



GOVERNMENT OF ROMANIA

***NATIONAL STRATEGIC REFERENCE
FRAMEWORK***

2007-2013

- Draft -



April 2006

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Executive Summary

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 and Regional Policies and to make the correct and appropriate linkages to the European Commission 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 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 is also correlated with Romania's 2007-2025 Strategic Concept of Spatial Development and Reintegration in the European Spatial Structures.

The NSRF demonstrates how Romania intends to build environmental sustainability 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 a public consultation exercise was conducted to elicit wider opinions.

Economic Situation

Romania is the second largest country (population 21.7 million), of the recent EU accession countries and will be the seventh largest EU Member State. The economy lags significantly behind the majority of EU countries, due to the policies of the past. In 2004, GDP per capita was 31% the EU 25 average and 50% of the new EU Member States average. Romania's recent macroeconomic performance has been more favourable (5.7% annual GDP average growth over the last five 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. Corruption, and the perception of corruption, remains a major factor holding back the economic development of Romania.

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. Recorded ILO unemployment is relatively low, 7.2% (15+ age group) in 2005 but the official figures mask many deeper social and structural problems, related especially the high levels of subsistence farming.

Policy Environment

The Romanian Government's fiscal policy is based on reorienting taxes to encourage growth, economic and social development and 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.

Thematic Analysis

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:

- **Infrastructure development** – 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, wasteful use of energy and an under managed natural environment.
- **Economic competitiveness** - Low productivity, outdated and obsolete production equipment and technologies, 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** – Skills mismatch to meet the needs of a modern hi-tech economy, low value placed on education, training and life long learning, and education not in tune with business needs. Inequality of opportunity leads to social exclusion amongst vulnerable groups, women, disabled people and Roma. Poorly qualified teaching staff with inadequate education and training facilities compound the problems.
- **Administrative Capacity** – Public services are weak and provide low customer satisfaction. Services delivered by government are seen as remote and unfriendly by the end recipients and there are concerns about corruption. Management of EU funds needs significant 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 favoured Regions and this leads to widening disparities with other regions. Rural areas are over dependant on agriculture. Infrastructure and support services for business are very poor or non-existent in the rural areas. Urban areas are confronted with problems related to infrastructure (caused by under investment), local economic development and social environment.

The Strategic Response

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

NSRF Objectives: ***To reduce the social and economic development disparities between Romania and the EU Member States.***

To reduce the disparities with the EU by generating an additional 10% increase in Romania's GDP by 2015.

Thematic Priorities and Actions

The National Priorities have been formulated as the Government's Strategic response to current economic weaknesses and to create the opportunities Romania desires. The NSRF seeks to draw the priority strands together in a uniform strategy that is both logic for the Romania but conforms with and addresses the strategies of the European Commission including the Lisbon Strategy and that will deliver economic growth and jobs:

- **Develop 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 action 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 production chain – transportation, distribution and utilization will enhance air quality and support sustainable development. Efforts will focus on improved management of the natural environment and use of natural resources.
- **Increasing long-term economic competitiveness** – 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 and tourism. Innovation will be encouraged and the application of R&D to market opportunities, access to finance and ICT connectivity will be improved. SMEs will be supported with quality business advice and the services they require to expand and create jobs.
- **Development and more efficient use of Romania's human capital** - The strategy will provide better education, skills and improve management capacity and ensure that education and training meets the needs of Romania's modern and expanding global economy. Adaptability, entrepreneurship and life long learning will be at the heart of the policies and business will be encouraged to invest in its human capital. The modernisation of the education and training 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 women, vulnerable groups, Roma and ethnic minorities 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 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, planning, delivery and management of National and Local Government services. Actions will be targeted where the greatest impact can be achieved to aid economic development, support business growth and to fight deficiencies that blight the economy in Romania.
- **Promoting balanced territorial development** – The aims are to decrease the development disparities between Romania's Regions, arrest the widening gap between the country's Regions and promote balanced Regional Development. The actions will support development by creating the necessary conditions to stimulate balanced 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 concentrated 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 the tourism development and urban development.

Operational Programmes

NSRF is implemented through Operational Programmes under Objectives “Convergence” and “European Territorial Co-operation”. Table 1 presents the list of OPs prepared by Romania. An outline of the OPs under “Convergence” Objective is included in the NSRF.

Table 1

Operational Programme	Managing Authority	Intermediate Body	Fund
Increase of economic competitiveness OP	Ministry of Economy and Trade	- National Agency for Small and Medium Sized Enterprises and Cooperatives - Ministry of Education and Research (Research Department) - Ministry of Communication and Information Technology - Ministry of Economy and Trade (Energy Policy General Directorate) - National Authority for Tourism	ERDF
Transport OP	Ministry of Transport, Construction and Tourism	-	ERDF + CF
Environment OP	Ministry of Environment and Water Management	Regional Environment Protection Agencies	ERDF + CF
Regional OP	Ministry of European Integration	Regional Development Agencies	ERDF
Human Resources Development OP	Ministry of Labour, Social Solidarity and Family	- National Agency for Employment - Ministry of Education and Research (Education Department)	ESF
Administrative Capacity Development OP	Ministry of Administration and Interior	-	ESF
Technical Assistance OP	Ministry of Public Finance	-	ERDF
Cross border Cooperation OPs ¹	Ministry of European Integration (with the exception of RO-HU border)	-	ERDF

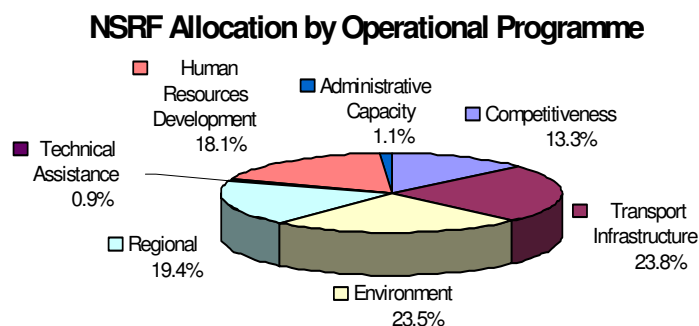
¹ An Operational Programme will be drafted for each border

Structural and Cohesion Funds Allocation

The overall Structural and Cohesion Funds allocation for Romania is 17.264 bn euros of which 11.115 bn euro will be allocated to the Structural Funds under the Convergence Objective, 5.755 bn euro to the Cohesion Fund and 0.394 bn euro under the European Territorial Co-operation Objective (including transfers to IPA and ENPI).

The NSRF financial table presents the breakdown by Operational Programme of the Structural Funds under the Convergence Objective, as well as the Cohesion Fund, which amounts to 16.870 bn euro. Diagram 1 shows this allocation.

Diagram 1



Implementation Arrangements

The Ministry of Public Finance – the Managing Authority for the Community Support Framework, is to be re-named during 2006 to the National Authority for the Co-ordination of Structural Instruments (ANCIS), and will represent the Member State.

The Council's General Regulation 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. A dedicated normative act will replace GD No 497/2004 in order to reinforce coordination and management mechanisms immediately after the new Cohesion acquis is adopted. The coordination of the NSRF implementation will be managed as follows:

- **National Coordination Committee for Structural Instruments** was established under GD No. 1200/2004 and will provide strategic guidance and decision-making at political level.
- **Management Co-ordination Group** will address management, administration and horizontal issues with relevance to the OPs.
- **Regional Coordinating Committees** will be established in the 8 Regions to assist in the co-ordination between Operational Programmes.

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

As regards the **financial management and control**, the National Fund of the Ministry of Public Finance is designated to fulfil the role of Certifying Authority for all OPs. A separate Directorate of the National Fund will act as the Competent Body for Payments responsible for receiving all payments of ERDF, ESF and Cohesion Fund and for transferring payments to the

Beneficiaries. An independent body associated to the Romanian Court of Accounts has been designated as Audit Authority.

Partnership

The Ministry of Public Finance, in cooperation with a wide range of institutions and organisations, has prepared NSRF. Furthermore, partnership consultations conducted for drawing up the National Development Plan 2007-2013 and the Operational Programmes provided substantial feedback from the relevant partners, which was duly taken into account in the preparation of the NSRF.

Introduction

The key issues in the **National Strategic Reference Framework (NSRF)** are drawn from the 3rd Cohesion report published in March 2004. The key aims of the National Strategic Reference Framework are to strengthen the strategic focus of the Economic and Social Cohesion policies and Regional Policy across Romania and to make the correct and appropriate linkages to the European Commission policies and the Lisbon Strategy, which focuses on policies for growth and the creation of jobs.

The NSRF has its genesis in the **National Development Plan (NDP)**, which was developed as a fundamental tool to guide 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 a consultation exercise and takes into account the Regional Development Plans of the eight regions. The legislative regulations, institutional building and structural reforms are covered by other programming documents, such as the Pre-accession Economic Programme and National Reform Programme. This suite of documents provides linkages to the NSRF.

The NSRF demonstrates how Romania intends to build in the environmental sustainability objectives that were added to the renewed Lisbon Agenda following the Gothenburg conference agreements. 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. This planning takes into account the European Commission's Community Strategic Guidelines published in July 2005 that established the EC objectives for EU Regional Policy. 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 purposes of the NSRF are as follows:

- To show the development direction of the Romanian Strategy for the delivery of the Structural and Cohesion Funds (SCF) in line with EC objectives and taking in to account the European and world economies;
- To illustrate how Romania intends to concentrate the Structural Instruments on the key EC Cohesion 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 service, 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 Territorial Cooperation Objectives.

The Romania is a NUTS 1 Region eligible for the Convergence Objective and the NSRF covers the entire territory (8 NUTS II Regions). The NSRF has been built on the extensive work undertaken to produce the National Development Plan 2007-2013 that was approved by the

Romanian Government in December 2005. The NSRF explains the unprecedented change that has occurred in the Romanian economy since 1989 and the dramatic effect this has had on the Country and her people. The SCFs will be a further major agent for change and will assist the acceleration of that 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 detail. These can be found in the Operational Programmes. However, the priority actions in the early years are encapsulated 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 balancing the continuing economic restructuring in Romania, in terms of infrastructure, competitiveness, human resource development and addressing regional disparities. On the other hand, Romania has recorded consistently high rates of annual GDP growth averaging over 5% during the last five years that demonstrates rapid progress is possible. The process of managing this economic revival will require determined, committed and visionary leadership.

1. Socio Economic analysis

1.1. Macro Economic Context

Overview

Romania is the second largest country in terms of population (21.7 million), after Poland, from the group of New Member States and EU Acceding Countries. 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 under one third of the EU 25 average in 2005 and only around 50% of the average GDP per capita of the new EU Member States.

Between 2001 and 2005 Romania's macroeconomic performance improved despite a worsening world economy. GDP growth has been strong and driven by high fixed investments and private consumption. Annual GDP growth averaged over 5.7% during the period and was coupled with 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.

Domestic consumer demand remained the main factor of growth in 2005. The gross capital formation increased its contribution to GDP by 0.5% through increased investments and the demand for repair work on infrastructure and buildings. Public administration consumption increased modestly by 4.9%, mainly due to the re-direction of resources to areas such as education and health.

In recent years, the monetary policy has been strongly linked to economic sustainability and reduction of inflation in the medium term. In December 2004 inflation reached one-digit level (9.3%) and by December 2005 it had reduced marginally to 8.6%. The budgetary deficit was reduced sharply from 1.5% in 2004 to 0.4% in 2005.

Whilst Romania's economy clearly requires very significant investment to achieve convergence with most EU Member States, the overriding economic trends in Romania are positive. Both foreign and domestic investments increased significantly in recent years creating long term growth potential. In 2004 and 2005, gross fixed capital formation increased by over 10 percent and foreign investments were annually maintained on above 5 billion euro.

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 48.3% in 2005 (See Table 2).

Table 2**Structure of GDP by Sectors**

- % -

	2000	2001	2002	2003	2004*	2005**
Gross added value, of which:						
Manufacturing	27.3	27.7	28.1	25.0	25.1	24.4
Agriculture	11.1	13.3	11.4	11.6	12.8	8.9
Construction	4.9	5.3	5.8	5.8	6.0	6.5
Services	46.3	44.5	45.3	46.4	45.2	48.3
Other components	10.4	9.2	9.4	11.2	10.9	11.9
<i>Gross Domestic Product</i>	100	100	100	100	100	100

* Semi-definite 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 and in other areas of the country has not increased sufficiently in size to compensate for the decline in manufacturing and agricultural employment.

Real GDP growth

Romania's GDP has improved in 2005 for the 6th year in a row, with an average growth rate of 5.7% between 2000 and 2005 and a rate of 4.1% in 2005 (growth was affected by the floods, which seriously affected gross value added in agriculture).

Table 3**Real GDP annual growth rates 2000 – 2005**

- % changes compared to the previous year-

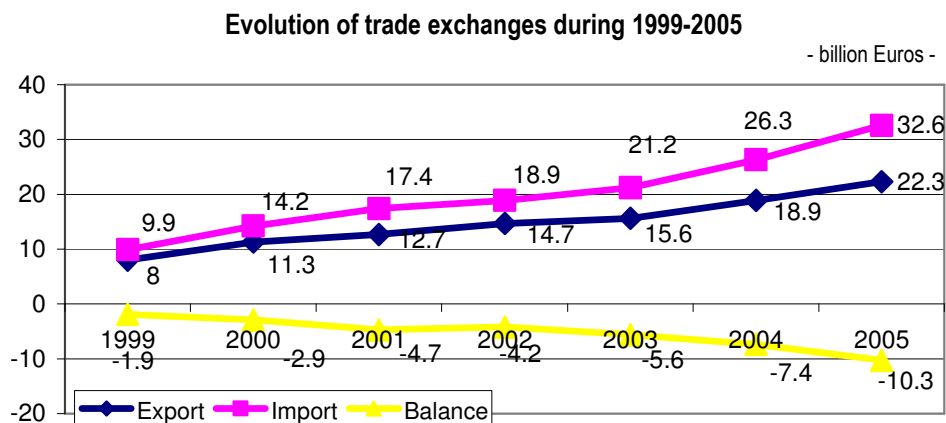
2000	2001	2002	2003	2004	2005
2.1%	5.7%	5.1%	5.2%	8.3%	4.1%

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

Trade

Romania's foreign trade increased significantly, as the economy structure is modernising with the prospect of EU Accession. During 2000-2005, exports and imports increased, with a growth rate of 18.6% and 21.9% respectively. The increase in imports led to an increase in the trade deficit and the trade deficit as a percentage of GDP increased from 4.6% in 2000 to 9.8% in 2005. Two thirds of foreign trade is with the EU member states (35.3 billion EUR) (See Diagram 2). However, 70% of the EU trade was carried out with 4 countries - Italy, Germany, France and UK.

Diagram 2



Source: National Institute for Statistics

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

The majority of exports are in low and medium technology products. Some progress has been made in the move to higher value added products and services (communications, automotive – 5.1% of total in 2005, electric machinery and apparatus – 5.1%). Romania imports the biggest part of the used high and medium technology products. Romanian exports remain cost-competitive rather than innovative and technologically advanced.

Foreign direct investment

Foreign investors willing to relocate production facilities or invest in Romania are attracted by comparatively low wages, improving productivity (although from a low base), attractive market size, location and the prospect of EU accession. FDI rose above 5 billion EUR annually in the last years, but with an annual net inflow of less than 2 billion EUR. The cumulative balance of FDI exceeded EUR 20 billion in 2005. FDI investors reinvested their profits significantly (EUR 1.5 billion in 2004 and EUR 1.8 billion in 2005) in the country, showing their business confidence in Romania.

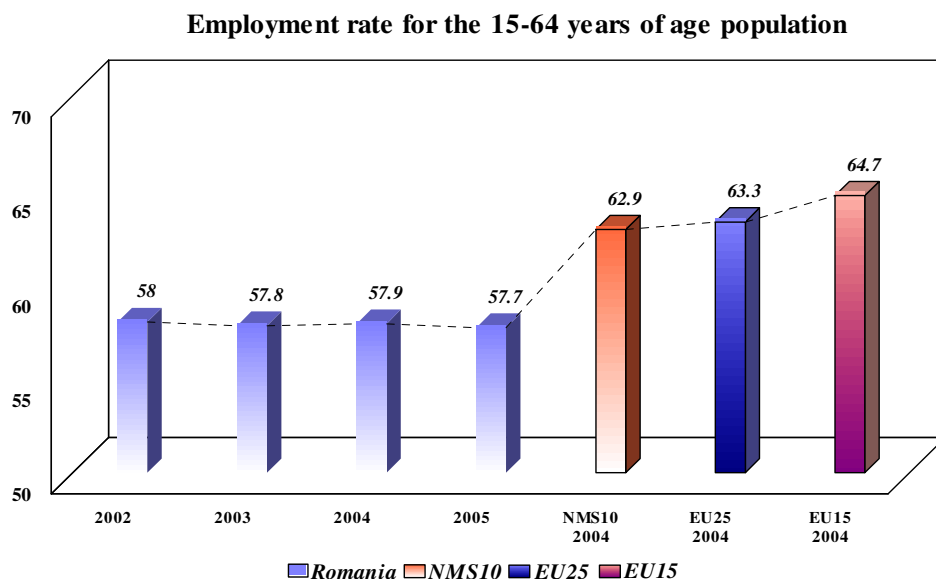
These factors have changed the relationship between Romania and the other states from the region regarding FDI. Thus, in 2004, the ratio to GDP of net foreign direct investments (8.5 percent) was much higher than in the new EU member states (the highest ratio being recorded in Estonia – 6 percent).

Employment

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

Between 2003 and 2005 employees in employment reduced slightly (See Diagram 3), whilst ILO unemployment rate increased marginally, from 7.0 percent to 7.2 percent. However, employment rates remain significantly below those registered in the NMS-10 and EU-15.

Diagram 3



Source: National Institute for Statistics

The variations in the employment rates exist both at inter-regional level and within the regions, the highest employment rates being recorded in the South-West Region (59.9%) and the North-East Region (62.4%) while the lowest are found in the Centre Region (53.9%) and in South-East (54.7%). In 2004 the figure for Bucharest-Ilfov Region was 59.7%.

Analysis of the figures reveals the following trends:

- Employment reduction from the primary sector (agriculture (- 5%) and extracting industry);
- Employment increasing in processing industries (+1%), services (+3%) and construction (+ 1%);
- Increasing the share of employees in employment has resulted in a shift from subsistence farming into waged employment.

Privatisation

Financial discipline in state-owned enterprises needs further strengthening and 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, much remains to be done to tackle the accumulation of arrears by 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 sectors of activity and the closing of economic units have led to large-scale lay offs, 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 reorienting taxes and duties to encourage economic growth, development and reducing inflation. In December 2004, a major tax reform was adopted, which introduced a flat-rate income tax of 16% and

lowered the corporate tax from 25% to 16%. This is coupled with plans to accelerate fiscal decentralization and to increase public expenditure transparency.

Key aims of the Government's fiscal policy are to improve the business environment, stimulate private initiative and reduce Romania's substantial black economy (currently estimated at 1-1.2 million persons, representing 11% of the total employed population). Examples of this policy are increased expenditure on research and development, 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 in inflation, reaching 8.6% in December 2005. Despite the trend of recent years, Romania continues to have the highest inflation rate among the EU member states and candidate countries, after Turkey. Inflation was fuelled notably by increases in raw materials and higher energy costs that fed through into higher consumer prices.

Budgetary situation

Budget deficits, calculated in accordance with ESA 95, were relatively high 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. The ratio to GDP of the budgetary expenditure and revenues has continuously decreased, but a reversal of the trend is envisaged in 2006. 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 -

<i>Indicators</i>	1999	2000	2001	2002	2003	2004	2005	2006 ¹
Budgetary revenues	35.4	34.0	32.4	31.6	31.3	31.3	31.6	32.4
Budgetary expenditures	39.8	38.4	35.9	33.6	33.0	32.6	32.0	32.8
Public deficit	-4.5	-4.4	-3.5	-2.0	-1.7	-1.3	-0.4	-0.4

¹) estimates

Source: Ministry of Public 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

Government debt has gradually decreased as a percentage of GDP, from 23.9% in 2000, to 18.1% in 2004. This has resulted in a low debt level compared to some of the new EU member states, such as Poland (43.6%), Slovakia (42.5%), Hungary (57.4%), Malta (75.9%) and considerably below the limit set by the Maastricht Treaty of 60% of the GDP. The ratio of foreign government debt to GDP increased by 1.1% until 2003 and in 2004 it decreased to 12.5% of the GDP due to low financing needs of the budget deficit and reduced costs of foreign financing.

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

- 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.

The macroeconomic forecasts are that Romania's GDP will increase on average by 5.5%, 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 investments supported by both government and EU funded investments. The net exports will generally have a negative contribution, but at a lower level as compared to previous years (between 1.4% and 2.4%).

Table 5

GDP per elements of use

2004 = 100	- percentage changes -		
	2006	2013	Average rate 2007-2013 (%)
Domestic demand, out of which:	17.8	85.9	6.7
- Individual consumption of the population	17.5	72.8	5.7
- Collective consumption of the public administration	9.1	33.2	2.9
- Gross fixed capital formation	27.2	155.4	10.5
Exports of goods and services	17.8	101.0	7.9
Imports of goods and services	35.7	170.3	10.3
Gross Domestic Product	10.3	60.4	5.5

Source: National Commission for Prognosis

The increase in the individual consumption will diminish after 2007 to an annual average rate of 5.7%, which will be lower than wage increases and will aid domestic savings and investments. Public spending is predicted to rise on average by 2.9% per year.

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 10.5%. Under these circumstances, the investment rate will increase from 24.2% of the GDP in 2006 to 33.5% in 2013.

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. Goods and services exports will increase, on average, by 7.9% annually, while goods and services imports will increase by 10.3%, which will negatively influence the trade balance.

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

Table 6**GDP per Sectors**

- percentage changes -

2004=100	2006	2013	Average rate 2007-2013 (%)
Industry	6.0	46.6	4.1
Agriculture	-10.7	8.8	2.9
Construction	23.1	142.4	10.2
Services	15.2	70.7	5.8
Gross Domestic Product	10.3	60.4	5.5

Source: National Commission for Prognosis

It is estimated that the current account deficit in GDP percentage will remain between sustainable limits. 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 through the use of the transfers from the EU (e.g. Structural Instruments).

For the period 2007-2013, the bringing down and maintaining the inflation rate (measured by the consumer price index) between 2-3% is an important objective within the context of meeting the Maastricht criterion of nominal convergence. Romania's recent trackrecord in controlling inflation is strong, so by 2009, price increases will be below or around the level of 3%.

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 be maintained or slightly increased by retaining people at work and it is predicted that the participation rate in employment will increase to 63.8 % by 2013 (see Table 7).

Table 7**Labour force**

	2005	2007	2008	2009	2010	2011	2012	2013
	- percentage changes as compared to the previous year -							
Labour force*	-0.9	0.3	0.3	0.4	0.3	0.2	0.2	0.1
Employment*	0.1	0.5	0.5	0.6	0.5	0.7	0.4	0.3
Employees	1.0	0.6	0.3	0.2	0.2	0.3	0.2	0.4
	- % -							
Participation rate*	62.4	63.0	63.2	63.5	63.6	63.7	63.8	63.8
Employment rate*	57.7	58.5	58.8	59.1	59.4	59.8	60.0	60.1
ILO Unemployment rate	7.1	6.9	6.8	6.6	6.4	6.2	6.0	5.9

*) working age population (15-64 years)

Source: National Commission of Prognosis

Romania's entry into the EU labour market will increase the mobility of labour and she will attract and lose workers. It is estimated that Romania will have a relatively balanced position within this process.

It is estimated that there will be an increase in the number of employees by about 180,000 by 2013 compared to 2005. 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%.

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 Romanian citizens to levels well below 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 Axes no. 7, 18 and 22. The TEN-T priority projects for Romania agreed until 2011 are Nădlac – Sibiu motorway, the railway from Curtici to Braşov, 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 in general comply with European Community standards. The density of modernized public roads (33.3 km/100 km² in 2004) is very low compared to the EU 15 average (116km/100 km² in 2002). 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 2004 was 79,454 km with a relatively uniform distribution (except in Bucharest Ilfov where the density surpasses other regions). Of the total, 15,712 km (19.8%) are national roads and 63,742 km are county and local roads. The work undertaken in recent years has focused mainly on repairing and upgrading the network of national roads. Limited financial resources have therefore meant that county and communal roads have been seriously neglected and their usage and quality has declined. Only 28.36% of roads have been repaired and this has had a negative effect on regions and their economic activities. Communal roads generally are generally not suitable for business usage.

At the end of 2004, the motorway network in Romania consisted of only 211 km of motorway (0.5 km/1000 km²) and the network remains under-developed when compared to both the EU 25 average density, which is 13.8km /1,000 km² and the networks in the new Member States. Romania has the lowest motorway density per 1,000 km² in EU 25 (for example, the density is in Hungary 52.3, in Poland 10.6, in Czech Republic 50.8).

Car ownership in Romania is the lowest in EU 27, with 136 cars per 1,000 population. 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, which will increase the impact on the environment and have negative impacts on travel times and the cost effectiveness of business transport. 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 transport plays an important role in building the economy in terms not only of access and mobility and movement of freight and goods. The volume of road freight transported in Romania is high, accounting for 75% of the total freight transport in terms of thousand tonnes. Road freight traffic has increased from 262.9 million tonnes in 2000 to 294.2 million tonnes in 2004, an increase of 12%. At the same time, the number of million tonnes-km has increased from 14,288 to 37,220, an increase of 160%. However, without urgent investment in the road network, increased demand generated by increased economic activity and domestic traffic will exacerbate the current problems and stifle growth.

Rail Transport

In 2004, the Romanian railway network covered 11,053 km, out of which 3,965 km (35.80%) were electrified and 2,965 km (26.77%) 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 network, which covers 20% of the total Romanian rail system length. A rail rehabilitation programme started in 1999 on TEN-T priority axis 22, where 90 km of route have been completed so far.

The density of railway usage is approximately 46.5 km/ 1,000 km² that is significantly less than the EU average (65 km/1,000 km²). Rail passenger-km/ inhabitant per year is also low in Romania compared to EU15, EU25 and EU27. 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 repair and ineffective railroad track and signalling equipment. 26% of the rail network has an imposed speed limit of 50 km/h and 39% of the network has limits of 80 kms per hour. In addition, there are a number of dangerous spots that have been identified as being of high risk. 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 2004 was over 72 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 EU15. This has also occurred throughout Eastern Europe.

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 network.

Constanța harbour 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 river Danube 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 the inter-modal transport.

The river Danube 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 river Danube ports on the TEN-T network (Constanța, Galati, Braila, Tulcea and Sulina) are the most important and handle 34 million tonnes/annually. To develop the opportunities provided by the River Danube, 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 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 new Member States (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 (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 prevents the development of the inter-modal transport. In 2004, 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 increase in the trend of transportation of goods by road.

Air transport

In 2004 the total air traffic in Romania was 3.4 million passengers through the 17 airports. Eleven of the airports are on the TEN-T (Arad, București Baneasa, București Otopeni, Bacău, Cluj Napoca, Constanța, Iași, Oradea, Sibiu, Suceava, Timișoara). The most important of these is „Henri Coandă” Bucharest 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. 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 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 Corridor IV. Over the last few years, the air traffic has intensified also for the airports from Cluj and Sibiu, while Constanța airport operates a significant number of international charters.

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 Intermodality

The European agreement on major combined international transport networks and their related installations (AGTC) was ratified by Romania in 1993. This agreement defines the intermodality of the transport infrastructure across the country. This is particularly important as the road usage increases pressure on the environment and 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 road transport for national and international transport. Currently, the Ro-La system (rail transport for motor vehicles) only operates over one route from Glogovăț - Wels (Austria).

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

The shipping transport has the advantage of lower costs and the ability to transport larger quantities. Nevertheless, loading/unloading costs and the lack of modern port equipment on the domestic navigation systems prevent the development of the inter-modal transport. Lack of investment is leading to a break down in the logistics chain and to significant increases in the transportation of goods by road (75% of 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.

Environmental infrastructure

The majority of Romania's environmental infrastructure in terms of water supply, waste water 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.

Water infrastructure

Drinking water supply. Only 65% of Romania's 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 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, water source quality and parameters, for which currently there is no data, is estimated at about 9.8 million inhabitants in urban areas.

Sewerage network. At the end of 2004, 675 localities were endowed with sewerage network. Population benefiting of the sewerage service is around 11.5 million inhabitants, out of which 10.3 mil. inhabitants in the urban area (representing 90% of the urban population) and 1.15 million inhabitants in the rural area (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 2004, out of the total volume of wastewater that needed to be treated, 29% has been sufficiently treated, approximately 29% was represented by untreated wastewater and 42% 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. 49% of the wastewater discharged came from thermal and electricity production and 39% was produced by public utilities.

Taking into account the total number of 1,359 treatment plants (both municipal and industrial), investigated in 2004, 555 plants, representing almost 41%, have adequately functioned, and the remaining 59% have inadequately functioned. Out of the total of 2,609 human agglomerations of more than 2,000 population equivalents, 340 human agglomerations with wastewater treatment plants have been identified.

Waste management

The total quantity of waste generated in Romania was of around 36.7million tons in 2004 (8.19 municipal waste and 28.51 production waste – excluding mining 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. 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 service. 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. 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 267 municipal landfills in 2003. Of these, in 2004, only 15 units were complying with the EU legislation and there were registered 236 non-complying landfills. In 2005, 3 complying waste municipal landfills started to function and 4 non-complying landfills were closed.

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.

According to the National Waste Management Plan, it was established that there is a need for 49 landfill sites for non-hazardous waste, with capacities varying from 50,000 to 100,000 tons/year.

Production waste. The responsibility for the management of industrial waste rests with the producer, who has the obligation to provide contracting commercial services 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.

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.

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 landfills (covering approx. 3,000 ha) were functioning, these being classified as follows: 51 landfills for dangerous waste, 116 landfills for non-dangerous 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.

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 installation 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. Previous measurements 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_x emissions, or closure of certain industrial and agricultural units. As regards the historical soil pollution, new quantities of potential pollutant substances and elements were added, highlighted by monitoring 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 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, but air emissions of the pollutants from Large Combustion Plants (LCPs) still have a significant negative impact on environmental pollution. In 26 of the largest municipalities, large combustion plants (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 LCPs have a significant negative impact on human health and environment and represent the most important part of total emissions of SO₂ and NO_x 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 SO₂, NO_x, from LCPs, from energy production and from other activities (refinery, petro-chemistry, etc.).

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 (121,779 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 116 Special Protected Areas (SPAs) and 79 proposed Sites of Community Interest, 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 in Romania. Consequently, there is a need to increase the management of the sites, in order to preserve the bio-diversity and the wider promotion and understanding of the importance of conservation.

Natural Risks

Floods. The frequency of floods and their proportions 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, Somes, Mureş, Târnave, Timiş, Olt, and Argeş and Siret. In 2005, 76 lives were lost in floods, as well as material damages (households, flooded lands, socio-economic objectives, roads, bridges, etc.) with a total cost of about 1.5 billion Euros.

In spite of investments from state budget funds and external loans, there are still needed major investments 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.

The internal consumption of primary energy was of 39,018 thousand tonnes of oil equivalent (toe) in 2004 and 39,032 thousand toe in 2003 (72.1% covered through the domestic production, the rest being supplied through imports). It is estimated that the rate of dependency on imports will increase to over 50% from the total primary resources consumed by 2015. At present, approximately 57% of the electricity is produced from fossil fuel (coal, natural gas), with very high production costs.

At present, 29% of the total energy consumed is produced in high output hydro-electro plants and 10% of total is produced in Cernavodă nuclear plant, the rest being sourced from fossil fuels. Other forms of renewable sources of energy are under exploited and conducted in low

output units. The potential for considerable expansion of renewable energy sources exists (Government's target for energy consumption from renewable sources is 33% by 2010). Solar energy and wind power have been identified with the correct environment and topographic-geographic conditions. Hydro-electro power is generated from the main rivers; improvement/expansion of these power plants is a potential opportunity.

Romania has a high biomass energy potential assessed at about 7,594 thousand toe/year (318 PJ/year), which accounted for almost 19% of the total consumption of primary resources in 2000. Geothermal energy offers further potential with 70 hot springs in different geographical areas, 45 of them being located in conservation areas.

The value of the primary energy intensity in Romania was 0.770 toe/10³ Euro in 2003, and the value of the final energy intensity was 0.496 toe/10³ Euro, according to the statistical data from the National Energy Observer. In 2001, the final energy intensity in Romania was around 4.24 times higher than in the EU (0.637 toe/10³ USD₉₅ compared to 0.15 toe/10³ USD₉₅ in the EU). 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.

Special consideration has to be given to the negative impact that the energy production has on the environment, especially CO₂ gas emissions or the emissions with an acidifying effect (SO₂, NO_x, NH₃). All Large Combustion Plants (LCPs) are serious polluters of the environment but the coal burning LCPs present the greatest problems and cause serious pollution (more than 70% of the total NO_x emissions and 90% of those of SO₂). 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 (SO₂ emissions), NO_x 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.

Romania has a developed district heating systems, in 2002 approximately 32% of households receiving heating and hot water through centralized systems. For the urban areas the percentage is 58%, as compared to 0.5% in the rural areas. However, the systems are based on old technologies and require modernization and improvements to increase efficiency and avoid waste in distribution. Energy losses are recorded at 25-35%, that adding significantly to 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 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 electro plants have exceeded their operational life span. As regards the energy transport network, the depreciation level of the electricity power lines is 50% and 60% for electricity sub stations. The same situation is recorded for the distribution networks; 64% of the gas distribution network in the system is over 25 years old.

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 networks as well as to expand and interconnect the operational grids for electricity transmission with the European networks.

1.3. Competitiveness of the Romanian Economy

Economic Competitiveness

Lack of competitiveness is one of the major factors holding back Romania's economic development. The 2005 survey on the competitiveness of the countries of the world carried out by the World Economic Forum (WEF) ranked Romania 67th out of 117 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 obsolete production technologies and equipment;
- 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 demand of a modern economy*;
- Severe underdevelopment of physical infrastructure*.

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

Productivity

Romania has a very low labour productivity by European standards, with a level in 2004 of only 35.3% of the level recorded in the EU25 and lower than all EU Member States. In the manufacturing sector particularly, low levels of investment since 1990 have left a legacy of obsolete technology and equipment, outdated management practices and inefficient use of energy. All of these factors contribute to extremely low levels of value added per worker (approximately 6,500 EUR/ 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%), Czech Republic (7.7%), and Hungary (8.9%).

Foreign Direct Investment

Despite the attractiveness of low labour costs – which represents the main source of competitive advantage with an average gross monthly salary of about 285 Euros in February 2006 - Romania still has one of the lowest levels of foreign direct investment (FDI) per inhabitant in the region, significantly 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, products and technology quality. 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 19 SMEs per 1,000 inhabitants, 3 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 2004, SMEs represented 99% of the total number of firms operating in Romania and more than half of total employment. Over half of the total number SMEs (403,000 in 2004) were in the retail sector (77%). A relatively small proportion of SMEs are in the productive sector and particularly, there is a small number in manufacturing industry (13.6%). There are major differences in the distribution of SMEs between regions, with Bucharest Ilfov Region having the highest concentration. 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 record positive increase in SME volumes, 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 road infrastructure works (highway construction, road rehabilitation and water supply in rural areas etc.), benefiting 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. The number of SMEs for 1,000 inhabitants in 2004, by development regions, varies between 42.2 in the Bucharest-Ilfov region and 12 in the North-East region. Other regions with a good distribution of SMEs are North West and West Region.

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	0.9	12

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 operate from residential apartments -, the lack of access to finance and the quality of business support services. In 2002, 35.3% of owners of new business 'start

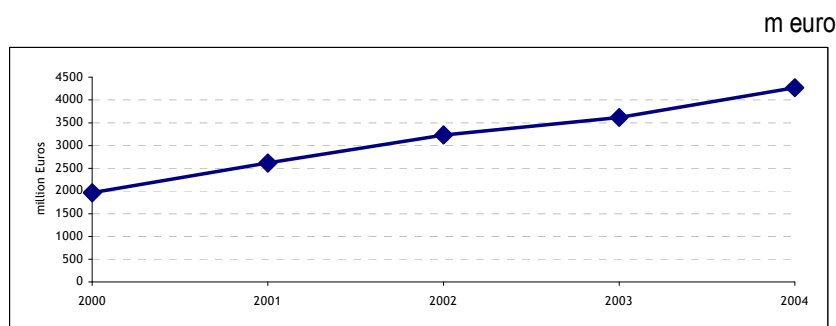
ups' were women. To promote equality of opportunity, efforts have to be made to encourage and assist more women into businesses, through training and improved support mechanisms.

The SMEs have to improve the quality of their products and need to meet internationally recognised 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 (Lisbon Scorecard: Romanian Economic Society 2003) 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. Very few Romanian SMEs are involved in exports (12% in the industrial sector in 2004), and in 2004, they accounted for a share of 35% (value 6,754.8 MEuro) of the total 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 aggregate database

Exports from SMEs in the processing industry sector in 2004 amounted to 4,259.4 million Euros, which represented 63.1% of total exports in the SMEs sector. Textile and clothing was the largest exporting sector with 2,094m euro (49% of total value of exports).

The balance sheet data indicates the total turnover of the SME sector to be EUR 65,055 million (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 45,028m euro compared with 13,835m euro in industry, 4,758m euro in construction and 1,435m euro in agriculture.

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.

In 2004, large manufacturing companies represent about 1% of enterprises but employ about half the working population and achieve 62% of the total sector turnover (114,150 million euro). The need is to increase the competitiveness of the large company sector, through modernisation and refurbishment, as well as increased innovation. This will assist in reducing

the productivity gap between Romanian and Europe and help to stabilise the industrial base and aid job retention and the increase of the employment (Cohesion Policy in Support of Growth and Jobs). Internet access varies greatly between large enterprises (90%) and SMEs (50%).

The value of exports tripled during the period 1999 to 2004 from 7,975m euro to 26,280.7m 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 regulatory system for setting up a business was greatly simplified through Law No. 359/2004, which introduced the Trade Register and the authorisation of the legal process to 3 days. This reduced the time and cost to the entrepreneur of setting up a new business, however, progress is still needed with regard to the actual implementation of these legislative provisions.

In general, there is inadequate infrastructure and basic services that support businesses in Romania. 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. In Regions such as South Muntenia or South West very few consultancy firms are located.

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 Central 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 greenfield projects awaiting development. Partly, 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 Central Region (19%). There is an intention to double this number. These 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.

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

Access to Finance

Romanian banks do not generally provide business development support to their SME clients. 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.

National Credit Guarantee Fund for SMEs provides guarantees for bank loans and covers a substantial part of the SMEs risk in investments. The Fund started in 2002 and take-up has significantly increased during 2004 and 2005. Compared with 2004 the guarantees given in 2005 represent an increase of 325% in number of guarantees, and of 470% of the total value of guarantees, respectively from 7.80m euro up to 36.72m euro, but it is still does not satisfy market demand. Due to significant failures in the 1990s, the National Bank of Romania has imposed stricter regulations that require guarantees and considerably greater security than in most other Member States. The need is to create a range of funding sources including micro loans to meet the various demands from SMEs. The national and local government 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. Some local funds exist and the administration is in place in some areas; the coverage is patchy and the need is to expand and improve the facilities available.

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 0.39% of its GDP on R&D in 2004 (of which 0.19% public expenditure), less than half of the average in the new Member States, and one fifth of the EU25 average. 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 3% of GDP, the private sector investments in R&D expenditure must also increase significantly.

R&D infrastructure in Romania is generally regarded as outdated in terms of technological level. There are 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-added products or out dated technology. Within the Romanian economy there are 29 centres of excellence but business-to-business relationships are lacking. Similarly, business relationships and partnerships between 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 European Framework Programme 7, and preparing the scientific community for a successful participation to this Programme.

Romania lags behind other European countries in terms of business innovation. In the period 2002-2004, only 19.3% of the companies carried out successful innovative activities. This percentage is much lower than in the EU15, where 44% of the companies were considered innovative in the period 1998-2000. Only 13% of small enterprises and 21% of medium-sized companies are innovative, and the share of SMEs cooperating with foreign companies is below 2% for small companies and 4.3% for medium-sized enterprises. Most of the innovations (75%) in Romanian enterprises relate to products and processes and 53% of technological innovations result in the acquisition of new machinery and equipment (of which SMEs represent 59%).

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 the regional level, after the Bucharest-Ifov 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 11% of the overall national expenses. At the opposite end, lies the West Region, with the lowest volume of innovation expenses (about 4.5%).

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 intends to increase the total R&D expenditure to 3% of the GDP by 2015 in line with the EU Action Plan adopted in April 2003. 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)

In terms of electronic communication, Romania is characterised by a level of national expenditure on ICT that is barely one-third of the EU average (1.34% of GDP in Romania in 2004, compared to 3% in EU-15 in 2003). Although rising rapidly, PC availability and Internet penetration still lag well behind the EU average.

Information and IT infrastructure (the PC ownership and coverage) have shown an annual average growth rate of 50% during 2000 to 2004. Due to the launching of the *e-Europe+ Action Plan*, the PC penetration rate increased in all EU countries (55 PCs /100 inhabitants in EU 25); however, Romania still lags behind (12 PCs/100 inhabitants by the end of 2004 and only 10.8 PC per 100 pupils in schools), with an average annual growth rate of 37% in the timeframe 2000-2004.

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. Only limited movement towards e-commerce by business has been recorded. In 2004, 19.8% of the population accessed the Internet to communicate with the public authorities or to search for information. For companies this percentage is 29% (EU comparison figures are 42% and 41% respectively).

According to the e-Europe+ 2003 survey, only 2% of Romanian respondents use the Internet for e-Banking services and 1% for other financial services. 12% of Romanian enterprises use the Internet for such services. The percentage of Romanian Internet users who buy goods online (7%) is rather low compared to the average in the new Member States and the accession countries (12%). Electronic commerce is still underdeveloped, but growing. The share of e-commerce in the overall turnover was 1.3% in Romania compared to 2.1% in the EU25.

During recent years, Romania has attracted major investments in ICT infrastructures. At the end of 2003, the country had almost 30,000 km of optic fibre (compared to 19,570 km in 2002 and 16,500 km in 2001). According to a national survey carried out in the business environment in 2004, 7.3% of the Internet users resorted to a dedicated optic fibre connection, but the development potential is still high.

A survey carried out in June 2003 to assess the implementation of the e-Europe+ Action Plan indicates that 22% of the Romanian respondents have a computer at home and only 7% of them have an Internet connection. The main growth drivers were: the lowering of the prices due to the fierce competition on the market, local assembly of computers and the introduction of loans for the acquisition of consumer goods, as well as the governmental subsidies for the acquisition of computers.

In Romania, the number of Internet users/100 inhabitants increased between 2000 and 2004 by 60% on a yearly average. In 2004, the household penetration rate of the Internet reached 12.2%, which was quite low compared to the EU25 average, i.e. 44%. The increase of the Internet utilisation rate is due to the lower access costs, the enhanced competition among Internet providers and the strengthening of the Internet culture. Coverage is still low particularly in rural areas, due to the high prices of fixed telephony and lack of investment in infrastructure.

Broadband access recorded a significant growth rate at the end of 2004 (over 95%), whilst narrow band Internet connections were up 90%. By the end of 2004, broadband Internet

connections accounted for 39% of the overall Internet connections. The penetration rate at the end of 2004 was 1.7%, much below the EU15 average – 7.6% and the EU25 average – 6.5%.

Broadband coverage was 1.7% of the population (EU 25 - 6.5%). Company connections were 7% (EU 25 - 52%). Although these figures for Romania are low and major investments are needed across the Country, the rural areas are more adversely affected and this proves a major inhibiting factor.

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 tourist potential due to their history, natural heritage and geographical features and location. Lack of national planning, promotion and co-ordination has led to the tourist facilities being developed unpredictably and varying in quality. General lack of infrastructure and low accessibility prove obstacles to both domestic and international markets.

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 tourist destination, as well as the provision and access to tourist information and to counteract the negative perception of the Country.

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 hot spring resorts, 0.9% in the Danube Delta, and 15% in other tourist 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 stimulated by business tourism.

1.4. Human Capital

Since 1989, Romania population has declined from 22.8m to 21.7m (4.8%). 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 the early 1990s 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. The skills gap between the educational provision and demand of a knowledge-based economy remains significant. At the core of the pre-university system reform has been the implementation of a new national curriculum. This focused on the development skills, abilities and capacities and offers a more flexible education, increased choice, the adaptation of this learning to every day life and the employment market. This programme of change has been accompanied with the raising of awareness of the responsibility of social partners in education. This new school framework programme for mandatory education was adopted both at primary and high school level.

Romania has accepted the strategic objectives for the educational 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 the reorganization of university studies.

The extension of compulsory education from 8 to 10 years in the 2002-2003 school year was accompanied by a reduction in participation rates and an increase in school drop out in primary and gymnasium education, particularly in rural areas. The early school leaving rates increased from 21.84% in 2001-2001 to 23.6% in 2004-2005. This will impact significantly on the labour market in the medium and long term. The early school leaving figures are 10% above the European benchmark set for 2010.

Higher educational attainments underpin increased competitiveness. A critical point in this progression cycle is the transfer from gymnasium to secondary education (9th grade). This is where significant drop out occurs and this is linked to the advice received and the pathways chosen. These progression rates in lyceum education have stabilized around 55% during the 2000-2005. In case of initial TVET, the progression rate fluctuates around 35-39%, with a declining trend by the end of the reference period; in rural areas and in poor communities, the progression rates remain the lowest.

In the Roma community 12% of the 7-16 year age group drop out school before graduating and about 18% are not enrolled for, nor attend any form of education. 80% of those not attending to any form of education are Roma population that results in 28.6% of the Roma being illiterate. Similarly, low participation in education is recorded in case of children with special educational needs (SEN). The limited number of qualified teachers and inappropriate educational infrastructure and existing communication shortcomings between school and community contribute to the increase of the number of SEN children not attending formal education.

According to PISA appraisals of 2003 (The International Student Appraisal Programme) worrying results have been highlighted regarding the level of literacy. In 2002, on a scale from

1 to 5 (where 1 is the lowest), over 40% of students aged 15 that were comprised in the sample had a level of literacy of 1 or lower. 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 a TIMSS report 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.

To counteract these trends, improvements are needed in educational standards and recognition of the value of education and training in the population as a whole (including those who have an influence over students such as parents and grandparents); also 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 TVET, financial support for vulnerable groups, Roma and ethnic minorities are needed.

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 for university education due to larger labour market absorption of highly educated people and lower unemployment risk for university graduates.

Quality Assurance. The issues regarding quality assurance in education are regulated, in a general and affirmative manner, in the Law of Education no. 84/1995 and the introduction of reform measures of the quality assurance system in education are on going. 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 create internal mechanisms to assure and manage the quality in education (in terms of results, knowledge gained, skills, values and attitudes). To this end, 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.

The unattractiveness of teaching profession has an impact on the quality of education and the rigidity of the professional routes for teachers contributes to the problems of recruitment. The estimated decrease of the school population will add to importance to redressing these issues to ensure the qualifications and quality of the human capital employed in formal education and initial TVET is improved and the standards of teaching personnel are raised. The gap between rural and urban areas in terms of qualified teaching personnel persists.

Education 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-eastern region the figure was 90.8%, while in Bucharest-Ilfov region the figure was 32.92%). 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.

Information Technology and Communication 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 per 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 44th out of 104 states in an international study on Internet access.

Education and the Labour Market. Data available indicates that the skills gap between the qualifications provided by initial TVET and education (at all levels) and the demands of a knowledge-based economy is increasing. This also has consequences on youth unemployment (3.5 times higher as compared to the unemployment rate) and recent graduates are taking longer to enter the labour market and adapting to the job requirements.

The competitiveness of the human capital is directly influenced by the educational attainment. Between 1999-2003 the share of persons with secondary education in the 25-64 age group rose from 67.9% in 1999 to 70.5% in 2003. 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, for which the indicator stabilized at about 65% in 2004. In the same period, the percentage of people with a university degree increased by 0.9 points to 9.6%. 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 level 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.

Counselling and Guidance

Training, job placement and counselling of people seeking employment is the responsibility of the National Agency for Employment (NAE), which was set up in 1999. According to the Law

no. 145/1998 and GD 768/2003, NAE has the following attributions: organizes employment services; acts in order to fight against unemployment and its unfavourable social effects; finances employment services in accordance with the employment policy and with trends of the labour market in order to facilitate employment; ensures the application of the legal measures dedicated to the employment opportunities increase; implements measures regarding the employer's stimulation for the re-employment of the unemployed people. The NAE produced a National Training Plan which guides its job placement and training functions. NAE has a network of 173 Professional Information and Counselling Centres, 20 vocational training centres, 6 regional vocational training centres for adults and 3 Romanian-German foundations.

In 2000, the electronic job placement service was launched first in 9 counties and extended in 2001-2002 to the entire country. This service is free and can be accessed over the Internet. The Public Employment Service (PES) has implemented a project to develop a national career information and counselling service. In 2002-2004, 56.1% of the unemployed persons who followed a NAE vocational training programme found employment. Although the training offered to unemployed people has considerably improved, participation rates on NAE courses are still very low. In 2004, only 2% of the monthly average stock of unemployed persons took part in vocational training courses. The percentage was higher (8%) for the employed persons.

Employment and Unemployment

Bucharest will be the sixth largest city in the EU27 and it has the ability to sustain and attract an educated workforce that will provide for the continued 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. In recent years, the weaknesses in the Romanian economy such as restructuring, the liberalization of public policy and disparities in costs have created an urban-rural internal migration unknown elsewhere in developed Europe. These factors, coupled with emigration, have created a significant change in the Romanian labour market.

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 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 to each child or elderly person. This change is placing increased pressure on health and social services.

Employees in Employment. The demographic changes and economic restructuring (see Table 9) which resulted in a reduction of 15% in the employed labour force (1999-2004) 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 69.3% compared with 63.2% in Romania. The total population of the 15-64 age group is estimated at 15m, 9.15m (57.9%) of whom are employed.

Table 9

Main employment indicators during 1999 – 2004 (annual average)

Indicator / Year	Romania						EU-25	EU-15
	1999	2000	2001	2002	2003	2004	2004	2004
Total active population (thousands of persons)	11,566	11,585	11,447	10,079	9,915	9,957	-	-
Activity rate 15-64 y.o. (%)	68.7	68.6	67.5	63.6	62.4	63.2	69.3	70.0
Total employed population (thousands of persons)	10,776	10,764	10,697	9,234	9,223	9,158	-	-
Employment rate 15-64 y.o. (%)	63.5	63.2	62.6	58.0	57.8	57.9	63.3	64.7
ILO Unemployment rate (%)	6.8	7.1	6.6	8.4	7.0	8.0	9.0	8.1
ILO Long term unemployment rate (%)	3.0	3.6	3.2	4.5	4.3	4.7	4.0	3.3
ILO Unemployment rate amongst young people (%)	18.8	18.6	17.5	21.7	18.5	21.0	18.2	15.6

Sources: For EU-25, EU-15: EUROSTAT, New Cronos for data regarding quarter II in 2004.

For RO: The National Institute for Statistics, Survey of the labour force in households (AMIGO), annual average data, data for 2002, 2003 and 2004 were extended on the basis of the Population and Housing Census of March 2002.

At a regional level, the North-East, South-West Oltenia and Bucharest-Ilfov regions have the highest employment rates (62.4%, 59.9% and 59.7% respectively), whilst the lowest employment rates are in the Centre (53.9%) and South East Region (54.7%) – See Table 10. It must be emphasised that, the high employment rates in the North-East and South-West Oltenia regions are determined by the „protection” of the so-called subsistence employment in rural areas which both regions benefit from (the highest percentage of population employed in agriculture, with decreasing trends though during 1999-2004).

Table 10

Regional Employment Rate (15-64 age group)

- % -

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

Source: National Institute for Statistics, Household Labour force Survey (AMIGO)

During 1999-2003, the share of population employed in the agricultural sector decreased by 751,100 workers and has been in part was compensated by increases in the service sector. 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, Northwest 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 Western Region shows a difference profile and has recorded an increase in industrial employment as opposed to service industries where a small decrease has been recorded.

Table 11

Regional employment trends and changes between 1997 and 2004

- thousand persons-

REGION	Total	Agriculture	Industry	Construction	Services
Romania	-784.4	-751.1	-398.1	-19.7	+384.5
1. North – East	-190.4	-140.4	-70.2	-5.8	+26.0
2. South – East	-132.4	-109.3	-30.7	-2.8	+10.4
3. South	-201.1	-136.6	-85.7	-7.3	+28.5
4. South –West	-155.0	-103.3	-41.9	-16.4	+6.6
5. West	-63.2	-66.3	+7.2	+0.6	-4.7
6. North – West	-48.6	-106.4	-18.4	+3.0	+73.2
7. Centre	-107.8	-79.9	-95.6	-5.4	+73.1
8. Bucharest - Ilfov	+114.1	-8.9	-62.8	+14.4	+171.4

Source: NIS

The changes in employment are also reflected in the migratory flows of the population from the rural to the urban areas and correlate with the creation of new jobs in 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 the telecommunications sector.

Employment by age groups. The 15-24 years old group registered a 6.6 percent decrease of the employment rate during 1999-2004 and situated in 2004 at 29.1%, which is lower than the EU 25 (36.4%). The 25-54 years old group registered a 5.2% decrease of the employment rate during 1999-2004, reaching 72.9% in 2004, also lower than the EU 25 average (76.6%). The 55-64 years old group registered a decrease of 12.7% during 1999-2004, reaching the value of 36.9% in 2004, compared to EU-25 (40.2%). The 2004 employment rate of 36.9% for the 55-64 years old group situates Romania at 13.1% distance to the Lisbon objective for 2010 – 50% employment rate for this target group.

Employment of women. In the period 1999-2004, the number of women in employment decreased from 46.2% in 1999, to 45.6% in 2004. Also for 2004, the employment rate of women aged between 15-64 years of age was 52.1%. This rate is 7.9% 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 11.2% in 2004, as compared to 31.4% in the EU-25. It is worthwhile to observe that the same low rate 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 in the following period to 31.6% in 2004. Over the same period, there has been a growth in services employment, from 30.6% in 1999 to 37.2% in 2004, while in the public sector a 12.5% decrease was recorded (from 35.5% in 1999 to 23.2% in 2004). Industry and construction activities have increased from 27.6% in 1999 to 31.2% in 2004.

Another feature is the constant increase of the employment share of private sector (69.9% in 2002, 72.1% in 2003 and 73.9% in 2004), followed by the corresponding decrease of figures registered for the public sector (24.8% in 2002, 23.7% in 2003 and 23.2% in 2004). There has been also a decrease of the share of self-employed in total employed (38.3% in 2002, 37.5% in 2003 and 34.1% in 2004).

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.

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 that only have secondary school education represented more than half the employed population in 2004 (60.7%) which is 20 percentage points above the EU-15 share. 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 36.1% in 1999 to 27.2% in 2004). 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 has remained constant. Although modest in 1999, the increase in the number of graduates from medium and higher education institutions is common across the economy, due mainly to the development of the higher education system. This resulted in an increase in the number of higher educated persons accessing the labour market.

In the Bucharest-Ifov Region in 2004, 28.7% of the employed population had higher educational qualifications and only 10.3% 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 8.5% of the employed population has higher education and 36.8% have a low level of education. In the Centre Region (only 18.0% have 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.

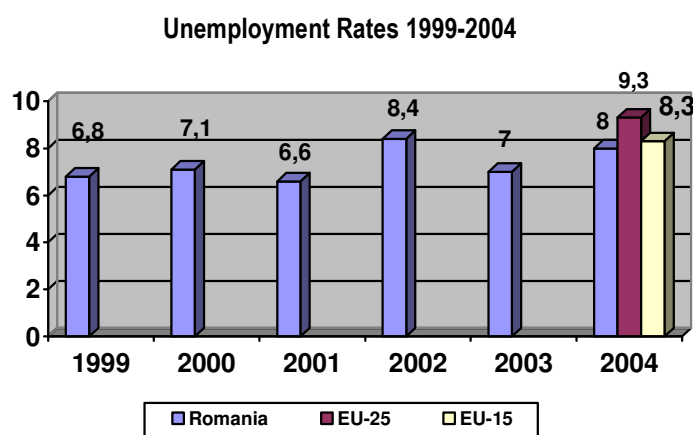
The reasons for low take-up and interest in **vocational training** are represented by the cost of the training, and lack of availability locally. The training offered tends to address individual not employer needs. Very few companies have a permanent liaison with the training provider. Greatest demand 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 1998-2004 service industry vocational training has increased and agriculture decreased. This trend reflects investments both domestic and foreign 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 1st 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. The registered unemployment rates have increased from almost nil at the beginning of the transition process peaking at 11-12% in 1991-1994 (see diagram 5 below). Since then, the economy has grown and unemployment (ILO rate) has fallen to 7% in 2003 and 8% in 2004.

Diagram 5



The data available for the first 9 months of 2005 reveals the following facts compared to the corresponding period of 2004:

- decrease of unemployment rate (7.3% as against 8.0%) and of long term unemployment (from 59.7% out of total to 56.5%)
- increase of the employment population in construction and services
- the constant increase of the employment share of private sector (78.8% in the first 9 months of 2005)
- the number of ILO unemployed persons are 718 thou (with a decrease of 81 thou persons against the corresponding period of 2004).

Over the 1999-2004 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 10.3% in 1999 to 9.5% in 2004 for urban areas, and increased from 3.5% in 1999 to 6.2% in 2004 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 2004, the highest ILO unemployment rate was in South-East (9.8%) and Centre Region (9.6%) and the lowest in the North-West (6.5%) and North-East (6.2%) regions).

ILO long-term unemployment (LTU) rate increased from 3.0% in 1999 to 4.7% in 2004. In comparison, in 2004 the EU-25 rate was 4% and 3.3% in EU-15. In Romania, between 1999 and 2004, long term unemployment affected men more than women. Recorded long-term unemployment was higher in the urban rather than rural areas due to under-counting. Youth LTU recorded an increase of 3.1% of the total from 11.2% in 1999, to 14.3% in 2004 and was slightly higher for women. The causes cited for this increase are the irrelevance of the educational qualifications to labour market needs and alternative qualifications programmes proved insufficient.

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, Roma or 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 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. Comparison shows that in 1992, the Roma population represented only 1.8% of the total population. 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.

Poor participation to education significantly reduces their chances of integration in the labour market. To combat this, evening and short-course programmes help address education needs of the groups facing social exclusion, as is the case of the Roma population for which the Ministry of Education and Research is running specialist programmes.

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

In 2002, women accounted for 51.3% of the population. The Human Development Report 2004, prepared by the United Nations Development Programme, ranks Romania 69th in the human development index out of 175 countries. For the gender disparity index, the ranking was 56th 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 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 1999 – 2004, female unemployment fluctuated between 7.7% in 2002 and 6.9% in 2004. This compared to 10% in EU-25 and 8.9% in EU-15. In comparison with female unemployment in the same period, male unemployment was consistently lower by 1.9 – 3.5%. As to the ILO unemployment rate in 2004, for the age group 15-24 years, it attained the value of 22.4% for men, respectively 18.9% for women. For the same age group, as compared to 1999, in 2004 the ILO long-term unemployment rate (6 months and over) increased for women by 0.8% and for men by 4.6%.

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 86% in 2004. Research in 2004 showed that

66.4% of women employed were working in industries, such as food and textiles and had salaries under the gross average salary.

Other specific groups. Ethnic minorities represent about 10.5% of Romania's population. The largest minority group is the Hungarian - 1.4 million people accounting for 6.6% of the country's population, according to the data of the last census (2002).

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 10.0‰ in 2004 and there was a significant increase in the death rate from 10.6 deaths per 1,000 people in 1990, to 11.9‰ in 2004. During 2002-2004, the average life expectancy in Romania was of 71.32 years, with significant male-female differences. By comparison, the EU-15 average life expectancy is of more than 75 years for men and 80 for women.

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. The hospital buildings in Romania are between 50-100 years old, or even older, most of them do not even have earthquake expertise and the general state of the health service is judged to be very poor. Romania lacks state of the art medical equipment, the existing high performance medical equipment accounting only for approximately 50% of that needed.

At the level of 2002, as compared to the situation of the new EU member states, Romania's health infrastructure was deficient, mainly with respect to primary health care units per 100,000 inhabitants, this indicator having a value at 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 5 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.

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.

The 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 Assistance, 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 kms 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).

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.

Citizens do appreciate services delivered by the public administration that are closest to them. Remoteness of Government is a negative factor. The attitude towards public administration is also influenced by public concern about endemic inhibitors like corruption. The index for the perception of corruption in 2005 is 3.008 (compared to the EU-25 average of 6.66 or the EU-15 of 7.73), which placed Romania in 85th position out of 159 countries.

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).

Structural change in local administration has resulted in the local and county councils being the delivery authorities and the mayors the executives. This creates a situation where there is lack of clarity on allocation of responsibilities and financial resources between the two levels. The laws on decentralization, the prefectural institution and local finance are being revised and this will help address some of the major problems unresolved over the years:

- lack of political consensus over goals of decentralization;
- absence of or incomplete local administrations, resources and structures for local development planning and project preparation;
- limited knowledge, awareness, experience and interest on the part of both elected and appointed local officials in strategic, policy and public investment/ development planning and EC procedures to enhance absorption capacity;
- unreformed domestic budgeting system, creating uncertainty over funding streams.

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 will be 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 mechanism 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 implementation commenced. 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 and development poles at national and regional level, increasing the overall accessibility of the territory, developing the infrastructure for the delivery of public goods and services of general interest, 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 3rd 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 appeared as industrial restructuring took effect. Romania's economy is weak when compared internationally with other industrialised Nations. The inter-regional disparities in Romania broadly follow a similar pattern to other EU Member States i.e. most developed region include the capital city and the most underdeveloped regions are the border regions, particularly where the border regions are adjacent to the former socialist countries. The serious weaknesses are caused through under investment and these disadvantages translate into disparities between Regions.

Spatial planning

An important dimension of the programming and implementation process of the Structural and Cohesion Funds is the territorial dimension. For Romania, spatial and land use planning is seen as a prerequisite to sustainable development and integration into the European economic development structures. This will involve the development of centres of growth and support networks, actions to stimulate economic and social development and cooperation to address the gaps between the urban and rural areas.

Up until now, Romania's land and urban planning policy has been somehow neglected but the prospect of EU accession has forced this development process forward. In October 2005, the Romanian Government initiated and approved the 'Strategic concept of spatial development and reintegration into the European spatial structures' (2007-2025). This concept also set out the related institutional framework for delivery. The guiding lines of the spatial development strategic concept 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.

This concept will integrate the actions of the National Development Plan 2007-2013 and the National Strategic Reference Framework; National Spatial Plan; Regional Spatial Plans; Area Spatial Plans (micro-regions) – currently in the initial stage and County Spatial Plans. These integrated planning processes provide a systemic approach to environmental issues, internal accessibility and the connection with the European and international systems. Spatial planning activities in Romania are 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 71/1996 (under revision);
- Section II - **Water**, approved under Law 171/1997;
- Section III - **Protected areas**, approved under Law 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 2006, the sections on **rural space** and **education** will be finalised. Also, new sections, deriving from the Strategic Concept of Spatial Development and reintegration into the European Structures 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 Northeast and Northwest regions. All county spatial plans (CSP) and general urban plans (GUP) for cities, towns and communes have been finalised.

The NSP strategy ensures the harmonization of public objectives and investments that support them on short, medium and long term. For the areas that are confronted with 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.

Regional Disparities

The Regional Development Policy is enshrined in 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 were:

- The increasing development disparities between Bucharest-Ilfov Region and the other regions;
- The unbalanced development between the eastern and the western parts of the country, respectively between North-East, South, South-Muntenia, South West on one hand and West, North-West, and Centre Regions on the other;
- The chronic under-development is concentrated in North-East Region, on the border with Moldavia and in South Region, along the River Danube;
- The 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;
- The massive decline of the small and medium-sized towns, especially of the mono industrial towns, resulting from industrial restructuring
- The low level of attractiveness of the most of the regions;
- The Socio-economic decline of many large urban centres and the diminishing role they have on the development of adjacent areas;
- Insufficient experience in the management of the regional/local development programmes.

The Bucharest-Ilfov Region enjoys a more favourable economic climate and being the Romania's capital has been able to attract economic growth. The Romanian regions nearest to the Western European markets have also led to improved economic growth for those areas. Although the statistical data shows some variations, due to the local geography, the regions in the Northeast, 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 and the inability to attract foreign direct investments (FDI). Table 12 below is a summary of key regional development information.

Table 12

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

-%-

Region	GDP/capita		Unemployment rate (NAE)		FDI/ capita		SME/ capita		Rural population	
	1998	2003	1998	2004	1998	2003	1998	2004	1998	2004
North-East	79.8	72.3	133.6	123.8	15.3	23.7	71.3	77.1	123.9	125
South-East	100.1	85.7	112.5	109.5	42.7	87.2	101.4	111	94.7	98.7
South	85.8	81.2	97.1	117.5	65.5	66.6	77.0	83.1	129.0	130
South-West	90.0	84.7	104.8	119	11.9	28.4	85.9	86.1	120.8	117
West	100.9	112.9	101.9	92.06	99.1	59.2	91.2	124.4	83.8	80.4
North-West	95.5	96.6	84.6	66.7	41.9	53.3	106.5	124.8	104.9	104.7
Centre	105.9	107.2	98.1	123.8	87.7	50.7	101.1	125.2	87.1	88.7

Bucharest-Ilfov	162.2	194.9	47.1	44.4	598.3	430.8	194.1	257.8	24.8	20.8
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Source: Calculation based on Romania's Statistical Yearbook 1999, 2005

The North-East Region is characterized both by its dependence on agriculture and the bordering with Moldova and Ukraine. Similarly, the South Region is to a large extent dependant on agriculture. In the South Region, the Danube has acted as a barrier to cross-border trade. The West, Northwest and Centre Regions attracted more foreign investments due to their proximity to the Western markets and 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, 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.

Up until 2003, Bucharest-Ilfov Region had attracted 54% of the total FDI in Romania 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 owned 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 lacking and creates an environment unattractive to investment examples of this are that 43 school units are without electricity and 2,805 school units are without main water and sewerage facilities. Only 28% of school equipment in rural schools is in a satisfactory state. Over 70% of schools require rehabilitation and in the Northeast region this figure rises to 90.8%, whilst in Bucharest-Ilfov the figure is 33%.

Urban Development

In 2004, the urban population accounted for 54.95% of the total population, placing Romania among the less urbanized countries in Europe. The Romanian urban network comprised 312 towns and cities with a population of 11,895,598 inhabitants. This 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-Ifov 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, the urban population continued to decrease from 12.4 million inhabitants (1995) to 11.9 million inhabitants (2004), a unique process in 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. As a consequence, the 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 and block economic growth process. 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, people have moved to the capital, Bucharest.

Urban employment

Urban employment is characterized by increases in the service sector (54.3% in 2004 as against 49.7% in 1999), the other predominant industries being manufacturing and constructions (41.7% in 2004). A corresponding decline was recorded in agriculture (down to 4% in 2004). Employment rates in urban areas show higher rates for Centre (58.7%), Bucharest-Ifov (50.9%) and the North-West (50.1%), the lowest rate being registered in South-East (45.4%). Unemployment in urban areas is lower in the regions in the North-West Region (6.8%), as well as in Bucharest - Ifov (6.5%).

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 312 towns and cities that the Romanian urban network recorded in 2004, only 205 (66%) were connected to the natural gas network and 150 (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 2004, over 40% of the 25,003 kms 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 (62.2km 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

In July 2004, the population in Romania was 21.7m of which 45.05% were living in rural areas. The rural population is characterised by an ageing population (between 1999 and 2004, those aged 65 and over increased by 6.3% to 18.5% of the rural population), a declining birth rate (evidenced by a decrease in the 0-14 age group by 7.1% between 1999 and 2004), and over dependence on agriculture, particularly subsistence farming. The infrastructure and socio-economic problems are exacerbated by excessive fragmentation of the land (in over 40 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 1999 – 2004, a 0.9% increase in the number of persons with higher education was recorded within the rural area, reaching the level of 2.6%, coupled with a reduction of the number of people with poor education, from 58.7% to 47.8%. In the same period, the rate of persons with secondary school studies increased from 39.6% to 49.6%.

Labour force. Despite its decrease from 73.2% in 1999 to 63.4% in 2004, the share of active population working in agriculture in the rural area still preserves a high level, given the large-scale practice of subsistence agriculture. The overall figures for Romania regarding agriculture follow the same pattern, with 38.1% in 1998 and 31.46% in 2004, a share that is still much higher compared to other countries in the EU.

The contribution of agriculture to the overall GDP of the country has decreased during the last period, from 13.5% in 1998 to 8.9% 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 3.64:1.

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. Since 1999, the structure of occupational activities continuously evolved, resulting in an increased share of persons active in industrial and constructions sectors from 13.1% in 1999 to 19% in 2004 and a 3.9% increase of the share of persons occupied in services sector increasing to 17.5% within the same timeframe.

Of the SMEs in Romania, 20.3% are operating in rural areas. The SMEs in the rural areas operating in the non-agricultural sectors represent 16% of the total non agricultural SMEs and are mainly operating in handicraft production, rural tourism, agro tourism, agricultural raw materials processing, transport etc. These businesses 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. During 1998-2003, developments in tourism infrastructure provided a 5.8 times increase in the number of tourist units, generating 28,000 accommodation places. The territorial distribution of the tourism and agro-tourism guesthouses indicates a development need in all the development areas. There is a greater concentration of the guesthouses to be found in the Centre, Northeast and Northwest 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 unemployment rate in the rural areas was 1.5 times lower in 2004 than in urban areas, due to 'hidden' unemployment and reliance on subsistence agriculture. In the same year, the unemployed in the rural areas made up for 35.3% of the total unemployed in Romania.

Rural infrastructure. The number of dwellings in the rural area increased from 3,688 thousand in 1998, to 3,867 thousand in 2003. 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 14,452.8 km in 1998 to 18,428,3 km in 2003 (the 27.5% increase is greater than the national average of 15.4%, and than the 7.3% increase in the urban area, respectively). In 2003, 43.6% of the total length thereof was located in the rural area and 56.4% in the urban area. The difference between the rural and the urban area is also very large in terms of sewerage infrastructure, with 93.2% of the pipes length being located in the towns in 2003 and only 6.8% in the villages.

The quality of the road infrastructure is also very poor with only 10.2% of the county and village roads modernized in 2003, in spite of the relatively uniform distribution of the roads across the country (mainly related to county roads). The same is valid for telecommunication infrastructure, as well as social and health infrastructure.

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. The number of the medical units in this area is also decreasing.

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.

European Territorial Co-operation

Romania's social and economic development and the integration of its border regions are weak in comparison with other European regions. Romania was declared eligible country under the cross-border cooperation programs with the coming into force of the EC Regulation No. 2760/98. The eligible NUTS III areas are 7 counties on the Romanian - Bulgarian border, and 4 counties on Romanian - Hungarian border.

Cross Border Co-operation

Romania will be involved in the following territorial cooperation cross-border co-operation programmes in 2007 to 2013:

- internal borders of the European Union: with Hungary and Bulgaria;
- external borders of the European Union: under the Instrument for Pre-Accession with Serbia & Montenegro, under the European Neighbourhood and Partnership Instrument with Ukraine and Moldova.

The Romanian – Bulgarian Co-operation

The border between the two countries is 631.3 km, the majority being represented by the Danube river (470 km), while 22.2 km of the border is on the Black Sea. The river border raises the major problem of improving accessibility, as currently there is only the bridge in the Giurgiu – Ruse area.

Bilateral relationship between Romanian and Bulgaria has led to creating new fixed links - a new bridge in the area Calafat–Vidin. The spatial implications of the bridge's location will offer opportunities to develop the area around (the area's urbanization, development of new economic activities, tourism, improvement of the quality of the natural environment, protection of the built heritage).

The Romanian – Hungarian Co-operation

The border between the two countries is 448 km long, out of which 415.8 are land borders and 32.2 km is made up of rivers.

The cooperation programme is currently integrated in the Hungarian-Serbian programme and forms a trilateral programme. For the next period, this border will revert to a bilateral programme as a result of the forthcoming accession of Romanian to the EU.

The 2004-2006 Neighbourhood Programmes have been launched along the external borders of the future enlarged European Union based on the future ENPI (The European Neighbourhood and Partnership Instrument) aimed at supporting the cross-border, transactional and interregional cooperation whose implementation will start, based on the Commission's press release from July 2003 entitled "Opening the Road toward the New Instrument on Neighbourhood", in 2007. 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 Co-operation

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.

This is characterised by urban areas in the border regions in both countries. The weak points insofar as the relationship, are marked by the important impacts that the bombing during the war in the Republic of Yugoslavia had on the technical infrastructure on the territory of Serbia and Montenegro, as well as by a lack of inter-institutional coordination.

The Romanian - Moldavian Co-operation

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 shared 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 ecosystems and the landscape, as well as for the prevention of the natural risks (floods, landslides).

From a transport infrastructure point of view, the need is to improve its quality, especially that of the railway infrastructure which requires solving the problem of the differences in gauge of the track.

The Romanian – Ukrainian Co-operation

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

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.

Transnational Co-operation Programmes

Romania will be entirely eligible under CADSES South East transnational cooperation programme, next to other seven member states (Austria, Bulgaria, Greece, Italy, Slovenia, Slovakia and Hungary). The main fields of intervention under this strand of the ETC objective include: innovation, environment, accessibility and sustainable urban development.

Interregional Co-operation

This ETC strand envisages supporting the exchange of information and best practices with regard to urban development, modernizing the public services, social inclusion and entrepreneurship and also to elaborate studies and correlate data in common fields of interest.

2. SWOT Analysis

STRENGTHS	WEAKNESSES
National	National
Government fiscal policy to improve business and stimulate growth Increased macro economic stability High annual growth rates of GDP Functioning market economy Stable national currency and tight monetary policy. National legislation harmonised with EU Acquis	Economic structure out of balance with a modern market economy Unstable legal framework for economic development High inflation rate compared to the EU average Unfavourable demographic trend Development disparities between Bucharest and the rest of the Country Administrative capacity insufficiently developed
Infrastructure	Infrastructure
Favourable geographical location as a gateway to Europe Balanced transport network Rich natural resources Energy sources	Weak road and railway links with EU networks Insufficient and degraded transport infrastructure Poor inter-regional transport and lack of intermodality connections Low level of road traffic safety Underdeveloped basic facilities (water, sewerage, and waste disposal) Poor environmental management Low environmental awareness Inefficient energy usage
Competitiveness	Competitiveness
Selected successful manufacturing sectors Large and expanding consumer market Short term competitive wage advantage in comparison with EU Established industrial and technology parks Significant tourism potential (cultural heritage and natural resources) ICT sector developing rapidly	Concentration in low added value sectors Low productivity Weak and under capitalised SME base Limited entrepreneurial culture Poor access to business finance and services Under resourced business infrastructure Undemanding home consumer market Old technology / high costs of non-labour inputs Low level of R&D and innovation with weak connections to market need Under investment in R&D Weak tourism infrastructure and poor marketing Competitiveness gap between urban and rural areas Under developed ICT infrastructure and services
Human Resources	Human Resources
Large, low cost labour force with good initial education High levels of qualified ICT and engineers workers Developed network of schools and universities Increasing number of students entering higher education Legal framework in place to promote employment and social inclusion	High levels of early school leaving and drop out Obsolete skills, low adaptability and poor LLL Mis-match between education and labour supply and demand Poverty/weak social fluidity Low mobility of labour force Employment in the black economy High employment in agriculture Significant youth and adult long term unemployment

	<p>Problems of social exclusion and discrimination</p> <p>Poor infrastructure and quality of equipment in education and training</p> <p>Low quality of health and social services especially in small towns and rural areas</p>
OPPORTUNITIES	THREATS
National	National
<p>EU accession</p> <p>Seventh largest EU Member State</p> <p>Structural changes in the whole economy fuelled by new sources of investment including SCF</p> <p>Urgency/acceptance of need for change</p>	<p>Unfavourable lending policies for enterprises</p> <p>High levels of taxation for businesses</p> <p>Black economy</p> <p>Corruption or the perceived threat of corruption</p> <p>Low absorption of EU funds</p> <p>Rapid increase in regional development disparities</p>
Infrastructure	Infrastructure
<p>Connection to EU networks</p> <p>Attractive locations to invest and work</p> <p>Improved National transport and energy infrastructure</p> <p>Potential gas and energy hub</p> <p>Renewable energy sources</p>	<p>Increased transport costs because of the under development in the transport infrastructure</p> <p>Potential degradation of infrastructure</p> <p>Infrastructure investment potentially affecting the environment</p> <p>Reduced efficiency and safety of the energy supply network</p> <p>Risk of increased energy dependence on external sources</p> <p>Climate change</p>
Competitiveness	Competitiveness
<p>Attractive location for Foreign Direct Investment</p> <p>Privatisation of markets and modernisation of business models</p> <p>Developing business support infrastructure</p> <p>Increased use of electronic services</p> <p>Increased domestic consumption</p> <p>Increased export potential</p> <p>Rising productivity</p> <p>ICT development</p> <p>RDI opportunities</p> <p>Niche tourist destinations</p> <p>Development of business-to-business and financial services</p>	<p>Increased exposure to global markets</p> <p>Periods of stagnation or economic decline in European and global markets</p> <p>Migration of current sectors to lower costs locations</p> <p>Reinforcement of position and image as a low value-added economy</p> <p>Increased competition within a Single Market</p> <p>Administrative barriers to business</p> <p>Weak financial management at company level</p>
Human Resources	Human Resources
<p>Increased education and employment opportunities</p> <p>Increase of labour force mobility within EU market</p>	<p>Migration of better educated workers</p> <p>Emigration of young and well-qualified people</p> <p>Ageing of population</p>

3. Strategy

3.1. Strategic Vision

A competitive, dynamic and prosperous Romania

GLOBAL OBJECTIVE

In 2004, Romania's GDP per capita was 31% 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 objective 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 Objectives: ***To reduce the social and economic development disparities between Romania and the EU Member States.***

To reduce the disparities with the EU by generating an additional 10% increase in Romania's GDP by 2015.

The grim 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 targets. The change will be rapid and lead to a reduction in the social and economic disparities between Romania and the EU member states.

DEFINING THE STRATEGIC VISION

Romania is faced with its most important development opportunity in generations as it approaches membership of the European Union and this will mean entering 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 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 and the programming for 2007 to 2013. This strategic planning draws together the elements of the sectoral policies and the regional development policy, including the view of 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.

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 will be at the core of NRP.

As required under the draft General Regulation for the Structural and Cohesion Funds, 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) and despite different work timetables (the first draft of NRP should be developed by June 2006, with the aim of formally submitting the final document to the European Commission in October 2006). Achievement of 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.

The Structural Instruments are the most important resource that will help Romania embrace changes and face the challenges. The task is to orient all sectors of society towards sustainable economic growth. This includes Government, 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;
- infrastructure investment to improve **accessibility**;
- **effective public and private governance**;
- **sustainable development and social inclusion**;
- **improving the regional economies**.

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

- ***develop basic infrastructure to European standards;***
- ***increase 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 implementation of these priorities through the sectoral and regional operational programmes aims to achieve the highest impact of the Structural and Cohesion Funds and will ***promote a balanced territorial development*** and decreasing Regional disparities, as a horizontal 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 will target territorial coherence and will embrace the Regional Development Strategy, which aims to stop and potentially reverse the trend of widening regional disparities. This reflects the Regional Development Policy, builds on the concept of decentralisation and takes into account the EU Community Strategic Guidelines. The Regional Development Strategy identifies the following key issues that will be addressed:

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

The Development Strategies of the 8 Regions give increased focus and support to the most deprived Regions. 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 get proportionately more funds, to help increase regional competitiveness, support the development of Regional economies and rehabilitate urban centres.

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

Thematic Priorities

The challenges that Romania faces in economic development terms are enormous. In arriving at the allocations for funding, the Romanian Government considered a range of options and balanced the investment needs and the creation of jobs in the short, medium and long term. These considerations led to following indicative financial weightings for the NSRF Thematic Priorities:

- | | |
|--|-------|
| ▪ Develop Basic Infrastructure to European Standards | - 60% |
| ▪ Increase 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 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 and air transport**

investments are high cost investment priorities but will be the foundations of Romania's **sustainable economic growth**.

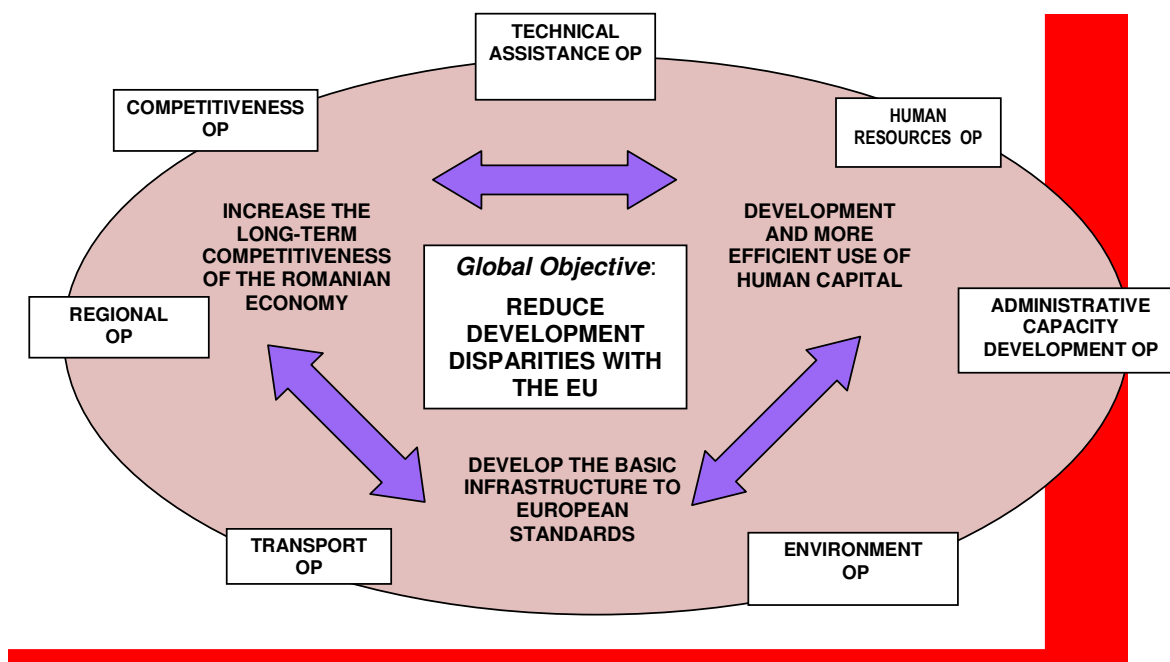
- The **investment in human resource development** is essential to increase **economic competitiveness**.
- The **investment in infrastructure** – road, rail and the River Danube supports the development of the **EU TEN-T corridors**.
- Redressing the **Regional disparities** and building balanced development and growth between rural and urban areas.

Close co-operation with the Ministry of Agriculture, Forestry 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 6 below shows the relations between the Global Objective, the NSRF Thematic Priorities and the Operational Programmes through which 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 two cross cutting themes, **Building an Effective Administrative Capacity and Promoting Balanced Territorial Development** support the delivery of the NSRF and their implementation and impact will relate to all Operational Programmes and essential to Romania's economic development.

Diagram 6

National Strategic Reference Framework - Strategic links



Evaluation will be conducted on these assumptions and the relative weighting and the results will influence future Government investment policies in the coming programming periods.

The Role of the Social Partners

Traditionally, the role of the social partners has not been recognised in economic development in Romania. This new and widening partnership concept will require capacity building. These actions are foreseen in a range of operations across the Operational Programmes. It is recognised that the social partners can have an important role to play in socio – economic development and their active participation in programme delivery will be encouraged.

Social partners could support all programmes under NSRF but the Competitiveness, Human Resource Development, Regional, Environment and Administrative Capacity OPs are the areas where most activity is likely and it is recognised that capacity building will be important to recognise the full participation and potential.

3.2. Thematic Priorities

Develop 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 developments will contribute to and complement the wider socio-economic development in a sustainable way 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 (TEN-T).

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 take 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 network will be the key objective for the period 2007 to 2013. The integration of the national transport strategy with that of the European Commission linked to the development of the TEN-T transport corridors provides for 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. In addition, the development of connectivity between the transport modes will promote a competitive business 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 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:

Roads

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 network 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 contribute to the efficiency of business, reduce regional disparities and shorten journey times, improved safety all of which will aid cost effectiveness. The modernisation of the county and local roads will play an important part of the strategy and will aid both rural and urban areas (the communal roads will be supported by EAFRD). Improved county and local roads will help to build sustainable communities and increase co-operation between regions, increase workforce mobility and support developing regional labour markets through inter-connectivity between regions and between localities.

Railways

The strategy for the modernization and development of TEN-T railway network aims to make the TEN-T railway infrastructure inter-operable and improve the quality of rail service 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, intermodality of services and general upgrading the quality of the rail services to 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 develop 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 Alba - Midia Năvodari Canal, as well as continuing the works on the Călărași -

Brăila portion 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 those outside the TEN-T, with a view to increasing efficiency and the attractiveness for users and increasing air traffic usage. This will provide links to the EU and international markets and centres. The Romanian Air Transport Infrastructure Master Plan 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 intermodality 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 intermodality 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 European Strategy for Sustainable Development (Gothenburg 2001). Actions will improve safety standards, reduce the adverse effects on the environment and 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.

Strengthen synergies between environmental protection and growth

Romania promotes sustainable development in line with the Cardiff conclusions of the European Council (1998), the European Strategy for Sustainable Development (Gothenburg 2001), the 6th 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 Act No. 137/1995 (amendments for water and aquatic eco-systems protection, atmosphere protection), Water Act No. 107/1996 (with amendments and additions to preserve and protect water resources and provide drinking water), 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 waste water infrastructure to provide adequate water and sewerage services.

The strategy will focus on developing large-scale integrated projects, to optimise investment and operating costs. Communities of 10,000 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 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.

Improved waste management

The actions will improve the waste management, increase the connection rate to quality public sanitation services, at affordable tariffs, reduce the quantity of waste landfill and increase the quantity of recycled and utilized waste. Another aim will be to reduce the old ecological burden.

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 policy will be 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.

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 brown field and contaminated sites (former industrial) and the redundant/closed landfill sites will be reclaimed and will comply with EC standards. The conversion of these sites into productive land will enhance economic competitiveness and the rehabilitation of the most contaminated sites in the regions 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.

Improved air quality

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 emissions - sulphur dioxide, nitrogen oxides and particulates; and for installations under the Directive 2001/80.

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 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 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. Where no alternatives for traditional fuels are available, the main aim is to promote a rational use of the non-renewable energy sources.

Particular attention will be given to activities for upgrading large combustion plants that target at significant reduction of SO₂, NO_x and dust emissions, thus contributing to implementation of air related Directives for which Romania has transition periods.

Nature protection

Romania will support biodiversity and nature conservation by actions aimed at development of management framework for protected areas, particularly 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.

The National Agency for Protected Natural Areas and Biodiversity Conservation will be established in 2006 and it will need additional support to strengthen the capacity required to deliver the strategy. It will work in co-ordination with other agencies to deliver integrated measures to protect the natural environment.

The strategy will involve the conservation of biological diversity, the protection of natural habitats for species of fauna, flora, birds and animals. This policy will provide sustainable management of the protected areas by creating and implementing management plans. It will provide training, research and capacity building that are linked to enforcement and creates systems for monitoring the protected natural habitats and wild species, as well as ecological reconstruction of territories included in the Natura 2000.

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 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 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. The master plan will be completed by the end of 2006.

The efficient use of energy

Romania intends to reduce the energy usage by increasing the efficiency over the whole supply chain – natural resources, production, transport and distribution of electricity and heat. Taking into account the estimated increase of energy consumption in Romania and the fact that the equipment using fossil fuels is quite old, there is a need for rehabilitation and modernization of the existing plants and building new production capacities with a longer lifetime than the rehabilitated ones. 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 GD for approving the National Energy Policy Document 2005-2008
- The Strategy for the capitalization of renewable energy resources, 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.

The expansion and modernisation of the energy distribution grids will lead to the creation of the necessary infrastructure for developing economic activities and will lead to a decrease in energy losses, supply failure and will help avoid crisis situations. The purpose of the strategy will be to meet the economic performances and quality standards required by electricity consumers and will be achieved through investment/modernisation of production plants and distribution networks, as well as through investment in district heating systems, the extension of existing networks, reduction of flue gas and powder emissions, improved safety and inter-connection with European networks (electricity, natural gas and oil).

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 development of the RES 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 produced from renewable resources, Romania's target is even more ambitious (33% of the gross national energy consumption should be produced from renewable resources). In order to achieve this, target actions must be taken to increase the use of RES. This will demand investment in new capacities and technology.

The energy sector is one of the main polluters in economy and needs substantial financial resources for environmental protection. In this respect, it is necessary to introduce modern technologies for the reduction of gas emissions, to provide power and heating plants with gas desulphuration installations, to install electro filters for reducing powder emissions and to replace existing burners with new ones that could reduce the NOx emissions.

Increase 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” - COM (2002), Integrated Guidelines for Growth and Jobs 2005-2008 and the “Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines, 2007-2013”.

Support for 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 diminish disparities between the Country's Regions**. These actions will strengthen the regional and local business environment with the aim to realise the Regions' fullest potential. This will be achieved by increasing the competitiveness of local and regional economies, improving the business infrastructure, increasing tourism, improving the conditions for businesses to develop and stimulating job creation to improve co-operation at the regional level. These actions will complement the various strategic interventions by addressing the local and regional needs and 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 will not be neglected.

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 and industrial 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 industrial 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.

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.

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, production and RDI, 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 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. Forming 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.

In this respect, support will be granted for developing the infrastructure and the administrative services in the business incubators, including hard and soft investments, exchange of best practices, supporting mentoring and coaching activities, know how transfer and seminars. 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 free the market and create more take up. At the same time, industrial parks, business parks and technological parks will be created or developed with a regional focus and based on geographical concentration. The implementation will be based on a consistent zoning strategy, bringing the added advantage of geographic positioning also from the point of view of access to transport ways and availability of work force.

Rehabilitation of industrial sites will provide the infrastructure needed for business growth. This work will involve repairing sewerage systems, modernizing the infrastructure (buildings, internal roads, water supply systems, electricity, and gas in order to transform these in adequate locations for business).

Actions will be taken to support businesses through the provision of modern infrastructure including ICT technology and broadband, which will reinforce the interventions and improve business efficiency. Also in the rural areas, actions will assist the rehabilitation and extension of the local road systems, services and utilities, the renovation of the old buildings to provide usable business and training units of varying sizes and to create an environment where businesses can establish themselves and flourish.

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 accredited 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 & 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 certification of quality, consumer safety and protection, environmental and quality certification/ internationally voluntary 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 open and global markets. The strategy will promote the transition to become a knowledge based economy and to occupy 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 aim is to support companies through a range of access to finance measures such as co-guarantee functions of the National Credit Guarantee Fund for SMEs. This will be broadened to include the establishment of local guarantee funds and a range of innovative financial instruments such

as risk capital schemes and venture capital funds. A gap analysis which will be carried out under the JEREMIE initiative will assist in choosing the most efficient innovative ways to support SMEs' access to finance in Romania.

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, the business managers' approaches 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.

Research, Technological Development and Innovation

Romania will create a healthy environment for research, the 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 3% of GDP.

Research and Development - 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.

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.

The participation of Romania in the European R&D project network will be promoted, targeting the commercialisation of research and innovation and the provision of an adequate response to an increasingly demanding market. The strategy will help to develop knowledge management systems in businesses in relation to processes, products and markets.

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 cluster development, assist technology transfer and support job creation.

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 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, "broadband" services to areas where the market has failed to reach will also be essential to ensure businesses are effectively 'connected'. The availability of communication platforms and the extension of the broadband networks, as well as fibre optic developments and the dissemination of integrated IT systems are pre-requisites.

The Strategy will seek to systematically stimulate measures for technological innovation and use, internet access and technology transfer through the improvement of and wider use of ICT in schools, SMEs, establish tele-centres (info centres) network in the areas of market failure, ensuring access for vulnerable groups, Roma and ethnic minorities. These services will require access to broadband connections.

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.

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 and e-health. Increasing the security of electronic communication networks will help eliminate fraud and solutions for the promotion of intelligent cards and contribute to the development of the e-business and e-government objectives.

Tourism

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

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

The promotion of tourist 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 tourist 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 tourist circulation is the Internet, as a means of promoting and booking tourist services (e-tourism).

Development of a national network of tourist information centres, improved customer service and promotion centres (creation of centres – building, IT acquisition, software, databases, integrated system for data collection with on-line access) detail the actions.

Family businesses and micro enterprises will be at the heart of this revival and build on the production of goods (handicrafts, souvenirs) and services (guide system, folk spectacles). 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, spas, 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 global economy. The strategy is in line with the *Community Strategic Guidelines for Cohesion 2007-2013*, the *Lisbon Strategy*, the *European Employment Strategy* and the *Integrated Guidelines for Growth and Jobs 2005-2008*. 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 (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 and minority 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 in this work particularly amongst vulnerable groups, Roma community or 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*, 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 Continuous Vocational Training on short and medium term 2005 – 2010
- JAP and the Progress Reports
- Strategy for decentralization of education (draft)
- 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, Roma and ethnic minorities and promote social inclusion, are as follows:

- 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)
- National Strategy for improving the Roma situation (GD No.430/2001)
- 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 promotion of life long learning and the creation of a modern, entrepreneurial, flexible, adaptable and inclusive labour market; the modernization of Romanian educational, training and employment systems to meet the demands of the knowledge economy.

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.

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 aid the 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 development and implementation of new standards, tools and mechanisms in education and development of staff for effective governance and co-operation between schools, universities and education management will be important.

The strategy will target the development of teachers 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.

The promotion of the **education/research business partnerships** 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 TVET represents a key objective of the Romanian mid term 2005-2010 Strategy for CVT. The provision of quality initial TVET 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 these issues 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.

Counselling and Guidance

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 assistance and **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 his 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.

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 and combating unemployment and promoting 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.

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, start up in business and 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 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 targets for 2010 will be 12.5% 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, 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. Special attention will be paid to services that provide support and actions to promote social inclusion. The activities developed in this area will be focused on supporting active labour market measures and policies, equality of opportunity, 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. The strategy is to engage citizens in initiatives and partnerships to provide training programmes and social services. Increasing individuals' confidence, awareness of the existing situation and the opportunities available will assist their entry or re-entry into employment.

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 service centres 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, ethnic minorities and Roma 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.

Supporting specific programmes in this respect as well as designing awareness campaigns will also promote equality of opportunity. The measures proposed will improve the employment opportunities of women through interventions on both the labour supply and the labour demand side. The employability of women will be improved and new jobs will be created through the extension of care services. The enhancement of these services also serves for a better exploitation of the employment potential of the service sector.

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 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.

Actions will also be taken towards investment in the national network for emergency and public safety services. The modernisation of the infrastructure for regional social services, local health units and infrastructure will be supported through the provision of new technology equipment and improved 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 improved performance in socio-economic performance needs 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 the 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 change.

At the heart of strategy will be good governance. 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 Government at the highest level to operate with transparency, consensus and responsiveness, accountability, effectiveness and efficiency, equity and following the rule of law. Highly professional staff will be needed to produce relationships between various players and effective institutional and administrative frameworks developed. Unified and complex actions are needed in this respect.

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 aim is to strengthen policy formulation, planning and the implementation cycle. These actions target to provide high civil servants and management grades with the knowledge and tools to enhance team performance within ministries/institutions. They also cater for the implementation of modern human resource methods to enhance the individual work performance of public servants.

The interventions will target the maintenance of reforms and will provide continuous training for horizontal themes to the civil servants in the central administration and support inter-institutional collaboration and linkages among the ministries and other organisations involved in the sectoral strategies. This work will target the key players responsible for socio economic development, legal and fiscal policies.

At the level of local administration – counties and sub-county organisations, the strategy is to concentrate actions on horizontal capacity building and in-depth implementation support for improving the efficiency, quality of service delivery and good governance. A decentralised / deconcentrated administration is considered particularly appropriate for Romania due to the size, dispersion and large number of small communities (2,848 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.

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.

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 fund absorptions, with horizontal activities aiming at general public awareness on the role of the Community support and an overview understanding of the interventions of structural instruments.

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 Public Finance), ensures the entire training process for the management of structural instruments will be effectively coordinated 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.

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.

The NSRF will contribute to stopping and hopefully reversing the widening trend of regional development disparities in line with the National Regional Development and Regional Strategies of the eight NUTS II Regions, by accelerating economic growth in those lagging behind regions. The aim is that by 2015 the ratio between the most and the less developed Regions in terms of GDP per capita will not increase.

The strategy will address the regional infrastructure and human resource needs and will be aimed at those areas and localities that have development potential. Actions will focus on urban areas that could act as engines of economic growth for regions and sub-regions and rural areas. This will be realized through prioritising actions in accordance with the regional socio-economic analyses. The aim is important to further facilitate the development of locally integrated development projects fostering links among the various counties of the same region and better target policy delivery in every region and locality.

The NSRF is correlated with Romania's 2007-2025 Strategic Concept of Spatial Development and Reintegration in the European Spatial Structures. 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 following specific objectives are contained in the strategic objective:

- connection to the European and intercontinental network of the territorial centres and corridors
- developing the urban network to ensure a more balanced regional development
- promotion of a balance of services and opportunities between urban and rural communities
- enhancing the natural and cultural heritage.

These objectives are in line with the EU priority action areas included in the Community Strategic Guidelines for Cohesion Policy (Growth & Jobs) 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.

The NSRF strategy will target development of existing or emerging corridors/ poles. 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.

Territorial Cohesion

The balanced development of all regions will be promoted through an integrated approach that will embrace the principles of sustainable development and equality of opportunity. It will be based on a combination of public investments in local infrastructure, active policies to stimulate business activities and support human resource development and work in the following areas:

- Improvement the regional and local public infrastructure
- Strengthening of the regional and local business environment
- Regional and Local Tourism Development
- Sustainable Urban Development
- Promotion of territorial cooperation

Through the combined contributions of ERDF, Cohesion Fund and ESF dispersed through the Regional and Sectoral Operational Programmes, the strategy aims to reduce the regional disparities, with actions both in the rural and urban areas. In order to arrest the deepening of the disparities between the country's regions and foster a balanced development of the country as a whole, the necessary conditions to speed growth in the regions lagging behind will be created.

The aim is to promote balanced territorial development by creating conditions for diminishing inter and intra-regional disparities, stimulating the areas and towns lagging behind, as well as the ones with economic growth potential. The strategy will concentrate investment and link physical and environmental renovation activities, with actions to stimulate competitiveness, generate employment, social development and the integration of local and ethnic groups in the projects.

European experience has shown that urban regeneration requires an integrated approach to be successful. Investment in sustainable urban development will increase the role of urban centres in regional and local economic development, through the regeneration and revitalisation of the small and medium sized towns and/or parts of large cities.

Regional Disparities

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 co-ordination of this strategy will rest with National Government but with some devolved responsibilities being delegated through regional coordination committees.

The strategy will address regional disparities in several ways and different components will be addressed through the ROP and SOPs and draw on all the Structural Instruments. The NDP justified balanced regional development and the NSRF strategy aims to improve the overall attractiveness of Regions, through creating more balanced distributed economic opportunities and fighting social exclusion. This will include investment in transport, investment in the social and business infrastructure, the support for improved adaptability of the labour force, life long learning, education and training for local communities and the development of integrated tourist and cultural assets. Combating social exclusion will be horizontal element of the strategy. These actions will aim to arrest economic decline and the 'decoupling' of some Regions, particularly those areas that were large mono-industrial centres and have been affected by industrial restructuring.

In order to address the specific problems of regional development an indicative allocation of resources will be made to the development Regions under some of the OPs e.g. ROP, SOP HRD. The strategy for the allocation will be based on transparent and objective criteria, such as population size, income, unemployment, and level of infrastructure endowment. Objective criteria will be provided for the selection of urban areas in need of special support. The selection of specific priority areas will be based on the recommendations formulated by local authorities in the framework of regional partnerships created under the coordination of the Regional Development Agencies.

Coupled with the economic strands of the strategy will be actions that will support further administrative decentralization and investment in planning and management capacity building that are linked to improvements in public services that aid economic development.

Regional 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 roads, telecommunications, water and sewerage networks, public lighting, educational facilities, schools, kinder gardens, libraries, health services and hospitals.

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 move to decentralized administration and the responsibilities of local government have increased. To the traditional services of water, wastewater, solid waste, district heating and local transport have been added new responsibilities in education, health and social services. Whilst welcoming the subsidiarity principle, the need is to develop the local government capacity to manage public services. The strategy to support this public sector reform 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 Regional strategy for investment 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.

Tourism offers Romania significant growth potential and the strategy is to provide effective marketing and improved Regional tourist 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. These sites also produce unhealthy conditions and their rehabilitation will be beneficial, reduce social distress and improve living conditions.

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 demand existing and increased 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 growth and create new jobs.

Sustainable Urban development

Romania's cities are of strategic importance to the country and provide the concentration of economic and cultural activities and lead investment. The Regional cities provide the stimulation for wider Regional Development and ensuring their physical regeneration, enhancement of the quality of environment, improvement of social services will stimulate economic growth and support wider regeneration. Naturally, populations are concentrated in the cities and therefore provide important transport nodes.

The deterioration of a significant part of the country's rich urban heritage requires the implementation of methods aimed at regeneration and preservation. This area of operations will focus on creating and enhancing tourist attractions, conference centre, social and economic infrastructures by refurbishing and consolidating abandoned buildings. The quality of life in urban centres is affected by the lack of green spaces. European standards set a minimum of 5 square meters per inhabitant. Actions will include the provision of social infrastructure, sports facilities. All the beneficiaries will have to develop urban strategies in compliance with National Spatial Planning and Environment National Strategy.

Previous experiences (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 combine 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.

Regional Development policies aim to support interventions in the urban areas revitalise the local economies and create new jobs. The regeneration will focus on small and medium-size towns or parts of large cities. Integrated projects based on the urban master plan through local partnerships will be required.

Industrial restructuring forced the closure of 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 will be opened up for business investment. This will include incubator units, business start-ups, commercial co-operatives and business associations in the urban action zones. Increasing security and preventing crimes, i.e. involving residents in neighbourhood actions, closed circuit TV surveillance and counselling on security and protection against crime.

Support will be offered to those activities aimed at easing decongestion, supporting urban public transport and protecting the environment adding to the quality of life.

Involvement of citizens and local players in the designing, implementing and monitoring of the programmes is a precondition for a better implementation of the urban regeneration programmes. Strong partnerships within local communities make the programmes more effective and ensure they are better targeted to local needs. Investments in cultural, sports and leisure amenities and facilities will 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. 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 will also help to overcome scepticism and ensure local inhabitants are involved in the initiatives.

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 1.7ha
- 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 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 view of the strategy is also in line with the objective of the EU, of reducing the development disparities between the EU regions and, in the same manner, of the differences between rural and urban areas.

Actions will target answering the needs of the country development in terms of improving the infrastructure, as well as to address the structural problems in the field. 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.

The strategy will be supported through the interventions of the Structural Instruments and the European Agricultural Fund for Rural Development (EAFRD) and European Fisheries Fund (EFF). Complementarity between the interventions of the funds will be assured during implementation (more details are provided in the section "Implementation and complementarity"), with a view to providing integrated territorial coverage and targeting a balanced and sustainable development. Synergies between the objectives of the funds are aimed in order to provide an increased rate of economic, social and environment attractiveness of the rural area.

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.

The environmental management and nature protection will also be a priority, especially for rural areas. The funds will contribute to the preservation of the valuable heritage of the Danube Delta by taking the necessary protection measures and mobilizing producers and researches to reach the objectives of the Gothenburg Conference and assure protection of the specific habitats and species.

Balanced development and good management will be supported in the areas where fishing activities take place. The development of local EFF initiatives that complement ERDF and ESF will be financed and implemented with the support of Coastal Action Groups. These objectives will need to take into account:

- the demand of leisure time fishing, by organizing fishing tournaments in relation to the fish farming units.
- the demand for ecotourism, especially in the Danube Delta.

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. Taking into account Romania's geographic 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 strategy will focus the resources as follows:

Cross-border Cooperation

The strategy for this strand will focus on the following actions:

- to develop physical infrastructure systems (improve the transport infrastructure, the information and communication networks and services, 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, 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 (flood prevention, land-slides, land erosion, create natural and technological warning and control systems).

The cross-border cooperation with Serbia and Montenegro, Ukraine and Moldova is currently under development, as these will be the future external EU borders, representing 60% of the length of Romania's land borders that involves 12 counties out of the 19 border counties.

The institutional structure for the cross-border cooperation management, and the managing authorities for the programmes with the Republic of Moldova, Ukraine, Serbia and Montenegro, will be located in Romania. The strategy for this work 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

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 strategy for this strand will focus on the following actions:

- to support the process of exchanging information and best practices with regard to urban development, modernizing the public services, social inclusion, and entrepreneurship;
- to undertake studies and correlation of data in common fields of interest.

4. Outline of the Operational Programmes under the Convergence Objective

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 Co-operation Objective funding. The CBC programming documents are expected to be prepared as first drafts by June 2006. The draft Transnational Programme for the South-East Europe space will be prepared later in the year.

4.1. Transport Operational Programme

The global objective of the Transport OP 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.

Priority axis 1: Modernization and development of TEN-T priority axes

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 7) and on upgrading rail infrastructure with a view to its inter-operability (TEN-T Priority 22). Special focus will be given to inland water transport (TEN-T Priority 18).

Priority axis 2: Modernization and development of national transport infrastructure outside the TEN-T priority axes

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 SOP-T will take full account of other OPs and will avoid overlaps with their operations.

Priority axis 3: Upgrade the railway passenger rolling stock on the national and TEN-T railway networks

Objective: This Priority axis aims at promoting appropriate balance among modes of transport. It aims at faster, safer and higher quality services at inter-operable European standards for

domestic and international rail passengers by modernizing the railway rolling stock thus allowing rail to compete effectively with the growing road passenger transport.

This objective is part of the overall effort to revitalize the railways for the balancing of modes objective of the EC White paper –European transport policy for 2010.

Priority axis 4: Sustainable development of the transport sector

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 European Strategy for Sustainable Development (Gothenburg 2001). It will promote increased levels of safety, minimize adverse effects on the environment as well as promote inter-modal and combined transport.

Priority axis 5: Technical Assistance

Table 13a

Contribution of Transport OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Modernization and development of TEN-T priority axes</i>	♦	♦			♦
Priority Axis 2: <i>Modernization and development of the national transport infrastructure outside the TEN-T priority axes</i>	♦	♦			♦
Priority Axis 3: <i>Upgrade the railway passenger rolling stock on the national and TEN-T railway networks</i>	♦		♦		♦
Priority Axis 4: <i>Sustainable development of the transport sector</i>	♦				
Priority Axis 5: <i>Technical Assistance</i>	♦			♦	

4.2. Environment Operational Programme

The global objective of the Environment Operational Programme 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 two long-term goals:

- Ensuring general access to basic public utilities
- Improving the environmental quality.

Priority Axis 1 - Extension and modernization of water and wastewater infrastructure

Objectives:

- To provide adequate water and sewerage services, at accessible tariffs
- To provide adequate drinking water quality in all urban areas
- To improve the purity of watercourses
- To improve the level of WWTP sludge management

Priority Axis 2 - Development of integrated waste management systems and rehabilitation of old ecological burdens

Objectives:

- To increase the connection rate to public sanitation services of adequate quality and at affordable tariffs
- To reduce the quantity of waste deposited in the landfills
- To increase the quantity of recycled and reused waste
- To reduce the number of old ecological burdens.

Priority Axis 3 - Improvement of municipal heating systems in selected priority areas

Objectives:

- To reduce pollutant emissions from district heating plants
- 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

Objective:

- To conserve biological diversity, of natural habitats, wild species of fauna and flora
- To ensure sustainable management of protected areas

Priority Axis 5 - Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas

Objectives:

- To contribute to a sustainable flood management in most vulnerable areas
- To ensure Black Sea shore protection and rehabilitation.

Priority Axis 6 – Technical Assistance to support implementation of the OP

Table 13b

Contribution of Environment OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Extension and modernization of water and waste water infrastructure</i>	♦	♦			♦
Priority Axis 2: <i>Development of integrated waste management systems and reduction of old ecological burdens</i>	♦	♦			♦
Priority Axis 3: <i>Improvement of municipal heating systems in selected priority areas</i>	♦				♦
Priority Axis 4: <i>Implementation of adequate management systems for nature protection</i>	♦				♦
Priority Axis 5: <i>Implementation of adequate infrastructure of natural risk prevention in most vulnerable areas</i>	♦			♦ (N:B: Support will be given to the National Agency for Protected Natural Areas and Bio-diversity Protection)	♦
Priority Axis 6: <i>Technical Assistance</i>	♦			♦	

4.3. Economic Competitiveness Operational Programme

The general objective of SOP Competitiveness is to increase the Romanian companies' productivity and reduce the disparities compared to the EU average productivity. The target is an average annual growth of GDP per employed person of about 5.5%. This will allow Romania to reach approx. 55% of the EU average productivity by 2015.

Priority Axis 1: An innovative productive system

Objectives:

- The valorisation of the 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 entrepreneurship by reducing the existing constraints in the areas of market failure - access to finance, innovative financial instruments, availability of business infrastructures and services

Priority Axis 2: Research and Development for competitiveness

Objective:

- To support the upgrading and development of RDI capacity and infrastructure, to improve the quality and range of the supply of innovative services, to stimulate of the potential demand of innovation coming from the productive sector.

Priority Axis 3: ICT for private and public sectors

Objective:

- To improve the infrastructure endowment, especially in market failure areas.
- To promote the introduction of innovation in the productive system, in the administrative and social processes
- To develop a market for a new generation of products and services connections, support for setting up portals, building up integrated information systems for increasing the GIS based interoperability and the development of E-Business.

Priority Axis 4: Increased energy efficiency and sustainable development of the energy system

Objectives:

- To improve energy efficiency;
- To increase the use of renewable energy sources;
- To reduce environment impact of the energy sector

Priority Axis 5: Romania as an attractive destination for tourists and businesses

Objective:

- To improve the image of Romania as tourism destination in order to increase its attractiveness not only for tourists but also for business and to create an integrated system of Romanian tourism offer.

Priority Axis 6: Technical Assistance**Table 13c****Contribution of Competitiveness OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>An innovative productive system</i>		♦	♦		♦
Priority Axis 2: <i>Research, Technological Development, and Innovation for Competitiveness</i>		♦	♦		♦
Priority Axis 3: <i>IT&C for private and public sectors</i>		♦	♦	♦	♦
Priority Axis 4: <i>Increased energy efficiency and sustainable development of the energy system</i>	♦	♦			
Priority Axis 5: <i>Romania as an attractive destination for tourism and business</i>		♦	♦		♦
Priority Axis 6: <i>Technical Assistance</i>		♦		♦	

4.4. Regional Operational Programme

The aim of the ROP is to accelerate economic growth of the lagging behind regions. The objective can be achieved only through a strong coordination with the actions foreseen within the other operational programmes. The ROP will give priority to the regions that are lagging behind, using regional and local resources. The main method to support regions is a differentiated financing of the regions, so that the lagging behind regions would get proportionally more funds than the more developed ones.

Priority Axis 1: Improvement of regional and local public infrastructure**Objective:**

This priority axis envisages the improvement of basic infrastructure in the field of transport, education and social infrastructure, with the aim to increase the attractiveness and accessibility of the regions and to stimulate their socio-economic development. Special attention will be given to the less developed regions and also to some areas in decline from more prosperous regions. The main key areas of intervention identified within the transport and social infrastructure are the following:

- The rehabilitation/modernization of the county and local road network
- The rehabilitation/modernization/development of the health services, social and public safety infrastructure
- The rehabilitation/modernization/development of the education infrastructure

Priority Axis 2: Strengthening of the regional and local business environment

Objective:

To increase the local and regional economies contribution to the creation of gross domestic product, by supporting those economies which became less competitive on the market economy and by creating the functional economic structures, in order to sustain the most efficient use of the regions endogenous potential – natural resources, raw materials, human resources – and to stimulate the regional economies. The key areas of intervention are:

- Development of business support structures specific to each Region
- Supporting local entrepreneurial initiatives

Priority Axis 3: Development of regional and local tourism

Objective:

To create supplementary income sources at regional/ local level and to create new jobs, through the development of historical, natural and cultural assets in all regions, and within the regions in the more isolated areas, with tourist potential that could contribute to their economic development and reducing the isolation. The key areas of intervention are:

- Restoration and development of cultural and historical heritage
- Development of natural tourist resources in the context of sustainable development
- Improving the quality of tourist services related to accommodation and recreation facilities.

Priority Axis 4: Sustainable urban development

Objective:

To increase the role of the urban centres in the local and regional economic development by regenerating / revitalising the small and medium towns, as well as certain areas of large towns, with a view to reducing the existing disparities. The key areas of intervention will be the support for urban regeneration through financing of integrated urban regeneration projects for deprived urban areas ("urban action zones"), clearly delineated from the spatial point of view within urban areas. These projects will aim to:

- Rehabilitate the built environment, develop urban centres and public spaces to improve the quality of life and encourage economic activities.
- Stimulate entrepreneurship, create employment, provide counselling services.
- Support social inclusion, which will ensure equal opportunities between men and women, and will also provide conditions for a better integration in the social life and labour market.

Priority axis 5: Technical assistance

Table 13d

Contribution of Regional OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Improvement of regional and local public infrastructure</i>	♦	♦	♦		♦
Priority Axis 2: <i>Strengthening of regional and local business environment</i>	♦	♦	♦		♦
Priority Axis 3: <i>Development of regional and local tourism</i>	♦	♦	♦		♦
Priority Axis 4: <i>Sustainable urban development</i>	♦	♦		♦	♦
Priority Axis 5: <i>Technical assistance</i>	♦	♦	♦	♦	

4.5. Human Resources Development Operational Programme

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 long life 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 appertaining to vulnerable groups, Roma or ethnic minorities.

Priority Axis 1 - Education and training in support for the development of knowledge based society

Objectives:

- To provide grounds for competitive human capital by developing flexible lifelong learning pathways, delivering modern quality education and continuous training for all, addressing the specific needs of knowledge based society and labour market.
- To modernise the education and training system to meet the needs of the labour market and develop a common approach of learning and training and for generating added value of the ESF interventions.
- To support quality assurance, curriculum development in support for competitiveness, relevance of the educational offers.

Priority Axis 2 - Linking life long learning and labour markets

Objectives:

- To provide grounds for improving educational attainments, developing work based learning and increasing employability of human resources in a life cycle approach in the context of knowledge based society
- To address life long learning and ensure people have the competences and skills required by the labour market.

Priority Axis 4 - Modernising the Public Employment Service

Objective:

- To modernize the PES and to diversify and upgrade the services to aid the operation of the labour market.

Priority Axis 3 - Increasing adaptability of labour force and companies. *See below***Priority Axis 5 - Promoting active employment measures.** *See below***Priority Axis 6 - Promoting social inclusion.** *See below*

The objectives of Priority Axes 3, 5 and 6 are to address the needs of individuals to raise their employability and adaptability, to strengthen entrepreneurship and to promote social inclusion and equal opportunities.

These priority axis will be addressed regionally also due to the existence of certain disparities among regions as regards employment rates, unemployment rates and specificities (long term unemployment, structural unemployment, hidden unemployment, including in rural areas), participation in CVT, different entrepreneurial culture, various poverty rates, specific Roma issues, improving the position of women in the labour market etc.

Priority Axis 7: Technical Assistance**Table 13e****Contribution of HRD OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Education and training in support for employment and development of knowledge based society</i>	♦	♦	♦		♦
Priority Axis 2: <i>Linking life long learning and labour market</i>		♦	♦		♦
Priority Axis 3: <i>Increasing adaptability of labour force and enterprises</i>		♦	♦		♦
Priority Axis 4: <i>Modernization of Public Employment Service</i>		♦	♦	♦	♦
Priority Axis 5: <i>Promoting active employment measures</i>		♦	♦		♦
Priority Axis 6: <i>Promoting social inclusion</i>		♦	♦		♦
Priority Axis 7: <i>Technical Assistance</i>			♦	♦	

4.6. Administrative Capacity Development Operational Programme

The specific objective of this Operational Programme is to contribute to a sustainable improvement in public administration in certain sectors that have a direct effect upon economic and social cohesion in Romania. The focus of the Operational Programme is to improve the management functions in the public administration.

Priority Axis 1: Strengthen public policy interventions in the central administration

Objectives:

- To contribute to the development of administrative capacity of the Romanian central administration;
- To modernise and integrate work processes for the formulation of public policy proposals (PPPs) and their linkage to institutional strategic plans (ISPs);
- To complete civil service reforms that focus on the rationalisation of central administration structures, on the implementation of performance management and on strengthening the underpinning of the reforms through sustainable training interventions;
- To introduce an output and outcome monitoring and evaluation culture.

Priority Axis 2: Capacity development to improve the service performance of local administration

Objectives:

- To contribute to public administrative reform at county and sub-county level through the implementation of a package of management reforms that address key elements of the strategic management cycle.
- To modernise and integrate work processes for strategic and activity planning, human resource management (performance management), and outcome of the monitoring and evaluation activities;
- To provide in-depth implementation support for counties and sub-county organisations (municipalities and communes) for improving the efficiency and quality of their administration of service delivery.

Priority Axis 3: Technical Assistance

Table 13f

Contribution of Administrative Capacity OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Strengthen public policy interventions in central administration</i>	♦	♦	♦	♦	♦
Priority Axis 2: <i>Capacity development to improve the service performance of local administration</i>	♦	♦	♦	♦	♦
Priority Axis 3: <i>Technical assistance</i>				♦	

4.7. Technical Assistance Operational Programme

The objective of the Technical Assistance Operational Programme (OPTA) at the national level is to ensure support for the coordination and the implementation of the structural instruments in Romania.

Priority axis 1: Support to the implementation of structural instruments and coordination of programmes

Objective:

- To reach sufficient administrative capacity for an efficient and effective structural instruments implementation and absorption during the 2007-2013 period and preparation of the future structural instruments interventions.

Priority axis 2: Further development and support for the functioning of the Single Management Information System

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 process of structural instruments and instituting a sound effective management of European programmes, in compliance with national and European regulations.

Priority axis 3: Dissemination of Information and Promotion of structural instruments

Objective:

- To inform the potential applicants about opportunities and to promote greater public awareness of the objectives and achievements of the Structural instruments and the National Development Plan and to ensure recognition of the role of the EU Structural Instruments.

Priority axis 4: Technical Assistance for OPTA

Table 13g

Contribution of Technical Assistance OP 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	Strengthening Administrative Capacity	Promote Balanced Territorial Development
Priority Axis 1: <i>Support to implementation of structural instruments and coordination of programmes</i>	♦	♦	♦	♦	♦
Priority Axis 2: <i>Further development and support for the functioning of the Single Management Information System</i>				♦	
Priority Axis 3: <i>Dissemination of Information and Promotion of Structural Instruments</i>	♦	♦	♦	♦	♦
Priority Axis 4: <i>Technical assistance for OPTA</i>				♦	

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 crossborder, 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 will be 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 January 2006 to the Romanian authorities the indicative Structural and Cohesion Funds allocation for Romania, by Objective and by year, for the period 2007-2013, as presented below in Table 14.

Table 14

**Structural and Cohesion Funds allocation for Romania, by Objective
and by year, for the period 2007-2013**

- million EUR, in 2004 prices -

	2007	2008	2009	2010	2011	2012	2013	Total
Convergence	782	1,123	1,499	1,773	1,875	1,979	2,083	11,115
Cohesion Fund	419	590	778	915	966	1,018	1,070	5,755
Territorial Cooperation*	56	56	56	56	56	56	56	394
TOTAL	1,258	1,769	2,333	2,744	2,898	3,054	3,209	17,264

*) before transfers to H4 heading

It is to be mentioned that these allocation will be indexed to current prices by 2% per year, for inclusion in the Operational Programmes, in accordance with Art. 15 of the draft General Regulation.

Priority Weighting

The breakdown of cohesion funding by Thematic Priority and subsequently by Operational Programme and by Fund has been decided taking into account several factors:

- 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
- the need to enhance economic competitiveness
- matching competitiveness support with the development of sufficient and well qualified human resources
- 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)
- allocation models 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.

Thus the following indicative allocation of EU funds to the NSRF Thematic Priorities was made:

- | | |
|---|------|
| ▪ Development of Basic Infrastructure to EU Standards | ~60% |
| ▪ Improving 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 allocation of Structural and Cohesion Funds together with the national co-financing would lead to achieving the overall objectives of the NSRF.

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 15 below illustrates the distribution of EU resources between Operational Programmes under the NSRF.

Table 15

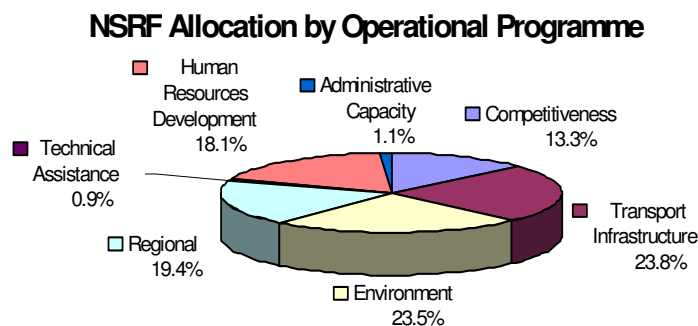
NSRF financial table 2007 to 2013 - indicative annual allocation by Fund and programme

CONVERGENCE		Community participation							
Operational Programme	Fund	Total	2007	2008	2009	2010	2011	2012	2013
ERDF and CF									
Economic Competitiveness	ERDF	2240	80	180	380	470	470	370	290
	ERDF+CF	4010	289	409	542	639	674	710	747
Transport Infrastructure	ERDF	1132	80	114	153	181	191	201	212
	CF	2878	209	295	389	458	483	509	535
Environment Infrastructure	ERDF+CF	3960	309	404	535	618	654	702	738
	ERDF	1083	100	109	146	161	171	193	203
	CF	2877	209	295	389	457	483	509	535
Regional Development	ERDF	3275	238	340	444	520	548	576	610
Technical Assistance	ERDF	150	16	17	19	22	24	26	26
ESF									
Human Resources Development	ESF	3050	214	305	427	488	519	549	549
Administrative Capacity	ESF	185	19	26	37	37	26	21	19
TOTAL all funds NSRF 2007-2013		16870	1165	1681	2384	2794	2914	2954	2979
Total ERDF		7880	514	760	1142	1354	1404	1366	1341
Total CF		5755	418	590	778	915	966	1018	1070
Total ESF		3235	233	331	464	525	545	570	568
EAFRD and EFF									
EAFRD		7100	611	824	1040	1108	1139	1172	1206
EFF		209	14	20	27	34	36	38	40

Annual allocation from the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund are included for information purposes, according to the requirement of the draft General Regulation.

Diagram 7 shows the % distribution of the NSRF allocation by OP.

Diagram 7



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 grant will be set out in the General Regulation, in line with the EU Financial Perspective 2007-2013; the current draft form provides for Romania 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 requires an estimated 4.4 bn Euro national funding, made up of both public and private sources.

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 (less than 5% of the total public co-financing) and also to introduce measures to increase the co-financing capacity of local authorities (e.g. raising of indebtedness ceiling from 20% to 25%, increase of 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).

Private co-financing will be needed for projects addressed to private beneficiaries, such as enterprises. Increased promotion of financing opportunities brought up by the Structural Instruments will contribute 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 produce the necessary co-financing.

Pre-financing

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 funding from the Commission provided on approval of programmes according to Article 81 of the draft General Regulation to pre-finance certain operations. Work is being undertaken by the Ministry of Public Finance and the Managing Authorities for establishing for what operations and what type of beneficiaries pre-financing will be granted and to what extent.

Performance Reserve

The General Regulation allows Member States to set up a National Performance Reserve (3% SCF to be allocated in 2011 to the best performing programmes). The allocation of the Reserve during programming period could be a major and unnecessary disruption. Hence, Romania will not be seeking to take this option in the 2007-2013 programming period. In the current climate delivery of the Operational Programmes will be challenging enough.

Contingency Reserve

The General Regulation allows for a National Contingency Reserve (1% Structural Fund allocation to be used whenever an emergency arises). Since this type of reserve is new, there is no experience on what basis it might be used and predictions are therefore difficult at this stage. It is not envisaged that Romania will set up a contingency reserve.

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, Romanian 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 Public Finance will monitor and manage the exchange rate fluctuations between the euro and the RON, so that Operational Programmes are not affected by the potential negative impact of these fluctuations. The implications of these exchange rate variations could impact on n+3/n+2 targets.

Monitoring these fluctuations and their impact on the programme 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 13 of the draft General Regulation regarding Structural and Cohesion Funds 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 Public Finance, with assistance from EU experts under the twinning project. The Ministry of Public Finance and the relevant line Ministries are currently identifying the applicable budget headings and lines in relation to SFs. The most logical source for the information was found within the General Consolidated Budget database maintained by MPF. This information has to be dis-aggregated to provide details at sub-headings levels and the information then transferred to the database for the aggregation of the data for inclusion within the categories of "additionality" expenditure. The budget lines used will be flagged and classified on the public expenditure database so that information can be retrieved from the system(s) in later years.

It is not expected that Romania will have difficulties in demonstrating compliance with the additionality principle. However, because of the detailed technical nature of this exercise, the ex-ante verification of additionality will be completed after the submission to the European Commission of this draft of the NSRF. Data will be presented in the standard format established in Annex VIII (b) of the Implementing Commission Regulation No..... (table 16).

Table 16

Summary financial table of public or other equivalent structural expenditure in Convergence regions
(€ , 2006 prices)

1	Annual average forecast in 2007-2013 NSRF (ex ante)						Actual annual average 2000-06					
	Total	Of which public companies	NSRF		Not co-financed by EU	Total	Total	Of which public companies	CSF		Not co-financed by EU	Total
	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.	Nat. + EU	Nat. + EU	EU	Nat.	Nat.	Nat.
2	3	4	5	6	$\frac{7}{5+6=2-4}$	8	9	10	11	12	$13=11+12=8-10$	
Basic infrastructure												
Transport												
Telecommunications												
Energy												
Environment & water												
Health												
Human Resources												
Education												
Training												
RTD												
Productive environment												
Agriculture/rural development/fisheries												
Industry												
Services												
Tourism												
Other												
Total												

* exchange rate for non-euro zone countries-as used for the ex-ante assessment.

6. Implementation and Complementarity

COORDINATION OF THE NSRF

The draft Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund, hereafter referred to as the General Regulation² 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 58 (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, Competent Body for Payments, Certifying Authority and Audit Authority) and their relationships with the European Commission.

National Authority for the Co-ordination of Structural Instruments (ANCIS)*

The National Authority for the Co-ordination of Structural Instruments (ANCIS) 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 GD 128/2006 modifying GD 497/2004. ANCIS is located within the Ministry of Public Finance. Its tasks are to support the programming, development and delivery of Operational Programmes under the NSRF to ensure coordination and coherence between the programmes and also with the Rural Development Programme and Operational Programme for Fisheries.

*The name National Authority for the Co-ordination of Structural Instruments (ANCIS) is being used for operational purposes and will be the subject of formal approval to be agreed after the adoption of the EC Regulations.

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 Coordinating Committee (NCC) was established under GD 1,200/2004 and its functioning modified under GD 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 Public 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, the Certifying Authority and the Head of the Audit 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.

² The references to the draft General Regulation are made in relation to the Presidency Compromise version of 21 December 2005.

The NCC will meet four times every year of implementation and more often where necessary. Representatives of the European Commission will be invited to attend meetings of the NCC in an advisory capacity.

Management Co-ordination Group

The Management Coordination Group 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 ANCIS will chair the Management Co-ordination Group. The members of the Group will be the heads of the Operational Programme Managing Authorities, the Certifying Authority, Competent Body for Payments and the Audit Authority. The Group 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. All Thematic Working Groups are chaired and serviced by ANCIS and report to the Management Coordination Group.

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 Coordinating Committees

A Coordinating Committee will be established in each of the 8 Development Regions. The Regional Coordinating Committees will provide input into the project development and selection process for all OPs, via sub-committees / working groups as necessary, to ensure the development of a coherent project pipeline, as well as avoiding duplication and maximizing synergy between all operations selected for assistance. The Regional Coordinating Committees will also undertake monitoring of progress in relation to the Regional Development Plan for each region.

COMPLEMENTARITY OF THE FUNDING STREAMS

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.

Detailed work carried out in partnership by the Managing Authorities under the co-ordination of the CSF MA within the Ministry of Public 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 are sensible, pragmatic and meet the economic development needs of Romania.

Structural Instruments, Rural Development and Fisheries

The **National Strategic Plan for Rural Development (NSP)** provides the strategy for the development of the farming industry and non-farming accompanying actions in the rural areas. The policy complements the policies of the Structural Instruments (SI). Where relevant, the MAs have a detailed agreement over the areas of complementarity between SIs and EAFRD and EFF. The detail of these arrangements is contained in the OPs. The policy is compatible with the economic and social cohesion policy of the European Union and aims to narrow the gap between EU regions and implicitly, between the rural and urban areas.

The strategy of the **European Agricultural Fund for Rural Development (EAFRD)** provides for an efficient intervention and also ensures the complementarity with structural and cohesion funds operational programmes. The basis for demarcation between funds is defined such as: measures objective, territorial impact, beneficiaries, project size, territorial dimension, and type of action. 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 Public Finance as a coordinator of Structural Instruments, the Managing Authorities and the Ministry of Agriculture, Forestry and Rural Development were held to discuss common interests/overlaps and complementarity.

The strategic priorities of the **European Fisheries Fund** aim to provide an efficient intervention and also to ensure the complementarity with structural and cohesion funds 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 that complement ERDF and ESF will be financed and implemented with the support of Coastal Action Groups. Management of EFF is under the responsibility of the National Agency for Fisheries and Aquaculture.

In order to ensure effective coordination of the NSPRD, the **National Strategic Committee for Rural Development (NSCRD)** was established and cross membership with the NCC will ensure effect co-ordination. This Committee contains public and private partners and meets monthly and works with EAFRD and EFF funding. This committee will establish links with the RCC to ensure co-ordination of the structural funds at the Regional level.

MANAGEMENT OF OPERATIONAL PROGRAMMES

The following institutions (See Table 17) have been designated with management roles for the Operational Programmes under GD 497/2004, as amended and supplemented by GD 1179/2004 and GD 128/2006.

Table 17

Operational Programme Management Bodies 2007-2013

Operational Programme	Managing Authority	Intermediate Body	Fund
Increase of economic competitiveness	Ministry of Economy and Trade	- National Agency for Small and Medium Sized Enterprises and Cooperatives - Ministry of Education and Research (Research Department) - Ministry of Communication and Information Technology - Ministry of Economy and Trade (Energy Policy General Directorate) - National Tourism Agency	ERDF
Transport Infrastructure	Ministry of Transport, Construction and Tourism	-	ERDF + CF
Environment Protection	Ministry of Environment and Water Management	Regional Environment Protection Agencies	ERDF + CF
Regional Development	Ministry of European Integration	Regional Development Agencies	ERDF
Human Resources Development	Ministry of Labour, Social Solidarity and Family	- National Employment Agency - Ministry of Education and Research (Department of Education)	ESF
Administrative Capacity Development	Ministry of Administration and Interior	-	ESF
Technical Assistance	Ministry of Public Finance	-	ERDF
Cross border Cooperation ³	Ministry of European Integration (with the exception of RO-HU)	-	ERDF

General provisions for Operational Programme Managing Authorities

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 and social partners 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 (IBs)

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.

³ An Operational Programme will be drafted for each border

MONITORING

Operational Programme Monitoring Committees

The Programme Monitoring Committees (PMCs) will be established, in line with Art 62 of General Regulation, within three months of the decision approving the Operational Programmes. The PMCs will be set up by the Member State, in agreement with the Managing Authorities, after consultation with the partners. The PMCs will be responsible for overseeing the overall co-ordination, effectiveness and quality of the implementation and decision-making under the Operational Programmes.

Annual and final reports on implementation

In line with the provisions of Articles 65 and 66 of General Regulation, the OP Managing Authorities will prepare Annual Implementation Reports for submission to the European Commission within six month of the end of each full calendar year of implementation. The Final Reports for the OPs will be prepared and submitted to the Commission by 31 December 2016

Strategic Reporting by the Member State

ANCIS will compile all strategic reports required under Art. 20 of the General Regulation, including the periodic reports on the contribution of all the Operations to the objectives of EU Cohesion Policy and to the annual reports in the framework of the Integrated Guidelines for Growth and Jobs. ANCIS 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 Monitoring Information System (SMIS) will provide sound electronic data that will allow the monitoring and management of the NSRF and the OPs. It will provide the NCC, RCCs and Programme Monitoring Committees and management teams with monitoring and management information on the implementation of Operational Programmes, priority axes, key areas of intervention and operations, including programme management, financial data, payments and achievement of physical indicators.

The IT system will provide real-time data at all levels of the implementation system, and will satisfy the EC Regulatory requirement for electronic data interchange and communication between the Commission and Romanian Government.

Use of the SMIS will be compulsory for all bodies involved in implementing Operational Programmes under this NSRF.

EVALUATION

The requirement to conduct systematic and evaluation activities of the Operational and general rules for those activities are determined in Articles 36 and 45 – 47 of the General RegulationIn line with these requirements, the Member State will be responsible for ensuring that the following independent evaluations are carried out:

Ex-ante evaluation will identify and appraise the disparities, gaps and potential for development, the goals to be achieved, the results expected, the quantified targets, the coherence. Evaluations linked to

monitoring – will reveal significant departures from the goals initially set or where proposals are made for the revision of Operational Programmes. The evaluation can be of a thematic nature and specific objectives, tasks, evaluation questions and expected results of such evaluations will be defined separately for each evaluation. The European Commission will carry an ex-post evaluation for each Objective.

Follow-up and implementation of recommendations of evaluation will be the responsibility of the MAs. Evaluation reports or executive summaries will be made publicly available in a readily identifiable and accessible format.

Evaluation Units

A Central Evaluation Unit will be situated in ANCIS. Each Managing Authority will have an Evaluation Unit 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.

FINANCIAL MANAGEMENT AND CONTROL

Roles and responsibilities

The Ministry of Public Finance is designated to fulfil the role of **Certifying Authority** for all OPs, responsible for certifying declarations of expenditure and applications for payment before they are sent to the Commission in line with the provisions of Article 60 of the General Regulation. The Certifying Authority is within the office of the National Fund, making use of the pre-accession experience.

A separate unit within the National Fund is designated by the Member State to act as the **Competent Body for Payments**, responsible for receiving all payments of ERDF, ESF and Cohesion Fund resources made by the Commission in respect of all OPs and for transferring payments of Community resources to the Beneficiaries (as defined in Article 2(4) of General Regulation).

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 58 of the General Regulation The Audit Authority is operationally independent of the Managing Authorities, Certifying Authority and Competent Body for Payments.

Each OP Managing Authority is responsible for managing and implementing its Operational Programme efficiently, effectively and correctly in line with the provisions of Article 59 of the General Regulation.

Financial Flows

The financial flows diagram (Diagram 8 below) shows the overall certification and payment system foreseen for each Operational Programme. This is based on the premise that the Competent Body for Payments in the National Fund will make direct payments to Beneficiaries for individual/ infrastructure (including projects). In cases where an indirect payment system is used, involving delegation of the payment task from the National Fund to payment units in the ministries, this will be detailed in the Operational Programme concerned.

ERDF, ESF and Cohesion Fund resources received from the Commission will be held in the National Bank of Romania in a separate account. All national public co-financing resources will be held centrally, enabling payment of the co-financing together with the EU funds. Local public co-financing will be provided directly to projects by local authorities.

Certification and payments

The Beneficiaries and grant scheme administrators will be responsible for forwarding expenditure claims to the relevant Intermediate Body, where the tasks have been delegated; otherwise these will be verified by the Managing Authority. The MAs will send the requests for payment to Competent Body for Payments. The MAs will declare the authorised eligible expenditure to the Certifying Authority regularly (monthly), 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 Authority sends a statement of expenditure and request for payment to the European Commission.

The Commission pays the amount requested to the Competent Body for Payments, subject to satisfaction of its own internal controls.

Diagram 8 below details the process of expenditure certification to the European Commission which is carried out at four levels:

- Level 1 - certification of expenditure at Beneficiary level (completion of claims);
- Level 2 - certification of expenditure at IB level (verification of expenditure claims);
- Level 3 - certification of expenditure at MA level (authorisation of payment to beneficiaries);
- Level 4 - certification of expenditure at Certifying Authority level (certification of expenditure to EC).

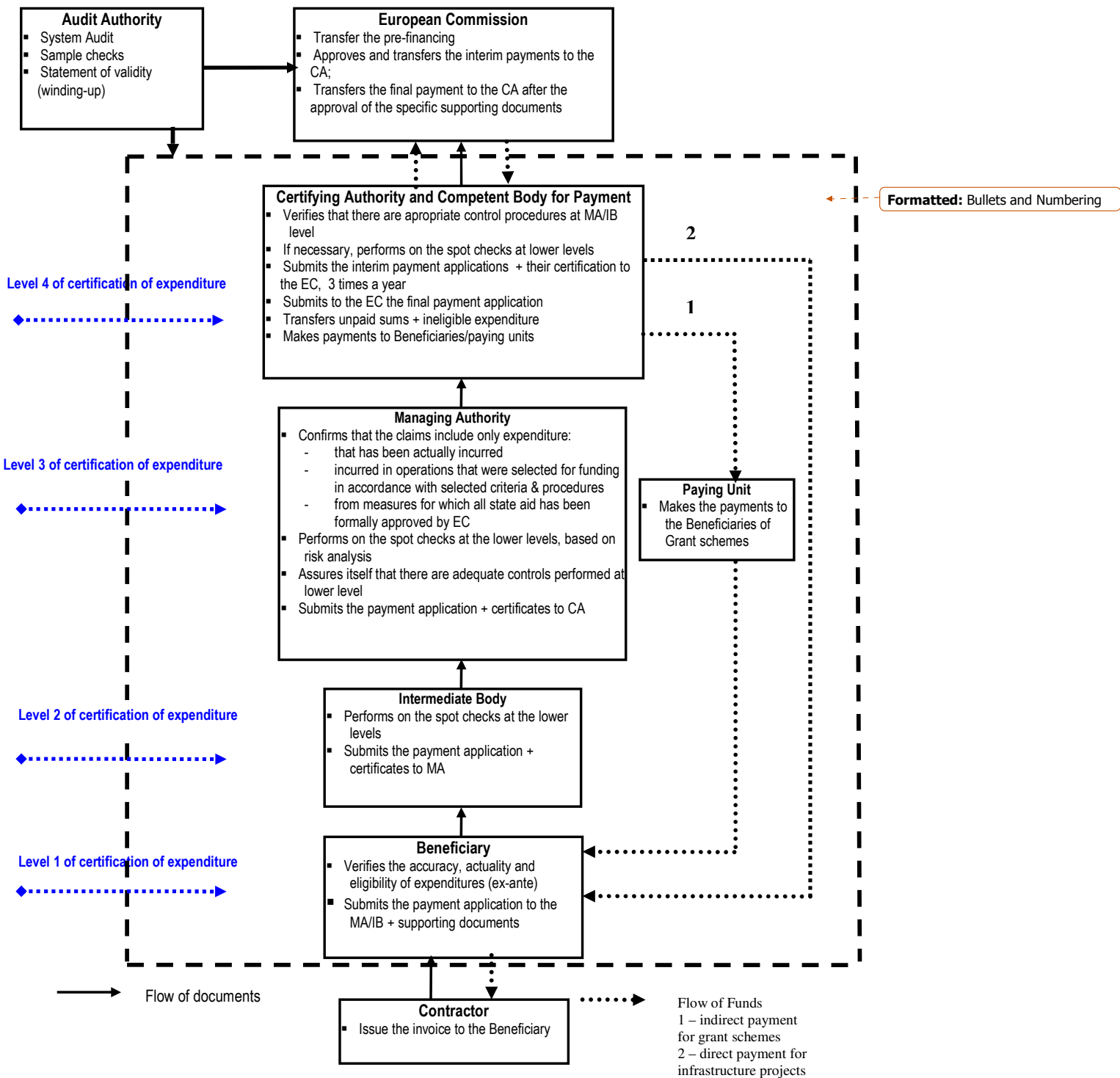
Specific Control Mechanisms

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 Implementation RegulationThe 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.

Financial Flow of the Structural and Cohesion Funds

Diagram 8



Service Level Agreements will be signed between each OP Managing Authority, the Certifying Authority and the Competent Body for Payments. Any delegation of financial management and control tasks by the Managing Authority to Intermediate Bodies, or by the National Fund to separate payment units, will be covered by service level agreements or contracts.

Sample and system audits (Article 16)

Within nine months of the approval of each OP, the Audit Authority, established under Law 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 Implementation Regulation, 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.

Treatment of irregularities

Any irregularities detected by the Managing Authorities, Intermediate Bodies and/or the Audit Authority will be reported to the Certifying Authority. The Certifying Authority will keep a database of all irregularities notified and will forward this information to the Anti-Fraud Co-ordination Service information on those over EUR 4,000 will be transmitted to OLAF under Commission Regulation 1681/94, as amended by Commission Regulation 2035/2005.

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 Competent Body for Payments any amounts of irregular expenditure arising from systemic errors reported. The Competent Body for Payments will deduct the Community resources concerned from its future payment requests to the European Commission.

Maintenance of the 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 59(f) 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.

Control system description and compliance assessment

Before the submission of the first interim payment application or at the latest within twelve months of the approval of each Operational Programme the ANCIS will submit to the Commission a description of the systems for each Operational Programme, covering in particular the organisations and procedures. 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 57 to 61 of the General Regulation.....

COMPLIANCE WITH COMMUNITY POLICIES

In accordance with Article 59 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. ANCIS will, through the National Coordination Committee and Management Coordination Group, 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 is achieved in a sustainable manner, in accordance with Article 8 of the draft EU Regulation on Structural Instruments. 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 activities, policies and priorities, including those on environment. The projects financed through the Operational Programmes will observe the environmental legislation, through the adherence to the legal procedures on environmental impact assessment as defined in the GD 1076/2004 which transposes the EU Directive 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.

Specific environmental operations under the OPs and the major environmental projects co-financed with resources from the Cohesion Fund will have major impacts in this area, but sustainable development will operate as a horizontal theme across the range of programmes. Environmental Impact Assessment will be conducted on major infrastructure and investment project proposals to ensure environmental considerations have been taken into account.

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 Commission's Guide to the Community Rules on State Aid. The provisions of Articles 87 and 88 of the Treaty in relation to competition rules are fully respected.

The Competition Council will provide support to the OP Managing Authorities and their Intermediate Bodies in respect of State Aid notifications and on-going operational advice and guidance.

In accordance with Article 36 of the General Regulation, each Operational Programmes contains a table with an indicative list of the proposed aid schemes, under Article 87 of the Treaty. Managing Authorities will have the responsibility to ensure compliance with State Aid rules. The Annual Implementation Reports will detail the measures undertaken in order to ensure the compliance of all operations with State Aid rules.

Public Procurement

In order to ensure coherence with EU procurement policies, the Romanian authorities have amended national legislation to harmonize the requirements to those currently adopted in the European Union. To enforce this, the National Authority for Regulating and Monitoring Public Procurement (NARMPP) was set up. This organisation's role is 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, advise and train public personnel involved in procurement activities. This organisation has set the framework for Romanian national procurement methodologies and is available to provide advice and support.

All contracts for goods, services and works will be awarded in compliance with the harmonised national legislation as devised by the NARMPP in Romania. All methods of procurement will be based on the principle of open and competitive tendering. Contracts will be advertised in the National media and in the Official Journal of the European Communities where the relevant thresholds under Community Directives are applicable. Below those thresholds, the tenders and quotations will be used to ensure open competition and the best value for money for public funding.

To ensure compliance with the EU Public Procurement Directives and National Rules, the Romanian Government has designated the Ministry of Public Finance as the body responsible for ensuring ex-ante compliance (public procurement verification) of all Structural Funds programmes and providing on going advice and support to the MAs and their IBs.

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 Implementation Regulation and may be funded by Technical Assistance. The National Communication Plan will be produced by ANCIS, 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 ANCIS will ensure that these Plans are compatible with and coordinated effectively with the National Communications Plan and the regulations governing implementation of the Structural Instruments.

7. Partnership and Consultation

The NSRF has been prepared by the Romanian Government under the coordination of the CSF MA in the Ministry of Public 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 existing Member States.

The NSRF has had to be prepared working on the draft regulations as they emerge but 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. The process involved consultation both at CSF MA 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
- 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 development. Many of the partners who participated in the early consultations will form the membership of OP Monitoring Committees or their sub groups.

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 on the website of the Ministry of Public Finance. 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. Numerous comments were received in written and by e-mail

from a wide range of consulted partners, such as governmental institutions, Regional Development Agencies, business associations etc.

The draft NSRF will be subject to further consultation with both the European Commission and the wider partners, in order to provide the best strategic answer to Romania's development needs that can be supported by the Structural and Cohesion Funds.

List of Acronyms

AADT	Annual average daily traffic
AGTC	European Agreement on Important International Combined Transport Lines and Related Installations
ANCIS	National Authority for Co-ordination of Structural Instruments
AMIGO	Household Labour Force Survey
ATM	Air Traffic Management
CADSES	South-East Transnational Co-operation Programme
CF	Cohesion Fund
CGD	Customs' General Directorate
CSP	County Spatial Plan
CVT	continuous vocational training
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EFF	European Fisheries Fund
ENPI	European Neighborhood and Partnership Instrument
ERDF	European Regional Development Fund
ESA	European System of Accounts
ESF	European Social Fund
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
HU	Hungary
IB	Intermediate Body
ICPA	National Institute of Pedology and Agrochemistry
ICT	information and communication technologies
ILO	International Labour Organisation
IPA	Instrument for Pre-Accession
IPR	Intellectual property rights
ISP	Institutional strategic plan
ITC	Information technology and communication
JAP	Joint Assessment Paper
LLL	Life long learning
LCP	large combustion plants
L-T	long-term
LTU	long-term unemployment
MA	Managing Authority
MPF	Ministry of Public Finance
NAE	National Agency for Employment
NAEO	National Agency for Equal Opportunities between Men and Women
NARMPP	National Authority for Regulating and Monitoring Public Procurement
NASMEC	National Agency for Small and Medium-size Enterprises and Cooperatives
NCC	National Coordination Committee
NDP	National Development Plan
NGO	Non-governmental Organizations
NIS	National Institute for Statistics
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
OPT	Outward processing trade
PES	Public employment service
PMC	Programme Monitoring Committee
PPP	Public policy proposals
PPS	Purchasing power standard
RCC	Regional Co-ordination Committee
R&D, RD	Research and development
RDI	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
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 Public Finance
TEN-T	Trans-European Networks
TVET	Technical and Vocational Education and Training
VET	Vocational Education and Training
WWTP	Wastewater Treatment Plant