideration and more measures need to be taken both for the protection of the eco-systems and the landscape, as well as for the prevention of the natural risks (floods, landslides).

#### The Romanian - Ukrainian Cooperation

The border with Ukraine is 649.4 km long, out of which 273.8 km is on land, 343.9 km is on rivers (Tisa in the Northern part, and Prut and the Danube in the Southern part), and 31.7 km is on sea (the Black Sea) in the Southern part of the border.

Important landmarks due to the geographic position mark the cross-border relationships between the two countries. Countries in Tisa valley and the "Carpathian" region have a direct relationship with the Danube Delta natural reservation, and links with coastal areas of the Black Sea.

During the 2004-2006 a cooperation programme was aimed for the improvement of cross border integration between boundary regions, establishing also a good basis for sustainable economic development of the cross border regions.

#### The Black Sea Basin Cooperation

Situated at the crossroads between Europe and Asia, as well as Russian Federation and the Middle East, and linked to Southern Europe with access to the Mediterranean and to the Central Europe through the Danube Canal system, the Black Sea is more than a region of local strategic significance, representing an axis of increasing geo-political importance in the enlarging European Union. At the same time as the EU is extending its borders to the East, the Black Sea region is developing as a dynamic area of increasing strategic significance and recently, cooperation initiatives have multiplied between new EU members and new EU neighbours.

#### Transnational Cooperation

During 2000-2006, Romania was eligible under the INTERREG IIIB CADSES programme - "Central, Adriatic, Danubian and South-Eastern European Space". CADSES was one of the largest and most complex transnational cooperation areas including regions of 18 states, Member States and Candidate Countries.

A number of 64 partners were involved from Romania, along with partners from other partner states, in spatial development, transport and IT, natural and cultural heritage and environment projects. The Romanian partners in those joint projects were national, regional and local authorities, research institutes, universities, NGOs, Chambers of Commerce etc. and their efforts were put together in projects that resulted in studies, strategies, networks in various fields, pilot projects, small investments.

#### Interregional Cooperation

In the INTERREG IIIC, a programme that helped Europe's Regions to establish partnerships through working together on common projects, Romania also participated along with 20 partners, by sharing knowledge and experience in managing development projects, alongside 2,700 local and regional actors from 29 states. Also, some research institutes in spatial planning field carried out projects as partners in ESPON 2006 programme whereas a few municipalities shared participation as partners in the URBACT programme.

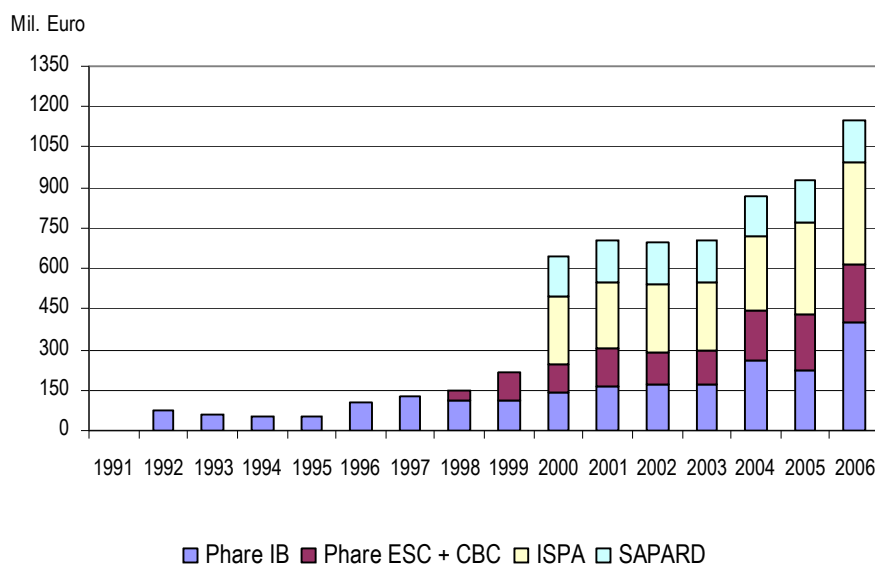
## 1.7. Pre-Accession Experience – Lessons Learned

Within the pre-accession period, Romania has been the recipient of important amounts of funds, either grants or loans complemented by national co-financing (where required), oriented towards different purposes, ranging from large investments in infrastructure and support for business environment to strengthening the administrative capacity of the Romanian public administration to transpose and enforce the EU acquis. The main support came from the EU, through the pre-accession programmes (PHARE, ISPA, SAPARD), bilateral assistance from the EU Member States, Community programmes<sup>26</sup>, loans from the EBRD and EIB etc. Other financing sources were provided by the World Bank (i.e. SAMTID), UNDP and UNEP (i.e. Global Environmental Facility), other IFIs.

During 1991- 2006 Romania has received from the EU about 6.5 billion Euro under the 3 pre-accession instruments: Phare (including ESC and CBC components), ISPA and SAPARD. The yearly allocation from EU across all 3 instruments starting with 2000, when the accession negotiation process started, was equivalent of more than 25% of all the investments under the national budget, in 2006 reaching the level of 1.1 billion Euro. The pre-accession funds are going to finance projects till 2010.

Diagram 7

Evolution of EU pre-accession funds for Romania



The main areas for which Phare funds have been allocated between 1991 and 1999 were: emergency aid for Romania; public health; agricultural restructuring; Tempus (education); infrastructure (energy, transport, telecommunications); privatization and restructuring; environment; SMEs sector development; social sector; private sector development; customs; general technical assistance fund; statistics; public administration reform; vocational training;

<sup>26</sup> Socrates II (2000-2006), Leonardo da Vinci II (2000-2006), Youth (2000-2006), Life (2000-2004), Culture 2000 (2000-2004), Enterprise and Entrepreneurship (2001-2005), Ida II (1998-2004), Community Action in the Field of Public Health (2003-2008), E-content (2001-2005), Gender Equality (2001-2005), Combating Discrimination (2001-2006), Combating Social Exclusion (2001-2005), FP 6 for RTD and Euratom (2002-2006), Incentive Measures in the field of Employment (2001-2005), Civil Protection Mechanism (2002-2007), Customs (2003-2007), Fiscalis (2003-2007), Community Action in support of consumer policy (2004-2007), LIFE, European Environment Agency.

civil society development; tourism development; regional development; technical assistance for telecommunications and postal sectors; conventional energy.

Starting with 2000, the EU assistance was concentrated on the following fields of intervention: minorities, public administration reform, justice, public finance, agriculture and rural development, environment, border management, economic and social cohesion (ESC) – road infrastructure, business development, social infrastructure, education, etc., transport/energy, cross border cooperation and neighbourhood programmes (under Phare); large investment projects for transport and environment (under ISPA) and investment in agriculture and rural development (under SAPARD).

Part of this support provided starting with 2000 was used to prepare gradually the institutions, procedures and projects for the post-accession support.

Under the new programming period, the interventions financed by pre-accession funds are going to be continued through the Operational Programmes financed by SCF as well as through the National Rural Development Programme (NRDP) financed by the EAFRD, as follows:

- SMEs and private sector development through the SOP Increase of Economic Competitiveness, the Regional Operational Programme (ROP) and NRDP;
- Transport infrastructure through the SOP Transport, ROP and NRDP;
- Environment infrastructure through the SOP Environment and NRDP;
- Energy infrastructure and telecommunications through the SOP Increase of Economic Competitiveness;
- Tourism development through ROP, SOP Increase of Economic Competitiveness and NRDP;
- Regional development, public health, social and education infrastructure through ROP;
- Vocational training, civil society development, social measures and education through the SOP Human Resources Development and NRDP;
- Public administration reform, through the OP Administrative Capacity Development;
- Investment in agriculture and rural development under NRDP.

The management and implementation of programmes mentioned above contributed to acquiring positive experiences for the future management of the Structural and Cohesion Funds. Implementation capacities were strengthened at national, regional and local level and the monitoring skills were developed at all levels due to the fact that the actors involved had to follow carefully the implementation of projects / programmes.

The main lessons worth mentioning refer to the following issues:

- Administrative capacity: Administrative capacity has been recognised as a fundamental prerequisite for efficient and correct management of the Funds, and key measures have been taken in terms of setting up adequate structures and provision of premises, staff recruitment and remuneration, training, establishment of clear procedures etc. The priority attention given to these issues is reflected in the "Single Action Plan aiming at improving the management systems for the operation of the EU funds in Romania (pre-accession funds and structural instruments)", approved by the Government in 2005.
- Planning and programming: The exercise of strategic multi-annual planning was carried out mainly for the PHARE programme, by drafting the National Development Plans, as precursors of the National Development Plan 2007-2013, as well as for the SAPARD programme, through the National Programme for Agriculture and Rural Development. The multi-annual programming 2004-2006 ESC Phare Programme facilitated an efficient planning

and correlation of the activities regarding the preparation, launching, contracting and project implementation, as well as an efficient planning of resources, being a useful exercise for the management of the SCF.

- Tasks delegation: The experience of EDIS preparation for Phare and ISPA was essential for establishing a proper financial control mechanism and a sound management of SCF, with emphasis on setting up an adequate mechanism of supervision of delegated tasks from the Implementing Agency towards Implementing Authorities. The institutions involved in programme management were provided with a basis for evaluating the gaps, by indicating the areas where improvements are needed, including the estimation of the necessary resources to perform adequately their future tasks.
- Technical Assistance: The technical assistance has been used widely for project preparation and the TA beneficiaries have learnt to better identify the needs that can be addressed by the help of technical experts.
- Staff turnover: In order to avoid great fluctuations of the personnel involved in the management of EU Funds, which can have repercussions on the management and implementation of the projects, mainly because of the delays in project management, but also because of the associated costs (e.g. training of new personnel), corrective steps have been identified, such as financial incentives to the personnel involved with the management of EU funds, action which led to a considerable reduction in staff turnover. The insufficient qualifications were also solved by setting-up and implementing annual training programmes.
- Beneficiaries' preparation: The beneficiaries learned to identify needs and to design projects for accessing non-reimbursable financing sources.
- Project implementation: The difficulties encountered during project implementation in the pre-accession period (such as tendering/contracting procedures, land expropriation or cooperation of the local public authorities) have been assessed in order to prevent possible obstacles for SCF management (i.e. through the eligibility and selection criteria, promoting specific legal measures etc.).
- Management and control: In order to improve the implementation process and facilitate communication, procedure manuals and guides were developed, which are now regularly updated. In order to avoid the conflict of interest, segregation of tasks and functions within the agencies involved in the management of EU Funds was also put in place. Many concepts like the audit trail were integrated in the procedures, with the aim of improving the financial control and audit process.
- Partnership: Working in partnership brings value added to the programming and implementation process. The partnership groups set up at regional and national level, including decision-making bodies such as the Monitoring Committees for ISPA and SAPARD programmes, are more and more involved in programmes design and implementation.

Despite these good lessons acquired during the pre-accession period, further efforts are needed in order to improve administrative efficiency and ensure a good absorption of the SCF during the period 2007-2013:

- Continuous efforts are required in order to strengthen the administrative capacity with regard to SCF management and implementation at central, regional and local levels;
- Strengthen the coordinating role at the national and regional level, including the correlation of the SCF operations with the national programmes;
- The development of a substantial and high quality project pipeline in due time needs to be given high priority;
- Careful preparation of major projects, which require key decisions, extensive studies, cost benefit analyses and complex procedures;

- The political consensus among the public authorities involved in the implementation of large projects has to be obtained;
- Ongoing support should be given to the potential beneficiaries in preparing and implementing the projects;
- The new public procurement legislation needs to be applied correctly and efficiently, which requires intensive training of beneficiaries;
- Sound and efficient financial management and control system needs to be fully in place across the entire range of institutions involved in the SCF implementation.

As the management capacities for pre-accession assistance will be used to a certain extent to wind-up ongoing pre-accession projects and the new implementation structures for SCF have to get acquainted to new procedures and have to respond to high funding volumes, decentralisation requirements, new sectors of intervention and new national legislation (in particular in the field of public procurement), intensive general and specific training in the fields mentioned above have been ensured for the newly hired staff, as well as the proper endowments for duly implementing the post-accession support.

A particular challenge is represented by partly transferring the ISPA implementation under the legal requirements of the old Cohesion Fund/ Structural Funds regulations and by maintaining the existing implementation structure for the remaining pre-accession instruments, at the same time with the setting up of the new implementation structures for the programming period 2007-2013. In this respect, the institutions involved have ensured the transfer of expertise in implementing the EC funds to the new structures, while observing the segregation of functions when it comes of pre-accession versus post-accession funds. The staff involved in implementing the pre-accession funds after 2007 will be gradually transferred to post-accession implementing structures, as the workload regarding the implementation of pre-accession funds will decrease. Whereas the implementation of post-accession funds will require special and increased efforts, it has to be stressed that it is equally important for the Romanian authorities to successfully wind-up the pre-accession projects.

Romania's capacity to implement the Community funds has increased significantly in the recent years in order to allow absorption of increased levels of funding. Building on the good practices already acquired and applied and addressing pro-actively the difficulties encountered in the pre-accession period will enable Romania to achieve a high level of SCF absorption in the programming period 2007-2013.

## 2. SWOT Analysis

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The SWOT has been used as a tool to define and assess the key strategic issues that emerge from the NSRF Socio-Economic Analysis and to define the Priorities. The exercise indicates how the Structural Instruments could be best utilized to achieve the strategic objectives of NSRF.

The issues that emerge from the socio-economic analysis have been identified starting from Romania's development needs and with a view to the specific actions needed in order to address the real priorities for a growing economy and which could have the highest impact in terms of fostering economic growth. Promoting a balanced development across the country represents also a priority and was carefully considered.

The categorization of the issues into the thematic priority categories identified in the NSRF aims to assure a clear and optimal link between the analysis and the strategy of the NSRF. Identification of the strengths and the weaknesses in a certain area, with a view to capitalizing on the opportunities for the Structural Instruments to optimize investments in the field has been an instrument to prioritize the actions in order to achieve the highest impact.

In each category, the issues having the highest importance and impact were selected and ranked, based on the perceived importance of these factors. In its comprehensive form, the SWOT analysis looks at the overall potential of Romania and identification of the most efficient ways to capitalize on it.

The strengths Romania can built on, such as the size of the market and the increasing stability both in macroeconomic terms and of the national currency, will influence the degree in which Romania will benefit from the existing opportunities such as the accession to the EU and the structural change of the economy, together with a stronger integration of all areas in the economic circuit. In this context, the strategy will aim to address the existing weaknesses, in terms of an unbalanced economic structure, unfinished structural reforms, insufficiently developed administrative capacity and significant regional disparities in order to narrow the development gap with the rest of the EU. The fact that such issues affect the overall implementation of the NSRF strategy increases the importance of addressing them. The potential threats for development – such as a difficult economic environment, a low absorption of EU funds or the external migration of the labour force – need also to be considered.

The analysis carried out recognizes the needs in terms of basic infrastructure as top priority of today's Romania, considering its crucial influence on the competitiveness of the economy as well as on the mobility and health of the workforce and the general welfare of the people. The envisaged strategy was designed as to best answer to the needs for development in the field of transport, environment and energy, given the major weaknesses in these fields, as areas where there was no sufficient investment and Romania is at disadvantage compared to other countries, both at national and regional/local level. The opportunities deriving from the development of the infrastructure - such as an increased accessibility and mobility of resources and workforce as well as the challenge of transforming Romania into an attractive place to work and live in - given the impact of this type of investments in areas such as competitiveness and human resources, were determining in defining the line of action. In the process, a clear focus was placed on the already existing advantages which constitute strengths, either natural strengths – such as the geographical position or natural resources of Romania - or created strengths. Attention was also given to threats, as anticipated conditions which, if not countered could minimize the impact of the strategy in these fields.

In terms of competitiveness, the strategic objective of promoting Romania as a high added value economy was defined considering the current stage of development of the country, the development gaps compared to the EU, as well as the EU policies and guidelines in the field. The existing strengths of Romania, such as the size of the market, as well as its strong and expanding sectors and experience in development areas were analyzed in close connection with the recognized weaknesses in terms of productivity, low entrepreneurship, poor support infrastructure and services for business, under-investment in R&D and important regional disparities. Among the key opportunities the country could capitalize on, the strategy considered the potential advantages arising from a focus of investments in higher value added sectors and from increasing productivity, coupled with SME growth and entrepreneurship development, as well as better quality business support services, increased ICT and R&D expansion. Such factors were decisive in defining the right lines of interventions to correct the weaknesses and to realize Romania's role in a global economy. The threats in the field are considerable and they need careful consideration both in the design and implementation of the strategy.

Well qualified and competitive human resources will be the key to achieving the set objectives of the NSRF strategy. The strengths in the field, such as the degree of development of the schools and universities network and the good initial education of the large part of the labour force will be the basis on which the strategy can develop. The actions in this field will build on the existing advantages and will look to address the prioritized weaknesses such as the mismatch between education and labor supply, a low adaptability of workers and poor life long learning, inadequate guidance and counseling, poor state of social and education infrastructure, high employment in agriculture, regional and urban-rural disparities and social exclusion. The opportunities of using fully and effectively a highly competitive and well educated human resource, within a framework of stronger partnerships and inclusive (labour) market will be capitalized on with the help of the envisaged actions of the strategy. However, the threats such as the ageing of the population and the emigration of skilled labour force were identified as issues to be carefully considered during the implementation of the strategy.

STRENGTHS	WEAKNESSES
National	National
<ul style="list-style-type: none"> <li>• Increased macro economic stability</li> <li>• High annual growth rates of GDP</li> <li>• Seventh largest EU Member State</li> <li>• Functioning market economy</li> <li>• Stable national currency and tight monetary policy</li> <li>• National legislation harmonised with EU Acquis</li> </ul>	<ul style="list-style-type: none"> <li>• Economic structure out of balance with a modern market economy</li> <li>• Unfinished structural reforms</li> <li>• Unstable legal framework for economic development</li> <li>• Administrative capacity insufficiently developed</li> <li>• Still high inflation rate compared to the EU average</li> <li>• Unfavourable demographic trend</li> <li>• Unbalanced regional development and significant urban/rural disparities</li> </ul>
Infrastructure	Infrastructure
<ul style="list-style-type: none"> <li>• Favourable geographical location as a gateway to Europe</li> <li>• Balanced transport network</li> <li>• Relatively good coverage of gas and energy network</li> <li>• Rich natural resources</li> <li>• Energy resources</li> <li>• High energy potential related to renewable energy resources</li> </ul>	<ul style="list-style-type: none"> <li>• Weak road and railway links with EU networks</li> <li>• Insufficient and degraded transport infrastructure</li> <li>• Poor (inter)regional and local transport and lack of inter-modality connections</li> <li>• Low level of road traffic safety</li> <li>• Inefficient use of energy and high losses along the entire energy chain</li> <li>• Inadequate delivery of basic utilities (water, sewerage and waste disposal)</li> <li>• Existence of high number of historically contaminated sites</li> <li>• Pollution in hot spot areas, mainly as result of emissions</li> </ul>

	<p>from large combustion plants</p> <ul style="list-style-type: none"> <li>• Poor environmental and risk prevention management</li> <li>• Low environmental awareness</li> <li>• Large urban/ rural disparities in terms of basic infrastructure endowments</li> </ul>
Competitiveness	Competitiveness
<ul style="list-style-type: none"> <li>• Large and expanding consumer market</li> <li>• Selected successful manufacturing sectors</li> <li>• Short term competitive wage advantage in comparison with EU</li> <li>• Significant tourism potential (cultural heritage and natural resources)</li> <li>• Large number of R&amp;D institutions</li> <li>• Skilled human resources in the R&amp;D sector</li> <li>• ICT sector developing rapidly</li> <li>• Bucharest, as attractive location for investment, workers and R&amp;D activities</li> </ul>	<ul style="list-style-type: none"> <li>• Concentration in low added value sectors</li> <li>• Low productivity</li> <li>• Weak and under capitalised SME base; difficult access to finance</li> <li>• Limited entrepreneurial culture</li> <li>• Inadequate business support structures</li> <li>• Poor access to and low quality of business services</li> <li>• Regional differences in terms of competitiveness and business infrastructure</li> <li>• Undemanding consumer market</li> <li>• Old technology / high costs of non-labour inputs</li> <li>• Low level of R&amp;D and innovation in enterprises</li> <li>• Weak connections of R&amp;D to market needs</li> <li>• Under investment in R&amp;D</li> <li>• Weak tourism infrastructure and poor marketing</li> <li>• Competitiveness gap between urban and rural areas</li> <li>• Still low penetration of ICT; under-developed infrastructure (e.g. broadband) and services; significant urban/ rural digital divide</li> </ul>
Human Resources	Human Resources
<ul style="list-style-type: none"> <li>• Large, low cost labour force with good initial education</li> <li>• Developed network of schools and universities</li> <li>• Increasing number of students entering higher education</li> <li>• Legal and institutional framework in place to promote employment and social inclusion</li> </ul>	<ul style="list-style-type: none"> <li>• Mismatch between education and labour supply and demand given the requirements of a modern market economy</li> <li>• High levels of early school leaving and drop out</li> <li>• Obsolete skills, low adaptability of workers and poor LLL</li> <li>• Inadequate guidance and counselling</li> <li>• Low levels of CVT</li> <li>• Urban-rural differences in terms of education, skills and mobility of labour force</li> <li>• High employment in agriculture, especially in subsistence activities</li> <li>• Employment in the unregistered (black) economy</li> <li>• Significant youth and adult long term unemployment</li> <li>• Under-developed infrastructure and under-developed staff skills in the PES</li> <li>• Problems of social exclusion and discrimination</li> <li>• Poor infrastructure and quality of equipment in education and training, especially in the rural areas</li> <li>• Low quality of health and social services, especially in small towns and rural areas</li> </ul>
OPPORTUNITIES	THREATS
National	National
<ul style="list-style-type: none"> <li>• EU accession</li> <li>• Structural changes in the whole economy fuelled by new sources of investment including SCF</li> <li>• Urgency/acceptance of need for change</li> <li>• Positive evolution in the public administration at central and</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult business and financial environment</li> <li>• Unregistered (black) economy</li> <li>• Low absorption of EU funds</li> <li>• Further increase in regional development disparities</li> <li>• External migration of the labour force</li> </ul>

<p>local level</p> <ul style="list-style-type: none"> <li>• Stronger integration of all regions and particularly rural areas in the economic circuit</li> </ul>	
<p>Infrastructure</p>	<p>Infrastructure</p>
<ul style="list-style-type: none"> <li>• Increased accessibility and mobility of resources and workforce</li> <li>• Attractive locations to live and work as well as to invest</li> <li>• Connection to EU networks</li> <li>• Improved national transport network</li> <li>• Increased energy efficiency and use of renewable energy sources</li> <li>• Higher rate of waste recycling</li> <li>• Better environmental and risk prevention management</li> </ul>	<ul style="list-style-type: none"> <li>• Imbalanced, inadequately developed transport network in relation to the market needs</li> <li>• Increased transport costs because of the under development in the transport infrastructure</li> <li>• Potential degradation of infrastructure</li> <li>• Infrastructure investment potentially affecting the environment</li> <li>• Reduced efficiency and safety of the energy supply network</li> <li>• Risk of increased energy dependence on external sources</li> <li>• Climate change</li> </ul>
<p>Competitiveness</p>	<p>Competitiveness</p>
<ul style="list-style-type: none"> <li>• Investments (including FDI) in higher value added sectors</li> <li>• Increased domestic consumption</li> <li>• SME growth and entrepreneurship development</li> <li>• Development of clusters and competitive supply chains</li> <li>• Rising productivity and quality of products and services</li> <li>• Privatisation of markets and modernisation of business models</li> <li>• Developing business support infrastructure</li> <li>• Development of business-to-business and financial services</li> <li>• Increased offer and use of electronic services</li> <li>• Increased export potential</li> <li>• ICT development</li> <li>• Meeting the 2% objective for gross R&amp;D expenditure for 2015</li> <li>• Increased partnerships between the public and private sectors for research</li> <li>• Niche tourism destinations</li> </ul>	<ul style="list-style-type: none"> <li>• Increased exposure to global markets</li> <li>• Periods of stagnation or economic decline in European and global markets</li> <li>• Migration of current sectors to lower costs locations</li> <li>• Reinforcement of position and image as a low value-added economy</li> <li>• Increased competition within a Single Market</li> <li>• Administrative barriers to business</li> <li>• Weak financial management at company level</li> </ul>
<p>Human Resources</p>	<p>Human Resources</p>
<ul style="list-style-type: none"> <li>• Effective use of all human resources and inclusive labour market</li> <li>• Modern quality education system relevant to the world of work and capable of responding to development challenges</li> <li>• Life-cycle approach to education and LLL</li> <li>• Increased employability, adaptability and mobility of the workforce</li> <li>• Reintegration on the labour market of people from the black market</li> <li>• Redirecting labour force in the rural areas to non-agricultural activities</li> <li>• Education/research - business partnerships</li> </ul>	<ul style="list-style-type: none"> <li>• Migration of better educated workers</li> <li>• Emigration of young and well-qualified people</li> <li>• Ageing of population</li> <li>• Decrease of interest in education for teachers, as well as for pupils / students</li> </ul>

## 3. Strategy

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### 3.1. Strategic Vision

A competitive, dynamic and prosperous Romania

#### GLOBAL OBJECTIVE

The entire territory of Romania is under-developed by EU standards. In 2005, Romania's GDP per capita was 34.8% of the EU-25 average. To address the development gap demands that all those involved in socio and economic development to identify a key target. The National Development Plan (2007 – 2013), set the target to improve Romanian GDP per capita to 41% of the EU average by 2015. The Romanian Government endorsed this Strategic vision and set the challenge that is being carried forward into the National Strategic Reference Framework with the global objective for the Structural Instruments as follows:

**NSRF Objective:** To reduce the economic and social development disparities between Romania and the EU Member States, by generating a 15-20% additional growth of the GDP by 2015

The statistics underline the difficult tasks that lie ahead for the Sectoral and Regional Operational programmes. The vision statement is seen as an instrument for expressing simply the economic and social convergence process and underpinning the wider Global Objective target. The change will be rapid and lead to a reduction in the social and economic disparities between Romania and the EU member states.

The target of an additional 15-20% increase in Romania's GDP by 2015 reflects the impact generated by the Structural and Cohesion Funds and was established as result of a macroeconomic modelling exercise, based on the HEROM model (HERMIN-type model). The model has also projected significant additional increases for other key macroeconomic parameters, such as employment in tradable (manufacturing) and non-tradable (services) sectors or gross capital formation (investments). The 15-20% target, as well as the other macroeconomic results, were obtained based on the indicative financial allocations by NSRF Thematic Priority (see Chapter 5 "Financial Plan"), under the assumption of a 100% absorption rate.

The target of 15-20% additional growth of GDP by 2015 reflects the difference between two scenarios: the basic scenario ("with funds") with Structural and Cohesion Funds expenditure at the level established in the NSRF and a "without funds" scenario where it is assumed that there will be no SCF intervention.

#### DEFINING THE STRATEGIC VISION

Romania is facing its most important development opportunity in generations as it has become a member of the European Union and has entered an increasingly global economy. These changes will accelerate consumer demands, stimulate innovation, drive-up quality standards and be underpinned by rapid technological change. However, Romania is not isolated in these new markets and new competitors are emerging at the same time.

The NSRF, elaborated based on the NDP 2007-2013, provides a coherent framework to the policy makers, programme developers and delivery agents. The national development priorities ensure the continuity with the strategic guidelines of the NDP 2004–2006, in the context of the programming process for 2007 to 2013. This strategic planning draws together the elements of the sectoral policies and the regional development policy, including the view of Romania's National Strategy for a Sustainable Development ("Horizon 2025"), and the strategic guidelines at European level and the specific requirements for accessing the post-accession EU funds.

The Structural Instruments are the most important resource that will help Romania face her challenges and succeed in the modernisation process. The task is to orient all sectors of society towards sustainable economic growth. This includes Public Administration, NGOs, Employers, Employees and those yet to join the employment market and those beyond or outside the labour market. All have a role to play in social and economic development.

### Economic growth

Economic growth will demand the development of a modern and competitive economy by:

- increased productivity, skills and management capacity and improved production;
- dynamic entrepreneurial business base - increased business base and higher added value products and services;
- innovative application of research and development to market opportunities;
- competitive human resources, capable of meeting the needs of a modern market;
- infrastructure investment to improve accessibility and attractiveness;
- effective public and private governance;
- sustainable development and social inclusion;
- improving the regional economies.

The Strategic Vision addresses the socio-economic development needs, tackles the Regional disparities that Romania faces and supports the EU development strategies. The following four thematic priorities have been identified:

- Development of basic infrastructure to European standards;
- Increasing the long term competitiveness of the Romanian economy;
- Development and more efficient use of Romania's human capital;
- Building an effective administrative capacity.

Integrated planning and the coordinated implementation of these priorities through the sectoral and regional operational programmes aim to achieve the highest impact of the Structural and Cohesion Funds and will promote a balanced territorial development, as a territorial priority.

Accelerating the process of real convergence with the European Union through realisation and enhancement of the endogenous potential will depend on the efficiency of applying the structural instruments coherently by the institutions with responsibilities in promoting and managing a sustainable socio-economic development. The global objective can be achieved only through the co-ordination of all the factors - educational, technical, financial, government and non-government and the Country's human capital.

The NSRF Strategy targets territorial cohesion and aims to stop and potentially reverse the trend of widening regional disparities. The polycentric approach of the strategy will be essential in capitalizing on the existing potential of the urban centres and enhancing their contribution to growth, jobs and social cohesion. Within the strategy framework, the

interventions planned will target the development of existing or emerging poles/corridors at national and regional level as well as the development of the medium and small cities, with the aim of promoting a balanced development of the regions.

The strategy reflects the principles of the Regional Development Policy, builds on the concept of decentralisation and takes into account the EU Community Strategic Guidelines. The National Strategy for Regional Development identifies the following key objectives:

- to stimulate growth to reduce the disparities between Bucharest–Ilfov and the other Regions
- to promote the balanced development between East and West of the Country
- to arrest the chronic under development in the Eastern and Southern Regions
- to focus on the significant intra-regional disparities between less and more developed Regions
- to develop small and medium sized towns, especially those that were reliant on mono-industries
- to reverse the socio-economic decline of some big Cities and improve their impact on the rural hinterland
- to improve the attractiveness of the Regions
- to enhance programme management expertise at regional level.

The Development Strategies of the eight Regions give increased focus and support to the most deprived areas. Together, these strategies build on and use the resources and human capital at the Regional and local levels as fully as possible. The strategy will ensure that lagging behind Regions will access high levels of funding and will use them efficiently, in order to help increase their competitiveness, support the development of Regional economies and rehabilitate urban centres.

The implementation of the NSRF priorities will be achieved through combined actions of public funds: state budget, local budgets and additional resources from European Union. Other sources (such as internal and external loans) could be used and valuable private sector inputs will be important in providing co-financing for the projects.

#### A Coherent Mix of Priorities

The challenges that Romania faces in economic development terms are enormous. Romania's development needs span across all the relevant fields of economic and social development.

The factors that influenced the decisions and that bind the NSRF Priorities together into a coherent strategy are:

- The need to achieve long term and sustainable economic growth. Capital investment in infrastructure is essential and the top priority, otherwise short-term job gains could be lost in the medium term;
- To build a hi-tech, high value added economy, the investment in infrastructure is seen as a pre-requisite. Water and waste services, roads, rail, air and water transport investments are high cost investment priorities but will be the foundations of Romania's sustainable economic growth;
- The investment in infrastructure – road, rail and the River Danube – supports the development of the EU TEN-T priority axes;

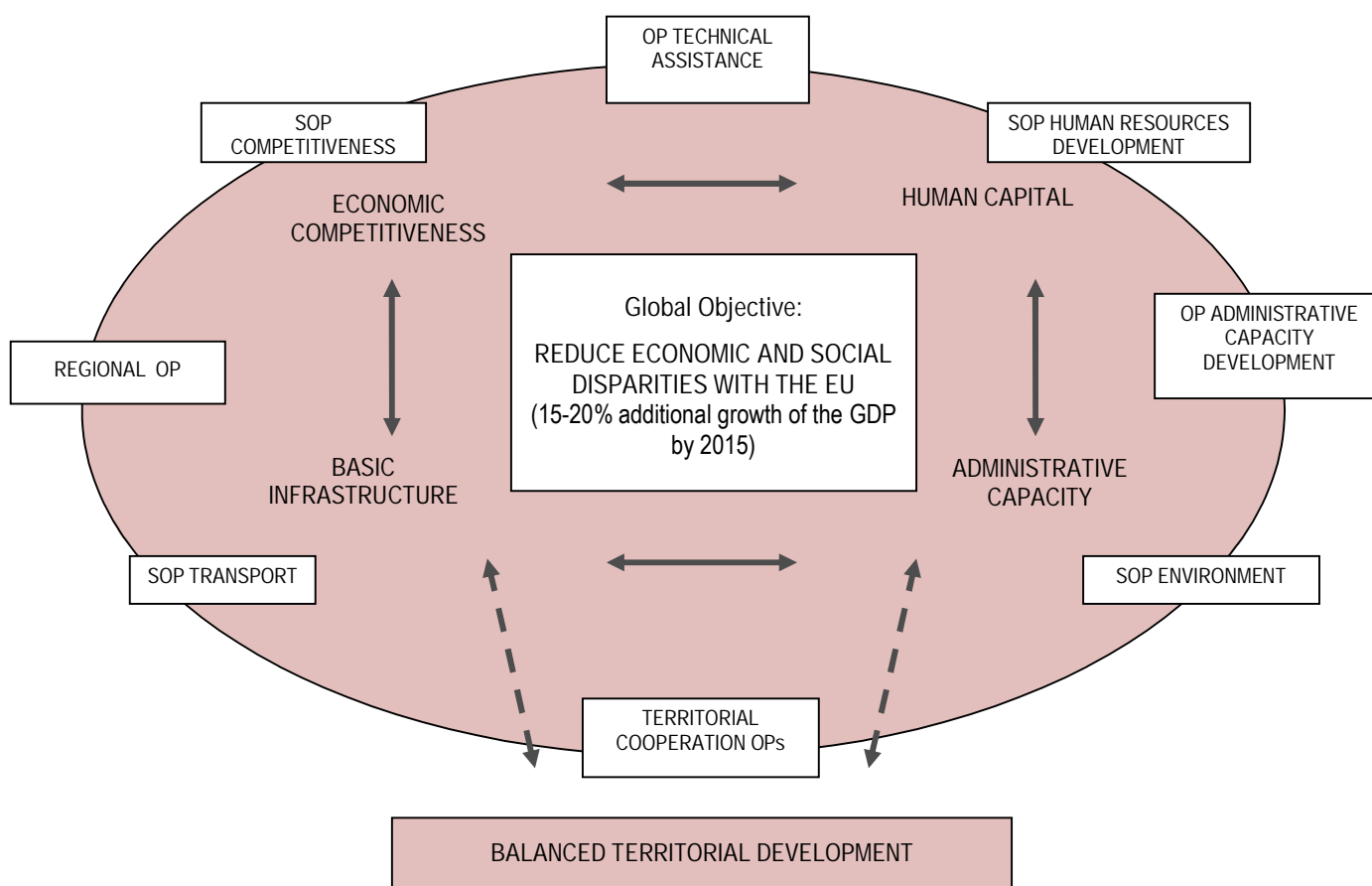
- The investment in human resource development is essential to increase economic competitiveness;
- Redressing the Regional disparities and building balanced development and growth between rural and urban areas;
- Administrative capacity development supports the effective implementation of the public policies, with a positive impact on the delivery of the Structural Instruments.

Close cooperation with the Ministry of Agriculture and Rural Development has been essential to ensure coherence between Structural Instruments, on one hand, and the European Agricultural Fund for Rural Development and European Fisheries Fund, on the other hand.

The Diagram 8 below shows the relations between the Global Objective, the NSRF Priorities and the Operational Programmes through which the NSRF is implemented. These objectives are inter-related and reinforce each other, ensuring a coherent and synergetic approach of the priorities and planned actions, both at intra-sectoral and inter-sectoral level. The thematic priorities and the territorial priority of the NSRF underpin each other and work together towards reducing the external and internal economic, social and territorial disparities.

Diagram 8

## National Strategic Reference Framework - Strategic links



The number and sheer size of Romania's development needs make difficult the prioritisation of financial support during the period 2007-2013, when a significant increase in the funding is envisaged.

To address this issue, a thorough analysis was carried out when drawing up the 2007-2013 National Development Plan, which sets out the planning of all the public financial resources for development (state budget, local budgets, EU funds, loans). The analysis revealed that infrastructure is the biggest development problem with which Romania is faced in the programming period 2007-2013, whereas it is crucial that investment in economic competitiveness and human resources accompany the infrastructure development and build together the foundations for a strong and sustainable development.

It was therefore decided by the Romanian Government that the largest allocation of development funds would be made to infrastructure (more than 2/3 of the NDP resources, excluding the funds earmarked for rural development and fisheries). The total allocation for human resources and economic competitiveness, which accounts for about 1/3 of the NDP funds (excluding rural development and fisheries), was fairly equally split between the two fields. As many infrastructure problems should be solved by the end of the 2007-2013 period, it is expected that the next programming periods will see a more balanced breakdown of development funds.

The policy grounds underpinning the choice made by the Romanian Government as regards the NDP financial breakdown are perfectly valid when discussing the financial weighting of the NSRF Priorities. Moreover, given their major contribution to achieving the national objectives of socio-economic development, the Structural and Cohesion Funds must be geared towards supporting the order of priorities established in the NDP and which sets out Romania's development path.

These considerations led to the following indicative financial weightings for the NSRF Thematic Priorities:

- |  |       |
|--|-------|
| ▪ Development of Basic Infrastructure to European Standards        | ~ 60% |
| ▪ Increasing the Long term Competitiveness of the Romanian Economy | ~ 15% |
| ▪ Development and More Efficient Use of Romania's Human Capital    | ~ 20% |
| ▪ Building Effective Administrative Capacity                       | ~ 5%  |

In determining the indicative level of funding by Thematic Priority and subsequently by Operational Programme and by Fund, the following factors were taken into account:

- stage of development of the Romanian economy;
- general and sectoral/ regional gaps as compared to EU levels;
- integration of the revised Lisbon Strategy in Romania's development model;
- the huge amount of investment needs for basic infrastructure (transport, environment, energy);
- costs associated with complying with the *acquis* after accession (the environmental commitments, in particular, imply high costs spread over the transition periods agreed in the accession negotiations);
- the need to enhance economic competitiveness through direct support for enterprises as well as through the development of business infrastructure;
- matching competitiveness support with the development of sufficient and well qualified human resources (which includes the much needed support for the rehabilitation/development of education, training and health infrastructure);
- allocation models for Structural Instruments used in the EU, especially in the new Member States, whose stage of development is closer to Romania's situation;
- Cohesion Fund allocation of 1/3 of the financial envelope, which will be used to address infrastructure-related needs.

The macro-economic impact simulation revealed that this breakdown of Structural and Cohesion Funds together with the national co-financing would lead to achieving the overall objective of the NSRF, i.e. 15-20% additional growth of the GDP by 2015, due to the Structural and Cohesion Funds.

The rationale presented above fully justifies the relatively high share of infrastructure investment. It is considered that without this massive injection of funds into infrastructure which characterizes Romania's first period of Structural Instruments programming, there will be no basis for a long-term sustainable development at national, regional and local level. Basic infrastructure is what is most needed in the economy's current stage of development in order to make Romania's regions more attractive places to invest and to work. No competitive advantage can realistically make up for the lack of accessibility and of basic living conditions. Furthermore, an adequate basic infrastructure will create the conditions for the market and for the private sector to develop naturally and autonomously.

Improving the basic infrastructure will also generate considerable employment opportunities, both directly and indirectly (through the support provided to the development of economic activities), and will enable inter and intra-regional mobility of labour force. Moreover, it will create more opportunities for the disadvantaged groups and communities, particularly in the small and medium-sized towns and in the rural areas.

Of course, the challenge of absorbing such a high level of funding is acknowledged by the Romanian Government. The implementation of pre-accession programmes in the field of infrastructure has shown many problems which led to less than satisfactory absorption rates. However, the pre-accession experience has been extremely useful as it has given the opportunity to identify legal and procedural solutions in the areas creating problems for the absorption of EU funds: programme-based approach, project preparation (including land expropriation), contracting, tendering, contract management, monitoring, certification of eligible expenditure etc. Consequently, implementation capacities have gradually been strengthened at national, regional and local level and this process will continue throughout the 2007-2013 period, creating positive expectations regarding the absorption of Structural and Cohesion Funds, as well as the remainder of pre-accession funding such as the ISPA Programme. JASPERS assistance is already contributing to adequate preparation of a series of major infrastructure projects and is ensuring the transfer of know how and best practices to the relevant institutions for other similar projects. Against this background, the Romanian authorities are fully committed to undertaking all the steps needed to ensure a high rate of absorption for the EU funds in the field of infrastructure as Romania cannot afford to miss out on the opportunity to have a basic infrastructure at European standards.

## Indicators

The impact of the NSRF strategy on the economic, social and environmental situation in Romania is measured through a set of basic indicators (see Table 13), for which indicative targets have been defined. The general impact has been projected based on macroeconomic modelling (the HEROM model), as recommended in the EC Working Paper on Indicators. Also, specific impacts at the level of the NSRF thematic priorities have been quantified.

Table 13

## Basic indicators at the level of the NSRF

Indicator	Unit	Baseline	Baseline Year	Source	Target (2015)
<b>Global Impact</b>					
Additional growth of GDP, aggregated for the period 2007-2013	%	-	2006	Macroeconomic modelling (HEROM)	+ 15-20
Additional gross capital formation (investments) growth, aggregated for the period 2007-2013	%	-	2006	Macroeconomic modelling (HEROM)	+28
Induced growth rate of GDP per employee	annual rate in %	-	2006	National Statistics / surveys	5.5
Additional employment growth, aggregated for the period 2007-2013: - tradable sector (manufacturing) - non-tradable sector (services)	%	-	2006	Macroeconomic modelling (HEROM)	+23 +14
New jobs created (direct and indirect) and maintained	Number FTE	-	2006	SMIS / National Statistics / surveys	150,000-200,000
<b>Specific Impact of the 1<sup>st</sup> thematic priority: Develop basic infrastructure to European standards</b>					
Roads with access to West-European corridors completed and/or rehabilitated (TEN and national)	lane-km	-	2006	SOP-T Monitoring System	1,400
Population connected to basic water services in a regional system	%	52	2006	MESD	70
Population covered by integrated waste management systems	% of total population in Romania	-	2006	MESD	37
Reduction of the primary energy intensity compared to 2001	%	-	2001	National Statistics / MEF	- 40-50
<b>Specific Impact of the 2<sup>nd</sup> thematic priority: Increase the long-term competitiveness of Romanian economy</b>					
Increase of SME's share of GDP	up to % of GDP	-	2006	National Statistics / Ministry for Small and Medium-Sized Enterprises, Trade, Tourism and Liberal Professions	10
Gross domestic R&D expenditures (GERD)	% of GDP	0.41	2005	National Statistics	2

Indicator	Unit	Baseline	Baseline Year	Source	Target (2015)
Broadband penetration rate	No of broadband connections / 100 inhabitants	3.5	2005	National Statistics/ NRACIT <sup>27</sup>	40
Specific Impact of the 3 <sup>rd</sup> thematic priority: Development and more efficient use of Romania's human capital					
Employment rate of the population aged 15-64	%	57.7	2005	National Statistics	64.0
Activity rate of the population aged 15-64	%	62.4	2005	National Statistics	68.5
Share of the 25 – 64 age group with at least upper secondary education	%	70.5	2003	National Statistics / surveys	80
Specific Impact of the 4 <sup>th</sup> thematic priority: Building an effective administrative capacity					
Change in the level of trust / confidence of citizens in public administration: - central administration - local administration	%	23 52	2003	Surveys	33 60
Absorption rate of Structural and Cohesion Funds under the Convergence Objective	%	-	2006	SMIS	More than 90%

As shown by the data presented in the above table, it is expected that the structural interventions to be carried out through the OPs, based on the broad strategy of the NSRF, would generate significant positive effects on Romania's development, thus contributing decisively towards increasing the level of real convergence with the rest of the EU.

#### Links with the Community Strategic Guidelines for Cohesion

The priorities set by the NSRF are defined in such a way as to meet the medium and long-term national development needs, to strengthen the synergy effect of the actions envisaged by the strategy and to achieve the highest impact of the structural funding co-financed by the EU for the 2007-2013 period. The NSRF is drawn up with a close view to the Community Strategic Guidelines for Cohesion and to the general strategic direction defined by the EU regulations.

For a more direct reference, the specific links between the NSRF priorities and the Community Strategic Guidelines for Cohesion are presented in Annex 1.

#### Consistency with the National Reform Programme

Starting with 2006, Romania draws up the National Reform Programme (NRP), representing the action plan for implementing the revised Lisbon Strategy in Romania. NRP will establish the key medium-term priorities and objectives for implementing the macroeconomic, micro-economic and employment guidelines as set in the Integrated Guidelines for Growth and Jobs 2005-2008. Innovation, information society, SMEs and entrepreneurship, human resource development and environment are at the core of NRP.

<sup>27</sup> National Regulatory Authority for Communications and IT  
Ministry of Economy and Finance

Romania will ensure close correlation between the NSRF and the NRP, taking into account that both documents have a common strategic underpinning (the revised Lisbon Strategy). The correlation between the two documents has been carefully considered during the drafting stage, through continuous coordination of positions between the Ministry of Economy and Finance, line ministries involved in Structural and Cohesion Funds management and the authority responsible for drafting the NRP (the Department for European Affairs), as regards the orientation of the measures towards Lisbon goals. This coordination process will continue during the implementation stage of the NSRF and OPs and of the NRP, through regular meetings between relevant stakeholders. Also, the annual monitoring of the NRP will assist in the process of ensuring the coherence between the operations supported by the Structural and Cohesion Funds and the wider action framework of the NRP.

The first draft of NRP has been made available for public consultation in August 2006 and it has been sent informally to the European Commission in November 2006. A revised version of the document will be elaborated based on the results of the consultations with EC and the relevant partners. It is envisaged that the revised NRP will be submitted officially in June 2007. Achieving the NSRF general objective and priorities will be supported by the measures envisaged in the NRP, which will impact on the economic and social development and contribute to efficient delivery of Structural and Cohesion Funds. Equally, the NSRF strategy will assist in meeting the objectives of the National Reform Programme, given the common focus of the actions envisaged.

The objectives of the National Reform Programme are set both for the macro-economic level, with the aim of attaining macro-economic stability and the sustainability of public finances, but also at micro-economic level, with a view to improve the competitiveness and the economic productivity. Improving the quality of employment represents the third strategic dimension of the NRP. The NRP is by nature a reform programme, aiming at promoting and sustaining structural and institutional reforms in priority sectors of the economy and the social field, with a view to improving processes and procedures and ensuring the conditions for Romania to benefit from the opportunities she is offered (such as setting up a more efficient and flexible economic, social and institutional framework which would facilitate the absorption and increase the impact of Structural and Cohesion Funds).

Achieving macro-economic stability and sustainability in the field of public finances through the NRP will create the necessary conditions for the strategy defined in NSRF to be implemented. Moreover, the actions foreseen in the NSRF in terms of the thematic priority related to "Building Effective Administrative Capacity" will be supporting the achievement of the NRP priority of increasing the quality of the public services and efficiency of the administration. The actions in the NSRF aiming at achieving a more efficient use of energy will also contribute to the NRP priority of assuring a balanced energy supply.

The actions envisaged in the NSRF in the fields of knowledge and innovation, promoting the entrepreneurship, improving the access to finance and ICT development, as defined in the thematic priority "Increase the long-term competitiveness of the Romanian economy", as well as the strategy defined in the field of transport and energy contribute to meeting the NRP objective of "Improving economic competitiveness and the productivity". To the same respect, the NRP provides for a sustainable management of renewable and non-renewable sources through the acquisition of non-polluting technologies, increasing the share of recycled materials, as well as increasing the quality of waste management systems and promotion of eco-technologies, actions supported also through the NSRF. Moreover, the actions envisaged in the two planning documents underpin each other and contribute to assuring a higher impact of funding.

Improving the employment for all age categories and increasing the adaptability of the labour force, enhancing the possibilities for education and promoting social inclusion for all vulnerable groups are fields of actions in both the NRP and NRSF, aiming at increasing the access and improving the competitiveness of the labour market, improving education and training in order to better meet the requirements of a knowledge-based market economy.

#### The Role of the Social Partners and Civil Society

Usually, after 1989, the role of the social partners and civil society in promoting economic development has not been fully recognised in Romania. This new and widening partnership concept will require capacity building. To this purpose, actions are foreseen in a range of operations across the Operational Programmes. It is recognised that the social partners and the civil society can have an important role to play in socio-economic development and their active participation in programme delivery will be encouraged.

Social partners and the civil society could support all programmes under NSRF but for the Economic Competitiveness, Human Resource Development, Regional, Environment and Administrative Capacity OPs, their involvement is most likely and it is recognised that capacity building will be important in order to ensure their full participation and potential.

## 3.2. Thematic Priorities

### Development of Basic Infrastructure to European Standards

Romania will undertake strategy-led investment in infrastructure to facilitate the movement of people, goods and services and improve quality of life. This will help to make the country a more environmentally friendly and attractive place in which to live, work and invest. Within this policy, it is recognized that the Romanian infrastructure development will contribute in a sustainable way to the wider socio-economic development within Romania and the European Union.

#### Expand and improve transport infrastructure

The Romanian Government has enacted Law no. 203/2003 to develop and modernise the transport network important at national and European level that underpins the strategies to develop infrastructure to European standards in line with the White Paper on the European Transport Policy and directives detailing the Trans European Networks.

The National Spatial Plan defines in the section on transport routes the structure of the national transport networks. The Plan proposes balanced solutions that are related to the economic development of Romania and takes into account the European-wide objectives. It identifies the priority projects in terms of actions in the short, medium and long-term for development of the three major Priority Axes (no. 7, 18 and 22), which all cross Romania and connect Central and Eastern Europe and Northern and Western Europe.

Investment in the TEN-T will be the key objective for the period 2007 to 2013. The integration of the national transport strategy with the EC strategy regarding the development of the TEN-T corridors requires the creation of modern road and rail networks and the maximization of the opportunities for air transport together with the commercial and leisure opportunities of water-borne transport. Special attention will be given to ensuring adequate interconnection with the transport networks of the neighbouring countries, particularly along the TEN-T priority axes. In addition, the development of connectivity between the transport modes will promote a competitive economic advantage; the promotion of enhanced inter-modality and safety will form the cornerstones of these policies.

These improvements will help to enhance the strategic geographical location of Romania as a gateway for the enlarged Europe. The strategy is to maximise the economic benefits to Romania that can result from reinforcing the country's location within Europe and as a transit area to Asia. The major investments foreseen in transport will seek to minimize any negative environmental impacts and enhance the positive contributions that transport can make to sustainable development. It is envisaged that improvements in road, rail, water and air transport infrastructure will create the conditions that will allow an increase in accessibility and support the objectives of economic and social cohesion at regional, national and European levels.

The strategy will help to upgrade motorways, roads and railways, river and air transport and provide for a balanced transport infrastructure to European standards. This will increase accessibility, enhance business opportunities and improve the quality, cost-efficiency and speed of transport services, reduce journey times and increase the volumes of freight and passenger traffic carried in environmentally friendly ways.

In addition, the Strategy will work towards assuring territorial cohesion and reducing the regional disparities by improving basic transport infrastructure at the county and local level through the rehabilitation and modernisation of the county and local road network. The aim of the national and regional actions is to improve the attractiveness and increase the accessibility of the Regions and to stimulate socio-economic development and increase the prosperity of the Regions.

The main components of Romania's transport infrastructure for 2007 to 2013 are set out below, together with the key objectives of the NSRF strategy in this area:

#### Road Transport

Modernization and construction of trans-European road infrastructures will target the construction of new motorways and the completion of the motorways currently under construction, building of additional expressways and national roads, the construction of bypasses for the cities located on, or adjacent to, TEN-T and upgrading of roads and bridges on TEN-T.

For the national roads, the strategy will concentrate on their modernisation and upgrading; work will target similar action as described on the TEN-T roads which will allow for improved access to industrial and population centres and to traffic generating nodes. This will increase business efficiency, reduce regional disparities, shorten journey times, as well as improve safety. The modernisation of the county and local roads will play an important part of the strategy and will aid both urban and rural areas (in addition, the rehabilitation of the communal roads will be supported by EAFRD). Improved county and local roads will help to build sustainable communities and increase cooperation between regions, increase workforce mobility and support developing regional labour markets through inter-connectivity amongst regions and localities.

#### Railway Transport

The strategy for modernization and development of TEN-T railway network aims to make the TEN-T railway infrastructure inter-operable and improve the quality of rail services by modernizing the railway infrastructure (stations, signalling equipment, ICT systems etc). A key target for the TEN-T rail network will be to raise the maximum operational speeds to 160 km/h for passenger trains and 120 km/h for freight trains. In addition, the replacement of outdated rolling stock, train units, freight wagons and engines, will increase usage and facilitate interoperability.

At national level, similar actions will be carried out as for the TEN-T rail network resulting in improved usage, quicker journey times, improved safety, inter-modality of services and general upgrading of the quality of the rail services to the EU standards. This will increase passenger usage and aid sustainable business development. The actions will culminate in improved inter-connectivity for the Regions and increased attractiveness and sustainability of the railway transport system. It will also seek to create the pre-requisites for developing high-speed passenger trains, for long and short distances.

#### Water Transport

The modernization and development of TEN-T water transport infrastructure strategy aims to improve navigation conditions, eliminate bottlenecks on the TEN-T priority axis 18 and develop national links to the Danube River and related water transport infrastructure. This will involve

upgrading of the Romanian-Bulgarian Danube section, the Sulina branch, the Black Sea Canal and Poarta Albă-Midia Năvodari Canal, as well as continuing the works on Călărași-Brăila section of the Danube. Key investments will include increasing navigation depth and improving port and interchange facilities.

#### Air Transport

The strategy aims at financing the modernisation and development of selected TEN-T airports and some airports outside the TEN-T, with a view to increasing efficiency and attractiveness for users and increasing air traffic usage. This will provide links to the EU and international markets and centres. The General Master Plan for Transport is expected to set down the key priorities for the TEN-T airports and selected regional airports outside TEN-T where a cost benefit analysis will prove economic viability. The strategy will realise the full potential of the air transport infrastructure and an orderly, rational and efficient development of airports in Romania. This will provide domestic and international passenger and freight transport with effective services to meet the business and leisure need of a global economy and international community.

#### Inter-modality

The aim is to ensure the inter-modality between road, rail, air and water transport infrastructure. The strategy will create measures aimed at ensuring quick, efficient and comfortable connections for passengers and goods.

The connection of the local/county/national transport networks to the trans-European transport network will lead to the improvement of accessibility, resulting in a quicker access to the TEN-T and in the increase of goods and passengers flow transiting the country. In addition, improvements and modernization of railway stations will enhance the inter-modality of rail and road transport systems.

#### Sustainable Transport

Romania's transport strategy embraces sustainable development in line with the Cardiff conclusions of the European Council (1998) and the EU Sustainable Development Strategy. Actions will improve safety standards, reduce the adverse effects on the environment, mitigate climate change, safeguard transport infrastructures from natural disasters, as well as eliminate dangerous black spots. The promotion of projects for managing noise, the installation of oil/water separation units and neutralization of dangerous substances, collection of wastewater for treatment of efficient non-polluting/environment-friendly transport will be priorities, in line with the Kyoto Agreement. The strategic actions envisaged meets the global objective of the renewed EU Sustainable Development Strategy to ensure that the transport system meets society's economic, social and environmental needs whilst minimising their undesirable impacts on the economy, society and the environment.

In order to implement the above mentioned strategy aiming at expanding and improving the transport infrastructure, an important instrument is represented by JASPERS, a technical assistance partnership between the Commission, the European Investment Bank and the European Bank for Reconstruction and Development. This will assist in the project preparation stage, but will also help streamlining and sharing the experience gained. To this end, several projects within the areas of intervention in the transport field have been jointly identified by the Romanian authorities and the JASPERS experts through the JASPERS Action Plan and their preparation is now underway.

## Strengthen synergies between environmental protection and growth

Romania promotes sustainable development in line with the Cardiff conclusions of the European Council (1998), the renewed EU Sustainable Development Strategy, the 6<sup>th</sup> Environment Action Plan and EU directives on land fill of waste, packaging and packaging waste, urban wastewater treatment, quality of water intended for human consumption and air quality.

Actions under the strategy will promote increased levels of safety and minimize adverse effects on the environment and will ultimately improve peoples' living standards. These objectives present Romania with huge challenges and the need for significant investments over many years. Infrastructure will operate to European standards and in observance of the Kyoto Agreement. The main components of Romania's environment strategy for 2007–2013 are set in the National policies, namely - Environment Law No. 137/1995, Water Law No. 107/1996, National Waste Management Plan and the National Strategy on Energy Efficiency.

### Extension and modernization of water and wastewater infrastructure

To comply with the EU standards and the *acquis* in the water sector the main objective will be to extend and modernize the water and wastewater infrastructure to provide adequate water and sewerage services. Along with these objectives, innovative and efficient water management structures are envisaged to be developed.

The strategy will focus on developing large-scale integrated projects, to optimise investment and operating costs. Communities of more than 10,000 p.e. will be grouped together to develop regional projects centred on their urban areas. Rural communities will be integrated into regional projects where significant environmental impact can be justified and/or cost-efficient components improve the sustainability of the overall investment. In correlation with the NSRF strategy, EAFRD investments in the water infrastructure will be financed in rural areas, in accordance with the National Strategic Plan for Rural Development, taking account of the regional Master Plans prepared under the coordination of Ministry of Environment and Sustainable Development.

In addition, improvements will be made to the quality of the watercourses. Wastewater treatment plants will be installed or improved and sludge management schemes are envisaged. Individual projects may be developed for localities that cannot be included in regional projects.

This sector has a specific importance in ensuring the compliance with the *acquis communautaire* in the environment field. The achievement of the ambitious objectives requires a high level of funding, as the whole territory of Romania has been declared sensitive area (requiring advanced treatment for wastewater in case of agglomerations larger than 10,000 p.e.<sup>28</sup>) and the water infrastructure is in very poor condition, whereas only 52% of the entire population of Romania is connected to water and wastewater infrastructure<sup>29</sup>. The total investment needs for compliance with EU Directives on water and wastewater by 2018 amount to 19 billion Euro, which are to be covered from various sources.

Moreover, the issue of limited efficiency of public water services is also dealt with. The strategy is based on regional approach (regionalisation of water sector), and large-scale infrastructure

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<sup>28</sup> Romania has more than 260 agglomerations larger than 10,000 p.e.

<sup>29</sup> The majority of Member States shows a connection rate of more than 80%

projects covering more agglomerations at regional/county level will have top priority, with a maximizing effect on the cost-efficiency gains from scale economies.

All these issues have been taken into account when allocating funds among different environmental priorities, the water sector receiving about 60% of the total funds for the environment infrastructure.

#### Improved waste management

The actions foreseen will improve the waste management, increase the connection rate to quality public sanitation services, at affordable tariffs, reduce the quantity of waste produced and landfill and increase the quantity of recycled and utilized waste. Another aim will be to reduce the number of historically contaminated sites.

The integrated waste management systems will be developed in accordance with the National Waste Management Plan and the Regional Waste Management Plans. The investment programmes will take into account the hierarchy for waste management, namely prevention, separate collection, waste recovery and recycling, treatment and disposal. This strategy will be developed in parallel with the closure of the non-compliant waste landfills. The projects will cover urban and rural areas with a beneficiary population of a minimum 300,000 inhabitants. The interventions will be accompanied by preventive measures, possibly supported by the Funds, aiming at minimizing the quantity of produced and treated waste, such as public awareness campaigns or active promotion of selective waste collection.

It is intended to support investments that will contribute significantly to compliance with EU regulation on waste management regimes, landfill of waste and packaging waste in an integrated manner.

The first priority will be given to counties in Romania where no major investments have been undertaken so far, to address the integrated EU waste requirements. The second priority will be directed to extend/complete waste management systems in those counties/areas where the first phase of an integrated waste management is in place or where previous investments are limited to a new landfill and bulk waste collection and transport. The aim is to create a modern waste management that contributes to minimization of waste to be land filled.

The environmental rehabilitation of historically contaminated sites, including the closure of landfill sites will be carried out in compliance with EC standards. The conversion of these sites into productive land will enhance economic competitiveness and their rehabilitation will reduce the negative impact on the environment and people health. The decontamination stands for a long-term strategy to recover the affected lands for further public investments or economic use or simply for the landscape recovery.

The environmental issues related to contaminated sites will extend beyond the 2007–2013 programming period. The objective of this programming period is to prepare a long-term strategy, an inventory of all categories of contaminated sites and an investment plan based on a priority list. As well, some pilot projects are envisaged to be implemented with the view to closing / rehabilitating contaminated sites with significant environmental impact.

From the variety of contaminated sites, interventions under the environment strategy will largely address the closure / rehabilitation of municipal waste landfills for which a complete database exists and for which Romania has clear commitments in the EU Accession Treaty.

## Reduction of air pollution and mitigation of climate change

The reduction of emissions of harmful compounds into the air remains an important aspect of the national environmental policy, in spite of significant improvement after 1990 when industrial restructuring closed many of the plants that were the heavy polluters. Romania obtained transition periods until 2013 and 2017 respectively, for certain emissions (sulphur dioxide, nitrogen oxides and particulates) and certain installations under the LCP Directive No 2001/80/EC.

In many urban areas, the municipal heating plants are major pollutants, due to old technologies and long-term under-investments. These plants cause high levels of environmental pollution and represent a threat to the population health.

Actions envisage reduction of the negative impact on the environment and on human health in those urban areas polluted mainly by old district heating systems. Interventions will be based on a medium/ long-term regional heating strategy, which must also include an evaluation of the option (study) to replace the district heating system with alternative smaller scale local heating systems. Where the most cost-effective option is the use of renewable or less pollutant sources of energy for municipal heat-generating plants, related projects are given first priority. The main aim is to promote the rational use of the non-renewable energy sources and, where possible, the use of renewable or less polluting sources of energy for district heating plants.

Particular attention will be given to activities for upgrading large combustion plants that target at significant reduction of SO<sub>2</sub>, NO<sub>x</sub> and dust emissions, as well as to improve the energy efficiency at the level of plant and distribution network, through retechnologization and reducing losses of hot water.

The measures foreseen above aiming to reduce the air pollution and to mitigate the climate change, as well as to improve the energy efficiency, respond to the overall objectives of the renewed EU Sustainable Development Strategy in terms of climate change and clean energy, namely to limit climate change and its costs and negative effects to society and the environment. In the framework of various projects, expected emissions will be carefully assessed, with a particular focus on critical hot spots and major projects (notably in the field of transport and energy) in order to design appropriate corrective measures.

## Nature protection

Romania will support biodiversity and nature conservation by actions aimed at development of management framework for protected areas, particularly for Natura 2000 sites. This includes development of infrastructure (including maintenance) for protected sites, operation and monitoring activities, aiming not only to meet the commitments of Romania as regards the building of the Natura 2000 system, but also to raise the environmental awareness and ecological behaviour – as the basis for sustainable development. In this respect, particular support is envisaged for the preparation and implementation of management plans.

The National Agency for Protected Natural Areas and Biodiversity Conservation will be established in 2007 and it will need additional support to strengthen the capacity required to deliver the strategy. Strengthening the institutional system to provide for control, law enforcement and sufficient capacity to prepare and implement management plans for protected areas is an essential need in order to stop degradation of biodiversity and natural resources. Therefore, the Agency will work in coordination with other institutions to deliver integrated measures to protect the natural environment.

## Risk prevention

The investment in risk prevention will reduce the impact of natural disasters and their economic effects. There will be protection and prevention of natural risks by improvements of the economic, environmental, ecological and conservation status in the most vulnerable areas (flood management and coastline protection). The envisaged actions will support the implementation of the Water Framework Directive No. 2000/60/CE, which aims to establish a framework for the surface, underground and coastal waters protection, as well as support the EU initiative to elaborate and implement an action programme concerning risk prevention, protection against flood and mitigation of risks and flood effects. Within this working frame, flood risk management plans and risk maps for each hydrographical basin and coastal area in which human health, the environment or the economic activities may be affected by flooding will be drafted.

Moreover, support will be given for the protection and rehabilitation of the southern part of the Romanian Black Sea shore, aiming at reducing the effect of coastal erosion and protecting the assets value of the coastal zone and the safety of housing in the area. The intervention will be in line with the master plan and the programme for Black Sea Coast protection with set targets until 2020, which is near completion.

The implementation of the above mentioned strategic actions in the field of environment will be facilitated through the use of the JASPERS initiative in the preparation of studies, project development, integration of horizontal themes and sharing of know-how as regards the critical issues that can impact on the projects, both during the design and implementation phases. JASPERS will assist in the preparation of the major projects, which were jointly selected according by the Romanian authorities and the JASPERS experts under the JASPERS Action Plan, creating thus the conditions to transform challenges into success stories, with the view to meeting the commitments assumed by the Romania in environment field and contributing further to economic growth.

## The efficient use of energy

Romania intends to improve the energy usage by increasing the efficiency over the whole supply chain – natural resources, production, transport, distribution, end use of electricity and heat. The strategy developed takes into account a series of European Commission policy documents on Energy Efficiency.

The Romanian Government's strategies support the EU directives on energy efficiency and will influence the economic and social cohesion. The national energy policies are as follows:

- The Road Map for Energy in Romania - GD No. 890/2003
- National Strategy for Energy Efficiency - GD No. 163/2004 and Law No 199/2000
- Draft of the National Energy Policy Document 2006-2009
- The Strategy for the capitalization of renewable energy sources, approved by GD No. 1535/2003
- GD No. 443/2003 on the promotion of electricity from renewable sources
- GD No.174/2004 regarding the thermal rehabilitation of buildings
- The commitments assumed by Romania in the process of negotiations with the EU – Chapter 14 Energy

Improving energy efficiency contributes to the three core objectives of the EU energy policy: security of supply, competitiveness and sustainable development. Actions on energy efficiency

will reduce waste of energy resources and will strengthen the security of supply. It is also the most cost-effective manner to mitigate climate change due to CO<sub>2</sub> emissions.

The modernization and expansion of the electricity, natural gas and oil transport grids and of electricity and natural gas distribution grids will lead to a decrease in energy losses, to an increased security of supply by avoiding crisis situations and to meeting the economic performance and quality standards required by electricity consumers. At the same time it will contribute to the development of the standard infrastructure for new economic activities leading, in the future, to increasing Romanian products and services access on the EU market and to fostering the development of cross-border energy interconnections.

In order to reduce the high energy consumption in the industrial sector, investment in energy efficient end-use technologies is envisaged. In view of increasing energy efficiency, the technological modernization of installations and equipment for industry (other than energy sector), in order to improve the energy management of economic operators and reduce their specific consumption of energy, is also envisaged. Energy saving is the cheapest, the easiest to obtain and the most non-polluting energy resource.

In accordance with the principle of preventing or reducing pollution at source, it is necessary to introduce best available technologies for the reduction of flue gas emissions, to endow power and heating plants with flue gas desulphurization installations, to install electro filters for reducing powder emissions and to replace existing burners with new ones that will reduce the NO<sub>x</sub> emissions. At the same time, new investments concerning environmental compliance of some existing power plants are not economically and technically justified without previous refurbishment /upgrading.

Given the high value of energy intensity in the residential sector, investments in the renovation of the common parts of multi-family residential buildings will also be supported in order to reduce the energy losses, but only as part of urban integrated projects aimed at the regeneration of urban areas.

Romania has an important exploitable potential of renewable energy sources (mainly hydro, wind, solar, biomass and geothermal resources). However, at present, Romania is still dependent on traditional energy sources such as carbon fuels and natural gas. The valorisation of different types of RES, including biofuels, will offer a long term competitive advantage and this will contribute to integrating into the economic system some isolated areas by using the relatively important technical potential of the country and to reducing the environmental impact by producing green energy. While the EU target for 2010 is that 22% of energy consumption should be secured from renewable sources (according to Directive 2001/77/EC), Romania's target is even more ambitious (33% of the gross national electricity consumption should be electricity produced from renewable sources). In order to achieve this, target actions will be taken to increase the use of RES. This will demand investment in new capacities and technology for capitalizing renewable energy sources.

The development of the cross-border energy trade between the EU market and other markets, as well as the need to ensure the possible transit through the Romanian transmission grid towards non-EU member states, requires the development of the existing interconnection capacities for electricity and gas. In order to strengthen security of supply for Romania and other Member States, it is necessary to interconnect the National Gas Transportation System to similar systems.

The efficient delivery of the strategy in the energy sector will also benefit from the advice and coordination provided under the JASPERS initiative for the preparation of the major projects identified as priorities under the JASPERS Action Plan for Romania. The partnership assistance will be beneficial both in defining the priority projects according to the needs in the field, as well as to ensure the conditions for a successful implementation of the projects, through a very good preparation.

## Increasing the Long Term Competitiveness of the Romanian Economy

Romania aims to become a high added value economy with high rewards for investors and workers. The core driver of this is increased productivity through investment in productive capital, equipment and technology and in human capital. In developing the strategy the following key EU policies have been respected: The European Council in Barcelona in 2002 – EC Paper “More Research for Europe - Objective 3% of GDP”, Integrated Guidelines for Growth and Jobs 2005-2008 and the Community Strategic Guidelines on Cohesion, 2007-2013”.

Support for education and training will be needed in many areas detailed in this strategy. This will be delivered through the actions in the field of Human Resources Development.

In order to achieve the objective of this thematic priority, the strategy will also target territorial competitiveness and contribute towards a balanced regional development. These actions will strengthen the regional and local business environment with the aim to exploit the Regions' fullest potential. This will be achieved by increasing the competitiveness of local and regional economies in both urban and rural areas, improving the business infrastructure, increasing tourism, improving the conditions for businesses to develop and stimulating job creation. These actions will complement the various strategic interventions by addressing the local and regional needs and will stimulate sustainable balanced growth across the entire country as identified in the Regional Development Strategy.

### National Competitiveness Policies

The Romanian Government's main strategies that support economic competitiveness and will influence the economic and social cohesion are as follows:

- Strategy for the development of SMEs (2004-2008)
- National Strategy for RDI
- National Strategy for the development of ITC - Horizon 2025.

### Productivity growth and creation of a dynamic business base

SMEs, particularly in the high tech sector, will constitute the critical growth engine for Romania and will provide the capacity to boost the economy and development potential. The role of SMEs in creating an innovative, high added value and prosperous economy is recognised as vital and the strategy will create a climate and the conditions where SMEs can start up, grow and thrive. Efforts will be directed towards helping SMEs to compete in domestic and international markets.

The role of the large companies in promoting a sustainable economic growth in Romania is recognised and will not be neglected. Considering the significance of large enterprises in

Romania in terms of both turnover and employment in processing industry and the role that they can play in the diversification of the range of products and services, the need is to increase the competitiveness of these companies, through direct productive investments in modernisation and refurbishment, as well as increased innovation, to the benefit of both large enterprises and SMEs. This will assist in reducing the productivity gap between Romania and Europe and help to stabilise the industrial base and aid job retention and the increase of the employment. However, given that SMEs are the main focus of the competitiveness strategy, the financial allocation for actions targeted to large enterprises will be limited.

It is planned to seek opportunities where high added value sector development can be exploited. This will draw on resources from RDI, IT services, training and 'know how' and skills transfer, development and design of the manufacturing technological systems, software development, end-to-end IT solutions. Romania's natural resources offer a range of opportunity, which could be based around chemical and petro-chemical industries, furniture, including eco-furniture based on Romanian design, bio-fuel production, technical plants processing, clothing industry and agricultural tools and equipment.

According to Romania's Industrial Policy Strategy, high growth potential in the manufacturing sector could be developed around the automotive industry, ship building, equipment and components for industry, petrochemistry, gas, electricity, textiles and leather clothes, based on the creation of Romanian brands. Aluminium and non-iron materials sectors offer further opportunities for specialization together with electronics, electro-techniques, mechanical equipment and paint and varnish manufacturing. Constructions have also one of the highest growth rates.

The contribution of foreign direct investments (FDI) to assisting the transition will make immediate impact on productivity. Managers and workers need to adjust to these changes and to the market realities. Romania will benefit from an active approach to the absorption of FDI. The aim will be to position Romania in the high added value FDI sectors and not unduly reinforce Romania's position in lower added value or declining sectors.

The strategy for enterprises will be to support productive investments particularly with new equipment and technology and the acquisition of intangible assets. Energy efficiency in production and operation, as an important competitive advantage, will be achieved by supporting the acquisition of energy efficient equipment by the enterprises. Particular attention will be given to the lagging behind regions in terms of SME density, by introducing preferential criteria in correlation with the various levels of disparities presented in the analysis.

An important focus will be on the development of micro-enterprises and start-ups. Support will be offered for the acquisition of superior production equipment, modern management systems and improving the quality of services offered to these companies as regards production methods and processes, application of innovation and technology in the activity of the company or the services offered to the companies such as marketing, project management or e-business services.

Support will also be granted for the development of emerging clusters and the creation of the supply chains, by sustaining the efforts of a group of companies to use the economic concentration potential to the fullest (both horizontally and vertically), in order to obtain competitive advantages. The creation of regional business networks and regional technology relay centres will add to the delivery of the strategy. Sectors in transition and growth will receive special attention. Romania seeks to develop businesses of scale, fully capable of addressing opportunities in domestic, regional and global markets and with headquarters and/or key

'higher order functions' to be located in Romania. In this respect, diversification of industrial and business sectors and markets will be promoted.

The development of effective supply chains (subcontracting) that meet international contracting, delivery and quality standards will aid productivity and growth and many of these supply chain operators will be SMEs. Setting up better communications and promoting best practice will aid general business improvements.

#### Business support services and infrastructure

The strategy will aim to improve the general conditions and climate for businesses to grow and expand, with a focus on the growth sectors and sectors where competitive advantages are registered, mainly from the processing industry and advanced services sector that need qualified and integrated assistance. The strategy will allow for the much-needed modernization of production methods, the introduction of quality standards. High value added and competitive production processes will be encouraged, so that companies are able to compete effectively in the single European and global markets.

Support systems will be developed to underpin these processes, including the provision of labour market intelligence, market studies, technological information, the development of new processes and assistance with market penetration.

It is recognised that some of the industrial and business support units are not being fully utilised, due to administrative problems and lack of financial resources; the strategy will seek to create more take up. At the same time, business support structures (i.e. industrial parks, business incubators) will be created or developed based on a national, top-down approach (eligibility and selection criteria being established in line with national strategies for industrial policy, development of business incubators etc.), while taking into account regional and local needs and opportunities (bottom-up).

The presence of business infrastructures able to compete in the national and international markets is a vital factor in the increase of Romania's competitiveness, within the framework of an enlarged European Union, and will create the basis for a better integration of the national economy within the European economy. To this end, availability of appropriate business structures essentially contribute to enhancing Romania's attractiveness as location for investment in economic activities, and a key tool for stimulating the business environment.

In light of the revised Lisbon strategy, it is also necessary to invest in the modernization of local and regional business support structures, which provide support for entrepreneurship and facilitate the setting up and development of micro enterprises. In this context, the rehabilitation of industrial sites will provide the modern infrastructure needed for business establishment and development: buildings, access roads, internal roads, water supply and sewerage systems, electricity, as well as gas. Particular attention will be given to setting up adequate locations for business in the rural areas, areas affected by industrial decline and peri-urban areas (with positive effects on rural areas as well).

Actions will be taken to support businesses through the provision of modern infrastructure including ICT technology and broadband in market failure areas, which will reinforce the interventions and improve business efficiency.

Promoting access to information for businesses and individuals, creation of databases for the dissemination of information and business support online tools will also be important for the creation of a healthy and stimulating business environment.

The provision of good quality and accessible business consultancy and adequate support services are an essential plank to promote competitive growth. The development of a range of consultancy services throughout the regions, not only in the large cities, will be the first step. These services will support businesses in the preparation of their marketing and business plans, advice on access to finance, acquisition of new premises, markets/exporting, production methods, ICT, quality standards, exchange of good practices, mentoring and coaching activities, business angels schemes, know how transfer and training and seminars.

Participation to international fairs, 'meet the buyers' events and conferences, internationalisation of businesses, as well as consultancy for the management systems for this purpose (logistics, websites, identification of suppliers etc) will also receive support under the strategy. A special focus will be given to SMEs, given the fact that the expansion of SMEs export initiatives is extremely important for Romania in its current development stage.

#### Certification and Eco-innovation

Competition on the EU market is fierce and consumers' needs are more and more complex, therefore Romanian companies will have to improve the quality of the products they bring on the market. This action will involve the fulfilment of the requirements regarding the certification of quality, consumer safety and protection and environmental performance standards. The provision of access to consultancy and adequate services, as well as support for the necessary infrastructure will be assured in this regard.

The large scale implementation of the European and international voluntary standards is an example of best practice that has become routine on the developed markets. Environmental and quality certification is an investment that will ensure the presence of Romanian products in the European space and access to the domestic market. Obviously, the existence of a proper certification infrastructure is a critical condition for the elimination of any obstacles in the certification process.

#### Entrepreneurial Development

Growing the dynamism and internationalisation of Romania's entrepreneurial base is the means by which the nation's economy will develop and prosper and by which Romania will respond to the challenges and opportunities of global markets. The strategy will promote the transition to a knowledge based economy and towards occupying a position higher in the economic 'added value chain'. To this end, Romania will invest in the development of SMEs and promote the enterprise culture, in order to create the widest possible pool of talent to grow new businesses.

Actions will be complemented by interventions in the human resources field, focused on improving the transition from school to the workplace and promotion of entrepreneurial culture in education and training. The role of partnerships between the education and research sector and the business environment is important. These actions will be aimed at transition from school to work and to increase the capacity for self-employment. In addition, extra-curricular initiatives and programmes for entrepreneurial education will be supported, as well as initiatives of continuous training within the labour market. The objective is to integrate young graduates into the labour market or to assist them to start their own businesses.

## Access to Finance

The creation of a favourable environment for business funding, in a competitive financial market, will be an essential part of the strategy to support business growth. Companies, business start-ups particularly high tech companies, need finance to grow. The competitiveness of an economy depends strongly on the capacity of small businesses, as an engine for growth and driver for entrepreneurship.

The aim is to support companies through a range of access to finance measures aimed at strengthening the guarantee and co-guarantee functions of the specialized institutions, given that an efficient system of guarantees has undeniable positive effects on the access to financing. Enhancing the local coverage of the guarantee funds through set-up and consolidation of regional and local funds will be also targeted, in order to promote a balanced development.

The development of the venture capital market, micro-financing and other innovative financial instruments may also be supported during this programming period, aiming at improving access to finance for a wider range of companies and sectors.

To support the strategy, consultancy advice will be provided and the financial institutions will be engaged and encouraged to adopt a new attitude towards lending and support to business. To this end, both the business managers' approaches and the attitude on the side of financial institutions such as banks will need to change. Business will need to ensure that sound business planning and management, both financial and physical, is in place to allow private capital investments. Information campaigns will be needed to promote this range of access to funding operations.

The provision of financial support measures to young micro-enterprises and start-ups will contribute to achieving this objective, so that these structures should have access at using also modern methods and technologies for production (e-commerce, e-business, equipment, systems for storage and distribution of goods). Financial support to young entrepreneurs and 'spin offs' will be important.

In order to deliver this strategy, Romania intends to use the JEREMIE initiative, in accordance with the provisions of the Council Regulation No. 1083/2006 and the EC Regulation No. 1828/2006.

## Research, Technological Development and Innovation

Romania will create a healthy environment for research, commercialisation of research and research-led innovation and technology transfer in order to drive business competitiveness. To this end, Romania's target by 2015 is to increase R&D expenditure to 2% of GDP.

Businesses in Romania are currently poor innovators and parochial in their attitude to growth. The strategy is to foster innovation, research and development. Much of the R&D is rooted in the past, is out of touch with modern business methods and is out-dated. The challenge is to energise the R&D institutions – public, private and educational - to the emerging needs of the local business communities. Support will be given to improve access to RDI for companies, especially SMEs, by supporting their innovation activities and developing the RD infrastructure of the companies. Actions will be complemented by investments in human resources, in training the responsible personnel in the field and investing in the future progress.

In order to ensure a significant, long-term impact of the investments, RDI support will concentrate on a limited number of fields (Advanced materials, processes and products, Energy, Environment, Health, Food & Agriculture), selected based on the thematic priorities established in the National RDI Strategy. The other thematic priorities of the National RDI Strategy will be supported from national sources.

Within the framework of the Regional Innovation Strategies, the local authorities will have a key role in encouraging specific initiatives aimed at fostering R&D and innovation, for example R&D partnerships, and tailor them to local needs and priorities. This will involve investment in, and support for publicly led research as well as privately led. Research will be supported that is market-relevant or near-market relevant. Romania will also invest in mechanisms for the commercialisation of research and the protection of intellectual property and the promotion of brands. The mechanisms to promote a research and innovation-oriented culture and the appropriate dissemination of research knowledge will also be supported. Moreover, consultancy and other support will be provided to assist businesses to conduct, commission, absorb and commercially exploit research.

Investments in RDI infrastructure will be needed for the research centres and universities to meet the new demands (laboratories and excellence centres). The building of relationships between universities and research centres will facilitate technology transfer to enterprises. Networking will aid the dissemination of information and assistance for national and international RD projects and co-operation between the private and public sectors. Industrial and pre-competitive research for improving and creating new products, processes and services will stimulate demand, and open new markets. These actions will support development of poles of excellence, assist technology transfer and support job creation. The strategy will help develop knowledge management systems in businesses in relation to processes, products and markets.

The protection of property rights is a fundamental element of competitiveness strategy. In Romania, the protection of intellectual property rights accords with internationally agreed standards and treaties. The protection of IPRs and registration of patents will aid growth, stimulate technology transfer and the dissemination of research results and the conversion of RDI projects outcomes into market opportunities.

#### Information and Communication Technology

To function in the global markets businesses need to have modern communications and production equipment. The application of ICT hardware and software equipment will be required. The provision of ICT services, through "broadband" Internet connections to areas where the market has failed to reach will also be essential to ensure businesses are effectively 'connected'. The availability of communication platforms, the extension of the broadband networks and the dissemination of integrated IT systems are pre-requisites.

The Strategy will seek to systematically stimulate measures for technological innovation and use of its results, internet access and ICT uptake through the improvement of and wider use of ICT in SMEs and schools, establishment of public internet access points network in the areas of market failure (under served rural and small urban areas), ensuring access for all categories of population (including vulnerable groups such as Roma and disabled persons). These services will require access to broadband connections.

The development and effective use of electronic public services will provide benefits for the public and private sectors such as increased institutional transparency, regulatory credibility

and lower costs. These will be achieved through implementing e-Government solutions, e.g. e-education, e-learning, e-health and e-tax. Increasing the security of electronic communication networks will help eliminate fraud and contribute to the achievement of the e-business and e-government objectives.

Romania needs a safe and dynamic e-business environment, which can be achieved by increasing the number and level of exploitation of e-business opportunities by companies in general and SMEs in particular. E-commerce, just like ICT in general, can generate significant cost reductions and can facilitate access to domestic and foreign markets.

## Tourism

Increasing the competitiveness of Romanian tourism industry and improving the country's image by promoting the tourism potential will benefit the tourism industry and have also wider economic and business benefits. For this objective to become a reality Romania must be seen as an international tourism destination.

Romania can boast extraordinary natural resources and a rich cultural and historical heritage. The development of the national tourism brand is a priority. In this respect, the development of the tourism sites and destinations (for winter/ summer season) will be needed in order to improve Romania's image and tourism offerings.

The promotion of tourism products and services on the domestic market by means of an incisive national campaign and boosting domestic tourism are ways of increasing the competitiveness of tourism SMEs and will help to the overall objective of the development strategy in tourism. Another important factor contributing to the intensification of domestic and international tourism circulation is the Internet, as a means of promoting and booking tourism services (e-tourism).

Development of a network of national tourism information and promotion centres, which will function as customer service and promotion centres and which require proper spaces, IT acquisition, software, databases and an integrated system for data collection with on-line access. Such centres would be set up/developed for a limited number of areas presenting a high concentration of tourism resources, irrespective of county or development region borders.

Family businesses and micro enterprises will be at the heart of this revival and build on the production of traditional goods (handicrafts, souvenirs) and services (guide system, folk performances). Through its strong regional focus, tourism will have an important impact on reducing the disparities regarding unemployment rate on gender, by offering flexible working patterns. It will also support capitalization of natural and cultural assets specific to every development region, as well as create diversification opportunities at local level, especially in the rural and mountainous areas.

Investments in tourism and culture will allow Regions to use advantages provided by the tourism and cultural heritage in order to improve their competitive advantage in sectors with high added value and high qualitative and cognitive content, both on traditional and new emerging markets.

This development of tourism will be achieved through the improvement of infrastructure and tourism services, diversifying the tourism offerings and the development of eco-tourism, spa-tourism, cultural and historic tourism. The complementary development of road infrastructure, connected to the national transport network capable to ensure an easy accessibility to tourism

areas, as well as the social services infrastructure, to improve the life standard in the regions, are essential to tourism development.

The development of tourism has to take into account the principle of sustainable development, with the aim of preserving natural and cultural assets and minimizing the 'human pressure' on environment.

## Development and More Efficient Use of Romania's Human Capital

The objectives of the HR strategy are to provide better education, higher skills and improved management capacity and to ensure that education and training meets the needs of Romania's modern and expanding economy. The strategy is in line with the Community Strategic Guidelines for Cohesion 2007-2013, the revised Lisbon Strategy (the Integrated Guidelines for Growth and Jobs 2005-2008) and the European Employment Strategy. These documents provide the guidance for the essential components to assist in reaching the overall community objective for growth and jobs.

It recognises that increasing economic competitiveness demands effective utilization of all human resources. The strategy takes into account the revised Lisbon Strategy and embraces a range of issues that will focus on increasing investment in education and learning, engaging education with the world of work, attracting and retaining more people in employment, increasing labour supply to meet demand, improving adaptability and entrepreneurship and promoting equality and social inclusion.

The HRD strategy aims to target inactive people, assisting them to re-integrate into the labour market and reducing unemployment. Together with the development of the knowledge-based economy, the strategy will support the enhancement of the entrepreneurial culture and the increase of adaptability, creating the basis for wider career options.

The HRD Strategy addresses the objectives of the Joint Assessment Paper for Employment Policy (JAP) and in so doing, it will strengthen the efforts to ensure that all pupils can access and complete compulsory education. It will also broaden access to upper secondary education. Efforts will be intensified to improve the provision of education for vulnerable groups. Reform and improvement of the quality of the vocational education training system (VET) will be pursued to meet the long-term needs of the labour market.

The delivery of the strategy recognises the role of the social partners and that of the civil society in this work particularly amongst vulnerable groups, particularly the Roma community and other ethnic minorities. Capacity building for the partners will be important to strengthen this network of support agencies; where none exists, actions will be taken to build them. These measures will have long-term benefits and assist entry and re-entry into the labour market. In the light of the analysis undertaken in Joint Inclusion Memorandum (JIM), the strategy addresses the most immediate needs to tackling poverty and social exclusion. The central core of this policy is based on life-long learning, VET and anti-discrimination actions.

The actions proposed in the field of education and employment are in line with the following documents:

- Strategy for Pre-university Education development 2001-2010
- Strategy for Continuous Vocational Training on short and medium term 2005–2010
- Strategy for decentralization of education 2005
- Strategic Guidelines for Education and Research 2006-2008

- JAP and the Progress Reports
- National Strategy for Employment 2004-2010
- National Action Plans for Employment 2002-2003 and 2004-2005
- Regional Actions Plans for Employment and TVET.

Romanian legislation and Strategies that support these EU policies, which improve the situation of vulnerable groups and promote social inclusion, are as follows:

- Joint Inclusion Memorandum (JIM)
- National Strategy for developing social services (GD No 1826/2005)
- National Strategy for protection, integration and social inclusion of the disabled persons 2006–2013 (GD No 1175/2005)
- Government Strategy for improving the Roma situation (GD No 430/2001)
- National Strategy on social inclusion of young over 18 leaving the State Child protection system 2006-2008
- National Strategy for Equal Opportunities between Women and Men (GD No 319/2006).

The human resource strategy will contribute to increases in qualifications and employability through the modernization of Romanian educational, training and employment systems to meet the demands of the knowledge economy, through promotion of life long learning as well as through the creation of a modern, entrepreneurial, flexible, adaptable and inclusive labour market.

In order to achieve the objective of this thematic priority, the strategy will target the rehabilitation and modernisation, to European standards, of infrastructure in education, health care services, social services and public emergency services. These actions will have a regional focus that will enhance the general level of attractiveness of the regions and help address the disparities between the regions that are identified in the Regional Development Strategy and the significant urban/ rural disparities.

### Education and Training

The provision of modern quality education and training is the key element for addressing the specific needs of the knowledge based society and labour market. The early stages of initial education are fundamental in the delivery of skills and competencies needed to develop a flexible and competitive workforce. The relevance of all stages of education to the world of work will be improved and employers will be encouraged to work with educationalists to make the curriculum attractive to young people of all ages and to meet the labour market demands.

Creating and developing flexible learning pathways, and delivering modern quality education for all will achieve the reform in education. The promotion of entrepreneurship will be taught at all levels of education. For adults, the strategy will be to increase skills and competences of the work force and potential to meet the demands of the future labour market.

Guidance and counselling will be developed to support higher educational attainment, increased participation in education, transition from all levels of education to work. The actions in this respect will reinforce flexibility and adaptability of the system and will support increase of the participation in continuing education and LLL. These actions will assist in fighting against early school leaving and aid returning to work.

Actions will be implemented in order to assure a better quality of education and training at all levels, thus supporting the capacity to deliver the knowledge, skills, qualifications and attitudes

to underpin competitiveness and further development of human capital. The support provided for an effective implementing of validation of prior learning will facilitate the introduction of a life cycle approach in education. The development of quality assurance mechanisms and of the National Qualifications Framework will contribute to a better articulation between education and initial training and CVT, improved definition and transparency of qualifications and relevance for the labour market needs.

Stimulating participation in education and reducing the early school leaving will be a key objective of the education strategy in the next period. The approach to early school leaving will be based on two types of actions: preventive - through the development and increased access to preschool and school education, after school programs, provision of guiding and counselling, development of relevant curriculum, learner centred teaching, awareness raising campaigns etc.; and remedial/corrective - through the development of programs for reintegrating early school leavers in education, second chance education, remedial education, flexible forms of education etc. Special attention in this respect will be given to reducing the early school leaving and stimulating participation in education of Roma population.

In case of higher education, the National Qualifications Framework in Higher Education will be organized according to the legal framework in force (GD No 88/2005) defining the university domains. The implementation of the National Qualifications Framework in Higher Education will be supported by the development of a specific IT management tool for the National Register of Qualifications in Higher Education.

The development and implementation of new standards, tools and mechanisms in education and development of staff for effective governance and cooperation between schools, universities and education management will be important for developing the systems and providing grounds for equipping the graduates with the skills and knowledge needed in a expanding economy.

The strategy will target the development of teachers, trainers and researchers. This will specifically address disparities between the urban and the rural areas as in rural areas qualified teachers and trainers are significantly under represented. Programmes for continuous training of HR in education and master programmes will be developed, together with development of new professional and career opportunities for teachers and researchers. Special attention will be given to the entrepreneurial and managerial skills of the researchers in order to maximise the value of the research results through 'spin offs' and 'spin outs' and to increase capacity of the Romanian researchers to access EU specific programmes.

Special attention will be given to the development of university education, by providing support and assistance to develop and implement methods to support staff development, develop the quality of the education, new teaching techniques and promote the use of ICT. Currently resources are concentrated in the major urban centres. The strategy will ensure that educational services have outreach facilities and better information systems that will help improve the resources available in the rural areas and increase access to education and training. Post-doctoral programmes shall be also promoted with a view to supporting research in competitive economic and technological areas.

The promotion of the partnerships between education / research and businesses will provide the basis for relevant and responsive education to the specific needs of the economy. Support will be granted for creation of partnerships between schools, research establishments, universities and particularly private sector companies to ensure the needs of the market are

addressed and that the results of research and development are converted into real job creation actions.

Improved education-industry interaction and partnerships will enhance the capacity of Romanian schools and universities to support the industry and economic development. Job creation and employment objectives will be addressed through the support provided to education and initial training to enhance its capability to become a dynamic partner and offer the knowledge, skills and qualifications relevant to the industry and community. Continuous development of HR employed in the educational sector will also be important.

Continuous vocational training plays an important role in this process and the development of initial VET represents a key objective of the Romanian mid term 2005-2010 Strategy for CVT. The provision of quality initial VET is critically dependent on curricula development and up date, teachers and instructors development and the strategy envisages actions in this respect.

ICT is at the heart of a modern education system. The strategy is to invest in proper physical infrastructure to build knowledge based economy, through education, continuous and vocational training systems. Modernization of the educational infrastructure and increasing the usage of the ICT will also support and improve skills and abilities of the nation. ICT networks will be extended and access to Internet will be assured for the educational units through broadband connections. Support for the creation of websites and set-up of e-learning portals, with non-restrictive access will be granted; moreover, development of customized integrated learning applications will be supported and adequate training of staff will be provided.

Poor infrastructure in education severely hampers learning and devalues education. The aim is to address this issue as a priority and provide schools with basic utilities (electricity, running water, sewerage), as well as computers. The strategy will aim to upgrade the poor state of buildings and equipment, as well as to assure availability of books and study materials. Investment will support the rehabilitation and extension of education building and auxiliary units in schools. Attention will be also given to providing the necessary equipment – including ICT – and access for children with disabilities.

Responding to the need of assuring adequate conditions both for education and LLL as well as and other types of work related training, will be improved by the creation of educational campuses, through which the clustering of activities in education will be targeted. Development of campuses in all regions will be adapted to the local needs and will support the national and local efforts to increase participation and access to education. The specific needs of the de-industrialized near-urban, rural and disadvantaged areas will be also considered.

### Guidance and Counselling

The active and preventive measures planned will be aimed at promoting full employment, by attracting and retaining more people in employment, including those in rural areas and also at reducing unemployment. The actions supported will have positive results on the unemployed and also on employers' attitudes towards engaging staff. Through counselling and aid to job seeking and improved participation in vocational education and training courses, the measures will result in eliminating the different barriers to the labour market and increasing labour flexibility life cycle approach to work, employment security and greater mobility. Actions aimed at assuring a better match between the individual skills, education and work potential and labour market opportunities by conducting diagnostic assessments will be also promoted. Information is essential, both for the job seekers and employers and in this respect, necessary means will be developed to facilitate and stimulate job seeking. Counselling and training will be

provided, especially for the unemployed. The role of information and free access to comprehensive information is also recognized. Development of an adequate legislative framework necessary for take up and maintaining employment is also essential.

The strategy will pay special attention to developing employment opportunities for rural areas through the provision of outreach services in the rural areas and development of integrated programmes for education, training and employment aimed at reducing subsistence agriculture and redirect the rural population towards other economic activities, as well as to developing special measures for combating youth unemployment and early school leaving.

The Public Employment Service, represented in Romania by the National Agency for Employment with all its country and local structures, will play an important role in this respect. Actions will be taken for improving the quality and efficiency of the services provided by this structure, at national, regional, but also at local level. Actions of this type fit in the larger framework of actions for improving the administrative capacity of the public central and local administration in order to allow maximization of efficiency in the efforts to achieve economic growth and maximization of efficiency in terms of utilization of human resources and capital. Designing personalized services and the use of modern tools and solutions will assure the best opportunities for the reintegration of all job seekers. Training of the personnel in this structure is important for the success of the strategy.

### Employment and Combating Unemployment

Attracting and retaining more people in employment will be achieved through a strategy aimed at improving the education system, as well as through promotion of active employment measures, combating unemployment and promotion of social inclusion in education and work. These actions will contribute to the development of a competitive human capital, able to respond to the challenges and opportunities created by the global economy.

Promoting active labour market policies, complementarily to a modern education and LLL system for those who have left education and wish to return to learning will be developed. This will assist those who feel excluded from the labour market to learn how to contribute and will strengthen social and territorial cohesion, by increasing employment rate and improve quality and productivity at work.

Support will be granted to employers for the creation of new jobs opportunities simultaneously with the promotion of a business friendly environment and promotion of entrepreneurship for the development of new businesses. These actions will be supported by active labour market policies to assist reorientation to the world of work. Where needed, interventions could support SMEs with equipment to aid employment of disadvantaged people.

Undeclared work in the black economy will demand special attention. The measures foreseen will also target reducing this type of work relations, by integrating these people in the official labour market. In this respect, campaigns for raising awareness and supporting measures to formalize the labour market relations will be promoted. Set-up of local and social partnerships will be encouraged, while also acting towards development of analysis and prognosis of labour market challenges related to undeclared work or informal employment and dissemination of best practices.

Reversing the 'brain drain' and improving employment level will be achieved by encouraging higher quality of work. These actions will link to the strategy of the Competitiveness thematic

priority. Social services and health provision together with health and safety at work will complement the quality improvements sought and will aid productivity.

Health and safety of the labour force shall be also ensured by promoting safe and healthy work conditions (including limiting risk factors at work) that will contribute to ensuring the physical and mental health of the personnel, thus maintaining its work capacity. Campaigns on preventing health risks, such as on the need to undertake regular medical check ups, the damaging effects of tobacco or alcohol, on the need to preserve a proper working environment, free of risk factors, including stress, noise and pollution, shall also be promoted. The interventions will also support cross-sector activities in environmental education, health care and healthy working environment, in support of a better education of the employees in relation to the changes taking place in the economic, social, technological and environmental conditions. By achieving all these, the new technology and the changes in the demands and work conditions will have a more visible positive impact on the labour force, on the professional performances and, finally, on the labour productivity.

### Adaptability and Flexibility

Improving adaptability of workers and enterprises and the flexibility of the labour force will be achieved by promoting entrepreneurship. This is a key plank in the strategy and one that needs addressing across the worlds of education, training and employment. Success will lead to job creation and start up in business, whereas increased research in science and technology will lead to business “spin-offs” and create new jobs. Concentration on these actions will contribute to the promotion of full employment, economic growth and development of a more competitive labour force. The actions will also build skills, personal fulfilment, active citizenship, as well as improve social inclusion and employment.

Development of partnerships and active participation of the social partners and civil society will be used to initiate various activities and operations that in various ways seek new methods and test new models with the aim of changing both present traditional arrangements and attitudes: innovating methods for flexible work organization, health and safety at work, reconciliation of work and family life.

Life long learning will be one of the planks of the strategy and the target for 2015 will be 8% participation rate in training programmes (participation in 2004 - 1.5%). This will be achieved by transforming schools into centres of continuous learning and resources, creating new and wider learning opportunities for the young people and adults. The transferability of learning will be addressed together with the culture of continuous learning relevant to the labour market will be the target at all levels of education and learning.

An important role in increasing employability will be the provision of continuous vocational training (CVT). This will provide the competencies people need to access new and better jobs generated in the labour market. Expansion of CVT, both public and private will encourage employers to train their employees and support LLL. Standards for certifying the quality of CVT will be developed, together with a national qualification framework and actions will be taken towards improving the professionalism and status of trainers. This will be important in ensuring employability of young people and fighting early school leaving.

The economic development will depend on the ability of enterprises and workers to absorb new information and to put it into practical use as well as the rapid involvement in research, development and innovative activities. In this respect, the area of intervention for specific training will concentrate mainly on the support of a new information economy development, a

boost of professional qualifications in all sectors, but mainly in industry, services, environment and tourism. Examples of areas that need further development are innovation in industry, IT development and integration of environmental aspects in common activity management, regional marketing and management of tourism.

### Social Inclusion

The people at disadvantage in the labour market face multiple problems that affect their economic and social integration. The services that will be developed in this area will focus on supporting active labour market measures and policies, equal opportunities, as well as creating an inclusive labour market. Interventions will be directed towards enhancing the abilities of disadvantaged people to improve their standards of living, by improving their skills and education level and also by providing an environment where they can participate in education, training or work. In this respect, national surveys regarding the “at risk” groups and population and risk factors and indicators for education and training providers will be needed in order to support the national policies for the prevention of social exclusion. The strategy is to engage citizens in initiatives and partnerships to provide training programmes and supporting services to increase employment. Increasing individuals’ confidence, awareness of the existing situation and the opportunities available will assist their entry or re-entry into employment.

Efforts for mainstreaming the practice of school mediators will be made. This will fully contribute to increased access and participation in education. The progress made in supplying well qualified staff in education will contribute to avoiding de facto segregation and to ensuring equal access to quality education for all. That will be complemented by actions undertaken for developing educational offers and for increasing community awareness and participation in education and initial VET.

The strategy will involve strengthening investment in social infrastructure, through rehabilitation and equipping local social and residential centres, and providing a complete framework for the delivery of social services. These social centres with multifunctional purpose will provide counselling, analysis and medical diagnosis, as well as offering legal-administrative advice, preparation and coaching for employment, food, day-care and disabled facilities. Modernising the residential accommodation units, through rehabilitation and acquisition of new equipment, will improve the quality of services provided in these centres. The effect will be to improve the general situation of the vulnerable groups and promote their social inclusion. Actions for promotion of flexibility and mobility of the workforce will support increased productivity and promoting the reconciliation of work and family life. Promoting social economy will also have as a positive effect the employment of people belonging to vulnerable groups who otherwise would have difficulties in finding a job.

Supporting specific programmes in this respect as well as designing awareness campaigns will also promote equal opportunities. The measures proposed will improve the employment opportunities of women through interventions on both the labour supply and the labour demand side. The enhancement of these services also serves for a better use of the employment potential of the service sector.

For the purpose of implementing actions and activities aimed at sustaining and fostering the integration on the labour market of third-country workers, it is envisaged to set up a coordination mechanism for joint programming to assure coordination, complementarity and avoidance of double financing in respect of the European Fund for the integration of third/country nationals (2007-2013).

## Health and Welfare

The strategy is to improve the general health and welfare of people through the provision of health care, hospital services and infrastructure that meet modern day standards. E-health and interconnectivity will contribute to the strategy and improve over all efficiency of the health system. These measures will lead to productivity growth and reduction in number of days lost at work, as well as extension of active life and reduction of the number of dependent persons per employed person; all these will assist productivity and boosting economic growth.

In order to make the health system more efficient, capable to treat difficult urgent cases at the highest standards, the national health strategy foresees the improvement of the hospitals' infrastructure, both buildings and equipments. Taking into account that most of the hospital infrastructure is old (the majority of hospitals being older than 50-100 years), an evaluation of the Ministry of Public Health identified a number of county hospitals, whose resistance structure allows for a rehabilitation and equipping process. The hospitals identified for rehabilitation with support from Structural Funds cover seven out of the eight Regions (the exception is Bucharest-Ilfov).

Social services at local level have to satisfy the needs of all disadvantaged groups, by solving, in an integrated manner, the problems of vulnerable social groups at community level. Investments are needed in buildings' infrastructure and equipments, so as to bring them up to standards and, thus, improve the quality of services. The actions in this field will take into account the de-institutionalization principle promoted by EU and national social policy.

Actions will also be taken towards investment in the national network for emergency and public safety services. The provision of modern equipment and infrastructure will ensure that the emergency mobile units and public safety intervention teams maximise their impact on the health and welfare of the population and thereby enhance economic development.

Structural Funds investment will contribute, together with allocations from the state budget and external loans, to the significant financial effort needed to upgrade the healthcare system.

## Building Effective Administrative Capacity

The strategy recognises that improvements in socio-economic performance need to be supported by good governance. Clear policy formulation and legislative framework are needed to allow maximum impact of the investments in human and physical capital. Actions will support the modernisation of public authorities to facilitate the development of a knowledge-based economy, create an environment where innovation is valued not stifled and make the effective use of 'know-how' and new technologies. Developing the human capital of public administrations will be essential and structural reforms and administrative capability will have to be improved.

The commitment to improve public trust through real developments in the responsiveness and reliability of central and local public administration lies at the heart of the strategy. This constitutes a major challenge for Romania. Improving 'the way business is done' (both public and private) is essential to achieve economic growth and socio-economic cohesion with the EU. This requires the involvement of local and national authorities at the highest level to operate with transparency, consensus and responsiveness, accountability, effectiveness and efficiency, equity and following the rule of law. For the public administration, the reforms involve a change from a rules based administration that focuses on the control of inputs to a result

oriented management approach that holds managers accountable for the outputs and results delivered with the resources allocated to them.

The main success factors for a responsive and reliable public administration to deliver better services are: the quality and competence of civil servants, support to policy and strategic decision making, organisational effectiveness, decentralised management of service delivery, stronger quality and efficiency frameworks (including a reduction in the administrative burden) and support to absorption capacity.

The strategy addresses the same overarching areas that have been addressed by the Public Administration Reform Strategy 2004-2006 (PAR) and goes further to identifying specific sectors where the improved public administration performance would bring about direct benefits in terms of economic growth and improvement of employment.

Actions will be supported towards strengthening the institutional management capacity of the central and local administration by implementing a strategic management approach to the allocation of resources and the measurement of performance. The goal is to strengthen policy formulation, accountability, organisational effectiveness and the quality and efficiency of service delivery on a decentralised basis. These actions aim to provide high civil servants and management level personnel with the knowledge and tools to make better policy choices and strategic decisions and thereby enhance team performance and enable better results within ministries and local institutions.

The interventions under this thematic priority shall concentrate on solving public sector bottlenecks that hinder socio-economic development and on the most crucial elements of the public administration reform. Based on a preliminary analysis, Health, Education and Social Assistance have been identified as the most important candidates, given the size (number of public institutions and employees), the budgetary expenditure, the pressure exerted on public administration current responsibilities and the number of end recipients of the public services delivered. Moreover, these sectors are going through a decentralisation process, by which more responsibilities are being devolved to the local authorities; the successful implementation of the new service delivery approach clearly requires significant support for capacity building. Provided they demonstrate similar impacts, other sectors may also be supported during the programming period.

Efficiency in public services leads to increased productivity in the economy, e.g. through faster procedures, improved customer services, while well-functioning institutions and public administrations are a pre-condition for the successful design and implementation of policies to promote socio-economic development and to contribute to growth and employment. Some specific public services, which have a direct impact on the budgetary revenues at central and local level, such as tax collection, deserve due consideration through specific interventions in order to improve their efficiency and their friendliness towards the “customers” (businesses and citizens). Also, effective institutional and administrative capacity is the key to good governance – an essential element of the Lisbon Strategy.

At the level of local administration – counties, municipalities and communes, the strategy is to concentrate actions on process improvement for enhancing the efficiency, quality of service, customer service, and measurement of performance. A decentralised / deconcentrated administration is considered particularly appropriate for Romania due to the size, dispersion and large number of small communities (2,851 communes) in the country. The Romanian Public Administration Reform strategy is based on a commitment to significant decentralisation of service delivery (including outsourcing to the private sector and/or public-private -

partnership) and a deconcentration of many public services from central government to more efficient organisation units that can operate closer to the end recipient.

The implementation of local development strategies requires integrated planning and a smart mix of own budgetary resources and external financial resources (grants and loans). This is a challenge for most local authorities. Consequently, particular attention will be given to enhancing the capacity of the local administration to design and manage comprehensive development plans, including their ability to attract development funds (state budget funds, Structural Instruments, other EU funds, loans, etc.).

In order to ensure the use of Structural Instruments in the most efficient way, in compliance with Community acquis and the relevant policies, each Member State has the obligation to monitor, evaluate and control structural funds expenditure, as well as to inform about and publicise this financial assistance and its implementation system. For these horizontal key areas of intervention, the measures will be taken on the basis of the principles of complementarity, subsidiarity and logical coherence, with due concern for the guidelines underlying the Structural Instruments implementation system. The strategy will ensure that Technical Assistance will be used to strengthen the delivery of the NSRF specifically for each area of intervention, so as to improve the capacity of all the institutions with responsibilities in the field. The role of technical assistance is recognized as regards the capacity to prepare good and efficient projects with an impact.

Moreover, special attention will be paid to horizontal issues, such as public procurement and state aid, in order to provide the framework for ensuring full compliance with the EU and national rules in these fields. Organisation of meetings and events dealing with key thematic issues (such as: sustainable development, equal opportunities, information society, SMEs development etc.) is envisaged in order to highlight the positive contribution of Structural Instruments (through various OPs), as well as to identify future actions to improve performance in these areas.

The strategy will direct resources to improve the preparation of the authorities responsible for NSRF management, implementation, communication and publicity, monitoring, evaluation, horizontal issues, certification and audit and towards improvement of the effectiveness of operation of SMIS, as an effective single management information system able to provide also transparent information on funds absorption. Horizontal activities aiming at general public awareness on the role of the Community support and an overview understanding of the interventions of structural instruments will also be supported.

Special attention will be given to modernising the management and the administrative capacity in institutions playing a key role in the effective absorption of Structural Instruments. Areas such as road and railway infrastructure, environment, regional development (Regional Development Agencies) and R&D are envisaged for such support. The interventions will not only target the specific functions related to the implementation of the Structural Instruments, but will aim to have a wider effect on the capacity of the institutions operating in the respective areas to better manage their competences within the overall framework of national development policy.

The beneficiaries will also receive support in order to be able to build projects eligible to structural instruments. The strategy will support guidance, research projects, training, exchange of experience and best practices for the purposes of efficient management of structural instruments support and will contribute to the development of a sound, efficient and transparent NSRF implementation system.

A specific Training mechanism, coordinated by the Training Development and Coordination Unit inside the Directorate for Technical Assistance (Ministry of Economy and Finance), ensures that the entire training process for the management of structural instruments will be effectively co-ordinated and delivered. The TDCU, with the support of the institutions involved in the management of the structural instruments will perform an annual training needs analysis and will draft a common annual training plan.

A horizontal ad-hoc external evaluation will be commissioned in 2008 by the ACIS. This evaluation will especially focus on implementation and process issues across all the programmes, in order to identify potential problems and propose to ACIS and to the MAs corrective actions.

### 3.3. Promoting Balanced Territorial Development

The territorial strategy of the NSRF responds to the territorial development needs of Romania and aims to ensure the coherence of the investments and strategic actions planned, as well as to achieve the highest impact in terms of economic and social development.

Whereas the NSRF Global Objective aims to generate a higher level of development across the entire territory of Romania with a view to achieving external convergence with the EU, the internal cohesion will also be targeted.

Thus, the NSRF will seek to contribute to stopping and hopefully reversing the widening trend of regional development disparities in line with the National Strategy for Regional Development and the development strategies of the eight NUTS II Regions, by improving infrastructural conditions, business environment and the human capital for facilitating economic growth. In the process, a special attention will be given to the development and valorisation of the local and regional capital and to maximizing the competitive advantages of the regions.

The strategy will have a polycentric approach by targeting the development of the national urban network. This approach is facilitated by the relatively even distribution of urban localities across the country. Urban areas act as engines of economic growth for regions and sub-regions, and especially for the surrounding rural areas. Therefore, the strategy seeks to provide the necessary conditions for tapping the urban potential and enhancing the contribution of cities to growth, jobs and social cohesion in the regions.

Within this framework, the NSRF strategy will target development of existing or emerging growth poles / corridors. It will seek to create the conditions for concentration of development in areas around the poles/corridors as well as an efficient connection network at regional, national and trans-European level. The dynamic regional poles will be reinforced through improved accessibility and interconnectivity, better conditions for living and for business development, more efficient use of the human resources and better governance. This approach will involve making strategic choices at various stages in the planning and implementation process and a clear prioritisation of actions at national and regional level.

At the same time, the strategy will support and encourage the growth of the medium and small cities, as a means towards achieving a balanced development of the whole territory of the country. This reflects as well the solidarity principle, which is a key feature of the Cohesion Policy. The objective is to develop the basic urban functions, build on the endogenous potential and create the conditions for sustainable growth.

The NSRF is correlated with Romania's 2007-2025 Strategic Concept of Spatial Development and Integration in the European Spatial Structures (SCSD). The long-term strategic objective of territorial development is the assertion of Romania's regional and European identity, as a hub between the North-South and East-West, as well as a connection between Europe and Asia. As well as through physical and communication connections, this increased integration will be achieved through sustainable development, reducing gaps and increasing competitiveness, targeting also a balanced development within the country.

The SCSD takes into account the regional, national, cross-border, inter-regional and trans-national levels, and has the following objectives:

- Connecting the national network of development poles and corridors to the European and inter-continental ones

The aims are to finalize the connection to the European corridors, to develop a balanced polycentric network, with sustainable impact upon the rural areas and to reduce disparities among specific areas and regions.

The structure of development poles network takes into account criteria such as: the position and importance within the country development profile, the level of economic development, the quality of services and the role in the services supply, the administrative status, population and human resources, the development level in terms of research and technology, sectoral restructuring issues, inter-regional and national accessibility, potential of territorial networking, connectivity to the EU development corridors and the strategic geographical position.

- Structuring the country wide network of urbanization through its balanced development

Given the expected increase of urban population in the long run, the aims are to develop the transport and communications infrastructures at regional and national scales, in support of development processes and to develop and strengthen the specific urbanization structures: metropolitan areas, urban polycentric areas, development corridors, urbanized rural areas etc.

- Asserting the urban-rural cohesion according to specific territorial identity

This will be achieved through endogenous rural development based on diversity and performance, increase of accessibility and services quality, development of urban-rural connections, as well as through promoting and enhancing urban-rural and rural-rural partnerships and associations based on commonly agreed development goals. The process will address in a first phase, the rural areas within 25-30 km from urban areas, the peripheral rural areas with tourism potential and the disadvantaged areas.

- Strengthening of trans-Carpathian accessibility and connections in support of balanced regional development

The objective addresses the harmonisation of the regions' capacity to attract competitive activities by increasing accessibility. The main measures are oriented towards the creation of a national territorial inter-connectivity system of regions, specifically between West and East, as well as between the Central and Southern parts of Romania, and strengthening the trans-national cooperation in the Carpathian, Danube and Black Sea areas, towards providing the needed regional knowledge infrastructures connected into a national system and to the Pan-European networks.

- Protection and valorisation of natural and cultural patrimony

This is targeting the integrated management, protection and valorisation of natural and cultural patrimony and cultural landscapes, through cautious use of forestry and water resources and of the edaphic support, as well as through adequate management of biodiversity, taking into account the derived risks from antropoc activities and climate changes.

These objectives are in line with the EU priority action areas included in the Community Strategic Guidelines for Cohesion Policy 2007-2013, which provide for

- the strengthening of contribution of cities to growth and jobs.

This will be achieved through improving competitiveness and actions that support balanced development between the regions and the urban centres. This will include the promotion of entrepreneurship, creation of local employment and community economic development through urban regeneration projects and the rehabilitation of physical environment and assisting social and cultural integration and combating discrimination.

- supporting the economic diversification in the rural areas.

This will involve an integrated approach between the Structural Instruments and the European Agricultural Fund for Rural Development and the European Fisheries Fund. This will provide a minimum level of access to services of general economic interest and connectivity. Tourism development will enhance local areas and provide social and environmental benefits. It will also focus on the creation of development poles in rural areas and targeting the creation of economic clusters to capitalize on the existing potential.

- support of the cross-border, transnational and interregional cooperation within an European context.

The actions aim to strengthen the interconnectivity of the territories, through the development of the transport and communication infrastructure, promotion of know-how transfer and development of common activities and initiatives.

### Regional Cohesion

The transition to a market economy showed that market forces left to themselves, tended to spread economic growth and job opportunities unevenly in the country and exacerbate the problem of regional disparities. Therefore, the NSRF strategy is promoting a sustained and efficient policy to counteract this effect and to ensure a more balanced distribution of growth and opportunities all over the Country.

The strategy will aim to diminish the inter and intra-regional disparities by stimulating the areas with growth potential and helping the lagging behind ones. Rural areas are an integral part of this approach, being targeted through the combined action of Structural Instruments, EAFRD and EFF. Integration of all the relevant regional and national policies in the field will be important in the process.

In this context, the strategy will give high importance to promoting a polycentric approach to development. Enhancing the role of urban centres as regional drivers, with a view to their identified potential for growth, will be at the heart of the strategy. In this respect, the dynamic urban poles will be supported with the aim of promoting rapid growth, creating jobs, boosting productivity and generating a positive spill-over effect on the surrounding areas, thereby contributing considerably to the overall development of regions. Also, due attention will be given to those cities with an important or potentially important role in the region, but whose development has been affected by various factors. At the same time, the active support of the small and medium sized cities will aim at enhancing their economic and social role in the area and will contribute towards the objectives of balanced development and social cohesion.

The different components of the strategy will be addressed through the ROP and SOPs and draw on all the Structural Instruments. At regional level, the intervention mix will be based on a combination of public investments in infrastructure aiming to improve accessibility (SOP Transport, ROP) and enhance living standards in all regions (ROP, SOP Environment), active policies to stimulate business activities (SOP Competitiveness, ROP), support for human resource development (SOP Human Resources Development) and actions to improve regional and local administrative capacity (OP Administrative Capacity Development).

Moreover, in order to address the specific problems of the Regions and in order to support the catching-up process for the lagging behind ones, indicative allocation of funds, differentiated by Region according to their economic and social development will be used under some OPs (ROP, SOP HRD). The strategy for the allocation is based on transparent and objective criteria, such as regional GDP, population size and employment indicators.

In order to achieve the highest impact of Structural Instruments interventions on the overall development of regions, integrated planning and coordinated implementation of the actions proposed under all the OPs is essential. This will be done having in view the national priorities as well as the regional development strategies. Actions supported by the EAFRD and EFF will also contribute to the overall strategy, in close correlation with the Structural Instruments.

The planned actions will be implemented in the context of preserving and enhancing the endogenous potential of the regions in the following areas:

- Improvement of the regional and local public infrastructure
- Strengthening of the regional and local business environment
- Development of regional and local tourism
- Support for sustainable urban development
- Development of the human capital
- Promotion of territorial cooperation

This will include investment in transport, social and business infrastructure, support for improved adaptability of the labour force, life long learning, education and training for local communities and integrated development of tourism and cultural assets. Combating social exclusion will be a horizontal element of the strategy. Moreover, the actions will follow an integrated approach that will embrace the principles of sustainable development and equality of opportunity. These actions will also aim to stop the economic decline and the 'decoupling' of some regions, particularly the former large mono-industrial centres which have been affected by industrial restructuring.

Small and medium towns encounter particular difficulties, compared to larger urban centres and the strategy is aimed to assist these towns through improving accessibility – modernisation of transport infrastructure, telecommunications, water and sewerage networks, social housing and renovation of residential buildings, public lighting, educational facilities (i.e. schools, kinder gardens), training centres, libraries, health services and hospitals. Strengthening links with the regional growth poles is essential for reducing isolation and benefiting from the development spill-over generated by such poles.

Weaknesses in the integration of economic systems at regional level have been identified and the strategy aims to ensure effective links between urban centres and peripheral rural areas, through improved local transport, improved access to services either locally delivered or IT based. Investment in transport (road, rail, air and water) will also help to improve connections between the urban centres in the same region, adding further strengthening mechanisms to regional development.

The strategy will increase the competitiveness of regions as business locations and make regions more attractive to investors. To support the regional/local economies affected by industrial restructuring or traditionally underdeveloped areas (border, mountains etc.), the aim will be to encourage SME development, access to innovative technologies and services and maximising the commercial outcomes from R&D activities. Innovation based on the national and regional innovation strategies, involving all the relevant stakeholders, will be encouraged with the aim to capitalize on the competitive advantages of the regions.

The regional strategy is effectively linked to improved education and training and will provide better facilities. The effect will be the improved supply of labour to meet existing and increasing demands for labour. The creation of a new generation of entrepreneurs in the regions will be essential to stimulate growth and assist the lagging behind regions to develop and create new jobs.

Tourism offers Romania significant growth potential and the strategy is to provide effective marketing and improved Regional tourism facilities aimed at increasing the number of visitors and their length of stay. The development of the Regions' rich natural and cultural heritage will provide the attraction visitors demand.

Across the country environmental problems exist, often caused by industrial restructuring and the strategy is to invest in rehabilitation of these sites and developing them for productive use. As these sites also produce unhealthy conditions, their rehabilitation will be beneficial for the population's health, will reduce social distress and improve living conditions.

The move to decentralized administration has determined an increase in the responsibilities of local authorities. To the traditional responsibilities related to the delivery of water, wastewater, solid waste, district heating and local transport services, new responsibilities in education, health and social services have been added. In order to continue the decentralisation process, the need is to develop the local authorities' capacity to manage public services. The strategy will provide interventions and investments to improve management and planning and thus improve accessibility and increase the flow of information about opportunities and services.

The coordination of this strategy will rest with the central authorities and will also benefit of support from the Regional Coordination Committees. Effective coordination and strategic prioritisation are the key pre-requisites for maximising the benefits deriving from the regional and local competitive advantages, for promoting an integrated development at regional and local level, and for reducing economic and social disparities. The SMIS system will have a major role in the coordination mechanism, by allowing the continuous monitoring of progress as regards the regional absorption of funds and their impact on regional disparities and thus enabling the adoption of corrective measures, when and where needed.

### Sustainable Urban Development

Within the polycentric approach of development, the role of the urban centres will be reinforced. The concentration of population and economic and cultural activities in towns and cities, along with the role of cities as development poles and transport hubs justifies the investment in physical regeneration, environment and social services and the support for improvement of entrepreneurship in the urban centres. The Regions' development level is directly influenced by the development of the large urban centres due to the diversity of advanced/ complex functions fulfilled by them, acting as regional motors of economic growth. Consequently, the revitalization of some neighbourhoods (districts) with socio-economic and environmental problems within large urban centres must be tackled, in order to prevent a worsening situation or diminishing their functions and to improve the confidence of private investors. For achieving a balanced and sustainable territorial development, it is also essential to support small and medium sized urban centers, in order to better perform their urban functions, especially those centers having intense connections with and influencing the development of the surrounding rural areas.

Previous experiences in the EU (Urban I and II) have shown that an integrated approach to economic, social and environment problems in deprived urban areas has been the most successful way to tackle regeneration. The actions have combined physical regeneration, sustainable development, environmental friendly urban transport and equality measures together with the rehabilitation of basic infrastructure. The approach demands local community involvement and the integration of ethnic groups in an effort to build local capacity.

In order to receive support from the Structural Funds, the towns and cities need to develop integrated urban development plans, based on local partnerships and in compliance with the

relevant spatial planning documents and strategies drafted at different levels: national, regional and local.

The investments will focus on the rehabilitation of urban infrastructure, improvement of urban services and development of social and economic infrastructures.

Actions to support physical regenerations will include, for example, rehabilitation of public spaces, completion and/or renovation of obsolete buildings and renovation and preservation of the country's rich urban heritage.

Support can be offered also to those activities aimed at reducing urban congestion, developing urban public transport and protecting the environment, thus improving the quality of life and promoting sustainable development.

Investments in social infrastructure, including social housing, cultural, sports and leisure amenities and facilities and refurbishment of green areas, can be supported when it can be demonstrated that these meet an existing demand and contribute to local economic enhancement, to long term jobs creation and combat social exclusion. Actions for increasing security and preventing crimes could also be supported (i.e. involving residents in neighbourhood actions, closed circuit TV surveillance and counselling on security and protection against crime).

Industrial restructuring led to the closure of some large industrial companies and the derelict and polluted land that has resulted has a serious negative impact on the urban environment, image and attractiveness. Through the rehabilitation of brown field sites, new land could be made available for socio-economic investment. This could include incubator units, business start-ups, commercial co-operatives and business associations, as well as recreational spaces in the urban action zones.

It is expected that investments in sustainable urban development based on integrated approach will increase the role of urban centres in regional and local economic development.

Involvement of citizens and local stakeholders in the initiation and development of integrated urban plans is needed for local acceptance. Strong partnerships within local communities make the programmes more effective and ensure they are better targeted to local needs. Improving or adopting modern approaches to administration, including e-government will improve the citizens' access to information and lead to active involvement in the policy development and decision-making process. Information campaigns can also help to overcome scepticism and ensure local inhabitants are involved in the initiatives.

An additional instrument that could be used in order to ensure the successful delivery of the strategy is represented by the common initiative of the European Commission and the EIB in the field of urban renewal and development - JESSICA. The Romanian authorities will assess carefully the degree to which the mechanism envisaged for JESSICA, once established, is relevant for the particular situation of Romania in the urban development field and will explore the opportunity to resort to this instrument during this programming period.

### Sustainable Rural Development

As identified in the analysis, the rural area in Romania is facing numerous problems, mainly related to:

- The large number of non-viable subsistence and semi-subsistence farms, with an average area of only 1.7 ha

- The low productivity and quality of the agricultural production, given the lack of financial resources, the inefficient use of the available resources, lack of skilled personnel in the field of modern agricultural practices as well as poor management and marketing skills, all aggravated by poor infrastructure endowment
- A significant gap between imports and exports of agricultural products (the Romanian exports are mainly of low added value)
- Non-existence of an organized market chain, with the agricultural producers selling their products at very low prices, with high differences between these price levels and the prices of the final products
- Poor basic infrastructure
- The existence of large areas of land (about one fifth of the territory) heavily affected by natural risk factors, like floods, high earthquake and land slide risks, desertification, poor water sources.

The overall national strategy aims to apply a multifunctional model for the agricultural and rural development. The base principle in the application of this model consists of promoting a balanced development of both the agricultural and non-agricultural functions of the rural areas. This strategic view is in line with the EU objective of reducing the development disparities between the EU regions and, in the same manner, of the differences between rural and urban areas.

Reduction of the population occupied in agriculture is one of the aims, coupled with increasing the size of operating land and consolidation of farms. These will contribute to improving the efficiency of the agriculture, to promoting the managerial skills of the farmers and orienting the agricultural activities towards integrated projects and profitable investments.

This strategy will be supported through the interventions of the European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF), as well as through the Structural and Cohesion Funds, under a coordinated approach. Actions envisaged under the OPs will add to those envisaged through the National Rural Development Programme and to various national actions in the effort to answer the needs of the rural areas in terms of infrastructure, as well as to address the structural problems in the field. Investments in basic infrastructure will be coupled with actions in order to increase the competitiveness of the local economy, with the support for education, training and employment, as well as with the support for improving governance, with the aim of improving the living standards in the rural areas, enhancing their economic functions and stimulating their active contribution to the development of the country as a whole. Active involvement of regional and local stakeholders is particularly important for an effective implementation of the strategy.

The interventions foreseen under the NSRF strategy have taken into account the investment needs in both urban and rural areas in view of their respective role in regional development and in order to promote balanced development, sustainable communities and social inclusion. The development needs of rural areas will be addressed by the SCF either through direct intervention in rural areas or indirectly, through the spill-over effect of the dynamic urban areas on the rural hinterland. In this respect, key interventions in terms of infrastructure, competitiveness, human resources and administrative capacity are envisaged.

Basic infrastructure investments will impact on the connectivity of rural areas with the urban areas and the trans-European networks and on the living standards in rural areas (e.g. through development of regional projects in water and wastewater sector, which include some rural localities). The environmental management and nature protection will also be a priority, the sites with environmental value being usually located in rural areas.

In terms of increasing the competitiveness in rural areas, the ERDF interventions complete the EAFRD in granting direct support and consultancy for businesses in rural areas, promoting management standards for enterprises, promoting tourism and cultural values etc., based on specific demarcation criteria<sup>30</sup>. EAFRD activities related to diversifying the rural economy such as support for the establishment and development of microenterprises and rural tourism, will complement ERDF funded activities to support business development. In addition, availability of ICT infrastructure and related services will be ensured in market failure areas, which include a high number of rural localities.

Reduction of employment in agriculture and redeployment of the rural population to non-agricultural activities (manufacturing, services, constructions etc.) are key objectives, for the achievement of which the ESF plays a crucial role, mainly through the support for labour force training in other sectors than agriculture and forestry and the consultancy for would-be entrepreneurs. Rehabilitation and modernisation of education and training infrastructure will also support the development of human resources in the rural areas.

Within the general framework of the strategy for administrative capacity building, the interventions to be supported under the SCF aim to improve the governance process at central and local level and solve public sector bottlenecks. Public administration in rural areas, which is faced with significant problems, will be given particular attention, including support for increasing the ability to attract development funds.

In order to support sustainable development, decrease of the significant development gaps and the development of partnerships for valorising the local potential within a balanced polycentric network, setting up new urban-rural relationships is needed. This will be achieved through the development of physical and knowledge accessibility and building urban-rural partnerships based on commonly agreed goals and specific projects of mutual interest and will contribute to the achievement of territorial cohesion.

The advantages that Romania has in terms of its fisheries sector will be capitalized upon by investing in the fish processing and farming and improving the overall quality of the products and performances in this sector. By promoting the initiatives of the local community, the actions will target to improve the overall living standards of the people living in the rural areas and to ensure a territorial balance from an economic and social point of view.

Balanced development and good management will be supported in the areas where fishing activities take place. The development of local EFF initiatives (e.g. eco-tourism, especially in the Danube Delta, and organisation of fishing tournaments in relation to the fish farming units) that complement ERDF and ESF will be financed and implemented with the support of Fisheries Groups.

Complementarity between the interventions of the various funds is assured through clear demarcation criteria (more details are provided in Chapter 6 "Implementation and complementarity" and in Annex 3), with a view to providing integrated territorial coverage and targeting a balanced and sustainable development. Ensuring synergy between the objectives of the funds will provide an increased rate of economic, social and environment attractiveness of the rural area. Therefore, this complementarity will be a priority throughout the implementation process, in order to achieve synergies and avoid overlapping of interventions.

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<sup>30</sup> More details are provided in Annex 3.

## Promote European Territorial Cooperation

The general principles of the strategy for the European Territorial Cooperation programmes are to ensure effective social and economic integration in the border areas and increased activity and accessibility to the Romanian regions within Europe.

The strategy will focus the resources as follows:

### Cross-border Cooperation

Taking into account Romania's geographical position and the length of her internal (EU) and external borders, European territorial cooperation is extremely important, both politically and economically. The strategy will aim to improve the process of planning and especially establishing more appropriate management structures and implementation systems. The overall strategic objective of the cross-border cooperation is to bring the people, communities and economic actors of the border area closer to each other in order to facilitate the joint development of the co-operation area, building upon the comparative advantages on the border regions profitably for neighbouring countries. The strategies of cross border cooperation at Romanian borders are commonly agreed between Romania and its neighbouring countries.

In this respect, Romania will participate, jointly with its neighbours, to the following operational programmes:

- on the internal borders:

- CBC Hungary – Romania OP
- CBC Romania - Bulgaria OP

- on the external borders:

- IPA CBC Romania – Serbia OP
- ENPI CBC Romania – Ukraine – Moldova OP
- ENPI CBC Hungary – Slovakia – Romania – Ukraine OP
- ENPI CBC Black Sea Basin OP

The core element of the co-operation strategy on the internal EU borders is to bring the different actors – people, economic actors and communities – closer to each other, in order to better exploit the opportunities offered by the joint development of the border area. The strategy is centred around two main pillars:

- the first pillar is improving the flow of information and transport infrastructure across the border in the co-operation area, as key conditions for addressing the most important obstacles in the way of a smooth cooperation;
- the second pillar is rapid extension of co-operation activities in order to exploit the opportunities for joint development needs to be promoted, with the aim of supporting the co-operation initiatives of various actors.

As the clean and safe environment is the prerequisite for a sustainable development, the common natural resources efficiently used and protected is another important priority.

The envisaged strategy will focus on the following actions:

- to develop physical infrastructure systems (improve the transport infrastructure linking the two sides of the border), the information and communication networks and services;

- to safeguard the border areas' environmental heritage and to establish the interconnections between power, water and waste management systems;
- to strengthen the economic relationships between the neighbouring regions in order to support together the sustainable economic development of the area (develop cooperation in the fields of SMEs support, tourism and border trade, promotion of local labour markets integration);
- to create the social and cultural connection between the communities and the inhabitants living on both sides of the border (develop the common use of health, cultural and educational infrastructure);
- to find common solutions for similar and simultaneous natural threats (floods, landslides, land erosion), human and animal diseases, create natural and technological warning and control systems and fast reaction to the emergency situations.

After joining the European Union, Romania will administer one of the largest EU external border (2,070 km of the total EU external border represents Romanian borders). In this respect, Romania develops cross border cooperation programmes at EU external borders with Republic of Moldova, Ukraine and in the Black Sea Basin, financed under the European Neighbourhood and Partnership Instrument which focuses on the following objectives:

- Promoting economic and social development;
- Common challenges;
- Efficient and secure borders;
- Promoting people-to-people actions.

As a potential candidate country, Serbia will benefit of pre-accession assistance under the Instrument for Pre-Accession Assistance (IPA), which has the objective of promoting good neighbourly relations, fostering stability, security and prosperity in the mutual interest of all countries concerned, and of encouraging their harmonious, balanced and sustainable development. The main priorities are:

- Development of economic, social and environmental activities in the border areas;
- Addressing common challenges within environment field, public health field and fighting against organised crime;
- Efficient and secure borders;
- Cooperation in the legal and administrative field;
- Promoting people-to-people actions.

The institutional structure for the cross-border cooperation management and the managing authorities for the programmes with the Republic of Moldova, Ukraine, Serbia will be located in Romania. The cooperation strategy will be included into the Regional Development Plans for the North-East, South-West and North-West Regions, in order to ensure the integration of all Romania's border areas within the national development strategy.

### Transnational Cooperation

Romania is participating to the South East European Space (SEES) Transnational Cooperation OP, next to other seven Member States (Austria, Bulgaria, Greece, Italy, Slovenia, Slovakia and Hungary) and eight non-Member States (Albania, Bosnia&Hertegovina, Croatia, Moldova, Montenegro, Serbia, Ukraine). The general objective is to strengthen cohesion, competitiveness and stability by enhancing cooperation and improving integration by ensuring sustainable development in SEES.

The programme has two specific objectives: strengthening competitiveness based on the endogenous potentials by promoting accessibility and the development of innovative networks and strengthening sustainable cooperation actions and partnerships in favour of the integrated promotion of natural and environmental assets and cultural heritage.

The strategy for this type of co-operation will focus on the following actions:

- to ensure effective water management integrated cooperation (protection and administration of the Danube basin, coastal areas, maritime resources);
- to develop the SMEs, R&D and innovation networks;
- to develop transnational activities in order to prevent natural and technological risks.

### Interregional Cooperation

The interregional cooperation programmes aim at enabling cooperation between authorities and actors at regional and local level from different countries in the EU-27 plus Norway, Switzerland, Liechtenstein and Island. This cooperation is seen as an instrument for increasing the efficiency of the regional policy.

In the EU programming period of 2007-2013, the structure for interregional cooperation was changed and four different interregional programmes (financed by ERDF) are envisaged, based on the previous experience of the 2000-2006 period (programmes of INTERREG IIC, URBACT, INTERACT and ESPON).

Romania will participate as partner or Lead-partner in joint projects proposed within all four new programmes. The projects results will help the involved Romanian actors to improve their administrative capacity and ability to develop and manage the EU funded projects under the Convergence Objective.

The Interregional cooperation programme (INTERREG IVC) - Contributing to the "Regions for Economic Changes" intends to link regions and cities with comparable problems and opportunities with the end to promote the transfer of know-how and the exchange of experience among government and regional agencies and equivalent. There will be facilitated the cooperation between authorities and stakeholders at the regional and local level by enabling them to work together and improve their policies and project implementation in the relevant policy fields. Therefore the general objective for this programme is to improve the effectiveness of regional development policies in the areas of innovation, knowledge economy, environment and risk prevention by means of interregional cooperation.

The URBACT II Programme is an European network for exchange of experience on key urban policy fields for the achievement of the European strategy aims and will allow European cities to learn from each other. The aim of the programme is to improve the effectiveness of sustainable integrated urban development policies in Europe with a view to implementing the Lisbon Strategy. The public administration of the Romanian cities will thus have the opportunity to enter into networks with other European cities, to learn how to best address urban development issues within the projects under "Convergence" Objective.

The ESPON 2013 Programme aims to support the reinforcement of regional policy with studies, data and observations of development trends and to build a European scientific community in the field of territorial development. The ESPON 2013 programme shall play a strategic role in supporting this policy process with evidence and other information. The results

of the ESPON 2013 Programme shall provide added value to the policy processes targeting a sustainable and harmonious development of the European territory.

The INTERACT II Programme - INTERREG Animation Cooperation and Transfer has a wide geographical scope covering the 27 Member States and neighbouring countries involved in the ETC Objective programmes. The core mission of the INTERACT II Programme is to identify, to describe and to spread good governance approaches and practices of cross-border, trans-national and interregional cooperation across the EU. The INTERACT II Programme shall play a strategic role in enhancing the implementation of the ETC Objective programmes. The beneficiaries of the Programme are the units comprising the Managing Systems (so-called Interact Points), whereas the target groups are those institutions and bodies involved in managing ETC programmes.

## 4. Outline of the Operational Programmes under the Convergence Objective

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The National Strategic Reference Framework sets out the strategy that underpins the Operational Programmes, which will be co-financed by the European Regional Development Fund, European Social Fund and the Cohesion Fund.

The whole territory of Romania will be eligible for Convergence Objective funding. Outline of the Operational Programmes drawn up under this Objective are presented in this section.

Romania will also benefit from European Territorial Cooperation Objective funding, for which the programming will be finalized in 2007.

### 4.1. Sectoral Operational Programme Transport

The global objective of the SOP Transport is to promote a transport system in Romania, which will facilitate safe, fast and efficient movement of people and goods nationally and internationally to European standards. SOP Transport is one of the most important pillar of NSRF, having a great impact on the economic and social development of the country.

In order to achieve the objective of the SOP Transport it is proposed to focus the EU and State funds for transport, on modernization and development of TEN-T and national infrastructure for all transport modes. The railway network has an important role in Romanian transport infrastructure and its development implies not only investments in infrastructure, but also the improvement of services quality. In the framework of this modernization process a special attention will be given to the sustainable development of the transport sector.

The SOP Transport has ambitious goals, managing the biggest amount of resources (FSC and national funds) which is allocated to an OP, about 5.7 billion Euro, this being in a strong connection with the importance of transport infrastructure development in Romania. This fact represents a new challenge for all the bodies which are implied in the process and, at the same time, a great responsibility. A good organisational frame and a high level of responsibility of all implied actors will lead to a very good level of projects implementation, in order to successfully spend the allocated funds. In this respect, based on the lessons learnt from pre-accession programs, it was set up a performing implementation system, by adoption of legislation and rules on tendering/contracting, land acquisition, financial management and control, EIA, as well as by ensuring the appropriate staff and organising specific training sessions, “on the job training”. A special attention has been paid to the preparation of a substantial project portfolio with pre-accession and external loans support and to the insurance of the necessary arrangements for providing pre-financing support to beneficiaries.

Priority Axis 1: Modernization and development of TEN-T priority axes aiming at sustainable transport system integrated with EU transport networks (CF)

Objective:

This Priority Axis aims to enhance the territorial cohesion between Romania and the EU member states, by significantly reducing travel times with improved safety and quality of service to principal destinations, domestically as well as Europe-wide, for both passengers and freight, along the TEN-T Priority axes 7, 18 and 22. It will be achieved through the development and upgrading of motorways, railway and water transport infrastructure, with a view to

improving the quality, efficiency and speed of transport services, door-to-door, and increasing volumes of freight and passenger traffic.

This Priority Axis will focus on the development of motorways (TEN-T Priority axis 7) and on upgrading rail infrastructure with a view to its inter-operability (TEN-T Priority axis 22). Special focus will be given to inland water transport (TEN-T Priority axis 18).

Priority Axis 2: Modernization and development of national transport infrastructure outside the TEN-T priority axes aiming at sustainable national transport system (ERDF)

Objective:

This Priority Axis aims at modernizing and developing road, rail, water transport and air transport infrastructure located on the national network outside the TEN-T priority axes.

It will increase passengers and freight traffic with higher degree of safety, speed and quality of service including rail inter-operability. In achieving this objective the Transport SOP will take full account of other OPs and will avoid overlaps with their operations.

Priority Axis 3: Modernization of transport sector aiming at higher degree of environmental protection, human health and passenger safety (ERDF)

Objective:

This Priority Axis aims at implementing the principles of sustainable development of the transport sector in Romania, as per the Cardiff conclusions of the European Council (1998) and the EU's Sustainable Development Strategy. It will promote increased levels of safety, minimize adverse effects on the environment as well as promote inter-modal and combined transport.

Priority Axis 4: Technical Assistance (ERDF)

Table 14a

Contribution of SOP Transport to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Modernization and development of TEN-T priority axes aiming at sustainable transport system integrated with EU transport networks	♦	♦	♦		♦
Priority Axis 2: Modernization and development of the national transport infrastructure outside the TEN-T priority axes aiming at sustainable national transport system	♦	♦	♦		♦
Priority Axis 3: Modernization of transport sector aiming at higher degree of environmental protection, human health and passenger safety	♦				
Priority Axis 4: Technical Assistance	♦			♦	

Complementarity with the operations financed by other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the Transport SOP are complementary with operations financed under other Programmes financed by the Structural Instruments and EAFRD or EFF<sup>31</sup>, mainly in the following fields:

- road network (SOP Transport finances the national road network, Regional OP finances county road network and urban streets, whereas NRDP finances communal road network);
- air transport (SOP Transport finances national and regional airports);
- waterborne transport (SOP Transport finances maritime and fluvial ports on TEN-T);
- technical assistance (the technical assistance priority axis under SOP Transport aims to ensure specific support for the management and implementation of the SOP, including specific training of the personnel, as well as the information and publicity of the interventions financed through SOP Transport; OP Technical Assistance ensures the horizontal training on Structural and Cohesion Funds implementation, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance).

SOP Transport, Regional OP and NRDP draw together a common development strategy in order to achieve a coherent transport system providing national, regional and local accessibility, spatial cohesion and interoperability with the EU transport systems.

## 4.2. Sectoral Operational Programme Environment

The global objective of the SOP Environment is to improve living standards and the environment, focusing in particular on meeting the environmental acquis. The SOP Environment aims to reduce the existing gap between the European Union and Romania as regards the environmental standards, having in view three long-term goals:

- Ensuring general access to basic public utilities
- Improving the environmental quality
- Strengthening the institutional capacity and governance

Improvement of living standards, as stated in the global objective, can be achieved, firstly, by ensuring the population access to adequate public utilities: drinking water and sewerage systems (Priority Axis 1), waste management (Priority Axis 2) and district heating systems (Priority Axis 3).

Secondly, the SOP Environment is aiming to improve the environmental conditions by addressing the main components of the natural environment: water, soil, air, biodiversity. This sub-objective is foreseen to be achieved through improving water management (Priority Axis 1), reduction of old ecological burdens (Priority Axis 2), improvement of air quality (Priority Axis 3), nature protection (Priority Axis 4) and natural risk prevention (Priority Axis 5). An improved environment is also contributing towards ensuring better living standards.

Along with the goals of improving the living standards and the environmental quality, a major objective will be achieved, relating to the improvement of management systems of environmental infrastructure that will be built under SOP Environment, ensuring therefore the sustainability of the projects, as well as the efficient use of natural resources.

According to these ambitious goals, greatly increased funding as compared with that available in the pre-accession period under the ISPA programme is to be made available for the environment sector from the SCF. Since the beginning of preparation for SCF absorption, the

<sup>31</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 "Implementation and Complementarity", in Annex 3 and in the respective OPs.

Romanian institutions have been aware of the challenge of absorbing these and they have acted as such, by setting up a more decentralised system for SOP Environment implementation (by setting up Intermediate Bodies at regional level/delegating more responsibilities to the beneficiaries), by adoption of legislation and rules on tendering/contracting, land acquisition, financial management and control, EIA etc., as well as by ensuring the appropriate staff and organising specific training sessions, "on the job training". A special attention has been paid to the preparation of a substantial project portfolio with pre-accession and external loans support and to the insurance of the necessary arrangements for providing pre-financing support to beneficiaries.

The specific objectives of the Priority Axes are formulated on the basis of the EU environmental acquis and of the commitments assumed within the negotiation process on Chapter 22 "Environment".

#### Priority Axis 1: Extension and modernization of water and wastewater systems (CF)

##### Objectives:

- To provide adequate water and sewerage services, at accessible tariffs
- To provide adequate drinking water quality in all urban agglomerations
- To improve the purity of watercourses
- To improve the level of WWTP sludge management
- To create innovative and efficient water management structures

The achievement of the ambitious objectives requires a high allocation (which has been set at 60% of the SOP total allocation), as the whole territory of Romania has been declared sensitive area (requiring advanced treatment for wastewater in case of agglomerations larger than 10,000 p.e.<sup>32</sup>) and the water infrastructure is in very poor condition, whereas only 52% of the entire population of Romania is connected to water and wastewater infrastructure<sup>33</sup>. The total investment needs for compliance with EU Directives on water and wastewater by 2018 amount to 19 billion Euro, out of which the funds allocated through SOP Environment (Cohesion Fund and national co-financing) represent about 17% of the total needs.

Moreover, the issue of limited efficiency of public water services is also dealt with under Priority Axis 1. The strategy for this priority axis is based on regional approach (regionalisation of water sector), and large-scale infrastructure projects covering more agglomerations at regional/county level will have top priority, with a maximizing effect on the cost-efficiency gains from scale economies.

#### Priority Axis 2: Development of integrated waste management systems and rehabilitation of historically contaminated sites (ERDF)

##### Objectives:

- To increase the population covered by municipal waste collection and management services of adequate quality and at affordable tariffs
- To reduce the quantity of landfilled waste
- To increase the quantity of recycled and reused waste
- To set up efficient waste management structures
- To reduce the number of historically contaminated sites

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<sup>32</sup> Romania has more than 260 agglomerations larger than 10,000 p.e.

<sup>33</sup> The majority of Member States shows a connection rate of more than 80%

Priority Axis 3: Reduction of pollution and mitigation of climate change by restructuring and renovating urban heating systems towards energy efficiency targets in the identified local environmental hotspots (CF)

Objectives:

- To mitigate climate change and reduce pollutant emissions from urban heating plants in the identified local environmental hotspots
- To ameliorate ground level concentrations of pollutants in the localities concerned
- To improve the health condition of the population in the localities concerned

Priority Axis 4: Implementation of adequate management systems for nature protection (ERDF)

Objectives:

- To conserve biological diversity and natural habitats
- To ensure efficient management of protected areas, including Natura 2000

Priority Axis 5: Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas (CF)

Objectives:

- To contribute to a sustainable flood management in most vulnerable areas
- To ensure protection and rehabilitation of Black Sea shore

Priority Axis 6: Technical Assistance (ERDF)

Table 14b

Contribution of SOP Environment to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Extension and modernization of water and waste water infrastructure	♦	♦			♦
Priority Axis 2: Development of integrated waste management systems and reduction of historically contaminated sites	♦	♦			♦
Priority Axis 3: Reduction of pollution and mitigation of climate change by restructuring and renovating urban heating systems towards energy efficiency targets in the identified local environmental hotspots	♦				♦
Priority Axis 4: Implementation of adequate management systems for nature protection	♦			♦ (N:B: Support will be given to the National Agency for Protected Natural Areas and Bio-diversity Protection)	♦
Priority Axis 5: Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas	♦				♦
Priority Axis 6: Technical Assistance	♦			♦	

## Complementarity with the operations financed by other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the SOP Environment are complementary with operations financed under other Programmes financed by the Structural Instruments, EAFRD or EFF<sup>34</sup>, mainly in the following fields:

- water and wastewater systems (SOP Environment finances large-scale regional integrated projects including agglomerations of more than 10,000 p.e., as well as some agglomerations between 10,000 and 2,000 p.e., which are identified in the regional Master Plans as adequate for the regionalisation of water services; NRDP finances small-scale projects in rural localities below 10,000 p.e. which are not included in the regional projects financed under SOP Environment, except for spa resorts; ROP finances small-scale projects in urban areas and spa resorts, not included in the regional projects under SOP Environment)
- energy efficiency and air quality (SOP Environment supports the LCPs operating within the municipal heating systems to reduce gas emissions at the level of the plant, as well as to improve the energy efficiency at the level of plant and distribution network, through retechnologization and reducing losses of hot water; SOP Competitiveness finances LCPs providing electricity for the National Energy System for improving their efficiency and reducing gas emissions, in order to secure the electricity supply for the economy);
- rehabilitation of contaminated sites (SOP Environment finances the closure/ environmental rehabilitation of historically contaminated/polluted sites, which have negative impact on natural environment and human health, while ROP supports the rehabilitation of abandoned industrial sites, in order to be reused for economic and social purposes);
- flood prevention (major works on the main rivers carried out by the National Authority "Romanian Waters" are financed through the SOP Environment, while prevention works on the local small water streams will be undertaken with EAFRD support; the afforestation measures under NRDP will ensure the sustainability of the flood prevention works);
- fire prevention (specific actions supported under NRDP, except for measures undertaken within the protected areas, which are financed under SOP Environment);
- Natura 2000 (drafting of management plans, development, operation and maintenance of infrastructure, setting up monitoring systems, as well as training and institutional capacity building for Natura 2000 sites are financed through SOP Environment, while EAFRD and EFF provide compensation payments for implementing the requirements for Natura 2000 sites);
- technical assistance (the technical assistance priority axis under SOP Environment aims to ensure specific support for the management and implementation of the SOP, including specific training of the personnel, as well as the information and publicity of the interventions financed through SOP Environment; Technical Assistance OP ensures the horizontal training on Structural and Cohesion Funds implementation, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance).

Other interventions aiming at improving the quality of the environment are financed through SOP Transport (sustainable development of the transport sector), SOP Human Resources Development (introduction of the environmental education in curricula training programmes for enterprises in the field of sustainable development and environment protection), SOP Competitiveness (eco-labelling, introduction of environment standards, promoting use of renewable energy resources), NRDP (agro-environment and afforestation measures, development of ecological agriculture, improvement of soil management).

<sup>34</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 "Implementation and Complementarity", in Annex 3 and in the respective OPs.

### 4.3. Sectoral Operational Programme Increase of Economic Competitiveness

The general objective of the SOP Competitiveness is to contribute to the increase of the Romanian companies' productivity, through support for the modernization and expansion the existing companies and setting-up of new businesses, especially SMEs in the productive sectors and in the support services for business. Developing the entrepreneurship by improving the access to finance and to quality business infrastructure can play an important role in creating a healthy business environment, with real growth potential.

Developing the ICT infrastructure, increasing the quality and diversifying the offer of innovative services for the productive sector, realizing the ICT potential in the public sectors as well as in day to day life, will have a direct application in the economy and will offer a new generation of high value added products and services to the market.

Reducing the energy intensity, producing energy from renewable resources, as well as implementing new technologies for the reduction of emissions from the large combustion plants can impact directly on the economic competitiveness, but also on the environment protection.

Priority Axis 1: An innovative and eco-efficient productive system (ERDF)

Objectives:

- The valorisation of an environmental friendly productive equipment, based on its expansion and upgrading, the innovation of productive processes, and the support for the adoption of international standards, foster the increase of the products range
- Improvement of specialized advisory services and support to internationalisation in order to contribute to increasing market share
- Provision of a favourable framework for sustainable entrepreneurship by reducing the existing constraints in the areas of market failure - access to finance, innovative financial instruments.

Priority Axis 2: Research, Technological Development and Innovation for Competitiveness (ERDF)

Objectives:

- To increase the research capacity by investing in the development of R&D infrastructure and attracting young researchers and high-level specialists both in R&D institutions (universities and research institutions) and in companies with research departments
- To stimulate the technology transfer based on the cooperation between R&D institutions and enterprises
- To support the development of poles of excellence/ competitiveness in R&D and the creation of high-tech firms
- To promote research and innovation in enterprises

Priority Axis 3: ICT for private and public sectors (ERDF)

Objectives:

- To improve the infrastructure endowment in market failure areas, especially under-served rural and small urban areas
- To develop and increase the efficiency of public electronic services (e-government, e-education and e-health)
- To increase the uptake of ICT by SMEs and development of a dynamic E-Business environment

Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change (ERDF)

Objectives:

- To improve the energy efficiency and the environmental sustainability of the energy system (efficient and sustainable energy)
- To increase the use of renewable energy sources for producing green energy
- To diversify the interconnection networks in view of strengthening the security of energy supply.

Priority Axis 5: Technical Assistance (ERDF)

Table 14c

Contribution of SOP Competitiveness to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: An innovative and eco-efficient productive system		♦	♦		♦
Priority Axis 2: Research, Technological Development, and Innovation for Competitiveness		♦	♦		♦
Priority Axis 3: ICT for private and public sectors		♦	♦	♦	♦
Priority Axis 4: Increasing energy efficiency and security of supply, in the context of combating climate change	♦	♦			
Priority Axis 5: Technical Assistance		♦		♦	

Complementarity with the operations financed by other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the SOP Competitiveness are complementary with operations financed under other Programmes financed by the Structural Instruments and EAFRD<sup>35</sup>, mainly in the following fields:

- productive investments (The productive sector supported by SOP Competitiveness includes the high-tech and spin-off micro-enterprises, as well as productive investments for SMEs and large enterprises, except for the processing of agricultural products and food industry; ROP finances, for non-agricultural activities, micro-enterprises in urban areas except for high-tech and spin-off; NRDP supports processing of agricultural and forestry products on the whole territory, non-agricultural activities for micro-enterprises in rural areas, as well as SMEs and large enterprises below 750 employees for productive investments for agricultural products processing and food industry);
- business infrastructure (SOP Competitiveness finances business support structures of national and international importance, whereas ROP finances business support structures of regional and local importance; scientific and technological parks are financed from national programmes);
- entrepreneurship development (SOP Competitiveness supports the development of business incubators, provides consultancy support, as well as support for enterprises' integration in supplier chains and clusters, while SOP HRD ensures the necessary training in the field of entrepreneurship for individuals willing to start a business);
- energy efficiency and air quality (SOP Competitiveness finances LCPs providing electricity for the National Energy System for improving their efficiency and reducing gas emissions, in order to secure the electricity supply for the economy, while SOP Environment supports

<sup>35</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 "Implementation and Complementarity", in Annex 3 and in the respective OPs.

- the LCPs within the municipal heating systems in order to reduce gas emissions at the level of the plant, as well as to improve the energy efficiency at the level of plant and distribution network, through modernisation and reducing losses of hot water);
- renewable energy (SOP IEC provides support to enterprises both for bio-fuels production and its use for energy generation, except for the production from processing Annex 1 products<sup>36</sup>, whereas NRDP provides support to enterprises for obtaining bio-fuels by processing Annex 1 products; as far as other RES are concerned, SOP IEC provides support to enterprises, except for production based on processing Annex 1 products and except for micro-enterprises in rural area, whereas NRDP provides support for microenterprises in rural area);
  - support for researchers (Under SOP HRD researchers will acquire managerial skills to be used for spin offs and spin outs for which creation specific support/incentives will be provided under SOP Competitiveness. Incentives and career opportunities offered to young researchers, opportunity to access PhD and post-PhD programmes, as well as continuous training and sectoral mobility of researchers supported under SOP HRD will create the grounds for developing RDI activities supported under SOP Competitiveness);
  - ICT use in schools (SOP Competitiveness supports the broadband connection of schools and, if needed, a limited number of computers so as to ensure the functionality of the connection, whereas ROP supports computers acquisition as part of the rehabilitation and endowment of school infrastructure);
  - health (SOP Competitiveness finances e-health; ROP supports rehabilitation, modernization and equipping of health service infrastructure);
  - technical assistance (the technical assistance priority axis under SOP Competitiveness aims to ensure specific support for the management and implementation of the SOP, including specific training of the personnel, as well as the information and publicity of the interventions financed through SOP; OP Technical Assistance ensures the horizontal training on Structural and Cohesion Funds implementation, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance).

Other interventions aiming at improving the economic competitiveness are financed through SOP HRD (introduction of the entrepreneurial education in curricula, encouraging PhD programmes especially within the priority areas identified in the National Strategy on Research, Development and Innovation 2007-2013 and supporting the continuous vocational training primarily in those dynamic and high added value sectors with high economic growth potential, which are targeted by SOP Competitiveness). Investments under SOP Transport and SOP Environment will have a major impact on economic competitiveness as well.

#### 4.4. Regional Operational Programme

The ROP strategic objective consists in supporting the economic, social, territorially balanced and sustainable development of the Romanian Regions, according to their specific needs and resources, focusing on urban growth poles, improving the business environment and basic infrastructure, in order to make the Romanian Regions, especially the ones lagging behind, more attractive places to live, visit, invest in and work. The objective will be achieved by a strong coordination, at regional level, with actions foreseen within other Operational Programmes.

The ROP addresses all the five priorities of the NSRF, being connected mainly with the development of transport, social, business, tourism and urban infrastructure.

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<sup>36</sup> Annex 1 to the EU Treaty.

## Priority Axis 1: Support to sustainable development of urban growth poles (ERDF)

## Objective:

This Priority Axis aims to increase the quality of life and to create new jobs in cities, by rehabilitating the urban infrastructure, improving services, including social services, as well as by developing business support structures and entrepreneurship.

## Priority Axis 2: Improvement of regional and local transport infrastructure (ERDF)

## Objective:

This Priority Axis aims to increase the accessibility of the Regions and the mobility of population, goods and services, in order to foster sustainable economic development.

## Priority Axis 3: Improvement of social infrastructure (ERDF)

## Objective:

This Priority Axis aims to create premises for better access of the population to essential services, contributing to the achievement of the European objective of economic and social cohesion by improving the infrastructure for health, education, social and public safety in emergency situations.

## Priority Axis 4: Strengthening the regional and local business environment (ERDF)

## Objective:

This Priority Axis aims to set up and develop business support structures of regional and local importance, rehabilitate industrial sites and support regional and local entrepreneurial initiatives, in order to facilitate job creation and sustainable economic growth.

## Priority Axis 5: Sustainable development and promotion of tourism (ERDF)

## Objective:

This priority axis aims mainly to sustainable valorization and promotion of the cultural heritage and natural resources with tourism potential, as well as to improve the quality of accommodation and leisure tourist infrastructure, in order to increase the regions' attractiveness, develop the local economies and create new jobs.

## Priority Axis 6: Technical Assistance (ERDF)

Table 14d

## Contribution of ROP to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Support to sustainable development of urban growth poles	♦	♦		♦	♦
Priority Axis 2: Improvement of regional and local transport infrastructure	♦	♦			♦
Priority Axis 3: Improvement of social infrastructure	♦		♦		♦
Priority Axis 4: Strengthening the regional and local business environment	♦	♦	♦		♦
Priority Axis 5: Sustainable development and promotion of tourism	♦	♦	♦		♦
Priority Axis 6: Technical assistance	♦	♦	♦	♦	

## Complementarity with the operations financed under other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the ROP are complementary with operations financed under other Programmes financed by the Structural Instruments, EAFRD or EFF<sup>37</sup>, mainly in the following fields:

- road network (ROP finances county roads and urban streets; SOP Transport finances TEN-T and national roads, whereas NRDP finances communal roads);
- health (ROP supports rehabilitation – both buildings and equipments – of county hospitals and out patient departments; SOP Competitiveness finances e-health, i.e. development of health software applications and broadband connectivity);
- education and training (ROP finances education and vocational training infrastructure; SOP HRD finances only the ESF-type interventions in these areas, whereas NRDP supports short-term vocational training without qualification for adult persons involved in agricultural, agri-food sector and forestry);
- social infrastructure (ROP supports rehabilitation, modernization and equipping of social infrastructure, whereas NRDP finances new infrastructure related to social services in rural areas);
- ICT use in schools (ROP supports computers acquisition as part of the rehabilitation of school infrastructure, whereas SOP Competitiveness supports the broadband connection of schools and, if needed, the acquisition of a limited number of computers so as to ensure the functionality of the connection);
- business support structures (ROP finances business support structures of regional and local importance, whereas SOP Competitiveness finances business support structures of national and international importance; scientific and technological parks are financed from national programmes);
- contaminated sites (ROP finances the rehabilitation of unused polluted industrial sites, and preparation for new activities, whereas SOP Environment finances the closure/environmental rehabilitation of historically contaminated/polluted sites);
- productive investments for micro-enterprises (ROP finances micro-enterprises for non-agricultural activities in urban areas, except for high-tech and spin-off ones, which are supported by SOP Competitiveness; NRDP provides support to micro-enterprises for processing of agricultural and forestry products, as well as for non-agricultural activities in the rural area, except for high-tech and spin-off);
- tourism infrastructure (ROP finances national centres for several large tourist areas, as well as tourism infrastructure in urban areas, tourism resorts in rural area) above a threshold size, and spa resorts, regardless of the location; NRDP supports tourism infrastructure in rural areas including in tourism resorts, below a threshold size, except for the infrastructure in spa resorts, as well as agro-tourism investments);
- water and sewerage systems (ROP finances small-scale individual projects in urban areas and spa resorts, not financed under SOP Environment, whereas SOP Environment finances large-scale integrated regional projects in urban and some rural agglomerations, according to the regional Master Plans<sup>38</sup>; NRDP finances small-scale projects in rural

<sup>37</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 “Implementation and Complementarity”, in Annex 3 and in the respective OPs.

<sup>38</sup> The Regional Master Plans are planning documents for water and wastewater infrastructure, at county level, which identify the geographical area (usually, at county level) where the water resources management would be better performed within a regional project (through the regionalisation of water services, in order to improve their quality and cost-efficiency). This area includes all agglomerations above 10,000 p.e., but may also include some rural agglomerations between 10,000 p.e. and 2,000 p.e. The needs of investment in water and wastewater infrastructure in the localities which are not included in the regional project (usually, rural localities under 10,000 p.e.) are also identified within the Regional Master Plan and will be addressed either under NRDP or through other financing sources (e.g. IFI loans).

- localities below 10,000 p.e. not included in the regional projects under SOP Environment, except for spa resorts);
- cultural heritage (ROP supports the rehabilitation of national and UNESCO patrimony, regardless the location, as well as local cultural patrimony in urban areas, whereas NRDP finances the rehabilitation of local cultural patrimony in rural areas);
  - LEADER type activities implemented by LAGs (ROP interventions will exclude LEADER type activities implemented by LAGs from financing if proposed/approved under a LEADER type project; LEADER type projects are financed under NRDP);
  - technical assistance (the technical assistance priority axis under ROP aims to ensure specific support for the management and implementation of the ROP, including specific training of the personnel, as well as the information and publicity of the interventions financed through ROP; Technical Assistance OP ensures the horizontal training on Structural and Cohesion Funds implementation, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance).

ROP and NRDP integrate a common tourism strategy, in order to ensure the synergy among all the interventions undertaken through these Programmes. The impact of the ROP and NRDP investments in regional and local tourism infrastructure, in urban and rural areas, will benefit from national promotion of tourism undertaken by ROP and from the local information and promotion in rural areas supported by NRDP.

#### 4.5. Sectoral Operational Programme Human Resources Development

The SOP HRD strategic objectives support the fulfilment of the common objectives at the European level, concerning the provisions of an increased participation on the labour market of a highly qualified and adaptable work force, focus on the education system improvement and his adaptability to the labour market demands, to promote life long learning, to improve the employees and enterprises adaptability, to ensure the necessary qualifications and knowledge for integration and mobility on the labour market, supporting and facilitating economic development. The OP aims to promote and develop all the social economy forms as a means to ensure the social inclusion of the persons belonging to vulnerable groups, i.e. Roma or disabled people.

The SOP HRD is structured into 7 Priority Axes and aims at ensuring the pre-requisites for continuing the reforms undertaken in the past years in Romania in the fields of education, employment and social policy. With a view to reducing the discrepancies between the EU average and the level in Romania as concerns participation in education and CVT, ESF interventions shall support operations aiming both at modernizing education and training system in support of knowledge based economy (Priority Axis 1), as well as at linking life long learning and labour market (PA 2).

The objective of attracting and maintaining more people in employment is a major one, since Romania is facing high unemployment and inactivity rates for various categories of people. In this respect, intense efforts in the area of adaptability and entrepreneurship are needed. New forms of work organisation, more flexibility and security on the labour market, ensuring health and safety at work shall be addressed under PA 3. The support for increased participation rates on the labour market shall be directed towards strengthening the Public Employment Service (PA 4) as well as towards promoting active employment measures for the unemployed (i.e. youths, elderly and women) and the inactive, including in rural areas, in what concerns tackling people active in subsistence agriculture (PA 5). Moreover, the objective of increasing the participation in education and on the labour market shall stay behind the interventions

promoted under PA 6, aiming at supporting the people belonging to vulnerable groups to have access to support services that would allow them to play an active role in economy and society.

Priority Axis 1: Education and training in support of growth and development of knowledge based society (ESF)

Objective:

Development of flexible lifelong learning pathways and increasing the access to education and training by delivering modern quality initial and continuous education, including higher education and research.

The operations under the key areas of intervention identified in order to achieve this objective will aim at supporting: quality in initial education, VET and CVT, quality in university education, development of doctoral and post-doctoral programmes in support of research, development of human resources in education and training.

Priority Axis 2: Linking life long learning and labour market (ESF)

Objective:

Facilitating access to education and increasing employability and educational attainment of human resources in a life cycle approach in the context of knowledge based society.

Key areas of intervention in this field will be focused on: transition from school to active life, preventing and correcting early school leaving and access and participation in CVT.

Priority Axis 3: Increasing adaptability of workers and enterprises (ESF)

Objective:

Promoting entrepreneurial culture, flexicurity and adaptability by supporting skilled, trained and adaptable labour force and enterprises.

Operations under three major key areas of intervention will contribute towards fulfilling this objective: promoting entrepreneurial culture, training and support for enterprises and employees to promote adaptability and development of partnerships and encouraging initiatives for social partners and civil society.

Priority Axis 4: Modernising the Public Employment Service (ESF)

Objective:

Increasing the quality, efficiency and transparency of employment services provided by the Public Employment Service.

Strengthening the Public Employment Service capacity for providing employment services and training of PES staff will be the key areas of intervention for modernizing the PES and diversifying and upgrading its services on the labour market.

Priority Axis 5: Promoting active employment measures (ESF)

Objective:

Facilitating the integration on the labour market of young and long-term unemployed, attracting and retaining more people in employment, including in rural areas, and supporting formal employment.

This objective will be achieved through operations related to developing and implementing active employment measures and promoting long term sustainability of rural areas in terms of human resources development and employment.

## Priority Axis 6: Promoting social inclusion (ESF)

## Objective:

Facilitating access on the labour market of vulnerable groups and promoting a cohesive and inclusive society in order to ensure the welfare of all citizens.

The key areas of intervention identified in this field will address: developing social economy, improving the access and participation of vulnerable groups on the labour market, promoting equal opportunities on the labour market and trans-national initiatives on the inclusive labour market.

## Priority Axis 7: Technical Assistance (ESF)

Table 14e

## Contribution of SOP HRD to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Education and training in support of growth and development of knowledge based society	♦	♦	♦		♦
Priority Axis 2: Linking life long learning and labour market	♦	♦	♦		♦
Priority Axis 3: Increasing adaptability of workers and enterprises		♦	♦		♦
Priority Axis 4: Modernising the Public Employment Service		♦	♦	♦	♦
Priority Axis 5: Promoting active employment measures		♦	♦		♦
Priority Axis 6: Promoting social inclusion		♦	♦		♦
Priority Axis 7: Technical Assistance			♦	♦	

## Complementarity with the operations financed by other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the SOP HRD are complementary with operations financed under other Programmes financed by the Structural Instruments, EAFRD or EFF<sup>39</sup>, mainly in the following fields:

- entrepreneurship development (SOP HRD will ensure the necessary entrepreneurial education and training in the field of entrepreneurship for the individuals willing to start a business, except for agriculture and forestry. On the other hand, SOP Economic Competitiveness will support the enterprises for the development of business incubators, will provide consultancy support, as well as support for enterprises' integration in supplier chains and clusters. NRDP finances specific advisory and extension services for farmers);
- support for researchers (Under SOP HRD researchers will acquire managerial skills to be used for spin offs and spin outs for the creation of which specific support/incentives will be provided under SOP Economic Competitiveness. Incentives and career opportunities offered to young researchers, opportunity to access doctoral and post-doctoral programmes, as well as continuing training and sectoral mobility of researchers supported under SOP HRD will create the grounds for developing RDI activities supported under SOP Economic Competitiveness);

<sup>39</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 "Implementation and Complementarity", in Annex 3 and in the respective OPs.

- education, training and social services (SOP HRD will cover only the ESF type interventions, including vocational training for persons involved in non-agricultural sectors and farmers in order to shift their activities to non-agricultural ones and initial vocational training through specialized schools and high schools, including agriculture and forestry education structures; NRDP finances short-term vocational training without qualification for adult persons involved in agricultural, agri-food sector and forestry; the investments for developing the physical infrastructure in the initial and continuous education and vocational training system, as well as the social infrastructure will be financed under the ROP and NRDP);
- training for public administration (SOP HRD will finance only the staff in the National Agency for Employment, while the staff from the other authorities and public bodies at central and local level will be the target group for the vocational training actions envisaged within OP ACD);
- technical assistance (the technical assistance priority axis under SOP HRD aims to ensure specific support for the management and implementation of the SOP, including specific training of the personnel, as well as the information and publicity of the interventions financed through SOP HRD; OP Technical Assistance ensures the horizontal training on Structural and Cohesion Funds implementation, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance).

SOP HRD will also finance interventions contributing at fulfilling some specific objectives of other OPs:

- developing an innovative and eco-efficient productive system (SOP Economic Competitiveness) and increasing the regions competitiveness as business locations (ROP), through supporting continuous vocational training primarily in those dynamic and high added value sectors with high economic growth potential, which are targeted by SOP Economic Competitiveness and ROP;
- improving the ICT use (SOP Economic Competitiveness), through: including a compulsory ICT module in all education curricula and teachers training programs developed under SOP HRD, developing educational software and e-learning activities;
- developing the RDI sector (SOP Economic Competitiveness), through encouraging PhD programmes especially within the priority areas identified in the National Strategy on Research, Development and Innovation 2007-2013;
- improving the quality of the environment (SOP Environment), through: introduction of the environmental education in curricula, training programmes for enterprises in the field of sustainable development and environment protection.

## 4.6. Operational Programme Administrative Capacity Development

The general objective of the ACD OP is to contribute to the creation of a more efficient and effective public administration for the socio-economic benefit of Romanian society.

The achievement of the general objective will be reflected by the increase in public trust in public administration across Romania. This recognises that trust is earned through better delivery of public services that directly affects the economy and the lives of citizens through improvements to socio-economic conditions and to the well-being and prosperity of the entire population.

The OP ACD will be implemented through two Priority Axes. Priority Axis 1 promotes structural and process improvements to the public policy management cycle, while Priority Axis 2 targets the improvement of quality and efficiency of the delivery of public services on a decentralised basis. The underlying logic of this setup is to have a balanced set of interventions divided

between a focus on the reliability of decision making and organisational effectiveness and on the responsiveness of public service delivery to the needs of citizens. A core element of the strategy is to support the decentralisation of services in three sectors that have a considerable impact on socio-economic conditions, such as – health, education and social assistance.

Priority Axis 1: Structural and process improvements to the public policy management cycle (ESF)

This Priority Axis aims at contributing to a sustainable improvement in public administration capacity in Romania, through structural and process improvements to the public policy management cycle.

Objectives:

- To develop the capacity in policy formulation, better regulation, strategic planning and inter-institutional partnership working;
- To improve the capacity in the accountability framework;
- To support the structural and process improvements that contribute to organisational effectiveness.

Priority Axis 2: Improved quality and efficiency of the delivery of public services on a decentralised basis (ESF)

This Priority Axis targets the improvement of the quality and efficiency of services provided by the public administration (central and local).

Objective:

- To support the structural and process change arising from Sectoral decentralisation initiatives;
- To improve the quality and efficiency of delivery of public services

Priority Axis 3: Technical Assistance (ESF)

Table 14f

#### Contribution of OP ACD to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Structural and process improvements to the public policy management cycle	♦	♦	♦	♦	♦
Priority Axis 2: Improved quality and efficiency of the delivery of public services on a decentralised basis	♦	♦	♦	♦	♦
Priority Axis 3: Technical assistance				♦	

Complementarity with the operations financed by other OPs, EAFRD and EFF

The interventions foreseen under the Priority Axes of the OP Administrative Capacity Development are complementary with operations financed under other Programmes financed by the Structural Instruments, EAFRD or EFF<sup>40</sup>, as follows:

- With SOP HRD: ACD OP will finance training activities for the public administration structures for civil servants in central administration, managers in deconcentrated services

<sup>40</sup> More information regarding complementarity and demarcation criteria is provided in Chapter 6 "Implementation and Complementarity", in Annex 3 and in the respective OPs.

and local administration managers. The targeted beneficiaries for the ACD OP are the central administration (ministries, their affiliated institutions and deconcentrated bodies), the local administration (county authorities, municipalities and communes) and NGOs at local level (e.g. support to local partnership initiatives). The SOP HRD will not finance the training actions having as a target group the staff from the authorities and public bodies at central and local level, except for the staff in the National Agency for Employment.

- With OP TA:
  - horizontal training: ACD OP finances training for all levels of public administration, in order to generally enhance the management skills, ability to attract and manage development funds, accountability, decision making in such structures, without a specific focus to SCF. The Managing Authorities of the other OPs are specifically excluded from benefiting from the ACD OP as they are eligible for administrative capacity development assistance under the OP TA and TA priority axes of their OPs. TA OP ensures the horizontal training on Structural and Cohesion Funds implementation for the personnel involved in the management and implementation of such funds, as well as for the potential beneficiaries for SCF with a view to the common needs and aspects across the structures, SMIS maintenance and development, as well as the general measures on information and publicity of overall SCF assistance; the other OPs finance specialized training programmes in the field of SCF tailored to the specific needs and actions of each OP. Overlap is avoided not exclusively by beneficiaries but by the focus of training;
  - evaluation: OP ACD, in addition to what is done as regards the Structural Instruments, aims at promoting the evaluation culture at national level, for the authorities that are not directly involved in the management or implementation of Structural Instruments; OP TA finances evaluations of OP TA, NSRF and NDP; the specific OPs undertake evaluation activities for the purpose of the respective OPs; the coordination of the interventions will be ensured by the Evaluation Working group.

#### 4.7. Operational Programme Technical Assistance

The global objective of the OP Technical Assistance at the national level is to ensure support for the coordination and to contribute to sound, effective, efficient and transparent implementation and absorption of the Structural Instruments in Romania.

Ensuring the efficiency and effectiveness of the whole process in terms of programming, monitoring, financial management, control and audit, as well as in terms of coordination of the Structural Instruments, providing guidance and training to the staff of the institutions involved in the implementation of the Structural Instruments, as well as training the beneficiaries on general issues regarding the Structural Instruments will strengthen the administrative capacity and will contribute to the efficiency and effectiveness of the management system of Structural Instruments. Moreover, the development of a culture of evaluation will serve both as an orientation tool for the programmes and will help disseminate best practices and guidelines as regards the management and implementation of the programmes.

The development of the SMIS and ensuring an efficient functioning and operation of the system over time will guarantee the sound effective management of the OPs, in line with national and EU regulations, and will also serve in the management and monitoring process of the programmes.

A coordinated delivery of general messages related to Structural Instruments will be essential in promoting a greater understanding of the objectives and achievements of the Structural Instruments and ensuring effective implementation of the programmes, and contributing towards achieving a higher absorption rate.

Priority Axis 1: Support to the implementation of Structural Instruments and coordination of programmes (ERDF)

Objective:

- Strengthening the overall coordination of Structural Instruments implementation and building appropriate capacities and capabilities of the system by actions aimed at setting a common level of knowledge and experience among different actors.

Priority Axis 2: Further development and support for the functioning of the Single Management Information System (ERDF)

Objective:

- To ensure the smooth operation of the SMIS, the organisational and functional development and ongoing expansion of the system so as to allow prompt access to data in all institutions involved in the management of Structural Instruments and to contribute to a sound and effective management of the Operational Programmes.

Priority Axis 3: Dissemination of information and promotion of Structural Instruments (ERDF)

Objective:

- To ensure coordinated delivery of general messages related to Structural Instruments at national level and to implement ACIS action plan for communication in line with the national communication strategy for the Structural Instruments.

Table 14g

Contribution of OPTA to the NSRF Priorities

	Develop Basic Infrastructure to European Standards	Increase the L-T Competitiveness of the Romanian Economy	Development and More Efficient Use of Romania's Human Capital	Building Effective Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: Support to the implementation of Structural Instruments and coordination of programmes	♦	♦	♦	♦	♦
Priority Axis 2: Further development and support for the functioning of the Single Management Information System				♦	
Priority Axis 3: Dissemination of information and promotion of Structural Instruments	♦	♦	♦	♦	♦

Complementarity with the operations financed by other OPs

The interventions foreseen under the Priority Axes of the OP TA are complementary with operations financed under other Programmes financed by the Structural Instruments mainly in the following fields:

- support to the management and implementation of Structural Instruments (OP TA finances horizontal support for all functions related to the management and implementation of the Structural Instruments in order to ensure a uniform approach at national level, while the TA interventions in the OPs are focused on specific support for the management, implementation and evaluation of the specific OP);
- evaluation (OP TA finances evaluations of OP TA, NSRF and NDP; the specific OPs undertake evaluation activities for the purpose of the respective OPs; OP ACD, in addition to what is done as regards the Structural Instruments, aims at promoting the evaluation culture at national level, for the authorities that are not directly involved in the management

- or implementation of Structural Instruments; the coordination of the interventions will be ensured by the Evaluation Working group);
- training (OP TA finances horizontal training as regards the Structural Instruments for the personnel involved in the management and implementation of such funds, as well as for the potential beneficiaries for Structural Instruments with a view to the common needs and aspects across the structures; the other OPs finance specialized training programmes in the field of Structural Instruments tailored to the specific needs and actions of each OP; OP ACD finances training for all levels of public administration, in order to generally enhance the management skills, the ability to attract and manage development funds, accountability, decision making in such structures, without a specific focus to Structural Instruments; the coordination of the interventions will be ensured by the Training Development and Coordination Unit inside ACIS);
  - supply of IT equipment (TA OP will finance the equipment required for the correct operation of the SMIS system in terms of servers and computer hardware for all MAs, CA and AA; the TA measures under the OPs will finance the acquisition of computers and other equipment office which are not related to the operation of the SMIS; the coordination of the interventions under different OPs will be ensured by the SMIS Central Unit within ACIS);
  - communication (TA OP finances dissemination of general information about Structural Instruments, with a view to promote a greater understanding of the objectives and achievements of such funds, as well as of the NDP in Romania; the TA interventions in the OPs provide support for information and publicity for the specific strategy and actions aimed by each programme and targeted at the potential beneficiaries of the respective programme; the coordination of the interventions under different OPs will be ensured by the Communication Working Group coordinated by ACIS).

## 5. Financial Plan

### Financial allocations

According to the Financial Perspectives 2007-2013 agreed at the European Council in December 2005, Member States whose average 2001-2003 per capita GNI (PPS) is under 40% of the EU-25 average are entitled to receive a maximum level of Structural Instruments transfers of 3.7893% of their GDP.

The entire territory of Romania is eligible under the "Convergence" objective, given that per capita GDP (PPP) of every NUTS II region is below 75% of the EU-25 average. Romania will also receive financing under the "European Territorial Co-operation" objective, for actions of cross-border, transnational and inter-regional cooperation.

As a Member State who has a per capita GNI (PPP) of less than 90% of the EU-25 average, Romania will benefit from the Cohesion Fund. In order to reflect the significant needs of new Member States in terms of transport and environment infrastructure, the share of the Cohesion Fund was set at one third of the total financial allocation (Structural Funds plus Cohesion Fund) for the new Member States on average over the period 2007-2013.

Taking into account the above-mentioned decision of the European Council and the 2007-2009 financial package accompanying the Accession Treaty of Romania to the EU, the European Commission communicated in August 2006 to the Romanian authorities the Structural and Cohesion Funds allocation for Romania, by Objective and by year, for the period 2007-2013, as presented below in Table 15.

Table 15

Structural and Cohesion Funds allocation for Romania, by Objective  
and by year, for the period 2007-2013

- Euro, current prices -

	2007	2008	2009	2010	2011	2012	2013	Total
Convergence	830,134,320	1,215,884,555	1,654,845,782	1,997,008,836	2,154,259,932	2,319,190,285	2,489,289,974	12,660,613,684
Cohesion Fund	444,944,443	638,417,107	858,507,216	1,030,210,429	1,109,470,097	1,192,582,076	1,278,291,660	6,552,423,028
Territorial Cooperation	59,945,093	61,338,333	62,961,549	64,827,348	66,742,596	68,498,164	70,297,257	454,610,340
TOTAL	1,335,023,856	1,915,638,995	2,576,314,547	3,092,046,613	3,330,472,625	3,580,270,525	3,837,878,891	19,667,647,052

### Financial Weighting of Priorities

Romania has huge development needs, in all the relevant fields of economic and social development. The sheer number and size of these needs make difficult the prioritisation of financial support during the period 2007-2013, when a significant increase in the funding is envisaged.

As already presented in the NSRF Strategic Vision, a thorough analysis was carried out when drawing up the 2007-2013 National Development Plan, revealing that infrastructure is the biggest development problem with which Romania is faced in the programming period 2007-2013, whereas it is crucial that investment in economic competitiveness and human resources accompany the infrastructure development and build together the foundations for sustainable development.

It was therefore decided by the Romanian Government that the largest allocation of development funds would be made to infrastructure (more than 2/3 of the NDP resources, excluding the funds earmarked for rural development and fisheries). The total allocation for

human resources and economic competitiveness, which accounts for about 1/3 of the NDP funds (excluding rural development and fisheries), was fairly equally split between the two fields.

The policy grounds underpinning the choice made by the Romanian Government as regards the NDP financial breakdown are perfectly valid when discussing the financial weighting of the NSRF Priorities. Moreover, given their major contribution to achieving the national objectives of socio-economic development, the Structural and Cohesion Funds must be geared towards supporting the order of priorities established in the NDP and which sets out Romania's development path.

The main factors taken into account when establishing the indicative breakdown of cohesion funding by Thematic Priority and subsequently by Operational Programme and by Fund are the following:

- stage of development of the Romanian economy
- general and sectoral/ regional gaps as compared to EU levels
- integration of the revised Lisbon Strategy in Romania's development model
- the huge amount of investment needs for basic infrastructure (transport, environment, energy)
- costs associated with complying with the *acquis* after accession (the environmental commitments, in particular, imply high costs spread over the transition periods agreed in the accession negotiations)
- the need to enhance economic competitiveness through direct support for enterprises as well as through the development of business infrastructure
- matching competitiveness support with the development of sufficient and well qualified human resources (which includes the much needed support for the rehabilitation/development of education, training and health infrastructure)
- allocation models for Structural Instruments used in the EU, especially in the new Member States, whose stage of development is closer to Romania's situation
- Cohesion Fund allocation of 1/3 of the financial envelope which will be used to address infrastructure-related needs.

Thus the following indicative allocation of EU funds to the NSRF Thematic Priorities was made:

- |   |      |
|---|------|
| ▪ Development of Basic Infrastructure to EU Standards             | ~60% |
| ▪ Improving the Long Term Competitiveness of the Romanian Economy | ~15% |
| ▪ Development and More Efficient Use of Romania's Human Capital   | ~20% |
| ▪ Building Effective Administrative Capacity                      | ~ 5% |

The macro-economic impact simulation revealed that this breakdown of Structural and Cohesion Funds together with the national co-financing would lead to achieving the overall objective of the NSRF, i.e. a 15-20% additional growth of the GDP by 2015, due to the Structural and Cohesion Funds.

The rationale presented extensively in the Strategic Vision section fully justifies the relatively high share of infrastructure investment. It is considered that without this massive injection of funds into infrastructure which characterizes Romania's first period of Structural Instruments programming, there will be no basis for a long-term sustainable development at national, regional and local level. Basic infrastructure is what is most needed in the economy's current stage of development in order to make Romania's regions more attractive places to invest and to work. No competitive advantage can realistically make up for the lack of accessibility and of basic living conditions. Improving the basic infrastructure will also generate considerable employment opportunities, both directly and indirectly (through the support provided to the

development of economic activities), and will enable inter and intra-regional mobility of labour force. Moreover, it will create more opportunities for the disadvantaged groups and communities, particularly in the small and medium-sized towns and in the rural areas.

Based on the thematic breakdown of funding and using the same rationale described above, the Funds have been allocated to the Operational Programmes that Romania has prepared for 2007-2013 programming period.

NSRF financial table

Table 16 below illustrates the distribution of EU resources between Operational Programmes under the NSRF.

Table 16  
Financial table for NSRF - indicative annual allocation by Fund and Operational Programme

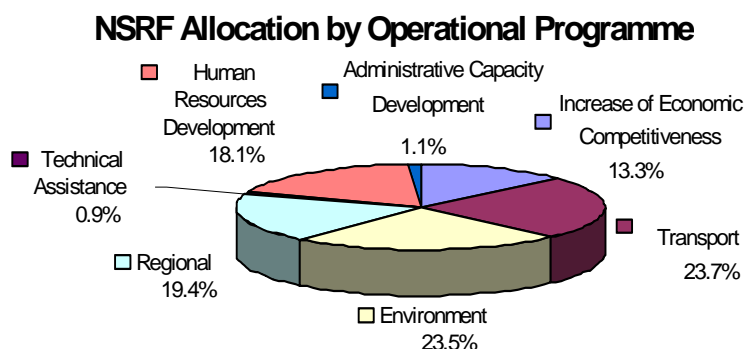
- Euro, current prices -

CONVERGENCE		Community participation							
Operational Programme	Fund	Total	2007	2008	2009	2010	2011	2012	2013
<b>ERDF and CF</b>									
Increase of Economic Competitiveness	ERDF	2,554,222,109	170,464,211	194,837,789	364,964,902	485,640,935	507,263,253	435,815,005	395,236,014
Transport	ERDF+CF	4,565,937,295	251,957,363	441,348,842	614,332,066	729,632,669	785,525,000	841,697,425	901,443,930
	ERDF	1,289,332,210	28,805,392	122,249,222	185,312,282	214,078,466	230,870,080	245,489,974	262,526,794
	CF	3,276,605,085	223,151,971	319,099,620	429,019,784	515,554,203	554,654,920	596,207,451	638,917,136
Environment	ERDF+CF	4,512,470,138	272,372,736	437,302,592	578,507,217	683,350,731	761,146,030	848,813,721	930,977,111
	ERDF	1,236,652,195	50,580,264	117,985,105	149,019,785	168,694,505	206,330,853	252,439,096	291,602,587
	CF	3,275,817,943	221,792,472	319,317,487	429,487,432	514,656,226	554,815,177	596,374,625	639,374,524
Regional	ERDF	3,726,021,762	330,168,339	404,126,047	441,135,485	523,721,833	556,767,943	663,832,914	806,269,201
Technical Assistance	ERDF	170,237,790	16,979,328	18,401,347	20,977,535	24,775,573	27,568,456	30,463,144	31,072,407
<b>ESF</b>									
Human Resources Development	ESF	3,476,144,996	212,973,834	330,141,809	452,584,803	538,429,514	595,593,519	666,545,305	679,876,212
Administrative Capacity Development	ESF	208,002,622	20,162,952	28,143,236	40,850,990	41,668,010	29,865,828	24,604,847	22,706,759
TOTAL all Funds NSRF 2007-2013		19,213,036,712	1,275,078,763	1,854,301,662	2,513,352,998	3,027,219,265	3,263,730,029	3,511,772,361	3,767,581,634
Total ERDF		8,976,466,066	596,997,534	857,599,510	1,161,409,989	1,416,911,312	1,528,800,585	1,628,040,133	1,786,707,003
Total CF		6,552,423,028	444,944,443	638,417,107	858,507,216	1,030,210,429	1,109,470,097	1,192,582,076	1,278,291,660
Total ESF		3,684,147,618	233,136,786	358,285,045	493,435,793	580,097,524	625,459,347	691,150,152	702,582,971
EAFRD		8,022,504,745	741,659,914	1,023,077,697	1,319,261,544	1,236,160,665	1,234,244,648	1,235,537,011	1,232,563,266
EFF		230,714,207	15,127,527	22,157,050	30,156,234	36,391,468	39,257,052	42,262,575	45,362,301

Annual allocation from the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) are included for information purposes, according to the requirement of the Council Regulation No. 1083/2006.

Diagram 9 shows the % distribution of the NSRF allocation by OP.

Diagram 9



### Lisbon Earmarking

According to the provisions of Article 9(3) of the Council Regulation No 1083/2006, the countries that joined the European Union after 1st of January 2004 are exempted from the obligation to ensure the minimum spending of 60% of the Structural and Cohesion Funds resources for the Convergence objective towards promoting competitiveness and creating jobs and meeting the objectives of Integrated Guidelines for Growth and Jobs 2005-2008.

Even though it is one of the newest EU Member States, Romania is committed to contributing to the achievement of Lisbon goals. This is clearly reflected in the National Reform Programme and in the NSRF priorities. Consequently, Romania regards the principle of Lisbon earmarking as an important tool for monitoring at national and Community level the actual performance in gearing Structural and Cohesion Funds towards Lisbon-related areas of intervention.

The indicative level of Lisbon expenditure under the 2007-2013 NSRF is estimated at about 50% of the total allocation of EU funds, according to the categories listed in Annex IV of the Council Regulation No 1083/2006. This contribution reflects the present state of development of the Romanian economy and the huge needs of basic infrastructure for the period 2007-2013, which require many actions which are not considered directly related to the Lisbon Strategy according to Annex IV, especially in the environment field.

In addition, improvement of the process for elaborating the public policies, supporting the reform of the public administration, increasing the capacity of public and central authorities in relation to the management and control of the Structural Instruments are top priorities for Romania that need to be addressed in the present programming period and which will unquestionably have a positive impact on the creation of jobs and fostering economic growth, contributing thus to the objectives of the Lisbon Agenda. The needs related to administrative capacity were acknowledged both in the National Reform Programme, as well as in the EC monitoring reports for Romania. Thus, according to the analysis and priorities set out in the National Reform Programme, "the efficiency of public expenditure depends fundamentally on the capacity of the public administration to formulate and implement the public policies under the conditions of a balanced budget". Moreover, the EC Monitoring reports underline that although significant progress has been made in a number of areas, efforts for capacity building are still needed.

Consequently, having in view the provisions of Article 9(3) of the Council Regulation No 1083/2006, the list of categories of Annex IV has been complemented with the expenditure related to the strengthening of administrative capacity. Thus, the allocation towards Lisbon

oriented objectives would reach a total of about 56%. Annex 2 shows the details of how this has been calculated.

Romania will monitor during the implementation period and report to the European Commission on the actual level of spending falling under the Lisbon earmarking.

#### Co-financing

The Structural and Cohesion Funds regulation requires EU grants to be matched by co-financing from within the Member States. The maximum level of EU contribution is set out in the Council Regulation No 1083/2006, in line with the EU Financial Perspective 2007-2013. Romania can benefit of a maximum Community funding rate at OP level of 85% for all three Funds: ERDF, ESF and the Cohesion Fund.

The NSRF allocation under the "Convergence" objective and the Cohesion Fund requires an estimated 5.53 bn Euro national co-financing, made up of both public (aprox. 73% of total co-financing) and private sources (aprox. 27%).

The public co-financing will be provided from the state budget by the Government of Romania and from the local budgets by the local public authorities, which will apply for Structural Instruments funding. Given the low financial capability of many local authorities to ensure the needed co-financing, the Government of Romania has decided to reduce as much as possible the contribution of local budgets.

Thus, the principle to be applied in the OPs is that the own co-financing that a local authority has to secure for a project should generally be 2% of the eligible value, one major exception being the revenue-generating projects. Consequently, the overall contribution of the local authorities is less than 5% of the total national co-financing. It is also worth mentioning that the introduction of the 16% flat rate tax in January 2005 has generated increased revenues for the local authorities, which should improve their capacity to (co)finance development projects. On the other hand, a very important measure was approved in 2006 in order to facilitate the access to finance of some local authorities that do not have enough own resources for co-financing their project proposals. The Local Public Finance Law No 273/2006, which entered into force on 1 January 2007, has raised the indebtedness ceiling of local authorities from 20% to 30% of their own resources. Furthermore, the share in the balancing transfers from the state budget to the local budgets of the funds earmarked for co-financing projects with external funding has been increased.

As regards the NGOs, consideration has been given to their limited financial means in light of the important support that they should provide in the delivery of Structural Instruments, especially in the human resources field. Therefore, it has been decided that the same principle of an own co-financing of 2% of the eligible value of a project will also be applied for NGOs.

Private co-financing will be needed for projects addressed to private beneficiaries, such as enterprises. For the operations which involve state aid, the maximum intensity of public support (EU funds + state and/or local budgets contribution) will be observed. Increased promotion of financing opportunities brought up by the Structural Instruments is already contributing to preparation of a substantive portfolio of private projects and will give time to the private beneficiaries to plan their financial resources so as to be able to secure the necessary co-financing.

It is to be underlined that the financial tables in the NSRF and the Operational Programmes identify the maximum Community contribution and the national co-financing at OP and Priority Axis level, and not at project level. It is recognised that the actual rate of financing at project level will be affected by the number of projects that will be implemented and by the restrictions stemming from state aid regulations or by the rules on revenue generating projects as per Art. 55 of the Council Regulation No 1083/2006. These factors have been taken into account in the drawing up of the OPs financial plans. The Romanian authorities are also aware that, should the level of eligible expenditure at projects level be significantly reduced by the application of the revenue generating projects rules, additional projects will have to be identified and implemented in order to observe the financial provisions of the OPs. On the other hand, a positive side effect of this would be the increased leverage of the Community funding, which is one of the key aims of the Structural and Cohesion Funds.

Details about the financial management of public co-financing resources are given in Chapter 6 "Implementation and Complementarity" (section on Financial Management and Control).

#### Pre-financing

During 2007-2009, Romania will receive as pre-financing 7% of the ERDF and ESF allocations for 2007-2013 and 10.5% of the Cohesion Fund allocation, according to Article 82 of the Council Regulation No 1083/2006. Experience in some of the newly acceded Member States has shown that often project promoters have been unable to find the necessary financial resources to cash flow projects. This has led to projects either failing to start or being delayed. Romania intends to use part of the pre-financing from the European Commission provided on approval of programmes to pre-finance certain operations, for which the beneficiaries are central and local public authorities and NGOs. In the case that the EU pre-financing would not be enough to cover the pre-financing need in a certain year, additional resources would be provided from the state budget.

#### Performance Reserve

The Council Regulation No 1083/2006 allows Member States to set up a National Performance Reserve (3% of the SCF to be allocated in 2011 to the best performing programmes). The allocation of the Reserve during programming period could generate major and unnecessary disruptions. Hence, Romania will not exercise this option in the 2007-2013 programming period.

#### Contingency Reserve

The Council Regulation No 1083/2006 allows for a National Contingency Reserve (1% of the Structural Funds allocation to be used whenever an emergency arises). Since this type of reserve is new, there is no experience on the modalities and criteria for using it and predictions are therefore difficult at this stage.

#### Exchange Rate Management

The Structural and Cohesion Funds are managed by the EU in euro and allocations to Member States are made in euro, likewise Operational Programmes are approved in euro. On the other hand, Romania has decided that the contracts with the beneficiaries will be concluded in RON and payments will therefore be made in RON as well. The Ministry of Economy and Finance will monitor and manage the exchange rate fluctuations between the euro and the RON in co-operation with the Managing Authorities, so that Operational Programmes are not affected by

the potential negative impact of these fluctuations. In the cases of negative exchange rate effects on the OPs, Ministry of Economy and Finance will use the buffer fund at its disposal to cover the gaps.

As the implications of these exchange rate variations could impact on n+3/n+2 targets, the monitoring of fluctuations and their impact on the programmes will be done quarterly and allocations or reductions will normally be made every six months. Decisions will be reported to Monitoring Committees.

## Ex-Ante Verification of Additionality

Article 15 of the Council Regulation No 1083/2006 requires that contributions from the Structural Funds shall not replace public or equivalent structural expenditure by a Member State. For regions covered by the Convergence objective the Commission and the Member State have to determine the level of public or equivalent structural expenditure and maintain it at that level during the programming period.

In order to carry out the ex-ante verification of compliance with the additionality principle, a methodology has been prepared by the Ministry of Economy and Finance based on the Commission Methodological Paper giving guidelines on the calculation of public or equivalent structural spending for the purposes of additionality (Working Document No 3). The Ministry of Economy and Finance and the relevant line Ministries identified the relevant budget headings and lines which are used for public structural spending, in line with the eligibility criteria detailed in Section 2 of the above mentioned Working Document.

The following categories of national structural expenditure were taken into account in the ex-ante verification of additionality:

- national programmes financed from the state budget and other public sources;
- investment expenditure from the local budgets;
- external loans contracted by public institutions;
- EU pre-accession funds and the corresponding public co-financing;
- Structural Funds under the Convergence Objective and the public co-financing for Structural Funds and Cohesion Fund.

The relevant budget lines were flagged so that information can be retrieved from the public expenditure database in later years.

The financial data used for the reference period (2004-2005) are the annual average of actual expenditure, according to the budgetary execution for the respective years. The annual average of planned expenditure for the period 2007-2013 is mainly based on data from the State Budget for 2007 and the medium term budgetary perspectives for 2008-2010 (as approved by the Parliament in December 2006), as well as the financial programming of the Operational Programmes under the Convergence Objective. The data series have been deflated to 2006 prices and converted to Euro using the GDP deflator and the official exchange rate for 2005.

Based on the data gathered, the summary financial table of public or other equivalent structural expenditure has been compiled (see Table 17), in line with the Annex XIX of the EC Regulation No 1828/2006.

According to the ex-ante verification, the annual average of planned expenditure for 2007-2013 is estimated at 4,772,513,667 Euro as compared to an annual average of actual expenditure

during 2004-2005 of 3,474,856,224 Euro. Therefore, the difference of 1,297,657,443 Euro demonstrates the compliance with the additionality principle.

The methodology for the ex-ante verification (including the sources of information) and the results of the exercise are described in the Additionality Report, as per Annex B of the Working Document on additionality, has been sent separately to the European Commission.

According to Article 15 of the General Regulation, additionality will be verified mid-term in 2011 and ex-post on 31 December 2016.

Table 17

## VERIFICATION OF ADDITIONALITY FOR 2007-13 CONVERGENCE OBJECTIVE – EX ANTE VERIFICATION

Summary financial table of public or other equivalent structural expenditure in Convergence objective regions

(EUR\*, 2006 prices)

1	Annual average in 2007-2013 NSRF (ex ante)						Annual average 2000-2005 (actual) **					
	Total	Of which public companies	NSRF		Outside NSRF	Total	Total	Of which public companies	EU pre-accession programmes***		Outside EU pre-accession programmes	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.
	2 = 4+5+6	3	4	5	6	7 = 5+6=2-4	8 = 10+11+12	9	10	11	12	13 = 11+12=8-10
Basic infrastructure	3,154,320,217		369,649,834	196,798,511	2,587,871,872	2,784,670,383	3,617,034,354		1,262,233,678	136,929,932	2,217,870,744	2,354,800,676
Transport	1,245,789,913		194,669,375	121,583,264	929,537,274	1,051,120,538	1,168,675,989		158,984,674	75,816,379	933,874,937	1,009,691,316
Telecommunications & information society	42,050,341		34,766,647	2,492,892	4,790,802	7,283,694	719,748		80,431	335,800	303,517	639,317
Energy	757,244,732		32,790,931	405,389	724,048,412	724,453,801	770,168,358		2,604,406	1,395,869	766,168,083	767,563,952
Environment & water	990,713,683		87,312,209	68,768,075	834,633,399	903,401,474	1,615,278,343		1,073,166,042	51,501,197	490,611,104	542,112,301
Health	118,521,548		20,110,672	3,548,891	94,861,985	98,410,876	62,191,915		27,398,125	7,880,687	26,913,103	34,793,790
Human Resources	2,157,254,180		342,640,647	51,971,261	1,762,642,272	1,814,613,533	1,060,986,658		35,487,152	30,829,895	994,669,611	1,025,499,506
Education	1,107,312,828		101,180,182	21,149,337	984,983,309	1,006,132,646	784,186,956		4,031,745	2,082,935	778,072,276	780,155,211
Training	318,130,975		201,741,909	28,729,387	87,659,679	116,389,066	145,025,169		20,431,133	16,842,357	107,751,679	124,594,036
RTD	731,810,377		39,718,556	2,092,537	689,999,284	692,091,821	131,774,534		11,024,274	11,904,603	108,845,656	120,750,259
Productive environment	257,429,419		171,281,589	16,920,131	69,227,699	86,147,830	120,696,071		36,863,784	11,846,802	71,985,485	83,832,287
Industry	173,882,618		118,706,332	9,400,346	45,775,940	55,176,286	59,205,914		288,201	494,337	58,423,376	58,917,713
Services	15,771,716				15,771,716	15,771,716	46,238,883		30,946,664	9,083,744	6,208,474	15,292,218
Tourism	67,775,085		52,575,257	7,519,785	7,680,043	15,199,828	15,251,274		5,628,919	2,268,721	7,353,635	9,622,356
Others	219,291,085		132,209,164	29,176,147	57,905,774	87,081,921	20,209,827		9,486,072	259,364	10,464,391	10,723,755
Total	5,788,294,901		1,015,781,234	294,866,050	4,477,647,617	4,772,513,667	4,818,926,910		1,344,070,686	179,865,993	3,294,990,231	3,474,856,224

\* The annual average exchange rate of 2005 was used, since Romania's currency is not the euro

\*\* 2004-2005 for the 10 Member States who acceded in 2004, plus Romania and Bulgaria

\*\*\* The term CSF/SPD was replaced with "EU pre-accession programmes" as Romania did not have a Community Support Framework/Single Programming Document

## 6. Implementation and Complementarity

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### COORDINATION OF THE NSRF

The Council Regulation No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, hereafter referred to as the General Regulation, requires that in accordance with the principles of subsidiarity and proportionality, the Member State has the primary responsibility for the coordination, implementation and control of the interventions under the NSRF.

The NSRF description of the implementation arrangements summarises the text in the Operational Programmes and observes the Chapter 21 commitments. The text is in accordance with Article 59 (3) of the General Regulation which requires that the Member State sets down rules governing its relations with the entities involved in the management of Structural Funds and Cohesion Fund (Managing Authorities, Intermediate Bodies, Certifying Authority, Body competent for receiving payments from the European Commission, Bodies responsible for making payments to the beneficiaries and Audit Authority) and their relationships with the European Commission.

#### Authority for the Coordination of Structural Instruments (ACIS)

The Authority for the Coordination of Structural Instruments (ACIS) is the institution entrusted with the coordination of management and delivery of the Structural Instruments in Romania, assuming the responsibilities assigned to the “CSF Managing Authority” in Government Decision No 128/2006 modifying GD No 497/2004. ACIS is located within the Ministry of Economy and Finance. Its tasks are to coordinate the programming, implementation and evaluation of Operational Programmes under the NSRF, including to ensure coordination and coherence between the programmes and also with the National Rural Development Programme and Operational Programme for Fisheries.

#### Coordination mechanisms at national level

The following national coordination mechanisms will oversee implementation of the NSRF at political, management and operational levels:

#### National Coordination Committee for Structural Instruments

The National Coordination Committee (NCC) was established under GD No 1200/2004. The NCC is the main inter-Ministerial decision making body responsible to the Government of Romania for the coordinated implementation of EU Structural Instruments. The Minister of Economy and Finance chairs the NCC. The members of the NCC are the Ministers in charge of the Managing Authorities of all the Operational Programmes supported by the Structural Instruments and the Certifying and Paying Authority. The NCC may invite experts, as it deems appropriate, to consider in more detail specific areas of its responsibility. Experts shall operate under the direction and authority of the Committee.

The NCC will also have the role of ensuring the strategic correlation between the Structural Instruments OPs and the Programmes financed by EAFRD and EFF. Representatives of the Managing Authorities responsible for the EAFRD and EFF will be members of the NCC.

The NCC will meet four times every year of implementation and more often when necessary. Representatives of the European Commission may be invited to attend meetings of the NCC in an advisory capacity.

#### Management Coordination Committee

The Management Coordination Committee will address management and administrative issues with horizontal relevance to the Operational Programmes. It will enable regular exchange of operational experience between Operational Programmes and provide the forum for management decisions to be taken which impact upon all of them. The Head of ACIS will chair the Management Co-ordination Committee. The members of the Committee will be the heads of the Operational Programme Managing Authorities and the Certifying and Paying Authority. The Committee will meet on a monthly basis and will report to the NCC. Only those issues, which cannot be resolved in the framework of the Management Coordination Group, will be referred to the NCC for decision.

#### Thematic Working Groups

Thematic Working Groups will be set up as and when needed for specific issues requiring inter-institutional coordination at a technical level. Thematic Working Groups already exist for implementation systems and manuals, technical assistance, SMIS development, information and publicity and training coordination. Beside the groups set up for the SCF implementation functions, it is envisaged to create Thematic Working Groups or at least to have regular meetings in a similar format, on cross-cutting policy issues (e.g. SMEs, tourism, human resources development etc.). All Thematic Working Groups are chaired and serviced by ACIS and report to the Management Coordination Committee.

#### Coordination mechanisms at regional level

The Romanian authorities recognize the need for an additional mechanism to ensure coherence at the NUTS II regional level between all interventions financed under the SOPs and the ROP, the Convergence and European Territorial Cooperation Objectives, as well as with the National Rural Development Programme and Fisheries OP.

#### Regional Coordination Committees for Structural Instruments

A Regional coordination Committee (RCC) will be established in each of the 8 Development Regions, as consultative body. The RCC will regularly analyse and assess the implementation of the EU Programmes in the Regions and formulate recommendations to the NCC, the Monitoring Committees and the Managing Authorities in order to increase the absorption of the Funds in the Regions and to improve the strategic correlation of interventions. The RCC should also identify potential synergies and strategic responses to the specific problems of a Region, which could be put into practice through correlated and/or synchronised interventions under various Programmes, including those financed by EAFRD and EFF. Thus, the activity of the RCCs will enable both the thematic and territorial coherence of interventions co-financed by the Structural Instruments, EAFRD and EFF.

The membership of the RCCs will include representatives of ACIS, the Managing Authorities for EU Programmes, the Regional Development Agencies, representative of local authorities and other relevant stakeholders at regional and local level.

## COMPLEMENTARITY OF INTERVENTIONS

Complementarity between the EU funding sources contributing to economic and social cohesion under the various Programmes is key to the success of the NSRF. This requires the setting up of clear demarcation and complementarity criteria. The Romanian authorities responsible for the management of the programmes benefiting of EU support have worked at great length during the programming process in order to establish a split of responsibilities that:

- observes the EU rules for the various Funds;
- avoids all potential overlaps (that could be identified so far);
- creates synergies;
- complies with the legal and policy attributions of the involved institutions;
- takes into account the specificity of the sectors targeted by interventions; and, very importantly,
- is clear and logical for both the implementing institutions and the beneficiaries.

Given the very broad range and complexity of envisaged interventions, a short list of strategic, general principles cannot be enough to cover satisfactorily all the areas of complementarity. The detailed work on the NSRF, the National Strategic Plan for Rural Development and the National Strategic Plan for Fisheries and Aquaculture led to a set of complementarity/demarcation criteria which takes into account the specificity of various Programmes at the level of key areas of intervention and even operations.

The main areas of complementarity and the related criteria are presented in Annex 3, whereas more technical details can be found in the respective programming documents. Of course, taking into account that the implementation of programmes is a dynamic process stretching over a period of almost nine years, this set of rules may be completed and/or revised if objectively required.

### Internal Coherence of the Structural Instruments

The NSRF has been drawn up taking into account all relevant EU policies. The coherence between these policies and National Policies has been respected in developing the NSRF strategies. The NDP and the emerging NSRF have guided the strategic development and identification of priority axes of the Operational Programmes and will contribute to the horizontal community priorities for sustainable development, economic growth and protection of the environment. The approval, management and monitoring of the Structural Instruments at the national level is the responsibility of the NCC and the management co-ordination groups described above.

The rules/areas of interventions for ERDF, ESF and the Cohesion Fund, as set out in the EU regulations, are observed. However, given that each fund will be delivered through more than one programme, detailed work carried out in partnership by the Managing Authorities under the co-ordination of ACIS within the Ministry of Economy and Finance has sought to ensure the coherence of the emerging strategies under the OPs and to ensure the complementarity of the funding streams (ERDF, ESF and CF). Work has also been undertaken to ensure that there are no overlaps between the intended operations of Operational Programmes and that the division of operations is sensible, pragmatic and meets the economic development needs of Romania.

The interventions supported shall aim at ensuring the synergy of investments in infrastructure, economic competitiveness, human resources and administrative capacity building, so that the most effective results are obtained. Therefore, the main principles of demarcation and

complementarity consisted in: relevance for the regional or national development (i.e. county vs. national and TEN-T roads), scope of intervention (i.e. investments in infrastructure, on one hand, and curricula development or service provision, on the other hand), sectors addressed (i.e. support to enterprises complemented by labour force training in specific sectors) etc. The main areas of complementarity and the general demarcation criteria are presented in the Annex 3, whereas full details are provided in the OPs.

#### Complementarity between Structural Instruments, EAFRD and EFF

Being fully aware that the complex problems of the rural areas and areas dependent on fisheries requires a coordinated policy approach and in order to comply with the provisions of the Art. 9 (4) of the Council Regulation No 1083/2006 laying down general provisions on the ERDF, ESF and CF and of the Art. 5 (2) of the EC Regulation No 1698/2005 on support for rural development by the EAFRD, the Romanian authorities responsible with the management of the EU Funds have worked on ensuring the coherence and complementarity of the interventions of the Structural and Cohesion Funds (SCF), EAFRD and EFF.

The National Strategic Plan for Rural Development (NSP), implemented through the National Rural Development Programme, provides the Romanian strategy for rural development aiming to increase the attractiveness of rural territory from an economic, social and environmental point of view. This policy complements and contributes to the achievement of the objectives of the cohesion policy, which is implemented through the SCF.

According to the national definition, the rural area refers to rural localities as defined under the Romanian Law No 350/2001 on spatial planning and urbanism and Law No 351/2001 for approving the National Spatial Plan – Section IV – Localities network, namely the localities where either the majority of population is occupied in agriculture, forestry or fisheries, or in terms of endowment with public utilities, do not fulfil the legal obligations to be declared as urban localities, even if the majority of population is occupied in other sectors than those mentioned before. Based on these legal provisions, from an administrative point of view, the Romanian territory is organized, at NUTS5 level, in 319 towns making up the urban area and 2,851 communes, making up the rural area (data for 31 December 2005). In their turn, communes are mostly made up of more than one village (12,946 villages in total) without any administrative responsibilities. Exceptions from this general rule exist, either required by the EU regulations (e.g. LEADER-type projects) or by the internal demarcation criteria established in correlation with the SCF.

Where dividing lines are established in the EU regulations, the interventions under the SCF and the EAFRD observe these rules. On the other hand, in order to create synergies and avoid parallel financing, the demarcation principles between similar interventions of SCF and EAFRD cover a lot of areas (productive investments, infrastructure, public utilities, human resources, Natura 2000, tourism etc). Therefore, one cannot indicate a single and unique demarcation rule between the interventions financed from the two funding sources, but different demarcation criteria, which go in some cases beyond urban - rural area division (e.g. EAFRD cannot support measures for all human resources from rural areas, roads do not change their status according to the category of localities they are going through etc.), according to the specificity of interventions in the different fields.

Thus, under the EAFRD are going to be financed those interventions which were proven to have direct impact either on rural development (communal roads, public utilities in rural agglomerations, business environment in rural areas, agro-tourism and rural tourism etc.) or on the increasing of competitiveness of the agriculture and forestry (endowments of farms with

utilities and equipments, compensation payments for applying expensive measures, setting up producers groups, rural credit guarantee funds etc.). Some of the interventions are either specifically mentioned or only possible under EAFRD, as provided under the Regulation No 1658/2005: the afforestation measures, fire preventing measures or compensation payments.

In this respect, during the programming process, the thematic working groups organised for drafting the OPs, and the NSP/NRDP have identified specific criteria for demarcation between interventions (some of them similar to those used in the demarcation between different OPs): objectives of the interventions (i.e. supporting financially the farmers through EAFRD or management of nature protection through ERDF), activity of the beneficiaries (i.e. agricultural and forestry products processing vs. other productive activities in terms of enterprise support), spatial impact (i.e. local, county, national), legal definition (European, national, county, communal roads), specific EU acquis for public utilities (i.e. regionalisation of water and wastewater services), target groups etc.

The main areas of complementarity and the general demarcation criteria are presented in Annex 3, whereas full details are provided in the OPs and the NRDP.

By providing the complementarity between EAFRD and Structural Instruments the aim is to ensure that the territorial coverage is achieved with regard to type of intervention, potential beneficiaries and that the most efficient systems are used for implementation. The development of local initiatives will be financed by EAFRD and implemented with the support of Local Action Groups.

A series of meetings with Ministry of Economy and Finance as a coordinator of Structural Instruments, the Managing Authorities and the Ministry of Agriculture and Rural Development were held to discuss common interests/overlaps and complementarity.

The strategic priorities of the National Strategic Plan for Fisheries and Aquaculture aim to provide an efficient intervention of the European Fisheries Fund in the fishery sector, through ensuring financial support for restructuring and development of the fishing activities, aquaculture and fish processing. These objectives are complementary with SCF operations. Interventions in the areas where fishing activities take place will achieve balanced development, good management and high absorption capacity. The development of local EFF initiatives will be financed and implemented with the support of Fisheries Groups. Management of EFF is under the responsibility of the National Agency for Fisheries and Aquaculture.

#### Coordination mechanism during the implementation process

Within its mandate of coordinating the SCF implementation, the National Coordination Committee (NCC) has the important role of ensuring the coherence and complementarity of SCF interventions with other SCF, EAFRD and EFF. In this respect, along with the Ministries acting as Managing Authorities of the Operational Programmes supported by the SCF and other relevant bodies, the Ministry of Agriculture and Rural Development (MARD), in its capacity of Managing Authority for EAFRD, and the National Agency for Fisheries and Aquaculture (NAFA), in its capacity of Managing Authority for EFF, are represented within the NCC. Thus, the NCC will be in a position to analyse regularly the complementarity of operations financed from various Funds and propose improvements, if needed. This will mainly be done through regular meetings on cross-cutting policy issues and possibly through the setting up of Thematic Working Groups dealing with such issues.

Also, at regional level, the Regional Coordination Committees will contribute to an efficient implementation of the SCF, by ensuring the coherence in the project pipeline development, as well as the synergy with the projects financed through EAFRD and EFF at the level of the respective region. Representatives of MARD and NAFA, where relevant, will be members of the RCCs.

In addition to the setting-up of RCCs, whose role will focus on the strategic coherence of interventions under various Programmes, cooperation agreements will be entered into by the Intermediate Bodies operating at regional level, in order to ensure the ongoing exchange of information at operational level.

#### Coordination with EIB and other International Financing Institutions

During the process of drawing up the 2007-2013 National Development Plan and of programming the Structural Instruments, the complementarity between the Operational Programmes and the loans already contracted or which are to be contracted in the next years with the International Financing Institutions has emerged as a key element of Romania's medium-term expenditure strategy. In this respect, given Romania's access to significant non-reimbursable EU funds starting with 2007, it has to be emphasized that the borrowing strategy is re-orienting towards: 1) the priority areas identified in the National Development Plan and in which the needs are larger than the amounts that are provided from the EU funds (in these areas the reimbursable support has to be fully complementary to the EU funds); 2) the areas which are not eligible for EU funds.

The comprehensive review of potential financing sources to support the objectives of Romania's development strategy for 2007-2013 has led therefore to recognising the need to set up a co-ordination mechanism between the OPs and the external borrowing strategy. This co-ordination mechanism operates at two levels.

First of all, the strategy for covering the sectoral financing needs is proposed at the level of the line ministries/agencies, based on the sectoral priorities, duly assessed. In this respect, the financing gap which cannot be covered from state budget resources or non-reimbursable EU funds has to be addressed with the support of external funding, including from IFIs, and the line ministries request this support to the Ministry of Economy and Finance, which is responsible for managing Romania's public debt, including contracting of external loans with the IFIs.

The second level of the co-ordination mechanism lies with the Ministry of Economy and Finance. Once a request for an external loan is received from a line ministry/agency, an internal analysis is carried out jointly by the department in charge of external public finance, the department for State budget and ACIS. The main purposes of this analysis are to verify the extent to which the projects for which external loans are requested are eligible for financing from the Structural Instruments, i.e. on a non-reimbursable basis, and to assess the opportunity of contracting the loan and the efficiency of the resource allocation decisions. Once it is deemed necessary to contract an external loan, expressions of interest can be issued towards the IFIs relevant for that specific policy field.

The above-described mechanism is already in place and will continue to operate during the 2007-2013 programming period.

## MANAGEMENT OF OPERATIONAL PROGRAMMES

The following institutions (See Table 18) have been designated with management roles for the Operational Programmes under GD No 497/2004, as amended and supplemented by GD No 1179/2004 and GD No 128/2006.

Table 18

Operational Programmes Management Bodies 2007-2013

Operational Programme	Managing Authority	Intermediate Bodies	Fund
Convergence Objective			
SOP Increase of Economic Competitiveness	Ministry of Economy and Finance	- Ministry for Small and Medium Sized Enterprises, Trade, Tourism and Liberal Professions - Ministry of Education, Research and Youth (National Authority for Scientific Research) - Ministry of Communication and Information Technology - Ministry of Economy and Finance (Energy Policy General Directorate)	ERDF
SOP Transport	Ministry of Transport	-	ERDF + CF
SOP Environment	Ministry of Environment and Sustainable Development	8 regional IBs coordinated by MESD	ERDF + CF
Regional OP	Ministry of Development, Public Works and Housing	- Regional Development Agencies - Ministry for Small and Medium Sized Enterprises, Trade, Tourism and Liberal Professions	ERDF
SOP Human Resources Development	Ministry of Labour, Family and Equal Opportunities	- National Agency for Employment - 8 regional IBs coordinated by the MoLFEO - Ministry of Education, Research and Youth - National Center for Development of TVET	ESF
OP Administrative Capacity Development	Ministry of Interior and Administrative Reform	-	ESF
OP Technical Assistance	Ministry of Economy and Finance	-	ERDF
European Territorial Cooperation Objective			
OP Cross-border Cooperation (CBC) Hungary–Romania	National Development Agency (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority	ERDF
OP CBC Romania–Bulgaria	Ministry of Development, Public Works and Housing	-	ERDF
OP CBC Romania – Serbia	Ministry of Development, Public Works and Housing	-	ERDF (transfers to IPA)

Operational Programme	Managing Authority	Intermediate Bodies	Fund
OP CBC Romania – Ukraine - Moldova	Ministry of Development, Public Works and Housing	-	ERDF (transfers to ENPI)
OP CBC Hungary - Slovakia – Romania - Ukraine	National Development Agency (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority	ERDF (transfers to ENPI)
OP CBC Black Sea Basin	Ministry of Development, Public Works and Housing	-	ERDF (transfers to ENPI)
OP South-East European Space	Ministry of Local Government and Spatial Development (Hungary)	Ministry of Development, Public Works and Housing in Romania will act as National Authority and National Contact Point	ERDF
OPs Inter-regional Cooperation <ul style="list-style-type: none"> <li>▪ INTERREG IV C</li> <li>▪ URBACT II</li> <li>▪ ESPON 2013</li> <li>▪ INTERRACT II</li> </ul>	France France Luxembourg Austria	Ministry of Development, Public Works and Housing in Romania will act as National Authority and National Contact Point	ERDF

## Managing Authorities

According to Art. 60 of the General Regulation, Managing Authorities are responsible for ensuring the efficient and correct management and implementation of Structural Instruments and the delivery of the Operational Programmes, so as to bring about the maximum socio-economic benefits. Their actions will be carried out fully in line with the current EU and Romanian legislation and Government policies. The Managing Authorities will be required to liaise with other Ministries, social partners and civil society and to develop genuine and effective partnership working to achieve real socio-economic impact. In so doing, they will seek to maximise value for money from projects that contribute to the Operational Programme strategies and the achievement of quantified targets.

## Intermediate Bodies

Managing Authorities may delegate various tasks to Intermediate Bodies (IBs), but retain overall responsibility for the correct execution of delegated tasks. The status and role of an IB will be defined by the scope of tasks delegated from the Managing Authority to that IB. This will differ within the agreements made by the various MAs. Service Level Agreements/Contracts between the MAs and their IBs, which will be contractually binding, will govern these arrangements.

## MONITORING

### Operational Programme Monitoring Committees

The OP Monitoring Committees (MCs) will be established, in line with Art. 63 of the General Regulation, within three months of the decision approving the Operational Programmes. The MCs will be set up by the Member State, in agreement with the Managing Authorities, after consultation with the partners. The MCs will be responsible for overseeing the overall co-ordination, effectiveness and quality of the implementation and decision-making under the Operational Programmes.

## Monitoring and reporting system

The monitoring and reporting system takes into account the needs of different user groups and different levels of the management structures. The potential users of information are the stakeholders who have their own areas of responsibilities and, therefore, their distinctive information needs (such as beneficiaries, IBs, MAs, MCs, Government of Romania, European Commission, external evaluators, wider public and NGOs).

The monitoring system is based on an exhaustive and regular examination of the context, resources (inputs), outputs and results of the OPs and their interventions. It is composed of a mechanism of coherent information including progress review meetings and progress reports providing periodic summaries which incorporate key information from the physical and financial indicators. The purpose of the reports is to provide updates on achievements against indicators and milestones and they will be written in a standard format allowing for comparison between reports over time.

The core piece of information to be provided in the reports is related to indicators capturing the progress of the interventions vis-à-vis the goals set in the programming phase. In this respect, a system of indicators for each OP has been developed under the coordination of ACIS. The system will be detailed with guiding elements providing a common understanding throughout the stakeholders, such as comprehensive lists of monitoring and evaluation indicators, definition of each indicator, responsibilities, periodicity and ways of data collection and processing, as well as indicators tables to be generated by Single Management Information System providing a clear picture of the interventions' context and progress. ACIS and the MAs will check periodically the reliability of the information collected and will coordinate an on-going process of improving the functioning of the monitoring system.

## Annual and final reports on implementation

In line with the provisions of Articles 67 and 68 of the General Regulation, the OP Managing Authorities will prepare Annual Implementation Reports for submission to the European Commission for the first time in 2008 and by 30 June each year. The Final Reports for the OPs will be prepared and submitted to the Commission by 31 March 2017.

## Strategic Reporting by the Member State

ACIS will compile all strategic reports required under Art. 29 of the General Regulation, including the regular reports on the contribution of all the Operations to the objectives of EU Cohesion Policy and of the Integrated Guidelines for Growth and Jobs. ACIS will develop and maintain all operational relationships with the OP Managing Authorities necessary for the preparation of these reports.

## Single Management Information System

The Single Management Information System is a nation-wide web-based information system, supporting all Romanian organisations implementing the National Strategic Reference Framework and Operational Programmes. The system is addressing the needs of all management levels (Managing Authorities, Intermediate Bodies, Certifying Authority etc.) and through all the stages of the programme cycle (programming, tendering, contracting, monitoring, evaluation, payments, audit and control). Use of the SMIS will be compulsory for all bodies involved in implementing Operational Programmes under this NSRF.

As a monitoring tool, SMIS is the main provider of information on progress regarding the implementation, at both project and programme level, allowing monitoring reports to be automatically generated.

In order to provide an effective management tool, the functional model of the SMIS is based on a set of subsystems, which together reflect the broad range of functionalities the System is designed to perform, as follows:

- Programming, which allows the registration and the modification of the main information on the NSRF broken down at lower levels by OP, priority axis, key area of intervention and operation;
- Project management (registration and the modification of the main information on projects, including the contracts<sup>41</sup>);
- Monitoring, which allows observing the progress in structural and cohesion funds implementation at all levels, where appropriate against targets previously set. It also allows automatically bottom-up aggregation of the actual value of the core data which are registered at lower levels of the System;
- Audit and Control, which registers the control and audit findings;
- Funds flow management, which deals with payment request forecasts, inflows, project revenues, suspensions and recoveries of funds.

The IT system will satisfy the EC regulatory requirement for electronic data interchange and communication between the Commission and Romanian Government, according to the Art. 40-42 of the Commission Regulation No. 1828/2006.

The SMIS has been developed under the coordination of ACIS and in close cooperation with the representatives of all structures involved in the management of Structural Instruments. During the implementation period, the SMIS will be managed and further developed by ACIS.

## EVALUATION

The requirement to conduct systematic and evaluation activities of the Operational and general rules for those activities are provided in Articles 37 and 47–49 of the General Regulation. In line with these requirements, the Member State will be responsible for ensuring that the following independent evaluations are carried out:

Ex-ante evaluation has the role of identifying and appraising the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence of the programming documents.

On-going evaluations are carried out during the NSRF implementation period and can either be of interim type (which support the OPs management process and aim at improving the quality, effectiveness and consistency of the assistance), ad-hoc (when the monitoring process reveals significant departures from the goals initially set or where proposals are made for the revision of Operational Programmes) or with a cross-cutting theme, where the evaluation is of horizontal nature and involve more than one OP. The objectives, tasks, evaluation questions and expected results will be defined separately for each evaluation.

The European Commission will carry out an ex-post evaluation for each Objective. It may also perform strategic evaluations, as well as evaluations linked to the monitoring of OPs.

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<sup>41</sup> A contract is a legal commitment concluded between the Beneficiary and the Grantee or Provider of the services, works or supplies necessary to implement a part of the project or the entire project.

## Evaluation Units

A Central Evaluation Unit was established within ACIS and has an overall coordination role of evaluation as well as particular responsibilities with the management of the evaluations with cross-cutting theme and evaluation capacity building activities. Each Managing Authority has an Evaluation Unit responsible with the interim and ad-hoc evaluations of the concerned operational programme. These units will ensure that evaluations are carried out to a high standard, at an appropriate time, in a cost effective manner and in accordance with requirements of the EU regulations and European Commission guidelines.

## Evaluation Plans

Evaluation plans will also be drafted at the level of each MA and at the level of ACIS, comprising the indicative evaluation activities intended to be carried out in the different phases of the programme, respectively of the NSRF.

The NSRF Evaluation Plan will aim at providing information for the strategic decision making process and will plan evaluation activities at macro socio-economic level. Possible evaluation themes to be included in the NSRF Evaluation Plan may be linked to the NSRF priorities (infrastructure, economic competitiveness, human resources development, administrative capacity and territorial dimension) or may concern the delivery system such as the horizontal ad-hoc external evaluation with a special focus on the implementation and process issues across the OPs as well as on the external coherence of the programmes with national policies that will be commissioned by the ACIS in 2008.

At the operating level, each OP will have an Evaluation Steering Committee, which should convene for each evaluation exercise. A Strategic Evaluation Steering Committee will be established also at the level of NSRF for evaluations with cross-cutting themes. The steering committee will fulfil, as a minimum, the following tasks: set the terms of reference for individual evaluations, facilitate the evaluator's access to the information needed to perform his/her work; support the evaluation work, particularly from the methodological standpoint; ensure that the terms of reference are observed; exercise quality control in relation to the evaluation performed.

Follow-up and implementation of recommendations of evaluation will be the responsibility of the MAs, under the coordination of the Evaluation Central Unit. Evaluation reports or at least executive summaries will be made publicly available in a readily identifiable and accessible format.

## FINANCIAL MANAGEMENT AND CONTROL

### Roles and responsibilities

The Ministry of Economy and Finance is designated to fulfil the role of Certifying Authority for all OPs, responsible for drawing up and submitting to the Commission certified statement of expenditure and applications for payment before they are sent to the Commission in line with the provisions of Article 61 of the General Regulation. The Certifying Authority is a department in the Certifying and Paying Authority within the Ministry of Economy and Finance.

The Competent body for receiving the ERDF, ESF and Cohesion Fund payments from the European Commission in respect of all OPs is the Certifying and Paying Authority within the Ministry of Economy and Finance.

The bodies responsible for making the payments to the Beneficiaries are: a) the Certifying and Paying Authority for SOP Environment and SOP Transport (direct payment); b) the Paying Units established in the ministries which have the role of Managing Authorities (indirect payment).

An associate body of the Romanian Court of Accounts has been designated as Audit Authority for all OPs, in line with the requirements of Article 59 of the General Regulation. The Audit Authority is operationally independent of the Managing Authorities and of the Certifying and Paying Authority.

Each OP Managing Authority is responsible for managing and implementing its Operational Programme efficiently, effectively and correctly in line with the provisions of Article 60 of the General Regulation. The Managing Authorities will work closely with the Certifying and Paying Authority in fulfilling the responsibilities of financial management and control.

It is to be mentioned that, at national level, the Fight Against Fraud Department – DLAF within the Romanian Government has the task of carrying out investigations regarding the obtainment, management and use of the EU financial assistance granted to Romania. DLAF enjoys full operational and decisional autonomy, it is independent of all other public institutions and it ensures the coordination of the fight against fraud affecting EU funds and the protection of the Communities' financial interests in Romania.

## Financial Flows

The financial flows diagram (Diagram 10 below) shows the overall certification and payment system foreseen for each Operational Programme. The system is described in more detail in the Operational Programmes concerned.

ERDF, ESF and Cohesion Fund resources received from the Commission will be held in the Commercial Bank accounts. All national public co-financing resources will be held centrally at the Ministry of Economy and Finance, enabling payment of the co-financing together with the EU funds. Local public co-financing will be provided directly to projects by local authorities. Private co-financing will be provided by the respective beneficiaries.

## Certification and payments

The Beneficiaries will be responsible for forwarding applications for reimbursement to the relevant Intermediate Body, where the tasks have been delegated; otherwise, these will be verified by the Managing Authority. Before submitting the application for reimbursement, the Beneficiary has to verify the accuracy, actuality and eligibility of expenditure according to the national legislation on internal control.

The MAs will send the payment claim to the Certifying and Paying Authority in the Ministry of Economy and Finance. The MAs will declare the authorised eligible expenditure to the Certifying and Paying Authority regularly, broken down by priority axis and funding source. After satisfying itself that the expenditure declaration is based on sound accounting systems and that the expenditure is compliant with Community rules and the provisions of the OP, the

Certifying and Paying Authority sends a statement of expenditure and the payment application to the European Commission. The Commission pays the amount requested to the Certifying and Paying Authority, subject to satisfaction of its own internal controls.

Diagram 10 below details the process of expenditure certification to the European Commission, which is carried out at three levels:

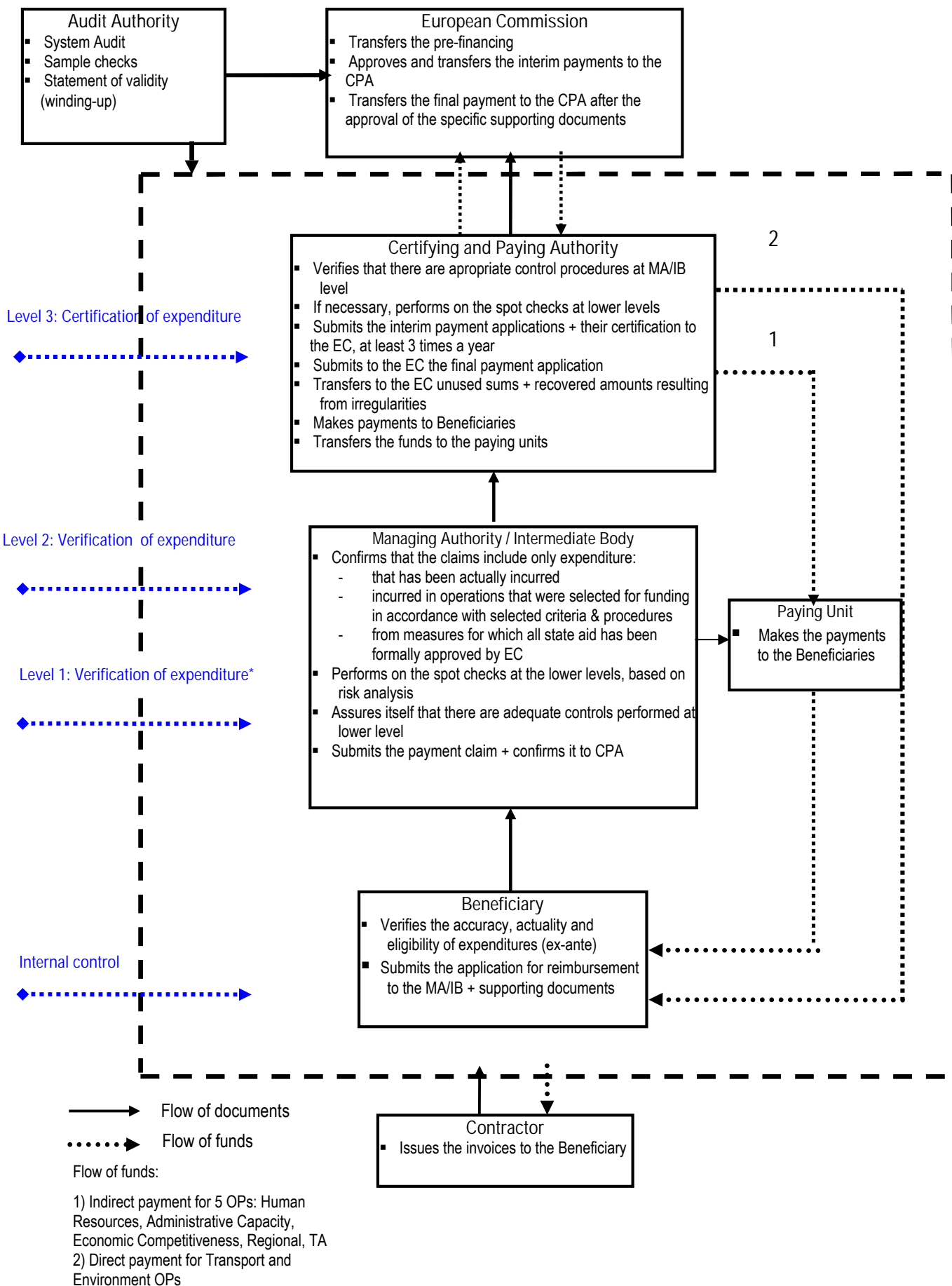
Level 1 - verification of expenditure at IB level <sup>42</sup>

Level 2 - verification of expenditure at MA level

Level 3 - certification of expenditure at Certifying Authority level

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<sup>42</sup> Where no IBs are designated for the Operational Programme, the first level of verification does not apply  
Ministry of Economy and Finance



## Specific Control Mechanisms

### Expenditure verifications (Article 13)

Each OP Managing Authority is responsible for carrying out verifications of 100% of expenditure claims submitted by Beneficiaries, as well as on-the-spot verifications on a sample of operations required by Article 13 of the EC Regulation No 1828/2006 setting out rules for the implementation of EC Regulations No 1083/2006 and No 1080/2006. The Managing Authorities will provide detailed guidance to Beneficiaries on making expenditure claims correctly. All expenditure claims will be supported by invoices or documents of equal probative value.

Service Level Agreements will be signed between each OP Managing Authority and the Certifying and Paying Authority. Any delegation of financial management and control tasks by the Managing Authority to Intermediate Bodies, or by the Certifying and Paying Authority to separate Paying Units, will be covered by service level agreements or contracts. The MAs will remain responsible for the tasks delegated to the IB. The tasks performed in that sense will not duplicate checks carried out at IB level.

### Internal Audit

Within all public institutions involved in the implementation of the Operational Programmes there have been established Internal Audit Units, that are independent from the structures performing the tasks of MAs (or IBs) and are directly subordinated to the heads of the institutions concerned. The methodological coordination of these Units is ensured by a special unit within the Ministry of Economy and Finance, namely the Central Harmonization Unit for Public Internal Audit.

### Sample and system audits (Article 16)

Within nine months of the approval of each OP, the Audit Authority, established under Law No 200/2005, will present to the Commission an audit strategy for performing annual sample checks on OP expenditure and audits of OP management and control systems from 2008-2016, taking account of international audit standards.

In line with Article 16 of the EC Regulation No 1828/2006, the expenditure audited each year for each OP shall represent not less than 3% of total declared expenditure in the preceding year. The expenditure audited before the closure of an OP shall represent not less than 5% of total expenditure declared. The sample of operations audited shall be fully representative (of coverage, type, size, IBs).

The Audit Authority will prepare an annual control report each year for each OP setting out the findings of the audits carried. The Audit Authority will also issue an opinion as to whether the management and control system has operated effectively and as to the correctness of the statements of expenditure presented to the Commission during that year.

At the closure of each OP, the Audit Authority will submit a statement to the Commission assessing the validity of the application for payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, supported by a final control report. Where applicable, the Audit Authority will submit a declaration for partial closure assessing the legality and regularity of the expenditure concerned.

## Reporting and investigation of possible irregularities / frauds

Any irregularities detected by the Managing Authorities, Intermediate Bodies and/or the Audit Authority will be reported to the Certifying and Paying Authority. The Certifying and Paying Authority will keep a database of all irregularities notified, including the irregularities in the Certifying and Paying Authority itself and will forward this information to DLAF (Anti-Fraud Coordination Service in Romania), which shall report to the European Commission (OLAF) all irregularities above 10,000 Euro, as well as all irregularities committed intentionally. Such reporting will be transmitted to OLAF on a quarterly basis. The irregularities not fulfilling the above criteria will be reported only at the specific request of the European Commission. Reporting of irregularities shall be done in accordance with the provisions of Art. 27-36, Section 4 of the EC Regulation No 1828/2006.

DLAF is the specialized body responsible for the investigation of irregularities and suspected cases of fraud affecting the EU funds and coordinates the system for the protection of EU's financial interests. DLAF conducts on-the-spot investigations, upon notification from the European Anti-Fraud Office – OLAF, from authorities involved in the management and control of the financial assistance granted by the EU or ex-officio. DLAF is an ascertaining body as regards fraud affecting the EU's financial interests in Romania. Also, DLAF ensures operational cooperation with OLAF and similar structures from EU Member States and can act in joint teams with representatives thereof.

## Financial corrections

Beneficiary payment will be adjusted where amounts are deemed irregular or ineligible. Where this is not possible, the Managing Authority concerned will take recovery action. The OP Managing Authorities will return to the Certifying and Paying Authority any amounts of irregular expenditure arising from systemic errors reported. The Community resources concerned will be deducted from the future payment applications to the European Commission.

## Ensuring an adequate audit trail

Each MA is responsible for maintaining a record of the location of all documents making up the audit trail under the Operational Programme in accordance with Article 60(f) of the General Regulation. The MAs will ensure that all supporting documents related to OP expenditure are retained by the relevant organisations for audit purposes for 3 years following the Programme closure.

## Assessment of the compliance of the management and control systems

As required by Article 71 of the General Regulation, before the submission of the first interim payment application or at the latest within twelve months of the approval of each Operational Programme, an assessment of the compliance of the management and control systems for each OP will be submitted to the Commission. This description shall be accompanied by a report setting out the results of an assessment of the setting up of the systems and giving an opinion on their compliance with Articles 58-62 of the General Regulation.

## COMPLIANCE WITH COMMUNITY POLICIES

In accordance with Article 60 of the General Regulation, the OP Managing Authorities are responsible for ensuring that operations financed by the Structural Instruments shall be in conformity with the provisions of the Treaty, with instruments adopted under it and with Community policies and actions. ACIS will, through the National Coordination Committee and Management Coordination Committee, ensure that Community Policies are implemented unitarily in the delivery of the Structural and Cohesion Funds. It will provide support and advice services for assisting in the delivery of these actions and will ensure that reporting requirements are met.

### Sustainable Development and Environmental Protection

The Romanian Government is committed to ensuring that economic growth and development are achieved in a sustainable manner, in accordance with Article 9 of the General Regulation. In addition, the Operational Programmes will not undertake actions that damage the environment and they will deploy the financial resources available in ways that influence positively sustainable economic development, particularly the wider environmental impact of the assistance.

Activities will be coherent with the Community policies and priorities, including those on environment. The Operational Programmes will observe the environmental legislation and, in this respect, will undergo the strategic environmental assessment as defined in the GD No 1076/2004 on establishing the procedure for carrying out the environmental assessment for plans and programmes, which transposes the EU Directive No 2001/42 (SEA). The conclusions and recommendations resulting from the strategic environmental assessments of the OPs will be taken into account in the final version of the documents.

To the same end of ensuring the integration of the environmental sustainability as a horizontal priority across the operations financed under OPs, the Environmental Impact Assessment (EIA) will be conducted on infrastructure and investment project proposals in order to have the environmental considerations taken into account for all stages of project implementation. The EIA will be carried out in accordance with GD No 918/2002 on establishing the framework-procedures for environmental impact assessment with the subsequent amendments and completions (transposing the EU Directive No 85/337/EEC on EIA procedures) and Ministerial Orders approving the manuals and guides on EIA.

### Equal Opportunities

Equal opportunities will be promoted by interventions under all the Operational Programmes. This will ensure the equitable participation of women and men in the operations and benefits that accrue from the implementation of the operations. Equality of opportunities will also focus on vulnerable groups, young people, ethnic minorities, especially Roma, the disabled people and people with learning difficulties.

National Agency for Equal Opportunities will assist the MAs and the OP Monitoring Committees in properly addressing this key horizontal policy.

## Competition Policy and State Aid

The Operational Programmes have been developed having regard to the Community Rules on State Aid. The provisions of Articles 87 and 88 of the Treaty in relation to state aid rules will be fully respected. Any public support under the Operational Programmes must comply with the procedural and material State aid rules applicable at the point in time when the public support is granted.

Acting according to its competence set out in the national legislation, the Competition Council (the national State aid authority<sup>43</sup>), has provided support to the OP Managing Authorities and their Intermediate Bodies in respect of State aid applicable rules and it is providing on-going operational advice and guidance, including the process of drafting normative or administrative acts by which state aid measures are instituted.

The Competition Council, acting as the Contact Point in State aid field between the European Commission and Romanian authorities, State aid's grantors and beneficiaries, shall ensure the strict observance of the notification requirements. The Competition Council will act in its advisory role and will have the role of submitting the necessary notifications/informations to the European Commission, through Romania's Permanent Representation to the European Union. Authorities, grantors and state aid beneficiaries are obliged to provide to the Competition Council all the required information, in order to be sent to the European Commission.

Managing Authorities are fully responsible in ensuring compliance with State Aid rules. The actual implementation will be the responsibility of the MAs. The Annual Implementation Reports will detail the measures undertaken in order to ensure the compliance of all operations with State Aid rules.

## Public Procurement

The procurement of all contracts financed through the Structural and Cohesion Funds and corresponding national co-financing shall be done in compliance with EU legislation and primary and secondary national legislation implementing the EU provisions on public procurement.

In order to ensure coherence with EU procurement policies, the Romanian authorities transposed the Directives No 17/2004/EC and No 18/2004/EC, by adopting the Law No 337/2006 for approving the Emergency Government Ordinance No 34/2006 on awarding of the public procurement contracts, public works concession contracts and services concession contracts. The secondary legislation was also adopted. This legislation also takes into account the provisions of the Commission interpretative Communication on concessions under Community law of 29 April 2000 and the Commission interpretative Communication on the Community law applicable to contracts awards fully or not fully subject to the provisions of the public procurement directives of 1 August 2006.

To enforce the legal provisions, the National Authority for Regulating and Monitoring Public Procurement (NARMPP) was set up. This body has the role to develop public procurement strategies, ensure coherence with Community acquis, ensure conformity in the application of legislation, fulfil EU Directive obligations, monitor, analyse and evaluate the methods used for awarding public contracts, as well as advice and train personnel involved in procurement

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<sup>43</sup> Competition Law no. 21/1996, republished and the Government Emergency Ordinance No 117/2006 on State aid, republished.

activities. The NARMPP has set up the framework for Romanian national procurement methodologies and is providing advice and support.

All public procurement contracts will be awarded in compliance with the new harmonised national legislation. The principles applied in contracting activities are: non-discrimination, equal treatment, mutual recognition, transparency, proportionality, efficiency of used funds and accountability.

The general procedures for concluding public procurement contracts are the open and the restricted tender. Only as exceptions, the competitive dialogue, the direct negotiation or offer request, the framework agreement, the electronic auction and the dynamic purchasing system are foreseen by the law. The General Inspectorate for Communication and Information Technology is the operator of the electronic system for public procurement (ESPP).

The contracts are published in the ESPP, in the National media and, where the relevant thresholds under Community Directives are applicable, in the Official Journal of the European Communities.

The eligibility and selection criteria makes reference to the personal situation, the ability to exercise the professional activity, the economic and financial situation, the technical and/or professional capacity, quality assurance and environmental standards. The awarding criteria are the most economically profitable offer or, exclusively, the lowest price.

The NARMPP provides training, courses and seminars for the main purchasers from central and local level, including institutions involved in the management of the SCF and potential beneficiaries.

The ex-ante control system in the public procurement field has become functional through the Emergency Government Ordinance No. 30/2006 and the Government Decision No. 942/2006 for approving the methodological norms for EGO no 30/2006. In this respect, the Unit for Coordination and Verification of Public Procurement (UCVPP), within the Ministry of Economy and Finance has been appointed as the body responsible for ensuring ex-ante verification of public procurement procedures, including those carried out under the Structural and Cohesion Funds programmes.

UCVPP works together with the NARMPP, the Managing Authorities and with any other public institution in the field of public procurement.

In order to improve the quality of the public procurement system and to ensure the compliance with the national legislation in the field, the Ministry of Economy and Finance, through its specialized structures at central and territorial level, verifies the process of contract awarding based on risk analysis and on a selective basis. For performing the task of verification, UCVPP shall appoint observers during all stages of the public procurement procedure. The observers will issue activity reports and if they detect inconsistencies during the procedure they will give a consultative opinion. The opinion will be sent to the NARMPP as well as to the authority hierarchically higher to the contracting authority. In case of projects financed through Structural and Cohesion funds, the opinion and the activity reports are sent also to the competent Managing Authority.

The contracting authority has the responsibility for the decisions made during the process of awarding public procurement contracts. The decisions made by the contracting authority are sent to the NARMPP and UCVPP.

This established system on the ex-ante verification procedure, as part of the entire management system of the SCF, is ensuring the efficiency and effectiveness of the use of the Funds by guaranteeing the compliance of the public procurement procedure with the national legislation and with the EU directives.

## INFORMATION AND PUBLICITY

Contribution of Structural Instruments to the Operational Programmes will be widely publicised. All information and publicity measures related to Structural Instruments in Romania will be implemented in accordance with the requirements set down in the Commission Regulation (EC) No. 1828/2006 and may be funded by Technical Assistance. The National Communication Strategy will be produced by ACIS, approved by the NCC and will cover communications actions of a horizontal nature which impact upon all OPs. The MAs will draw up OP Communication Plans and ACIS will ensure that these Plans are compatible with and coordinated effectively with the National Communications Strategy and the regulations governing implementation of the Structural Instruments.

## 7. Partnership and Consultation

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Preparations of the key planning and programming documents for the use of Structural and Cohesion Funds (SCF) during the period 2007-2013 – National Development Plan, National Strategic Reference Framework, Operational Programmes – has been done in a wide partnership, organised at national and regional, in line with the requirements of the Community and national regulations. The principle of partnership is a prerequisite for the development of realistic economic and social policies, based on a wide consensus, for the use of SCF to be a success.

The organisation of partnership has relied on the framework created for the drawing up of the National Development Plan 2007-2013 under the Government Decision no. 1115/2004 on the drawing up of the National Development Plan. At national level, this has involved the setting up of an inter-institutional committee made up of decisions makers from ministries, other public institutions, regional development agencies, research and higher education institutions, representatives of economic and social partners. At regional level, the regional committees and the thematic working groups organised have included, representatives of the regional development agencies, county councils, prefects' offices, de-concentrated services of the central public institutions, higher education and research institutions and regional economic and social partners.

In addition to the meetings organised in the formal partnership structures, the institutions involved in the co-ordination and management of SCF held numerous consultations in their specific field of activity with partners such as professional associations, employers' associations and trade unions, local and central authorities, decentralised services, regional development agencies, NGOs, representatives of the academic and scientific research environment. The consultations ended in concrete proposals for the improvement of the programming documents. Moreover, they provided opportunities for the partners to learn about SCF, as some of them will become members of the future OP monitoring committees or project beneficiaries.

The NSRF has been prepared by the Romanian Government under the coordination of the Authority for Coordination of Structural Instruments within the Ministry of Economy and Finance. The work has been conducted in consultation with relevant partners who have contributed widely to the process. The Romanian Government would also wish to acknowledge the considerable help that has been provided by the European Commission in this process and the valuable inputs to what is a new process for Romania but also for the other Member States.

Given the changes of the regulations at EU level, the NSRF has had to be initially prepared based on the draft regulations as they emerged; however, the document fully respects the institutional, legal and financial powers of each partner.

The work on the preparation of the NSRF has relied substantially in the early stages on the main conclusions from the consultation process for the National Development Plan and for the Operational Programmes. The process involved consultation both at ACIS and MAs level, with the following partners:

- Political leaders
- Ministries with a direct interest in SCF
- Other line Ministries and Government Institutions
- Local Authorities

- Regional Development Agencies
- NGOs (including environmental NGOs)
- Universities and Education establishments
- Social and Economic Partners

Representatives from these partner organisations were selected for the contributions they could make to the programming process. They were required to feed in to the planning, strategic thinking and operational project ideas. Partners that will have a role in delivery, MAs and IBs were consulted at every phase of development and many made valuable contributions to the process.

This partnership approach for programming Structural and Cohesion Funds was new to many organisations and gaining active involvement was not always easy or the process understood. In presentation of the information simple and clear language was used and in wider communications exercises power point presentations with handouts were available. In cases where international experts were used to add value, translation into Romanian was made available.

In compliance with EU regulatory requirements, these partners will form an essential part of the future networks that surround delivery of the Structural Instruments and assist effective economic and social development. Many of the partners who participated in the consultations have already been selected to form the membership of OP Monitoring Committees or their sub-groups and will therefore be actively involved in the strategic decision-making process for the various OPs.

As the NDP was finalised, communication conferences were organised in each Region to discuss the forthcoming plans and the priorities in the NDP and explain how these would emerge in the NSRF and the OPs. OP MAs have held separate consultation meetings with their respective partners; the results of which have been reflected in the OPs and the NSRF.

The first draft of the NSRF was made available for public consultation both in Romanian and English on the website of the Ministry of Economy and Finance ([www.mfinante.ro/fonduriUE](http://www.mfinante.ro/fonduriUE)). Also, the document was sent in electronic format (by e-mail) to the members of the Interinstitutional Committee for drawing up the NDP, who were considered amongst the most relevant partners for the NSRF consultation as well. At the same time, the Ministry of Economy and Finance officially asked for comments from the relevant partners involved in the programming process of the Structural and Cohesion Funds. Numerous comments were received by official letter and by e-mail from a wide range of partners, such as governmental institutions, Regional Development Agencies, business associations etc.

The first drafts of the NSRF and the seven OPs under the Convergence Objective were endorsed by the Romanian Government on 19 April 2006 and subsequently submitted to the European Commission.

The consultations on the NSRF continued after the submission of the first draft to the European Commission. In order to extend the consultation process and to promote the NSRF and the Structural and Cohesion Funds, an information campaign was organised at regional level during August - December 2006. The conferences have attracted in the discussions a wide range of partners such as representatives of local administrations, NGOs, business environment, education institutions. The conferences respected the interactivity principle and the participants had the opportunity to add important inputs to be taken into consideration in the process of NSRF revision.

It is to be mentioned that during the entire elaboration process, the drafts of the NSRF have been made available for public consultation, both in Romanian and English and continuous technical consultations took place between ACIS, MAs and IBs, given their role in the SCF programming and implementation system. The process proved successful and generated substantial feedback from many relevant partners.

On 25 October 2006, the Romanian Government endorsed the second draft of the NSRF, which was subsequently sent to the European Commission on 31 October 2006.

Based on the comments received in November 2006 from the European Commission, the official version of the NSRF has been finalized and endorsed by the Romanian Government on 31 January 2007.

During February – April 2007, several rounds of negotiations and consultations took place between the Romanian authorities and the European Commission on the NSRF and the OPs. The results of these consultations were duly analysed and represented the basis for the revision of the NSRF. The revised and updated official version was submitted to the European Commission on 4 May 2007.

Given the careful consideration given during the programming process to the EU, national and regional policies, to the partners' inputs and to the comments and recommendations of the European Commission, the Romanian Government is confident that NSRF provides the best strategic answer to Romania's development needs that can be supported by the Structural and Cohesion Funds in the period 2007-2013.

During the programming period, the partnership framework related to the Structural and Cohesion Funds will continue to function through Monitoring Committees and regular meetings organised by ACIS, MAs, IBs and other relevant institutions, at national as well as at regional and local level. This will provide the opportunity to jointly assess the implementation of the funds and the impact on the Romanian economy and society and to identify solutions to improve the absorption. In this respect, partnership debates will be organised to discuss the findings of the annual and final implementation reports, and also of the strategic reports required under Art. 29 (2) of the General Regulation on the overall contribution of the Structural and Cohesion Funds to the objectives of the cohesion policy in Romania. The active participation of the NGO sector, including the environmental NGOs, in this process will be encouraged. In particular, annual consultative meetings will be held with the NGO sector, at horizontal level, with a view to addressing potential issues arising from the implementation of NSRF priorities.

At regional level, the active involvement of the regional partners in the Regional Coordination Committees for Structural Instruments will help in the regular assessment of the implementation of EU programmes in the Regions and in the formulation of recommendations in order to increase the absorption of the Funds in the Regions and to improve the strategic correlation of interventions.

## List of Abbreviations

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AADT	Annual average daily traffic
AGTC	European Agreement on Important International Combined Transport Lines and Related Installations
ACIS	Authority for Co-ordination of Structural Instruments
AMIGO	Household Labour Force Survey
ATM	Air Traffic Management
CADSES	South-East Transnational Cooperation Programme
CBC	Cross-border Cooperation
CF	Cohesion Fund
CGD	National Customs Authority
CSP	County Spatial Plan
CVT	continuous vocational training
DLAF	Fight Against Fraud Department
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EFF	European Fisheries Fund
ENPI	European Neighbourhood and Partnership Instrument
ERDF	European Regional Development Fund
EO	Emergency Ordinance
ESA	European System of Accounts
ESC	Economic and Social Cohesion
ESF	European Social Fund
ESPP	Electronic System for Public Procurement
ETC	European Territorial Co-operation
EU	European Union
FDI	Foreign Direct Investments
GD	Government Decision
GDP	Gross Domestic Product
GNI	Gross National Income
GUP	General Urban Plan
HRD	Human Resources Development
IB	Intermediate Body
ICPA	National Institute of Research and Development in Pedology, Agrochemistry and Environment
ICT	information and communication technologies
ILO	International Labour Organisation
IPA	Instrument for Pre-Accession
IPR	Intellectual property rights
ITC	Information technology and communication
JAP	Joint Assessment Paper for Employment Policy
LLL	Life long learning
LCP	large combustion plants
L-T	long-term
LTU	long-term unemployment
MA	Managing Authority
MARD	Ministry of Agriculture and Rural Development
MoLFEO	Ministry of Labour, Family and Equal Opportunities
MC	Monitoring Committee
MPF	Ministry of Economy and Finance
NAE	National Agency for Employment
NAEO	National Agency for Equal Opportunities between Men and Women
NAFA	National Agency for Fishery and Aquaculture
NARMPP	National Authority for Regulating and Monitoring Public Procurement
NASMEC	National Agency for Small and Medium-size Enterprises and Cooperatives, presently within the Ministry for Small and Medium-Sized Enterprises, Trade, Tourism and Liberal Professions
NCC	National Coordination Committee
NDP	National Development Plan
NGO	Non-governmental Organizations
NIS	National Institute for Statistics

NQF	National Qualification Framework
NRDP	National Rural Development Programme
NRP	National Reform Programme
NSCRD	National Strategic Committee for Rural Development
NSP	National Spatial Plan
NSPRD	National Strategic Plan for Rural Development
NSRF	National Strategic Reference Framework
NUTS	Nomenclature of Territorial Units for Statistics
OLAF	European Anti-Fraud Office
OP	Operational Programme
p.e.	Population equivalent
PES	Public Employment Service
PPS	Purchasing power standard
RCC	Regional Co-ordination Committee
R&D, RD	Research and development
RD	Research, development and innovation
RES	Renewable Energy Sources
RO	Romania/ Romanian
RON	New Romanian Leu
ROP	Regional Operational Programme
RSP	Regional Spatial Plan
SCF	Structural and Cohesion Funds
SCSD	Strategic concept of spatial development and integration into the European spatial structures 2007-2025
SEA	Strategic Environmental Assessment
SEN	Special education needs
SI	Structural Instruments
SME	Small and medium-sized enterprise
SMIS	Single Management information System
SMURD	Mobile Emergency Assistance, Reanimation and Extrication Services
SOP	Sectoral Operational Programme
SPA	Special Protected Areas
TA	Technical Assistance
TDCU	Training, Development and Coordination Unit within the Directorate of Technical Assistance, Ministry of Economy and Finance
TEN-T	Trans-European Networks
TVET	Technical and Vocational Education and Training
UCVPP	Unit for Coordination and Verification of Public Procurement
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
VET	Vocational Education and Training
WWTP	Wastewater Treatment Plant

# ANNEXES

## ANNEX 1

## LINKS WITH THE COMMUNITY STRATEGIC GUIDELINES FOR COHESION

NSRF Priority	NSRF Section	Community Strategic Guidelines on Cohesion
Thematic Priorities		
Develop Basic Infrastructure to European Standards	Expand and improve transport infrastructure	Guideline 1.1.1 "Expand and improve transport infrastructure"
	Strengthen synergies between environmental protection and growth	Guideline 1.1.2 "Strengthen the synergies between environmental protection and growth"
	The efficient use of energy	Guideline 1.1.3 "Address Europe's intensive use of traditional energy sources" Guideline 1.1.2 "Strengthen the synergies between environmental protection and growth"
Increase the Long-Term Competitiveness of the Romanian Economy	Productivity growth and creation of a dynamic base	Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship"
	Business support services and infrastructure	Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship" Guideline 1.2.3 "Promote the information society for all" Guideline 1.1.1 "Expand and improve transport infrastructure"
	Certification and eco-innovation	Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship"
	Entrepreneurial development	Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship" Guideline 1.3.3 "Increase investment in human capital through better education and skills"
	Access to finance	Guideline 1.2.4 "Improve access to finance" Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship"
	Research, technological development and innovation	Guideline 1.2.1 "Increase and better target investment in RTD" Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship"
	Information and Communication Technology	Guideline 1.2.3 "Promote the information society for all"
	Tourism	Guideline 1.1.2 "Strengthen the synergies between environmental protection and growth" Guideline 1.2.2 "Facilitate innovation and promote entrepreneurship"
	Development and More Efficient Use of Romania's Human Capital	Education and training

NSRF Priority	NSRF Section	Community Strategic Guidelines on Cohesion
	Guiding and counselling	Guideline 1.3.1 "Attract and retain more people in employment and modernize social protection systems"
	Employment and combating unemployment	Guideline 1.3.1 "Attract and retain more people in employment and modernize social protection systems" Guideline 1.3.2 "Improve adaptability of workers and enterprises and the flexibility of the labour market" Guideline 1.3.5 "Help maintain a healthy labour force"
	Social inclusion	Guideline 1.3.1 "Attract and retain more people in employment and modernize social protection systems" Guideline 1.3.5 "Help maintain a healthy labour force"
	Health and welfare	Guideline 1.3.5 "Help maintain a healthy labour force"
Building Effective Administrative Capacity		Guideline 1.3.4 "Administrative capacity"
Territorial Priority		
Promoting Balanced Territorial Development	Regional cohesion	Guideline 2.1 "The contribution of cities to growth and jobs" Guideline 2.2 "Support the economic diversification of rural areas, fisheries areas and areas with natural handicaps"
	Sustainable urban development	Guideline 2.1 "The contribution of cities to growth and jobs"
	Rural development	Guideline 2.2 "Support the economic diversification of rural areas, fisheries areas and areas with natural handicaps"
	Promote European Territorial Cooperation	Guideline 2.3 "Cooperation" Guideline 2.4 "Cross-border cooperation" Guideline 2.5 "Transnational cooperation" Guideline 2.6 "Interregional cooperation"

## ANNEX 2

## INDICATIVE LISBON EARMARKING

Convergence Objective					
Code	Priority themes	Contributing OPs	Community amount by OP (EUR)	Total Community amount by category (EUR)	Share of category in total Community allocation to Convergence objective (%)
Research and technological development (R&TD), innovation and entrepreneurship				1,861,785,363	9.69%
01	R&TD activities in research activities	SOP IEC	75,095,316	75,095,316	0.39%
02	R&TD infrastructure	SOP IEC	241,377,573	241,377,573	1.26%
03	Technology transfer and improvement of cooperation networks	SOP IEC	63,044,364	63,044,364	0.33%
04	Assistance to R&TD	SOP IEC	37,547,704	37,547,704	0.20%
05	Advanced support services for firms and groups of firms	SOP IEC	218,584,206	218,584,206	1.14%
06	Assistance to SMEs for promotion of environmentally friendly products and processes	SOP IEC	62,405,367	125,747,734	0.65%
		ROP	63,342,367		
07	Investments in firms related to research and innovation	SOP IEC	131,416,964	131,416,964	0.68%
08	Other investments in firms	SOP IEC	493,358,433	816,755,023	4.25%
		ROP	323,396,590		
09	Other measures to stimulate research, innovation and entrepreneurship in SMEs	SOP IEC	142,216,479	152,216,479	0.79%
		ROP	10,000,000		
Information society				444,841,288	2.32%
10	Telephone infrastructures (incl. broadband)	SOP IEC	68,970,617	90,641,802	0.47%
		ROP	21,671,185		
11	Innovation and communication technologies	ROP	10,000,000	10,000,000	0.05%
13	Services and applications for the citizen	SOP IEC	153,268,047	153,268,047	0.80%
14	Services and applications for SMEs	SOP IEC	114,951,028	114,951,028	0.60%
15	Other measures for improving access and use of ICT	SOP IEC	45,980,411	75,980,411	0.40%
		ROP	30,000,000		
Transport				3,801,842,120	19.79%
16	Railways	SOP-T	187,656,926	187,656,926	0.98%
17	Railways (TEN-T)	SOP-T	1,530,798,664	1,530,798,664	7.97%
21	Motorways (TEN-T)	SOP-T	1,573,113,634	1,573,113,634	8.19%
27	Multimodal transport (TEN-T)	SOP-T	12,814,778	12,814,778	0.07%
28	Intelligent transport systems	SOP-T	126,935,939	126,935,939	0.66%
29	Airports	SOP-T	41,061,301	41,061,301	0.21%
30	Ports	SOP-T	134,866,905	134,866,905	0.70%
32	Inland waterways (TEN-T)	SOP-T	194,593,973	194,593,973	1.01%

Convergence Objective					
Code	Priority themes	Contributing OPs	Community amount by OP (EUR)	Total Community amount by category (EUR)	Share of category in total Community allocation to Convergence objective (%)
Energy				540,555,644	2.81%
34	Electricity (TEN-E)	SOP IEC	47,885,653	47,885,653	0.25%
36	Natural gas (TEN-E)	SOP IEC	47,885,653	47,885,653	0.25%
39	Renewable energy: wind	SOP IEC	57,462,783	57,462,783	0.30%
40	Renewable energy: solar	SOP IEC	19,154,261	19,154,261	0.10%
41	Renewable energy: biomass	SOP IEC	47,885,653	47,885,653	0.25%
42	Renewable energy: hydroelectric, geothermal and other	SOP IEC	67,039,914	67,039,914	0.35%
43	Energy efficiency, co-generation, energy management	SOP IEC	161,534,269	253,241,727	1.32%
		SOP ENV	91,707,458		
Increasing the adaptability of workers and firms, enterprises and entrepreneurs				940,268,728	4.89%
62	Developing LLL strategies, increase of adaptability, promoting entrepreneurship and innovation	SOP HRD	769,310,778	769,310,778	4.00%
63	Design and dissemination of innovative and productive ways of organizing work	SOP HRD	170,957,950	170,957,950	0.89%
Improving access to employment and sustainability				742,242,275	3.86%
65	Modernisation and strengthening of labour market institutions	ROP	24,219,142	200,875,431	1.05%
		SOP HRD	176,656,289		
66	Implementing active and preventive measures on the labour market	SOP HRD	476,402,823	476,402,823	2.48%
69	Measures to improve access to employment	SOP HRD	64,964,021	64,964,021	0.34%
Improving the social inclusion of less-favoured persons				433,093,472	2.25%
71	Pathways to integration and re-entry into employment for disadvantaged people	SOP HRD	433,093,472	433,093,472	2.25%
Improving human capital				1,151,117,130	5.99%
72	Reforms in education and training	SOP HRD	683,832,022	683,832,022	3.56%
73	Increase participation to education through life-cycle	SOP HRD	182,355,149	182,355,149	0.95%
74	Developing human potential in the field of research and innovation	SOP HRD	284,929,959	284,929,959	1.48%
Strengthening institutional capacity at national, regional and local level				199,682,518	1.04%
81	Mechanisms for improving good policy and programme design, monitoring and evaluation in the delivery of policies and programmes	OP ACD	199,682,518	199,682,518	1.04%

Convergence Objective					
Code	Priority themes	Contributing OPs	Community amount by OP (EUR)	Total Community amount by category (EUR)	Share of category in total Community allocation to Convergence objective (%)
Technical assistance				689,895,753	3.59%
85	Preparation, implementation, monitoring and inspection	SOP IEC	40,518,138	495,471,220	2.58%
		SOP-T	69,012,328		
		SOP ENV	104,202,190		
		ROP	73,972,491		
		SOP HRD	73,624,752		
		OP ACD	6,240,077		
		OP TA	127,901,244		
86	Evaluation and studies; information and communication	SOP IEC	27,012,092	194,424,533	1.01%
		SOP-T	23,016,971		
		SOP ENV	26,238,233		
		ROP	24,657,497		
		SOP HRD	49,083,167		
		OP ACD	2,080,027		
		OP TA	42,336,546		
Total Community financial allocation to earmarked categories				10,805,324,291	56.24%
Total Community financial allocation to Convergence objective				19,213,036,712	100.00%

## ANNEX 3

## COMPLEMENTARITY AND DEMARCATION OF OPERATIONS FINANCED BY ERDF, ESF, CF AND EAFRD

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
Transport infrastructure		X - county roads and urban streets	X - TEN-T and national roads - ports on TEN-T - airports					X communal roads and other roads inside communes as classified in the national legislation
Water and sewerage systems		X small-scale, individual projects in urban areas and spa resorts, not financed under SOP ENV		X large-scale, integrated regional projects in urban and some rural agglomerations, according to the regional Master Plans <sup>44</sup>				X small-scale projects in rural localities below 10,000 p.e. which are not included in the regional projects financed under SOP ENV, except for spa resorts
Flood prevention				X works on national water streams to be carried out by the NARW				X works on local small water courses
Nature protection				X drafting of management plans, development, operation and maintenance of				X Natura 2000 compensatory payments

<sup>44</sup> The Regional Master Plans are planning documents for water and wastewater infrastructure, at county level, which identify the geographical area (usually, at county level) where the water resources management would be better performed within a regional project (through the regionalisation of water services, in order to improve their quality and cost-efficiency). This area includes all agglomerations above 10,000 p.e., but may also include some rural agglomerations between 10,000 p.e. and 2,000 p.e. The needs of investment in water and wastewater infrastructure in the localities which are not included in the regional project (usually, rural localities under 10,000 p.e.) are also identified within the Regional Master Plan and will be addressed either under NRDP or through other financing sources (e.g. IFI loans).

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
				infrastructure, setting up monitoring systems, training and institutional capacity building for Natura 2000 sites				
Contaminated sites		X rehabilitation of unused polluted industrial sites, and preparation for new activities		X closure/environmental rehabilitation of historically contaminated/polluted sites				
Energy efficiency and air quality	X support for LCPs operating within the National Energy System			X support for LCPs operating within the local district heating system				
Renewable energy								
- bio-fuels (for electricity/heat generation)	X support to enterprises both for bio fuels production and its use for energy generation (except for the production from processing Annex 1 <sup>45</sup> products)							X support to enterprises for obtaining bio fuels by processing Annex 1 products
- other RES	X support to enterprises (except for production based on processing Annex 1 products and except for microenterprises in rural area)							X support for microenterprises in rural area

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<sup>45</sup> Annex 1 to the EU Treaty

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
Direct support to enterprises for productive investments								
- micro-enterprises (activities of agricultural and forestry products processing)								X processing of agricultural and forestry products, on the whole territory
- micro-enterprises (except for activities of agricultural and forestry products processing)	X only high-tech and spin-off, regardless of the location	X in urban areas, except for high-tech and spin-off						X in rural areas, except for high-tech and spin-off
- small and medium sized enterprises	X productive investments, except for agricultural products processing and food industry	X SMEs in the tourism sector			X training correlated with the sectors supported under SOP IEC			X productive investments for agricultural products processing and food industry
- large enterprises below 750 employees <sup>46</sup>	X productive investments, except for agricultural products processing and food industry							X productive investments for agricultural products processing and food industry
- large enterprises of 750 and over employees	X productive investments, except for agricultural processing and food industry							
Consultancy								
- SMEs and micro-enterprises	X							
- would-be entrepreneurs					X entrepreneurial and management skills, except for agriculture and forestry			X specific advisory and extension services for farmers

<sup>46</sup> Defined as intermediate enterprises in the Council Regulation No 1698/2005, Art 28 (3)

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
Business support structures								
- business infrastructure, other than scientific and technological parks <sup>47</sup>	X business infrastructure of national / international dimension	X business infrastructure of regional and local dimension						
Access to finance - guarantee funds	X support to guarantee funds, which provide guarantees to businesses, excepting farmers, related agricultural activities and small rural businesses							X support to guarantee funds, which provide guarantees for farmers and related agricultural and forestry activities and small rural businesses
Management standards for enterprises	X quality and environmental standards							X food safety systems and agri-environmental standards
Tourism								
- agro-tourism								X
- tourism infrastructure		X - tourism infrastructure in urban areas - tourism resorts in rural areas, above a threshold size - spa resorts, regardless of the location						X - tourism infrastructure in rural areas including in tourism resorts, below a threshold size, except for the infrastructure in spa resorts
- information and promotion centres		X national centres for several large tourism areas						X local centres in rural areas

<sup>47</sup>Scientific and technological parks are not financed from Structural and Cohesion Funds, but from national programmes.

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
Rehabilitation of cultural heritage		X - national and UNESCO patrimony, regardless of the location - local cultural patrimony in urban areas <sup>48</sup>						X local cultural patrimony in rural areas <sup>49</sup>
LEADER type activities implemented by LAGs		X ROP interventions will exclude LEADER type activities implemented by LAGs from financing if proposed/approved under a LEADER type project						X LEADER type activities implemented by LAGs, in rural and urban areas in the context of local strategies elaborated by LAGs
Providing schools with IT facilities	X ensuring broadband connection of schools to the Internet	X ICT equipment in schools						
Social interventions		X rehabilitation, modernization, development and equipping of social infrastructure			X social economy development			X new infrastructure related to social services in rural areas
Education and training		X infrastructure			X ESF-type interventions, including: - vocational training for persons involved in non-agricultural sectors and farmers in order to shift their activities to non-agricultural ones - initial vocational training through specialized schools and high-schools, including			X Short-term vocational training without qualification for adult persons involved in agricultural, agri-food sector and forestry

<sup>48</sup> The local cultural patrimony in urban and rural areas is identified in the List of Historical Monuments, Group B (Minister Order No 2134/2004).

<sup>49</sup> The local cultural patrimony in urban and rural areas is identified in the List of Historical Monuments, Group B (Minister Order No 2134/2004).

FIELD OF INTERVENTION	SOP IEC	ROP	SOP T	SOP ENV	SOP HRD	OP ACD	OP TA	NRDP
					agriculture and forestry education structures			
Labour Force Training					X training of labour force, except for public administration <sup>50</sup>	X training in public administration <sup>5</sup>		
Active ageing					X active ageing in other activities than agriculture			X early retirement in agriculture
Technical Assistance for SCF (including training)	X OP specific support	X OP specific support	X OP specific support	X OP specific support	X OP specific support	X OP specific support	X horizontal support	

## LEGEND:

SOP IEC	Sectoral Operational Programme Increase of Economic Competitiveness
ROP	Regional Operational Programme
SOP T	Sectoral Operational Programme Transport
SOP ENV	Sectoral Operational Programme Environment
SOP HRD	Sectoral Operational Programme Human Resources Development
OP ACD	Operational Programme Administrative Capacity Development
OP TA	Operational Programme Technical Assistance
NRDP	National Rural Development Programme
NARW	National Administration "Romanian Waters"

<sup>50</sup> Training of the National Agency for Employment staff, including the territorial network will be provided under the SOP Human Resources Development.