EXECUTIVE SUMMARY

The 2017 SAR Annual Policy Analysis and Forecasting Report asks the big question: do EU funds lead Romania to „Europenization"? Or to put it differently, do they contribute to our overall development or not? There are risks involved: it was barely the beginning of the absorption period as over 10% of corruption sentences were related to the management of EU funds, and the extent of their bureaucratic burden was becoming legendary. Still, if their curse is clear, is there any blessing at all? We looked for it in the education sector, health sector, infrastructure, and all over the policy areas benefiting from such financing, amassing in the process an unprecedented collection of data. Our findings, presented here, can be freely judged.

I. The Report's first section analyzes Romania's main European constraint: its budget deficit, and evaluates the current Government's possible options: spending cuts or budget revenue increase. We looked at the main measures that can be applied in order to meet Romania's assumed investment targets, as well as their strategic prioritization. The analysis also features recommendations concerning potential improvements in tax collection by harmonizing national laws with international ones, or by recovering corruption-related damages.
The expert panel consulted by SAR sees 2017 as registering good economic growth, estimated at 4.4%, thus continuing the positive trend of the past years. Experts also forecast that Romania will respect the deficit margins, even though it will entail a series of revisions on the public expenditure announced for the current year.

II. The second section of this SAR Report compares the process of EU funds absorption across the EU member states both quantitatively and qualitatively. It shows that quantitatively attracting European funding is not a sufficient condition for Romania to catch up with the EU average indicators. Instead of achieving sustainable development we run the risk of increasing social inequalities, deviating resources into areas markedly plagued by corruption and inefficiency, and essentially wasting these funding allocations. Are we indeed in this situation? Have we managed to put in place those institutional mechanisms that can effectively channel EU funding and promptly react to potential disruptions? Leaving aside the specific sources of funding, we also ask what are those persistent weaknesses of the Romanian public policy formulation and delivery?
Even though, in 2007, the GDP per capita in Purchasing Power Standards (PPS) was 43% of the EU average and, at the end of 2015, it increased at 57% of the EU average, we should not forget the negative example of Greece, which shows us that even when there is economic growth, the overall deve-

lopment process fails and falters.
The County Corruption Map developed by the Romanian Academic Society shows that within an 8% absorption rate until 2013, amongst all the corruption final sentences passed in Romania at that time, 11% of those involved EU funding. Furthermore, in 37% of these cases, the courts found that the guilty parties were civil servants or persons holding public office. The most frequently affected institutions are at the local level: city or town halls (47%), the Agency for Payments in Agriculture (8%) and county councils (6%).
The assessment of the current situation in the Romanian case study, as well as the comparative perspective on the neighboring countries which proves our negative outlier position leads us to three common-sense public policy recommendations: total transparency, intermediary assessments of result indicators and professionalization of human resources involved. Otherwise, the metaphor that is frequently used nowadays with regards to "zero absorption" will turn into "zero advancement" in real, if not nominal terms.

III. The third section in this SAR Report looks at the allocation and deployment of European funding in Romanian academic institutions. This analysis traces the impact that structural projects had on the Romanian educational system, by looking at their declared objectives, as well as the funding distribution for these projects across higher education institutions.
The areas of interest covered here are those that saw the highest investment: human resource projects and research projects. The main Operational Programmes that provided financing to public institutions were: Sectoral Operational Programme Human Resources Development (SOP HRD or POSDRU in Romanian) and the Sectoral Operational Programme Increasing of Economic Competitiveness (SOP IEC or POSCCE in Romanian).
One of the main conclusions is that the financing objectives of the Human Resources Development Programme (POSDRU) were not seen, assumed or internalized as core objectives of the Romanian higher education system. Sooner, these funding opportunities were seen as self-enrichment opportunities for both individual and institutional beneficiaries. A straightforward explanation in this regard is that there is a severe and worrisome lack of coordination between the objectives and public policies assumed at the national level on one hand, and the performance indicators or overall objectives of such programmes in Romania on the other hand.

IV. For the fourth section, SAR expert Sorin Paveliu, MD has carefully read the Social Democrats' health programme, and identified the potential risks regarding the assumed objectives.
In a sector plagued by various problems, some of which were strikingly visible over the past couple of years, the current governing programme for the health sector has an excessive preoccupation for investment objectives. While clearly needed, the problem with this prioritization is that there is no clear identification of the funding sources for such investments—except, once again, for hypothetical European funding (hard to absorb) or the resources of a future Sovereign Wealth Fund that the Government intends to create.
The current programme does not identify a sustainable mechanism for the projected salary increases of medical personnel, nor does it offer a solution for the unintended consequences of populist measures, such as the blanket measure of price reduction for subscription drugs. The latter can cause significant distortions on the Romanian pharmaceutical market, incentivizing suppliers to sooner abandon the market than comply with the intended price provisions. Finally, the

current programme, much like the preceding one of the Cioloș government is abandoning the stringent issue of hospital infections.
Sorin Paveliu argues that the governing programme for the health sector should address with expediency the issue of hospital infections as a priority, and to postpone on average to long term some of the other targeted issues (e.g. physical infrastructure for medical care or new hospitals) for which there are no ready funds available at present.

V. The final section of this SAR Report challenges the manner in which Romania's General Transport Master Plan (MPGT) has planned and prioritized the infrastructure investments (e.g. road transport, railways sector, naval sector, aviation sector and multimodal centres). It is supposed to inform the allocation of approx. 42 bil. euro from structural and national funding until 2030.

MPGT recommends the allocation of over 23.6 bil. euro for road transportation and approximately 13.9 bil. euro for the railway sector. Surprising is not only the figure of the road sector allocations—higher than all the other transportation sectors and centres put together—as much as is the timeline of the projects. The biggest share of the investments was supposed to begin in 2016 and last until 2020, followed by the secondary modeling period of 2021-2025. If in the case of the naval and aviation sectors we see a similar approach, the railways sector is engaged with very differently: its allocations are scheduled to begin after 2021, most of which even after 2025. There are some railways investment projects planned to begin after 2031, even though the modeling of the MPGT is only realized for the period ending in 2030. As such, it is natural to infer that the railways sector will have a de facto significantly smaller allocation of investments with its approximately 14 bil euro spread until 2036.

Out of the investment projects in the road and railways sectors that should have been launched in 2016, there are dozens of road construction works or railway modernizations planned each year, or hundreds of kilometers of new highway infrastructure (e.g. Sibiu-Pitești, Craiova-Pitești ori Sibiu -Brașov; liniile ferate Predeal-Brașov, Brașov-Sighișoara).

On top of that, there are dozens of major works planned for the other transportation sectors that have also failed to begin in 2016, mainly because they have not even reached project phase. Previous experience warns that neither the Romanian State, nor private companies—be them domestic or foreign, can achieve such ambitious goals in only 3 years. As such, the author argues that the MPGT is unrealistic to start with, and it will destroy the railways sector by neglect. The recommendation is to revisit the planned objectives and reconsider an earlier version of the Master Plan which was more conservative.