



**American Chamber of Commerce  
in Romania**

**MEASURES TO  
INCREASE EU FUNDS ABSORPTION  
POSITION PAPER**

**September, 2011**



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This position paper has been prepared by the American Chamber of Commerce in Romania (AmCham Romania) as a set of proposals intended to improve EU FUNDS absorption process in Romania. The proposed actions are the result of the consultation process carried out by AmCham Romania among its members and led by Mr. Wolfgang Schoiswohl, member of the AmCham Romania Board of Directors, and BCR Vice President. This document represents the views of companies in various sectors such as banking, consulting, industry, etc.

About AmCham Romania: The American Chamber of Commerce Romania has over 300 members consisting of major U.S., foreign and local companies doing business in Romania, as well as small and medium-sized firms and business executives in the country. The 300 member companies represent investments of over 10 billion USD in Romania and support over 200.000 jobs.

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#### **AMERICAN CHAMBER OF COMMERCE IN ROMANIA**

*Member of the U.S. Chamber of Commerce and of the European Council of the American Chambers of Commerce*

11 Ion Campineanu St., Bucharest 1

Tel: + 40 21 315 86 94, 312 48 34, Fax: + 40 21 312 48 51, [amcham@amcham.ro](mailto:amcham@amcham.ro), [www.amcham.ro](http://www.amcham.ro)



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## 1. ACTIVATE EU-FUNDS MANAGEMENT

### 1.1. INCREASE THE TRANSPARENCY AT MANAGEMENT AUTHORITIES LEVEL

In order to further increase the absorption rate, Management Authorities' rules and procedures need to be made clear to all project owners throughout all phases of the projects (application, evaluation, monitoring and control). Transparent rules and procedures will make it easier to all applicants for EU funds to adhere to the MA's guidelines, leading to an increased absorption of EU funds.

#### *PROPOSED ACTIVITIES:*

1. Publish on Management Authorities (MA)/Intermediary Bodies (IB) websites the updated **application and contract status** (number and value of applications, signed contracts, implemented and finished projects), still **available budgets, the economic impact of the projects, objectives accomplishment** for each line of financing within the programs on a monthly basis
2. Publish updated information on the implementation **status of other funding schemes** and/or intentions of using other financial instruments
3. Timely publish on MAs/IBs websites the **rules and procedures, as well as the updated versions of their internal working procedures** – e.g. procedures for checking the reimbursement requests, procedures for monitoring and verifying contracts/projects etc
4. Create **dedicated hotline and email address** at the level of ACIS/MA/IB/ACP where irregularities/frauds noticed by third parties could be reported
5. Improve the predictability of the project calls – all MAs should **assume and strictly observe annual calendars for launching their project calls** (e.g. the project calls for Axis 3 “Competitiveness Program” – operations 312 and 313 have never been launched; project calls for operations 331 and 332 will be launched for the second time in October 2011 even if they have been initially announced for May 2010)

### 1.2. ADOPT THE RE-ALLOCATION OF UNUSED EU-FUNDS

In order to ensure the most efficient usage of EU funds, a structure needs to be adopted, through which funds can be flexibly allocated to those areas that show the highest demand and at the same time prove to be the most supportive to the economy.

#### *PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

1. **More transparency from the public authorities** involved is needed. The Conclusions from each Operational Program Monitoring Committee should be disclosed to the business community in order to identify possible domains to which funds reallocation would be possible.

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2. **Deliver information about the cancelled non-reimbursable** contracts for each Operational Program
3. **Do not re-allocate funds from the private to the public sector**

*PROPOSED ACTIVITIES:*

1. **Review programs along their strategic and absorption-based criteria** before considering any re-allocation of funds
2. **Accelerate the cancelling of the approved non-reimbursable contracts** for which the implementation process has not started yet, and for which the implementation period mentioned in the respective contracts has been exceeded
3. Review **options for fund re-allocation and evaluate sectors where demand exceeds fund availability**
4. Publish a **calendar for calls for proposals** in prioritized sectors available until **the end of 2012**
5. **Launch project calls more frequently** – even if the call value would be smaller

### 1.3. INTRODUCE THE JESSICA FUND

In order to fully absorb the 19.2bn EUR available in structural funds until 2015, Romania would need to improve its absorption performance by 30% each semester, compared to the previous, starting with the second semester of 2011. This means that in 2015 the country should absorb funds of 5.6bn EUR – five times more than in 2010, which is highly improbable. Therefore, the real maximum absorption potential needs to be rapidly determined, and a decision should be taken regarding the funds that could be transferred to other instruments such as Jessica.

Probably the most attractive advantage of the Jessica Fund is that the funds allocated now to Jessica are considered spent, therefore absorbed, by the EC. This allows for a more fine-tuned management of the absorption rate of EU funds allotted to Romania until 2013.

Another advantage is the focused dedication of funds to a specific type of projects, omitting the possible dispersion of resources onto less critical project types. As Romania is in need of urban development, a certain amount of EU funds, could be dedicated to projects modernizing Romanian cities, thereby improving their population's quality of living as well as attracting new businesses and investments.

*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

1. Understand and commit to the JESSICA model
2. Allocate available EU Funds

*PROPOSED ACTIVITIES:*

1. **Leverage EIB assistance in implementing JESSICA** on a regional as well as local level

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2. Extend evaluation studies for Bucharest and other major cities, to **establish where JESSICA projects may be initiated**, and how many funds they would require from state authorities
3. Organize **meetings with the private sector in order to assess an additional funding potential** (e.g. via Public Private Partnerships)
4. **Learn about all the financial instruments that can result from the JESSICA fund** in order to assess all possible aid to the public as well as the private sector
5. **Start pilots for the Jessica fund** in selected cities before 2014

## 2. PRIORITIZE R&D EXTREME LIGHT INFRASTRUCTURE (ELI) PROJECT

As a flagship type project, ELI not only promises the installment of a modern infrastructure for experiments in nuclear physics, it represents a possible hot spot around which other high-tech projects and initiatives will flourish.

Thus, ELI could increase Romania's global exposure and attract not only foreign investments, but help Romania leverage and grow its own human capital and develop high-tech knowledge from which a new industry could emerge, creating jobs (estimated 13,000 jobs) as well as significantly contribute to the country's GDP.

ELI's budget (2012-2015) is 280 mi. EUR, while the cluster's budget, forming around ELI, is estimated at 1 bil. EUR (2011-2020), stemming from EU funds as well as public- and private investments. ELI is already considered by some organizations to be one of Romania's top five infrastructure investments.

ELI is one of the few projects, which can leverage significant private sector investments.

**An immediate strategic decision is necessary to allocate funds to this project. Thus, Romania can prove its dedication to this project's implementation.**

### *PROPOSED ACTIVITIES:*

1. Review the project's potential and **accelerate the proposal draft for the EC**
2. **Approve the channeling of unused EU Funds or from other axis** to the project's budget without affecting current or future R&D EU-funded private projects
3. Initiate the planning phase for the implementation, taking into account **outsourced services** as well as possibly new project **prioritization procedures**

## 3. STREAMLINE OPERATIONS

### 3.1. INCREASE THE USE AND IMPACT OF TECHNICAL ASSISTANCE FUNDS

Use funds allotted to the Technical Assistance (TA) axis in order to improve the project- implementation- management and warrant a heightened level of project monitoring at the management authorities' level, as well as the Intermediary Bodies' level.

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*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

1. Know areas where additional training can lead to an improved fund absorption
2. Unlock necessary funds

*PROPOSED ACTIVITIES:*

1. **Use the TA funds for outsourcing services** to the private sector with clear performance criteria (e.g. reimbursement process)
2. **Run market surveys outlining biggest impact areas** to which funds need to be allocated

### 3.2. OUTSOURCE SERVICES FOR STRUCTURAL FUND MANAGEMENT

In order to use EU funds more efficiently, operations on a local as well as national level, could be enhanced in key areas by outsourcing them to third parties.

An outsourcing of services would increase the flexibility in adopting new procedures while keeping a high degree of expertise. At the same time, all operations and results would be measurable and performance could be addressed more accurately, thereby enhancing overall EU fund management.

Outsourced services can include:

1. Drawing up procedures
2. Compute and monitor operational costs
3. Introduce performance based motivation schemes

*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

- Implementation structures, which allow for an outsourcing of services

*PROPOSED ACTIVITIES:*

1. Consider the global grant approach for 2014-2020 as an opportunity to **consider outsourcing services**
2. Form a working group to assess and propose a list of **services that could possibly be outsourced, based on international best practices**

### 3.3. INTRODUCE APPLICATION KNOCK-OUT CRITERIA COMMONLY PROVIDED BY BANKS

In order to minimize the acceptance of un-bankable projects (referring to the required co-financing by financial institutions) by the managing authorities, banks could draft common knock-out criteria for project applicants, which should be available to them before they apply. In this respect, the need to change/adjust the current Comfort Letter should also be taken into consideration, according to the New Civil Code definitions in order to further support an increased absorption ratio.

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*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

- Common view of the banks on what constitutes a bankable project

*PROPOSED ACTIVITIES:*

- Organize a meeting in which the draft of such a guideline is discussed, and differences between different banks' policies are harmonized

## 4. PLAN FOR THE 2014-2020 FINANCING PERIOD

### 4.1. PREPARE THE 2014-2020 EU-FINANCIAL EXERCISE

In order to ensure proper fund allocation to sectors that are recognized to be economic growth drivers, a consistent consultation process between the public and private sectors needs to take place.

*PROPOSED ACTIVITIES:*

1. Lead consultations on a national level with representatives of several industry sectors and take their opinion into consideration in drafting **the response to the EC proposal**.
2. Consider the inclusion of further financial instruments such as:
  - a. Revolving Funds
  - b. PPP
  - c. Jessica Fund
  - d. Jeremie Fund

### 4.2. IMPLEMENT A FAST TRACK EXECUTION PROCESS

In order to further streamline the EU funds absorption, a fast track process could be installed in order to speed up the approval and delivery of projects. This would prevent the uneven development of the country, and would enable the prioritization of projects in line with the regional development, instead of having applications submitted by each town/village, which would increase the risk of creating "development islands".

In addition, regional/county development plans would ensure the standardization of projects as well as increased cost efficiency.

*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

1. A current overview of funds absorption
2. Specialized units and procedures within MAs as well as IBs to structure and monitor

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*PROPOSED ACTIVITIES:*

4.3. Switch from a de-centralized model with hundreds of individual applications from localities to a **centralized model in which applications are organized in packages**, and coordinated by specialized teams. (e.g. water treatment or sewage and street paving projects for type C localities at regional/county level)

#### 4.4. INTRODUCE A REVOLVING FUND

The introduction of a revolving fund (grant + loan + own contribution), would make EU-Funds available to an even greater number of project applicants, through its multiplier effect.

The reimbursable component of a revolving fund, facilitated by financial entities, would not only provide funds immediately, enabling a faster implementation of projects, but it would also force project applications through more rigorous, application procedures, improving overall project quality as well as the absorption rate.

Two successful examples, implemented in Romania, are the following revolving schemes administrated by BCR starting with 2000:

The program "PHARE 2000" Economic and Social Cohesion"- Credit line for SMEs (from 2002- present)

The program "Mining Affected Regions Reconstruction Fund (MARR Fund) – SME credits scheme"(from 2000-present)

The main advantage for using such types of revolving schemes is that they are to be implemented through the commercial banks, taking into consideration the co-financing component. In this way one can shorten the evaluation / contracting / implementing period and therefore increase the absorption rate during a given period.

*PROPOSED ACTIVITIES:*

1. **Establish what types of revolving funds**, for which project types, **would be most supportive for the economy** when implemented
2. Dedicate resources to create funds

#### 4.1. INTRODUCE PUBLIC PRIVATE PARTNERSHIPS (PPP)

Introducing Public Private Partnership will help leverage EU funds by adding public as well as private and financial investors. In addition such partnerships help taking advantage of the private sector's expertise in project planning and management.

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*PREREQUISITES FOR THIS INITIATIVE ENTAIL:*

1. Provide the applicable legal environment in order to set up a PPP
2. Determine how to set up a hybrid PPP in order to make it eligible for EU funds
3. Install a structure to set up and manage SPVs with both public and private stake holders

*PROPOSED ACTIVITIES:*

1. **Determine areas that could benefit from a PPP**, as well as the necessary funds required
2. Consider possible linkage with prioritization efforts as well as the outsourcing of services
3. **Determine and propose rules in the field of EU financing** which will facilitate combinations of PPPs with EU Funds
4. Determine whether it would be possible (in the future) for a PPP to be an eligible beneficiary of a financing scheme designed for public authorities (e.g. in cases where the activity envisaged to be financed has been transferred to a PPP)

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