1 NATIONAL STRATEGY OF DECENTRALIZATION

In Romania, the decentralization process started in 1998 and it was re-launched in 2004, undertaking the limitation of the Government’s influence sphere, so that it would remain at local level only where some public services, programs or projects cannot be achieved at a high European standard by local authorities using local resources. In this spirit, three directions have been established to accomplish this strategy: the local autonomy strengthening, administrative decentralization and fiscal decentralization, entire process being based on an Action Plan implemented in more stages, in order to allow the assessment of the decentralization measures’ efficiency.

Besides, the Romanian Government’s commitment until now - and also for 2005-2008 - has been mainly focused on promoting the strengthening of the local power’s autonomy, concentrating county councils’ activity on the coordination of the Development Plans at County Level, assuring their correlation with the Regional Development Master Plans and the Operational Program of Local Infrastructure Investment. In order to avoid the overlapping with the Mayor’s prerogatives, administrative reform measures shall forbid the setting up of an independent system consisting in authorities, departments, services and special structures subordinated to the local council (except the council secretariat); also, the services coordinated by the Prefect shall be limited, the trend being to settle their transfer to the local public administration authorities, in accordance with the transfer of the financial resources. More and more extension will get BOT system in providing the finance in public transport services, as the infield legislation will be consequently adjusted. A critical element in the financial decentralization is the harmonization between the Local Public Administration Law and the Public Finances Law, based on the decisional principles and mechanisms related to the investments’ approval.

One of the main purposes of the decentralized cooperation is the assurance of the financial resources, which are necessary to finance or co-finance different Transport Projects.

The Romanian Government policy for 2005-2008 related to the transport field is focused on an equilibrium development of the national transport network in the perspective of our integration within the European structures. Thereby, the international cooperation shall have an important role within our foreign policy, which shall develop a relationship...
based on the decentralized cooperation between different bodies, companies, local or national authorities, agencies and governments.

The regional development strategy requires strong finances. Dealing with that, the first action is to look for any internal (local or state) financial source. In this respect, the effects of decentralization consist in assuring the transfer of the allocated funds from the state budget revenues directly to the localities’ budget, by-passing the county councils.

Still, anyhow generous would be the local or state financial resources, they are limited and never big enough to cover all the necessities of development, especially in transport infrastructure and services projects. The first consequence of this situation was the issue of a special regulation framework in order to create the funds necessary to guarantee the loans. That is why the current financial management of the administrative authorities imposes them to engage expenditures for co-financing local or regional development projects only up to 20% from their yearly incomes, regulation applicable today for pre-accession funds only, but after Romania’s accession to EU the structural funds are supposed to be involved too. This measure is due to the huge amount of funds transferred from the EU financial bodies to help our country in its efforts of accession.

Experience of the last decade have shown that Governmental Agencies, different international financing bodies, famous banks from abroad, Regional Funds, strong private companies or independent investors, being aware of the economical potential of our country, have launched an important financing offer over the Romanian market. So, as a second consequence of the limited internal financial resources, both the beneficiaries and the internal co-financing authorities are more and more looking for advantageous financial resources: grants or attractive loans, with special reimbursement facilities.

For transport and regional development projects, the main EU finance instrument for Romania as a pre-accession country was and it is Phare Programme. Whether at the beginning the yearly amount from this Programme used to be about Euro, for the next period this got bigger and bigger (e.g. in 2002 – Euro 278.5 mill. in 2003 – Euro, today the total yearly are more The most generous EU funds for the transport field in Romania have been allocated between June 2001 and December 2003, during the Transport Negotiation Chapter.

The Phare Committee of the European Commission has approved the Projects proposed by the Ministry of Public Finances to be carried out by the Phare Programme 2005, the total amount of the grants awarded to Romania being of Euro 396.9 mill. There has been also approved the additional allocation of Euro 24.6 mill., in order to support some specific measures for the rehabilitation of the infra-

structure affected by the floods. Phare budget for 2006 in Romania is of Euro 439 mill.

The decentralization process is present also at EU level, involving the transfer of responsibility from the EC directly to the Contracting Authority, so that the last one becomes responsible for the tendering and contracting procedure, as well as for the financial and administrative management of the projects. Within this process, there were two steps to be followed in the scheduling and implementation of the pre-accession funds: the first and usual one based on ex-ante approval and the second one based on ex-post control. In practice, the ex-post control decentralization procedure carried out by the Commission Delegations involves four essential checks:

1. Approval of the tender documentation content, before the tender is launched.
2. Approval of the evaluation committee composition (which is responsible for recommending a bidder to the Contracting Authority)
3. Checking and approval of the tender evaluation report
4. Endorsement for the contract (existence of the Head of Delegation’s signature on the contract, not as a party of it, but to confirm that the project can receive EU financing).

Starting with 1 of May 2004, after those 10 countries, previously eligible for the Phare Programme, have become new Member States, within EU was mentioned for the first time the idea to evolve from a system of ex-ante approval to a system of ex-post control. The main reasons consisted of, firstly, the necessity of the New Member States to adapt their administration to an ex-post control framework in order to receive the Community funds, and, secondly, the attractive aspect of reducing the Delegations’ personnel and financial resources by transferring them directly to the Contracting Authority. Hence, all countries which previously were eligible for the Phare Programme, Bulgaria and Romania and in the longer perspective also Turkey, are presently moving towards an Extended Decentralization Implementation System (EDIS), whereby the Commission’s ex-ante approval on project selection, tendering and contracting is carried out in accordance with the Council Regulation no. 1266/1999.

Beside Phare Programme, a lot of other financial resources have been used in transport infrastructure and services, being mentioned the advantageous loans received from European financing bodies. Here is to be highlighted our vast cooperation with the European Investment Bank, that involved in total Euro 4.3 billion after the revolution in Romania (1989), only the 2005 participation consisting in the huge amount of Euro 960 mill. In December 2005, the financing contracts concluded with EIB are summarizing an amount of Euro 850 mill. which shall be used for three main infrastructure projects, two for transport and one for reconstruction after the
floods disaster of last year. The EIB financing contracts are very attractive because they include special facilities (e.g. long term reimbursement – 15 to 20 years; grace period – two thirds of the Project duration; special interest – maximum 6% per year, that it was promised to be reduced after the official announcement about the decision that Romania shall access EU, without waiting for 1st of January 2007).

Here it is a Good Practice raised from our own experience - an advice to be followed by any factor involved in the external financing process! The realistic implementation of the national strategy in assuring the financial sources for different transport development programs, should mainly take into consideration the financial absorption capacity in this field. On internal scale, the Projects are generally co-financed from the local or state budget, so it is very important knowing the financial power of the potential beneficiaries, in order to estimate the funds’ usage rate. It is useless to allocate a big size financial package to a beneficiary that is unable to take advantage of these resources due to a lack of internal funds!

Within a continuously developing world, factors as the social-political maturity, historical experience, national spirit, climatic influences or geographical coordinates, have caused different development levels worldwide. In order to equalize as much as possible the development stages of the states, the developed countries proposed themselves to unify their efforts under the Regional Development concept, which represents one of the most complex and important UE policy. This feature is given by the fact that, setting as its purpose the decrease of the economical and social disparity between different areas across Europe, it has influences over some fields that have an important role within the development process, of which the Transports are placed to the fore.

This policy is lately more and more associated to the decentralized cooperation concept, that, obviously, requires important financial resources, hereunder called financial instruments.

3.1 Instruments for member states

Issued as an European solidarity action, the regional policy is mainly based on financial help, that means the distribution of a part of the community budget towards the less developed regions and social groups (for 2000-2006 this amount is 35% from the EU budget). The three main financial instruments of the regional cooperation are the Cohesion Fund, the Structural Funds and the Solidarity Fund.

The Cohesion Fund, created in 1994, is eligible only for the member states having the GDP under 90% from the average value within EU. The fields covered by this fund are the transport infrastructure and environment preservation, the eligible transport projects being those that are supposed to create or develop the infrastructure at Trans-European Transport Network (TEN) level. Up to now, Euro 36 billion have been allocated, the financial support representing 80 to 85% from projects’ total eligible costs.

Following the major floods along Europe in 2002, the European Union Solidarity Fund was born. Its purpose was to facilitate the EU solidarity toward a member of candidate state affected by a major natural disaster, providing that the estimate damage is (1) at least Euro 3 billion, (2) over 0,6 from the GDP, or (3) under Euro 3 billion, providing that the disaster is affecting almost entire population and has major and long term consequences over the living conditions and the economical stability. This fund is allocated as grants or co-finance, providing that the complementary amounts are not other regional development funds.

Unlike the two above mentioned funds that are allocated per projects, the Structural Funds are financing programmes and represent the main financial instruments of the UE regional policy. Among these, the Regional Development European Fund (ERDF) is the most important, it financing the economical and structural rehabilitation programmes for the less developed regions.

3.2 Instruments for candidate countries

Beside these funds, EU created also the so-called Pre-accession Financial Instruments (i.e. Phare, Ispa and Sapard). These programmes were created according to the EU extension strategy, having the role to increase the gaps between the member and the ECE (East and Central-European) states’ development, as well as to prepare the last ones for taking advantage from the structural funds after their accession process is completed.

Phare, the oldest (1989) and main pre-accession programme, is focused on two priorities:

1. institutional development (strengthening of the administrative and institutional capacity of the candidate states, looking for the acquis communitaire implementation);
2. investment support (in the fields of transport, environment, industrial works, products quality, work facilities etc.).

Created in 1999 and being functionally from 2000, Ispa is mainly financing the transport and environment projects, taking into account (1) the familiarization with EU policies and procedures, (2) the alignment to the community environment standards (3) extension and connection to TEN.

Sapard programme, since 2000 when became functionally, is providing finances for supporting the rural development and sustainable agriculture of the pre-accession countries, the final scope being their
preparation for a gradual adaptation to the community agricultural policy.

The regional development policy covers many activity fields, hence much institutional actors involved in its elaboration and implementation. These are as follows:
1. the European Commission, by its General Directorate for the Regional Policy, is directly responsible for the preparation and implementation of EU regional policy, based on some regulations initiated, finalized and implemented by the member states;
2. the European Parliament, by its Committee for the Regional Development, Transport and Tourism, takes the decisions, meanwhile controlling the financial instruments and the economical policies, both national and community’s;
3. the European Union Council is equivalent to a ministers’ council at European level, coordinating the economical policies of the member states;
4. the Regional Committee is the newest European institution, its members being representatives of the regional and local authorities, it has consultative power in fields as economical and social cohesion, transport, trans-European infrastructure networks, health, education, culture, labor placement, social problems, environment and professional training, ……..

Regional development using the decentralized cooperation is based on the willingness of the European and local authorities, administrations, bodies and commissions to participate in a framework program of cooperation. This involves both the member states and the pre-accession countries. The process is based on the initiatives and preparations of the European structures, being coordinated and applied under direct local control.

4. CASE STUDIES ABOUT FINANCING THE PUBLIC TRANSPORT IN BUCHAREST

Romania, as a becoming EU member, had the opportunity to receive a lot of pre-accession founds and also to take advantage from a lot of very attractive loans from some European financial bodies. This represented the general framework that allowed the conclusion of many Financing Agreements with EIB, EBRD and WB for supporting the public transport in Bucharest City.

4.1 The Rehabilitation Of Public Transport In South-Western Part Of Bucharest

One of the most important projects is The Public Transport Rehabilitation in Southwestern part of Bucharest (Euro 126 mill.), 50% co-financed by EIB, the other half being supported by the local budget, with a governmental guarantee. Scheduled for 5 years, this Project is supposed to modernize mainly 110 km double way of on street and within depot tram track and the relevant catenary, 4 depots (building and depot automation) and 15 electrical substations (8 completely new and 7 modernized). From far is to be mentioned that, taking into consideration the pre-accession statute of our country, the Bank has facilitated a preferential interest (Lybor), but no more than 6% per year; what the big advantage represented was that each tranche was disbursed at an interest between 4.4 and 5.9 %. Another benefit of the Co-financing Agreement is that the reimbursement is made on a long time (15 years), with a grace period of 5 years – equal to the duration of the Project!

Three criteria have been considered in order to calculate the cash flow and IRR:
- total cost of the Project;
- investment spreading out;
- estimate profit (indirect and direct profit).

The total cost of the Project was calculated taking into consideration three elements:
- the implementation costs (1st year to 5th year);
- the loan reimbursement (30 rates, twice per year);
- the interest payment (estimated at maximum 6% per year).

Some of the elements determining the direct profits were included from the beginning, in direct proportion to the implementation rhythm (e.g. the additional operation incomes, the incomes resulted from extra capacity), other elements were took into consideration starting with the 6th year (e.g. the operation costs decrease and of the energy consumption). Meanwhile, the indirect benefits were underlined, considering that the Project shall have implications over entire city life, contributing to important savings in the local budget as well as the increase of the citizens’ life standard.

The decentralized cooperation was applied in a very interesting way to this Project. On one side, the direct contact for the Project carrying out was with the Beneficiary representatives (i.e. RATB – the Public Transport Operator in Bucharest). On the other hand, whether at the beginning of our cooperation with the EIB representatives the principle applied to was an ex-ante control, soon, the experience of a good behavior in tendering and contracting process of the Beneficiary determined the Bank to allow an ex-post control of a certain steps (e.g. the tender announcement, the contract signing). Hence, a more easy way to carry out the Project and an increasing self confidence. This makes us to be proud and salute the initiatives of the decentralization process.
4.2 The Comprehensive Urban Transport Study of Bucharest City and Its Metropolitan Area

An example of a good cooperation between governments is The Comprehensive Urban Transport Study of Bucharest City and Its Metropolitan Area, a Project financed by a Grant from the Japanese International Cooperation Agency (JICA). Following the request of the Romanian Government, between July 1998 and March 2000, a team of experts hired by JICA in direct cooperation with the Bucharest Municipality – the authority that coordinates RATB - has developed the above mentioned Study. This was drawn up as a recommendation to the local factors involved in the city development. A total of 616.810 sq km of territory have been analyzed, the relevant population being 2,149 mill. inhabitants (i.e. 10% of the entire country population). Based on surveys regarding the trips, lines, travel speed, traffic volume, freight movement, public transport passengers, parking and passenger options, the Study had three main objectives:

1. to recommend a Comprehensive Urban Transport Master Plan of the Bucharest City and its Metropolitan Area for the period up to 2015;
2. to draw up a further study on the priority projects supposed to be implemented within 2-3 years after the Study completion;
3. to carry out a know how transfer by implementing the Study.

The total cost of the Study implementation was calculated to USD 2,174.5 mill., the cost share of public transport related projects (68.9%) being much higher than that of road related projects (31.1%), reflecting the accent put on the public transport development. As components of the total Study benefit, the benefits obtained from savings in the vehicle operation costs and time were calculated comparing the Do Nothing Case with the Master Plan Case. Meanwhile, the IRR calculated for each project group was over 13%, hence the conclusion that each recommended project in the Master Plan may be considered as viable.

Comparing the Master Plan implementation cost (USD 2,174.5 mill.) until 2015 with the Bucharest Municipality budget for 1998 (USD 169.8 mill.), the ratio is 13 to 1, consequently is expected that the investment shall have multiple effects on the economic activities, such as the industry, consumption sector etc. This huge amount of investment in public works shall increase the Gross Domestic Product (GDP) as well as the citizens’ welfare. There was estimated that GDP will increase until 2015 up to 9,61 mill. RON (where 1 USD = 1.57 RON), equivalent to 25.9% out of 1998 GDP. Therefore, the conclusion is that the GDP increase shall become one of the factors determining the Romanian economy development.

Within the Study, there also have been recommended the financial sources necessary for the implementation, these being classified on project groups, as follows: the Ministry of Transport’s funds for two projects, the Municipality allocations for 14 projects, Foreign Loans for 7, BOT for parking projects, RATB’s funds for 2 public transport projects, Subway Company financing its 2 projects and the private financial sources financing 4 project groups.

4.2.1 Fund procurement from International Lending Agencies or Bilateral Assistance

The projects within the Study were assessed under the following criteria:

a) big Project costs or big initial investment costs
b) technology or expensive material and equipment are required for the Project
c) Project costs are not so big, but the implementation is very urgent

The total cost of the Projects, selected by these criteria, to be financed by foreign loans, was calculated (in 1999) in amount of USD 1545.1 mill. Taking into consideration that 20 to 50% of this cost must be assured by the local authority, resulted that only USD 1030.1 mill. should be borrowed (there were considered two-thirds). In 2000, the Romanian Forecasting Commission estimated that Romania plans to borrow USD 2,500 mill. The statistics have shown that 10% of the borrowings are allocated to the transport related projects, that means a necessary of USD 250 mill. Considering loans of 15 years reimbursement period with 5 years grace period, as well as the schedule for the transport related projects, results the data of Table 4.2.1.

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<td>76.3</td>
<td>53.2</td>
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<td>Accumulation (mill. USD)</td>
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<tr>
<td>Accumulation (mill. USD)</td>
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<td>989.1</td>
<td>989.1</td>
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Calculating the figures within the above table, two aspects were taken into consideration:
- Loan for a project with high cost or long implementation period is divided into 2 or 3 terms
- 1 to 2 years are let for the project detailed study

From the table it may be seen that the total borrowings for the transport related projects are USD 989.1 mill., that means less than USD 2,500 mill. Therefore, it was expected that the Loan of USD 1,030.1 mill. is possible.

5 CONCLUSIONS

Based on its experience within the cooperation process as well as taking into consideration the evolution of the other states understanding about the European relationship level, EU had arrived to a revolutionary conclusion: the necessity of a decentralized cooperation, applied both to the new entries and pre-accession states. Following this approach, starting with 1998, Romania initiated also a changing process regarding the cooperation at all structures level. Relaunched in 2004, this process transformed into a policy of decentralization, both within the internal administration and international cooperation, its effects being focused especially onto the financing system.

The decentralized cooperation consists mainly in assuring the allocated funds transfer directly to the Beneficiary’s budget, by-passing up to the case the county councils, the government or other national or local institutions. Meanwhile, the replacement of ex-ante control with ex-post control is bringing more efficiency in the Projects carry out. EU launched a lot of financial programmes in order to support not only the member states development, but also the candidate states one.

Romania received a lot of financial support from EU, the pre-accession trend promoting the advantage of receiving grants or special facilities loans, using the EU financial programmes (Phare, Ispa, Sapard), bodies (EIB, EBRD) or Community Projects (Tellus, Capture, Dante, Socrates etc.).

REFERENCES