

Considerations on the methodology for identifying and prioritizing public investment projects in Romania

Prof. Tudor Nistorescu, PhD
University of Craiova
Faculty of Economics and Business Administration
Lecturer, Marilena Bogheanu, Phd Student
University of Craiova
Faculty of Economics and Business Administration

Abstract: The optimization of the investment project pipeline of public administration is a key issue for member states, including Romania, in the current European Union policy. Solving this problem depends largely on the establishment of an appropriate methodological framework for identifying and prioritizing projects and development programs. Based on the new requirements imposed by the European Commission for the next financial cycle 2014-2020, in this article we propose solutions for improving the methodological framework by establishing general and specific criteria for evaluating projects, especially in the ex-ante stage. Our research is based on critical analysis of the current situation, including sample survey. The results obtained were materialized in an improved methodology for selecting and prioritizing projects that can contribute to a stable and uniform mechanism for planning at local level.

Keywords: methodology, criteria, prioritization, public investment, ex-ante evaluation.

1. INTRODUCTION

European Union cohesion policy finances projects and investments to encourage economic growth in EU member states and their regions, and is revised by the European institutions once every seven years, according to the EU's multiannual budget cycle.

We are now in the programming phase of the new financial period 2014-2020. The European Commission has developed several changes in the strategic approach for the new proposed regulation on the Structural and Cohesion Funds. This new approach will use common and specific program indicators, focusing on reporting, monitoring and evaluation.

There will be established a performance framework for all programs, establishing clear and measurable phases and targets and performance reserve will total 5% of the national allocations (at member state, fund or region level). During the ex-ante stage for the program there will be verified that the conditions for efficient investment are fulfilled.

In the context of current economic circumstances, it is necessary to consider macroeconomic conditionality, meaning alignment to the new economic governance; by developing new regulations on structural instruments the Cohesion Policy aims to simplify the next programming cycle.

There will be adopted common rules or a common strategic framework on cohesion policy, rural development, maritime and fishery policy with multi-type funding.

Harmonized rules on eligibility and durability will seek to correlate payments and results, with proportional control of the Commission.

In this context of EU policy it is important that the next planning exercise should include the stage of defining a solid and balanced portfolio of projects, a list of priority projects for each operational program included by local authorities in the local / county development strategies, covering all areas managed by local authorities and eliminating interregional disparities.

2. ON THE EVALUATION OF PROJECTS IN THE PLANNING PROCESS OF INVESTMENTS

The importance of the evaluation of projects and programs developed and/or implemented by public administration will increase in the future, especially as it has a dual purpose: on one hand, collecting data on program implementation, and on the other hand, identifying the aspects that require adjustments and adopting measures for capitalization of investment results.

In the specialized literature several definitions have been given on the concept of evaluation. As defined in scientific literature, evaluation represents "a foundation for investment decisions" (Stoian M, 2005, p 56). The distinction between monitoring and evaluation is mandatory, between them there is an inclusive relationship, evaluation involving a process of monitoring and secondly, the systematic nature of the evaluation represents a gradual process of data collection and processing as well as formulating conclusions and applying changes depending on the stage of program implementation.

Evaluation improves the management of public policy, programs and projects. In the context of EU co-financed programs, some authors (Mike K, Sanda S, Gârboan R, R Cobârzan, Policy analysis and program evaluation in public administration, p. 13, http://www.apubb.ro/wp-content/uploads/2011/03/Analiza_politicilor_publice_si_evaluarea_programelor_in_AP.pdf) focus on public policy as a framework for designing and implementing development programs.

International financial institutions, particularly the World Bank, have made different classifications of evaluation types, according to several categories of criteria; of these, the most commonly used is the classification by the status of implementation of the program, distinguishing three types of evaluation.

Ex-ante evaluation is performed at the end of the program development phase, before the actual start of implementation, based on specific tools such as SWOT analysis, scenarios, analysis of the geographical space development needs where the program is implemented.

At this stage are defined general and specific criteria for projects selection which will receive funding in the program.

Interim evaluation takes place during the program with the objective of improving the implementation process.

This stage aims the degree of the program achievement objectives in terms of budget, resource allocation, compliance schedule for implementation, using the data obtained in the monitoring process, when compared with data from the ex-ante evaluation.

As a result of the interim evaluation, the structure of a program can be changed, for example, for the purpose of reallocating resources.

Ex-post evaluation begins when implementation is complete and is performed by comparing the actual results obtained from the implementation, with initially assumed objectives.

At this stage, the impact of program implementation on medium and long term period is analyzed, achieved results are measured, program performance is evaluated in terms of quantitative and qualitative criteria, conclusions and recommendations for implementation of future programs are drawn.

In terms of institutional competencies and prerogatives for performing the evaluation in the Member States of the European Union, two main models of evaluation have been applied, decentralized or centralized model; each has both advantages and disadvantages, meaning that centralized model leads to rigidity while applying decentralized model leads to confusion and inefficiency.

Therefore, several EU Member States, including Romania, apply mixed model, meaning that evaluation of operational programs for 2007-2013 is performed by the managing authorities (decentralized), coordinated by the Central Evaluation Unit within the National Authority for Coordination of Structural Instruments (centralized).

Other Member States such as Ireland, have adopted successively the two models, the decentralized model between 1994-1999, when the management authorities were responsible to evaluate the programs and subsequently the centralized model, between 2000-2006, when the evaluation is done by an evaluation unit within the Ministry of Finance, external to the management authority.

As defined by United States Government Accountability Office (<http://www.gao.gov/new.items/d03454.pdf>), "the main elements of capacity evaluation include cultural evaluation, data quality, analytic expertise and cooperation based on partnership" (USGAO, 2003, p 9).

The Romanian Government Strategy for accelerating public administration reform process (http://www.gov.ro/upload/articles/100008/ref_orm-admin-public.pdf, p. 7) identifies the success of institutional reform, including "ensuring management by objectives", "strengthening organizational infrastructure for strategic management of economic and social processes" and "the need to increase the consultancy function and administrative monitoring".

However, ex-post evaluation of Phare program in Romania, conducted by MWH Consortium in 2006, pointed out that inconsistency caused by changes in government policy creates difficulties in accelerating reform (http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/ex_post/ro_ex_post_report_dec_06_en.pdf, p. 21-24).

In terms of research methods in evaluation, at program level there are used quantitative methods (descriptive, objective) and qualitative methods (subjective); the practice of elaboration studies is oriented towards mixed method, aiming at all the issues that may be important for the implementation of a program, being collected information using the tools presented below.

This observation provides benefits in terms of accuracy of information obtained, but implies high costs and labor time.

Sociological investigation is performed on a sample group of beneficiaries at project/program level, in territorial aspect - in a limited geographic area, or across sectors, at priority area/field of intervention.

Document analysis is the most effective method of research, from the point of view of the financial costs, time and labor. Studied documents are various; their sources are beneficiaries, managing authorities, intermediate bodies. High volume and diversity of the research materials lead to a broad vision on the legal and administrative framework, on the institutional building as well as on the absorption of financial resources. This method has the disadvantage that the documents analyzed do not contain all necessary information; therefore, it is recommended to use to be used all research methods in the evaluation process.

Compared to the approaches so far, we consider that in order to improve implementation of grant assistance it is necessary to increase the ex-ante evaluation role in redefining the methodological meaning as well as completing this step with new elements. In this context, bottom-up approach in the planning process is best suited as planning starts with identifying development needs at local, regional level (see fig. 1).

The current framework for programs co-financed by public funds is based on top-down planning that ignores the socio-economic status of each region and does not meet the development requirements of each community.

Operational programs current strategies are based on analyses and studies that include uniformly applied references.

Moreover, local and regional strategies are not based on prior studies and analyses, of sectorial type (environment master-plans, transport studies, environmental evaluation impact studies for major investment projects, market research, demographical and sociological studies. On the other hand, Romanian legislation does not cover a methodological framework containing provisions on the strategy development elaboration at local, county and regional level.

The advantages of a mandatory normative framework at national level are multiple, giving unity and coherence to the planning process; all strategic documents at local, county and regional level are symmetrically developed based on clear and consistent sets of indicators, with targets agreed as a result of a public consultation process; thus, all strategic documents converge towards achieving common targets for all local authorities from a region.

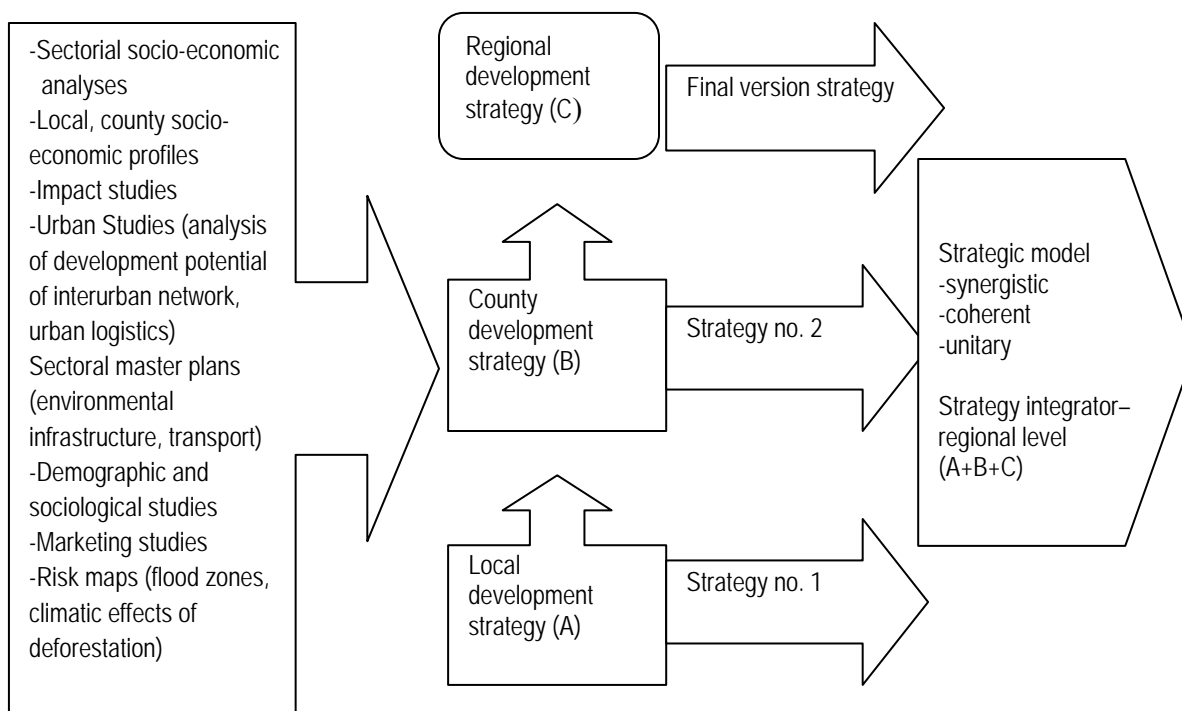


Figure 1. Bottom-up approach in planning process

In this context, a real support for authorities would be provided by a mechanism such as a national technical assistance project implemented by an entity that has a double prerogative, on one hand facilitator/moderator of the public consultation process conducted on several territorial levels (local, county, regional) and on the other hand activities and implementing coordinator of a common strategic guide.

The technical assistance project will be conducted through activities focusing on adopting a unified model for the content of development strategies, but also on transpositioning of a strategic model guide adopted by law, to determine the steps in developing a strategy; a great utility is represented through the obligation established by the guide to correlate local, county and regional strategies.

3. PRIORITIZATION CRITERIA FOR PUBLIC INVESTMENT PROJECTS

At present, the main Romanian regulations on the methodology for identifying priority projects for the public sector are included in the methodological norms published in the Official Gazette no. 627 from 19 July 2005, applicable to Law no. 500/2002 on public finances.

Analysis shows that methodological standard is applicable to prioritize public investment projects ongoing/new, according to general prioritization criteria which are expressly stipulated; specific criteria are not mentioned, but each credit accountant has an obligation to define the investment programs for each separately.

Given the incompleteness of the legal provisions related to the prioritization methodology for public institution projects, the projects portfolio could be established by using general criteria applicable to all kinds of projects and specific criteria for prioritizing projects of the same type.

The general criteria for prioritization (see table 1) can be used to achieve the priority list of projects at local authority level are applicable to all types of projects and can be listed by providing scores according to the importance of the measure. The total score awarded for the general criteria can be 100 points, as provided into the methodological norms. They must be defined to enable the evaluation of relevant information/data for local development strategy assumed by the local public authority.

Table 1. General criteria for investments prioritization

1. Investment need and its suitability	30
2. Socio-economic impact of the project (the result of cost-benefit analysis)	25
3. Evaluation of project maturity degree according to its development stage	20
4. Funding availability	10
5. Types of intervention	10
6. Complementarily/connection with other projects/investments	5

Cost-benefit analysis can be used both for ex-ante evaluation, as a way to decide a policy over another, and as well as the ex-post evaluation, a way of performance evaluation; in terms of the availability of funding, priority is given to projects for which funding is available or will be available in a short time and leaves second place to projects for which there is no funding perspective; depending on the type of intervention, there is given different weight to different types of rehabilitation / new works / upgrades / expansions.

Specific criteria for prioritization and selection (see table 2) are used to rank projects of the same type. In this case, it is necessary to set up specific criteria applicable to projects of the same type, with a maximum total score of 50 points. Each criterion corresponds to a

maximum number of points, and by adding the points given to specific criteria are obtained a total of 50 points. For prioritizing projects of the same type, the public authority will award points to each criterion, observing the maximum score assigned to specific criteria. For example, for projects involving educational infrastructure, or rehabilitation of schools/colleges, higher education, the evaluation can be done using a set of seven specific criteria, presented below.

Table 2. Specific criteria for investment prioritization and selection

1. Demographic situation	15
2. Number of current scholars/students	10
3. Utilization degree of the school	7
4. Labor market strategy (national, sectorial, regional, county, local)	6
5. Compliance with educational strategy	5
6. Compliance with occupational strategy and labor market	4
7. Need for urgent works to ensure functional safety of the building and/or obtaining/maintaining operating permits	3

4. CONCLUSIONS

Until now, there hasn't been defined a mechanism for prioritizing public projects, applicable to the period prior to EU-funded programs launch.

Such a mechanism would substantially reduce the risk of not accessing European funds, being in the same time a tool to facilitate project selection decision by local authorities.

Ex-ante approach for the preparation of development projects using a single model consisting in applying a methodology framework to identify priority projects with impact on the balanced development of the region has many advantages.

Starting with the promotion of the community investment needs, multiple objectives will be persuaded, in order to ensure a high degree of absorption of EU funds, to shorten the period necessary to attract European funds and to spend efficiently the public funds.

These objectives will be achieved by adopting a transparent process in deciding on priority themes and portfolio creation by simplifying and reducing bureaucracy in the process of contracting projects.

Creating a unified approach based on clear criteria and cost standards, on how project selection will result in the creation of a portfolio of major projects by type of intervention, with significant impact on the region development. Also, a continuous evaluation process for public investments will reduce the time required to solve patrimonial issues related to the legal status of lands (ownership forms, cadastre) due to voluminous documentation. As a result, there will be properly sized budgets and resources, investment orientation that can solve social problems. The most important benefit of ex-ante evaluation of projects is to eliminate arbitrariness in the selection of projects by following a transparent process regarding the decision to launch public investment.

Through the development of general criteria for prioritizing projects there can be set up the priority list of projects at public authority level, and through sets of specific criteria project categories could be distinguished projects of the same type.

Based on the research and development strategies, authorities can establish what ratio have the investment categories (utilities, social, environmental, business infrastructure) in the total portfolio of projects according to the annual investment plan structure.

The current legislative framework, although uniform in terms of technical and financial criteria established for the analysis and evaluation, is applied unequally because cost standards applicable to the same types of projects are not used. Therefore, there are price differences related to an investment in the construction of a road section under the same technical conditions, as compared to other sections of the same road rehabilitated elsewhere.

Moreover, in the context of sequential application of existing legislation remains the risk of not accessing funds for various programs.

In this sense, it is necessary that the current legislation should be completed in order to enforce laws in a uniform manner by all local public administration authorities and other public institutions.

It also requires the adoption and application of unit cost standards, project evaluation using the same leverage, as well as permanent reviewing and updating of project portfolio. By adopting a normative act, local public authorities will be encouraged to develop uniform local development strategies and therefore to build up its portfolio of investment projects. Through the methodological norm amendment dated July 8, 2005, the methodology for prioritizing the proposed projects can optimize the project portfolio, focusing on added value in economic and social plan.

Given the experience gained from the European financial exercise 2007-2013 it is necessary to pay more attention to the programming period 2014-2020, by establishing the obligation of local authorities to develop strategies for development at city or county level using a common format, to regularly evaluate content and strategies in order to provide projects portfolio using a mechanism that includes prioritization criteria and targets applicable to categories of public investment. A direct consequence of applying the prioritization and selection of projects is to establish a well-founded project portfolio and creating a stable and uniform mechanism for planning at the local level.

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