

*Reimbursable Advisory Services Agreement on the Constanța Urban
Development Program, concluded between the Municipality of Constanța
and the International Bank for Reconstruction and Development
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Output 2.1: Investment Program Management Report

May, 2018



The findings, interpretations, and conclusions expressed in this report do not necessarily reflect the views and position of the Executive Directors of the World Bank, the European Union, or the Municipality of Constanța.

Abbreviations and Acronyms

DTF	Distance to Frontier Score
DU	Delivery Unit
EU	European Union
FDI	Foreign Direct Investments
FUA	Functional Urban Area
FUA	Functional Urban Zone
GIS	Geographic Information System
ICT	Information and Communication Technology
IoT	Internet of things
IUDS	Integrated Urban Development Strategy
LG	Local Governments
MFSA	Municipal Financial Self-Assessment
MICE	Meeting Incentives Conferences and Events
NACE	European Classification of Economic Activities
PIU	Project Implementation Unit
PUZ	Zonal urban plans
RAS	Reimbursable Advisory Services
SBS	Structural Business Survey
TAU	Territorial-Administrative unit
WB	World Bank

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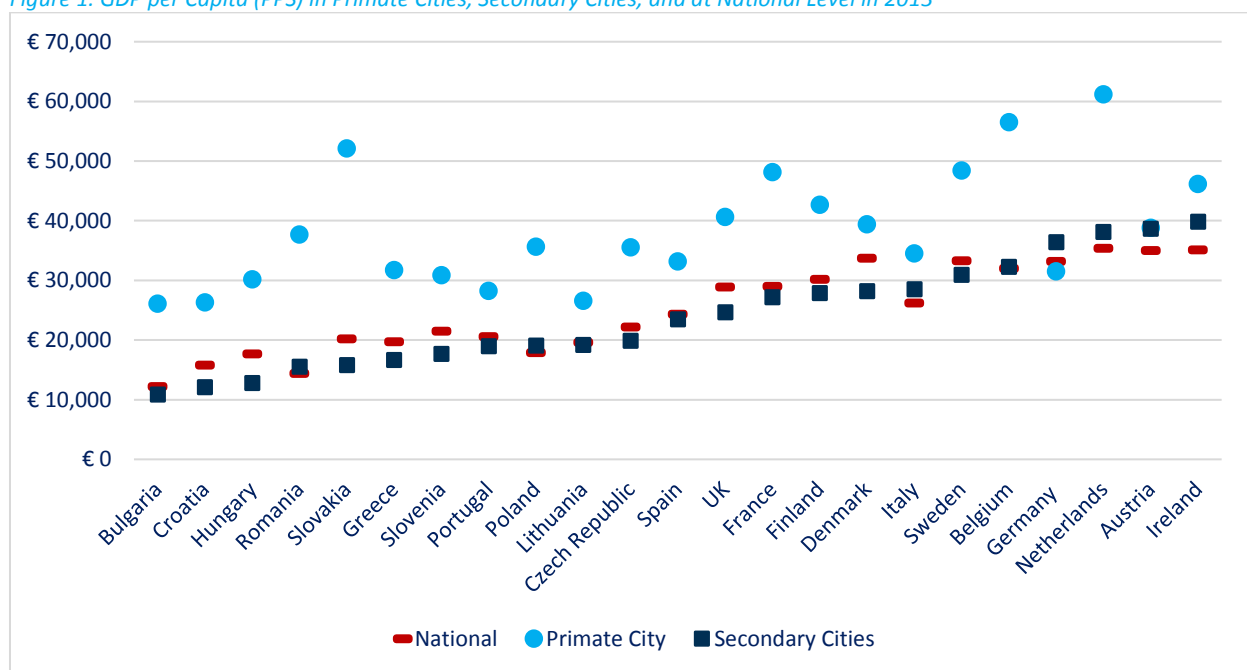
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Background

Romania is one of the fastest growing economies in the European Union, and Bucharest and the secondary cities have been the main engines of the country's growth. The functional urban areas (FUAs) of Bucharest and of Romania's 40 county capitals generate 90% of the national companies revenues; they amass 80% of the people with higher education, attracted 67% of the commuters in 2011 and 66% of the migrant population between 2001 and 2011, and amass 61% of the overall employment and 58% of the total population of the country.

But whereas Bucharest has reached productivity levels comparable to those of other EU capitals, the secondary cities of Romania still have some way to go before competing on an equal footing with the secondary cities in the EU. Countries like Romania have a significant untapped growth potential, starting from bridging the gap between the economic performance of the primate and secondary cities.

Figure 1. GDP per Capita (PPS) in Primate Cities, Secondary Cities, and at National Level in 2013



Data source: Eurostat

Secondary cities are also critical for regional economies. In Romania, the economies of all seven regions outside Bucharest-Ilfov are dominated by the largest functional urban areas (FUAs). Irrespective of the level of development of those regions, from those lagging behind to the leading ones, it is a handful of FUAs that generate an overwhelming share of the economic output.

Constanța is the regional growth engine for Romania's South East Region, its functional urban area amassing 21% of the region's population and jobs and generating 40% of the regional companies' revenues. The performance of Constanța weighs heavily in the performance of the South-East region as a whole, and it will continue to do so.

Moreover, Constanța plays a strategic role for the entire Romanian economy, as it is one of the largest and most important logistics hubs in Europe. A report recently prepared by the World Bank¹ indicates

¹ World Bank. 2017. *Magnet Cities: Migration and Commuting in Romania*.

that Constanța is very important for the Romanian economy. With its population of around 545,000 people, it is the second largest functional urban area (FUA) in Romania and the second largest real estate market, with around 44,000 new housing units built in the FUA between 1990 and 2015. Yet despite its standing as the second largest FUA in Romania by population size, its economic output of around \$ 10 billion in 2015 is merely the fifth largest in Romania (behind Bucharest, Pitești, Cluj-Napoca, and Timișoara), despite growing at an annual rate of around 8% from 2011 to 2015. In terms of attractiveness, Constanța ranks 5th in the country by number of migrants attracted between 2001 and 2011 (being surpassed by Bucharest, Timișoara, Cluj-Napoca, and Iași); it ranks 4th on the Index of Magnetism² (behind Cluj-Napoca, Timișoara, and Brașov); and 5th among the cities where Romanians would most like to live in (behind Bucharest, Cluj-Napoca, Timișoara, and Brașov).

In order to tap into its potential and become an urban center of excellence, the Municipality of Constanța has signed a Reimbursable Advisory Services Agreement (RAS) with the World Bank on October 9th, 2017. The scope of the RAS is to help the Municipality of Constanța strengthen its capacity for capital investment planning and management, to assist with municipal asset management and with the urban regeneration framework and to help increase its capacity to implement its economic competitiveness and development strategy, which covers the municipality itself and the larger metropolitan area.

Scope of Work

The scope of work is organized around the following components and activities:

- COMPONENT 1 (C1): CAPITAL INVESTMENT PLANNING AND MANAGEMENT**
- COMPONENT 2 (C2): MUNICIPAL ASSET MANAGEMENT AND URBAN REGENERATION**
- COMPONENT 3 (C3): ENHANCING THE COMPETITIVENESS OF THE METROPOLITAN AREA**

This report looks into the following sub-activity under Component 1:

- i. *Investment Program Management.* Supporting the preparation of a comprehensive multi-annual investment program, with a distinct list of priority projects, a monitoring mechanism, prioritization and screening criteria. The list of priority projects will take into account the existing strategic and programmatic documents (e.g. the integrated urban development strategy and the mobility plan) and will involve the relevant stakeholders at local, regional, and national level.

According to the timetable adopted in the Inception Report (Output no. 1 under the Agreement) submitted on November 8, 2017 to the Municipality of Constanța by the World Bank team, the latter undertakes to deliver **Output no. 2.1: Investment Program Management Report** on May 8, 2018. The report will include: a proposal for a comprehensive multi-annual investment program, with a distinct list of priority projects, a monitoring mechanism, prioritization and screening criteria.

Issues/constraints addressed and intended purpose

The Constanța Integrated Urban Development Strategy, recently completed, includes a long list of projects with an estimated value of around 10 billion Euro. Realistically, only a handful of those projects can be undertaken in the short- and medium-term, because of clear budgetary constraints, both present and future. For one, a local administration cannot allocate more funds for capital investments than what its budget envelope realistically allows, over a certain period of time. In the

² See World Bank. 2017. *Magnet Cities: Migration and Commuting in Romania*.

same vein, many capital investments require future operation and maintenance costs that have to be taken into account when such investments are made, as they have clear budget implications.

The purpose of this activity is to help the Municipality of Constanța prioritize among its wish list of capital investment projects, and thus focus the administration's efforts in the next several years on more efficient and effective project implementation.

Activities carried out

Since the submission of the Inception Report (November 2017-May 2018), the World Bank team has carried out the following activities, in partnership with the relevant actors at the level of the Municipality of Constanța and of its metropolitan area:

1. **Estimation of the capital investment budget for 2014-2023.** The World Bank team has developed a simple methodology to estimate the amount that a Territorial Administrative Unit (TAU) could allocate for capital investment over a specific period – in this case, the implementation cycle of European programmes, i.e. 2014-2023. The methodology for estimating the investment budgets was detailed in the Inception Report (Output no. 1). Annex 1 includes an Excel matrix with the data and formulas used to obtain the investment budget for the Municipality of Constanța for the 2014-2023 implementation period. The capital investment budget was estimated to be approximately 347 million EUR.
2. **Preparation of a short list of projects.** The aim of this step was to facilitate the process of setting priorities locally. Thus, based on the methodology provided by the World Bank team (previously developed for the Ministry of Regional Development and Public Administration, in the context of the assistance provided for the preparation of Priority Axis no. 4 of the 2014-2020 ROP), the Municipality of Constanța, together with the Constanța Metropolitan Area Intercommunity Development Association (CMA IDA) and with the Constanța Urban Development Support Structure (UDSS), has developed an initial short list of projects, annexed to the Integrated Urban Development Strategy of the Constanța Metropolitan Area. The list (shown in Annex 2 to the Report) includes 300 projects with a value of approximately 3 556 million RON, the equivalent of approximately EUR 700 million (double the estimated capital investment budget of the municipality for the 2014-2023 period).
3. **Project mapping by sector.** The shortlisted projects were divided by sectors and mapped, in order to identify their potential for territorial integration as well as to identify any areas in Constanța with no proposed projects. Annex 3 includes maps of the shortlisted projects, mapped by sectors.
4. **Identification of the projects proposed for funding under Axis 4 of the 2014-2020 ROP.** The Urban Authority set up at the level of Constanța Municipality has identified a list of priority projects and a list of backup projects on the short list. Those projects will be proposed for funding through Axis 4 of the 2014-2020 Regional Operational Programme. They were automatically transferred to the list of priority projects of the Constanța Municipality for the 2014-2023 implementation period, and their total value was subtracted from the amount estimated to be available for capital investments between 2014 and 2023. Annex 4 includes the final list of priority projects to be financed from Axis 4 of the Regional Operational Programme 2014-2020. The amount remaining after this prioritization is approximately 251 million EUR. The following prioritization steps were taken for those projects that could be financed from that amount, other than those proposed for Axis 4 of the 2014-2020 ROP.

5. **Identification of the key development priorities in the shortlist of the local administration.**

On December 7, 2017, the World Bank team, together with local actors, organized a workshop aimed at identifying the priorities of the technical team of the local administration. It was attended by experts from the Specialized Body within the Municipality of Constanța, from different internal structures with powers in the preparation and implementation of investment projects: The Directorate for Development and European Funds, the Financial Directorate, the Patrimony and Land Registration Directorate, the Urban Planning Directorate, the Directorate for the Authorization and Support of Economic Operators, the Public Services Management Directorate, as well as the Constanța Metropolitan Area Intercommunity Development Association and the Constanța Urban Development Support Structure within the South-East Regional Development Agency.

In order to carry out the exercise of identifying local development priorities for the horizon of 2023, four types of prioritization matrices were used, including different prioritization criteria developed by the Bank's team (Annex 5 includes these matrixes). The matrices covered 10 intervention areas, taken and adapted from the Integrated Urban Development Strategy of Constanța Metropolitan Area for the 2017-2023 period: urban mobility; energy efficiency; cross-border/European cooperation; economic development through innovation and technology transfer; improving the urban environment (urban regeneration, public spaces, green spaces, sports infrastructure); social inclusion, disadvantaged communities and civic participation; educational infrastructure; tourism, fishing and cultural heritage; public services and basic public infrastructure (water and sewage, gas, telecommunications, district heating, etc.); administrative and institutional capacity.

To facilitate the exercise, the World Bank team has prepared cartographic support in advance. More specifically, for each area, on the city map were represented those projects on the short list drafted under Activity no. 1, related to that area of intervention. These maps can be seen in Annex 3.

For each of the four matrices (presented as a questionnaire), the participants were invited to provide grades, for each criterion and for each area of intervention, from 1 (least important) to 10 (most important). Subsequently, the grades given were centralized by the Bank's experts, achieving a total score that allowed the ranking of the target areas according to their priority for the Town Hall technical team. Annex 6 includes the results of these prioritization exercises. The prioritization matrices targeted the following criteria:

- **Prioritization matrix no. 1** was a simple one in which experts were asked to give a grade of 1 to 10 for each of the 10 areas analyzed, without considering a particular criterion ("top of mind" exercise). This reflected that the interventions with the highest priority at local level are those for **the improvement of the urban environment**, while crossborder/European cooperation ranked the lowest;

- **Prioritization matrix no. 2** was a more complex one, where the participants were asked to give grades from 1 to 10 for each area of intervention, considering 3 criteria: 1) benefits for the citizens; 2) benefits for the investors and entrepreneurs; 3) benefits for the tourists. From this perspective, the interventions for **increasing urban mobility** (which would benefit all three above-mentioned target groups) have the highest priority at local level, while social inclusion (which would directly benefit only the citizens) ranks the lowest;

- **Prioritization matrix no. 3** was even more complex, taking into account 7 criteria for each area of intervention: the benefits for the citizens, the benefits for the investors and entrepreneurs, the benefits for the tourists, and also the contribution to the 4 major objectives (targets) established in the Integrated Urban Development Strategy of the Constanța Metropolitan Area (Safe City, Energy Efficient City, Sustainable Mobility City, Digital City). In light of these criteria, the highest priority at local level is represented, once again, by the interventions to increase urban mobility (which would benefit all target groups and which combine safety, mobility, energy efficiency and digitization objectives), and the lowest priority is social inclusion (important for citizens and for the Safe City objective, but less relevant for entrepreneurs and investors, as well as for energy efficiency, mobility and digitization objectives);

- **Prioritization matrix no. 4** took into account 6 criteria for each area of intervention concerned: benefits for the citizens, benefits for the investors and entrepreneurs, benefits for tourists, financial sustainability of the interventions (their ability to generate income or to have low operating and maintenance costs), addressing social inclusion and climate change objectives. Therefore, the highest priority interventions at local level are those aiming to increase urban mobility (which would benefit all three abovementioned target groups that meet climate change related objectives and which would reduce the cost of operation and maintenance of the fleet of public transport means), and the lowest priority is social inclusion (which would directly benefit only citizens and address the inclusion objectives, which does not directly lead to a reduction in the costs incurred by the local administration and does not address climate change-related issues).

The results obtained (detailed in Annex 6 of this Report) were subsequently brought to the attention of the representatives of the local public authority and underpinned the activities no. 6 and 7.

6. **Ensuring citizen input.** In addition to identifying the priorities set by the local administration, an essential aspect in the process of establishing investment projects at the local level is a better understanding of citizens' priorities. For this purpose, the World Bank team, together with the representatives of the municipality, the CMA IDA and UDSS, conducted two sociological surveys, based on a questionnaire. These were carried out with the support of a sociological research company with extensive experience in this field in November 2017, using the telephone survey method (CATI – Computer-assisted telephone interviewing). The random-route, stage-based, layered, proportional to population volume sample used was representative at the metropolitan (1,000 respondents) and national level (1,250 respondents), with a margin of error of 2,8%, and 3.2%, respectively, at a confidence interval of 95%.

The first survey was carried out among the citizens of the metropolitan area of Constanța to collect their views on the development priorities of the city. Thus, a simple questionnaire (see Annex 7) was devised, with a content similar to prioritization matrix no. 1 used at the workshop with the technical team of the municipality, precisely to allow for a comparison between the options of the local administration and those of the citizens. Basically, respondents had to give a grade from 1 (least important) to 10 (most important) for each of the 10 potential areas of local intervention (investing in public, pedestrian and bicycle transport, creating new jobs, modernizing the educational infrastructure, health and social services infrastructure, the rehabilitation of public spaces, of green spaces, of public lighting, the thermal rehabilitation of blocks and heating systems, the rehabilitation of historic buildings, the organization of cultural

and sports events, modernizing the streets, arranging new parking spaces). Citizens were also asked to indicate whether they were considering a job change or switching to other activities (e.g., opening their own businesses) in order to identify the optimal measures for the economic revitalization of the area. The main results of the survey are presented in Annex 8 to the report. The results indicate that at the top of the citizens' options are **the creation of new jobs, the modernization of the health and social services infrastructure** and of the **education** infrastructure, while they give less importance to the rehabilitation of historic buildings or to the thermal insulation of the blocks of flats. Also, most citizens would leave their current workplace to open their own business, few of them opting for a job in the NGO or public sector.

The second investigation was carried out on a representative population sample at national level in order to highlight the visibility of Constanța and its capacity to attract new inhabitants and tourists. The questionnaire (see Annex 9), prepared by the World Bank team together with the representatives of the municipality, raised questions about the willingness of Romanians to move to Constanța and the reasons for doing so or those for which they would not be willing to do so. It also wanted to determine the proportion of Romanians who visited Constanța as tourists, the reasons why they chose this tourist destination and how they traveled. The results were positive for the development of the area. On the one hand, about 22% of Romanians, especially young people, would move to Constanța, the main reason being the location of the city at the seaside (unique competitive advantage among the big cities in Romania). Those who would not move there mentioned, besides strictly personal reasons, the difficult accessibility of the city from other parts of the country (e.g., the central or western part). On the other hand, 49% of the respondents visited the Mamaia resort and the city of Constanța over the last 5 years, equivalent to about 10 million people, making it the most visited city in the country after Bucharest. Most of those who visited the city have above-average incomes. The main factor of attraction for tourists was the natural setting (the sea, the beaches), and two thirds of the visitors traveled in their own car and not by train or plane (also due to the relatively small number of internal connections on the Mihail Kogalniceanu Airport). The main impediments mentioned by those who have not visited the area are related to subjective factors (like health) but also objective ones (high service prices and difficult accessibility). The main results of the survey are presented in Annex 10 to the report.

7. **Preparing a list of priority projects.** Starting from the short list of projects drafted by the representatives of the municipality under Activity no. 2, which included a list of about 300 projects with a total value equivalent to double the city's operational budget, the World Bank team facilitated a new local workshop in May 2018 in order to draw up a short list of priority projects. Basically, the initial list was filtered from the priorities of the local administration (identified under Activity no. 2) and the citizens (set out in Activity no. 3) so that the value of the interventions did not exceed the operational budget calculated for the period 2014-2023 for the municipality by the World Bank team (amounting to about 347 million EUR).

The process was initiated by two World Bank team experts who, as an example, independently drew up a list of priority projects for Constanța, starting with the initial list of 300 ideas included in the Integrated Urban Development Strategy (IUDS). Each of them took the freedom to use their own prioritization criteria, indicating the subjective and objective reasons for which they selected each project. These included, among others:

- The maturity level of the project proposal, with a priority given to those interventions for which steps had already been taken;

- Complementarity of the proposed project with other previously developed projects and with other measures proposed for the horizon of 2023;
- The existence of powers (ownership/administration right) at Municipality level to address the challenge/issue/need until the horizon of 2023;
- The impact of the project on the local community (large number of beneficiaries from as many target groups as possible);
- Project potential to contribute to strengthening territorial cohesion with neighboring ATUs and promoting the concept of metropolitan development;
- The urgency of addressing the challenge/issue/need to which the project responds, including the existence of external constraints in this respect;
- The existence of local and foreign financial resources to address that challenge/issue/need in the remaining period until 2023;
- The availability of relevant metropolitan stakeholders to accept and engage in addressing that challenge/issue/need up to the horizon of 2023;
- The project is already included in a superior level territorial strategy with real potential for implementation;
- The feasibility of the project from the perspective of market availability of the technologies necessary for its implementation.

The results of the project prioritization exercise by the two World Bank experts are presented in Annex no. 11. The Annex includes both the list of proposed priority projects and their mapping to indicate areas where experts have proposed approaches integrated at a territorial level.

Subsequently, the representatives of the technical team of the municipality, CMA IDA and UDSS were asked to perform a similar exercise individually, using both the above-mentioned criteria and other criteria of their own. The results of the exercise were centralized in a matrix indicating, for each project (out of the 300 on the initial list attached to the IUDES), how many experts mentioned it as a priority. Finally, the experts drew up the list of priority projects according to this score, so that their total estimated budget would amount to an operating budget of about 347 million EUR. Such an approach will make it possible to focus the efforts of local actors on a limited number of projects, feasible from the perspective of financial implementation, operation and maintenance efforts. This list is presented in Annex no. 12 to the Report.

8. **Monitoring system for priority projects.** Once the short list of investment projects at Constanța city level is completed, the cumulative value of which is equivalent to the operational budget calculated by the World Bank team, the monitoring of their implementation and the management of the risks associated with this phase will be an essential aspect. Even if this short list will contribute significantly to the focusing of efforts, monitoring the status of the priority interventions undertaken will remain an additional effort for the municipality team. Annex 13 includes a list of potential risks that may affect the implementation of priority projects of the Municipality of Constanța and a series of measures to mitigate these risks.

Annex 14 includes a simple monitoring board for the implementation of the priority projects of the Municipality of Constanța. This board can be relatively easy to use, either in the form of a simple Excel spreadsheet or a DASHBOARD-type computer application that can be created internally or outsourced (including maintenance) to a specialised company. Basically, for each project, the implementation stage, possibly with the necessary specifications, will be periodically filled in (this is recommended on a monthly basis or at least quarterly).

The following categories of stakeholders should have access to this scoreboard:

- the implementation team designated internally by the municipality;
- the management of the municipality, in order to undertake risk mitigation/elimination measures;
- other stakeholders that have an impact on project implementation (e.g., utility providers, UDSS, CMA IDA, etc.).

Another important aspect, essential for project monitoring and risk management, is the functioning of an Investment Project Monitoring Committee to discuss regularly (preferably half-yearly, but can be convened as a matter of urgency whenever deemed necessary) including:

- the representatives of the municipality, especially from the directorates with direct responsibilities in the implementation of the investment projects: the Mayor, the Deputy Mayor, the Directorate for Development and European Funds, the Financial Directorate, the Patrimony and Land Registration Directorate, the Urban Planning Directorate, etc.;
- the representatives of the Constanța Metropolitan Area Intercommunity Development Association (CMA IDA) to ensure the integrated character of the interventions at metropolitan level;
- the representatives of the Urban Development Support Structure (UDSS) within the SE RDA, with the role of supporting local authorities with the implementation of projects funded from European funds;
- the Public Procurement and Investment Unit;
- the Public Services Management Unit;
- the units that undertake public investments for the Constanta City Hall;
- the representatives of other local stakeholders that have an impact on project implementation: Constanța County Council, S.C. Confort Urban, utility providers, other decentralised institutions (e.g. the Police, the Inspectorate for Emergency Situations, the County Construction Inspectorate, etc.), universities, intercommunity development associations, NGOs, representatives of civil society.

The Secretariat of the Monitoring Committee will be provided by the Directorate for Development and European Funds, which will prepare the support materials for its meetings and will prepare a summary report of the discussions, which will be communicated to the Municipality management.

Results obtained

Between November 2017 and May 2018, as a result of the development of the eight activities listed above, the following results (outputs) were obtained:

- 1. The short list of municipal investment projects** – with 300 projects and a budget equivalent to twice the operational budget of Constanța, as calculated by the World Bank team;
- 2. The technical evaluation of priority areas for intervention at the municipal level** – consisting of 4 prioritization matrices of the major areas of intervention, carried out together with the technical team of the municipality, CMA IDA and UDSS, during a workshop;

3. **Citizen input in the prioritization process** – questionnaires, databases, research reports and summary presentations of the two sociological surveys carried out among citizens at metropolitan level, to identify the development priorities, and those at national level, to establish the migration trend and the tourist attractiveness of Constanța;
4. **The priority setting framework** – the steps and tools used to establish the short list of priority projects (workshops, matrices and criteria for establishing prioritization areas and projects, questionnaires for citizens, cartographic support, etc.) that were made available to local actors and which can be used later in other similar processes at the local level;
5. **A list of priority projects** – drafted on a participatory basis (workshop), includes investments whose estimated value amounts to the amount of the operational budget of the Municipality of Constanța for the 2014-2023 period (about 347 million EUR). This should work as a municipal scoreboard in the coming years, allowing efforts to be concentrated on a relatively limited list of economically feasible interventions, on which there is consensus among all local actors (citizens, administration, external experts).
6. **A priority project monitoring system** – a monitoring board for the hard and soft projects that the Municipality identified as a priority.