

**THE ROLE OF BANKS IN ACCESSING EUROPEAN FUNDS
BY ROMANIAN COMPANIES**

SLUSARIUC GABRIELA CORINA

University of Petrosani, Romania

ellas7275@yahoo.com

Abstract

Absorption of European funds is for Romania the defining factor that can stimulate economic growth. The banking system in Romania must be directly involved in accelerating the attraction of European funds, and must actively contribute to improving the general framework for attracting them.

Key words: *banks, European funds, regional development, companies, developments, incomes credits, GDP, absorption capacity, competitiveness,*

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I. INTRODUCTION

Non-reimbursable external funding has a rich history and is one of the most important internal and external policy instruments. Funding programs can be defined as those internal and external policy instruments that transfer financial or non-financial resources to receiver organizations from other donor organizations based on specific conditions.

These transfers are made in order to satisfy economic, political and social interests and to promote certain external aid policy objectives of non-reimbursable providers as Hunt (1987) points out. Although originally created for political or military purposes, financial and material non-reimbursable assistance has evolved significantly with the first modern non-reimbursable programs and, in particular, with the emergence of European structural funding programs.

In order to finance the large volume of transfers, several funds, so-called structural funds (Jovanovic 2005) were built. Thus, from the very first years until today, the development of the European Commission and later of the European Union bodies has a close, even symbiotic, connection with the transfer of non-reimbursable financial aid to the Member States.

With a budget of €454 billion for 2014-20, the European structural and investment funds (ESIFs) are the European Union's main investment policy tool. By 2023, the ESIFs will deliver a critical mass of investment in key European Union priority areas, to respond to the needs of the real economy by supporting job creation and by getting the European economy growing again in a sustainable way.

EU countries commit to:

Supporting more than 2 million businesses through the funds to increase their competitiveness, develop products, find new markets and create new jobs. Infrastructure investment are in areas such as broadband, IT and telecoms, and water supplies. This will help European Union countries – especially those which are less developed – improve peoples' living standards and make their business environments more competitive.

Using the funds to invest in the skills and adaptability of Europe's workforce, giving tens of millions of people, including young people, refugees and legal migrants the opportunities to train, retrain, or start businesses.

The European structural and investment funds (ESIFs) in the European Union's are:

European Regional Development Fund (ERDF)

European Social Fund (ESF)

Cohesion Fund (CF). with two complementary actions

European Agricultural Fund for Rural Development (EAFRD)

European Maritime & Fisheries Fund (EMFF)

Although the size of the European non-reimbursable funds is very important, it is the decisive role of the each state with absorption capacity of these funds, because in practice there is a major difference between the non-refundable funds allocated to a country and the amounts absorbed by that country.

At the EU level, the absorption capacity was defined as "the extent to which a Member State is able to effectively and efficiently consume the financial resources allocated through the Structural Funds" (Boot, de Veet, Feeks, 2001).

In general, absorption capacity is defined as "the ability of low-income countries to productively absorb a large volume of external aid", the central issue being to give priority to receiving non-reimbursable aid (Bourguignon and Sundberg, 2006). Wostner (2008) identifies three major factors influencing the absorption capacity: the macroeconomic absorption capacity, the managerial - administrative absorption capacity and the financial absorption capacity.

The studies conducted by Reilly A. (2004), Elgar (2005), Dick (2005) and by Steunenberg and Dimitrova (2007) exemplify and detail the various aspects of European integration and its components, including the role of European structural funding programs as key pillars for achieving economic and social cohesion and increasing the competitiveness of the Member States of the European Union.

Very important in the field are the analyses conducted by Drăgan (2003), Băleanu (2007), Bal, Luțaș, Jora, Topan (2007), Dziembala (2007), Lianu C. (2004) strategies for structural funding from European funds with some extremely detailed analyses and the implementation of these programs on the territory of Romania.

In terms of optimal absorption capacity and increasing it, the study by Bourguignon and Sundberg (2006) defines absorption capacity as "the ability of countries with low income levels to absorb in a productive way a great deal of financial help.

Romania, Between 2007 and 2017 it benefited through EU funds of 45.7 billion euros, an annual average of 2.7% of GDP. As a net value, the input in the country's economy was over € 30 billion, or 8% of GDP. Thus, Romania's GDP evolved from 39.3% of the EU average in 2006 to 58% in 2016.

For Romania, EU funds represent the chance of modernizing the country, creating an infrastructure for sustainable development. For Romania, an absorption rate of 95% in the current multiannual financial framework (2014-2020) would lead to a potential GDP growth rate of 1.7 percentage points, so to a potential 5% annual GDP.

The calibration of economic policies in order to maintain Romania's economy in the growth area should aim at accelerating the absorption of European funds, developing large projects in infrastructure, increasing competitiveness in certain economic sectors and stimulating healthy consumption bases.

Optimizing the process of attracting European funds to boost economic growth is very important. The banking system in Romania must be directly involved in accelerating the attraction of European funds, and must actively contribute to improving the general framework for attracting them.

Absorption of European funds is for Romania the defining factor that can stimulate economic growth. Our country can access over 40 billion euros of European funds by 2020.

Small and medium-sized enterprises (SMEs) play a key role in the development of any economy, which largely generates a share of GDP, both in the trade and industry or service sectors. SMEs are characterized by dynamism, flexibility and innovation, capable of adapting to changes in the economy, of rapidly sensing market trends and of promoting change.

The SME sector holds the largest share in all the economies of the European Union, contributing to the creation of added value and the creation of new jobs, but often faces difficulties in obtaining capital or loans, especially in the start-up phase.

Among the problems currently faced by small and medium-sized enterprises is the increase in the cost of borrowing and the poor returning capacity. In addition to the funds obtained from the national budget and those obtained through credits, small businesses can obtain grants through European post-accession funds.

After 2008 a large number of SMEs applied to obtain non-refundable financing for investments under different financing programs, but especially in ROP and SOP IEC.

However, according to statistical data, the most important sources of financing for Romanian companies still are their own funds with a share of 74%, supplier credits, followed by bank loans, and only sixth with a share of only 4% at the level 2017, was the non-reimbursable funds.

However, compared to 2015, the situation has improved slightly, 8% in equity financing, in favor of increasing funding with non-repayable funds from 1.82% to 4% and leasing financing by approximately 5%.

Interestingly, instead of increasing the bank credit funding from 24.58% in 2015 it has fallen to 18.28% in 2017, as banks should be the bridge between the firms that need financial support and non-reimbursable institutions.

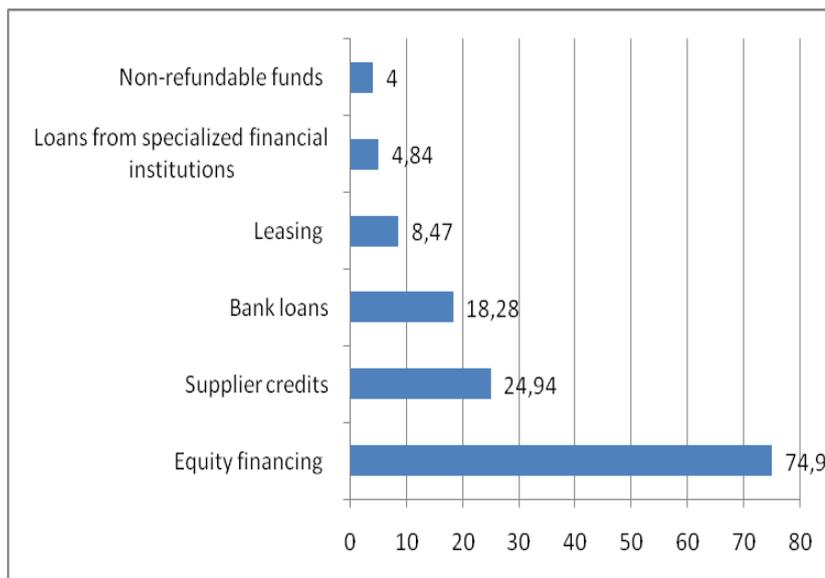


Figure 1 - Structure of SMEs according to the modalities of financing the economic activities in 2017
 Sursa: <http://cniptmmr.ro/wp-content/uploads/2017/07/PPT-CA-2017v3.pdf>

So, although the growth of small and medium-sized firms by accessing and receiving grants has doubled over the past two years, with growth of more than 100%, from 1.87% to 4%, the share of this funding totals remains modest.

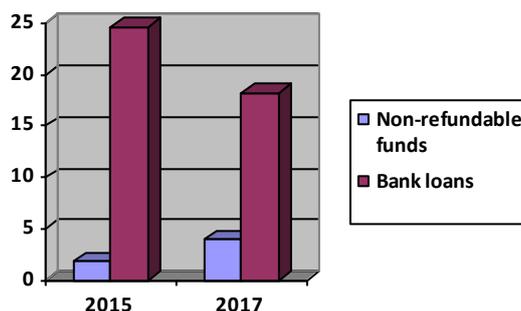


Figure 2 The Evolution of the share of non-reimbursable funds and bank credits in total funding sources in the years 2015 and 2017

The main problem faced by firms is the lack of financial resources to co-finance investments or to support expenditure in the initial stages of funding projects. In the absence of sufficient internal resources to co-finance European projects, their beneficiaries have called for the support of the banking sector: banks and / or the National Guarantee Fund for SMEs (FNGCIMM).

For these, the Romanian banks created a package of specialized products dedicated exclusively to co-financing and / or pre-financing, guaranteeing the different types of European funding projects granted to customers on the basis of their own bank analysis methodologies.

Thus, the role of the banking system in providing the financial resources needed for the co-financing and the unfolding of grant projects became essential.

The banking system is able to support the increase in the absorption capacity of European funds through direct involvement in pre-financing and co-financing aimed at accelerating and increasing the degree of completion of the projects initiated but mainly through the capacity to capitalize on the experience gained so far in management projects with European funds.

The important role of banks in absorbing EU funds is relevant through:

- ❖ Confirmation of the bankability of potential beneficiaries by issuing comfort letters;
- ❖ Support selected beneficiaries by:
 - Guaranteeing advances from non-reimbursable funds and granting pre-financing and co-financing;

- Granting additional financial instruments to support the investment (VAT financing, working capital credit, financial risk management tools, etc.) is recognized nationally and internationally.

The setting up at the level of the Romanian Banking Association of the European Funds Commission represents an important step in streamlining the information flow and generalizing the acquired experience.

The banking system in Romania can ensure effective communication with the authorities involved in the operational management of European funds programs and the active involvement of the banking sector in streamlining the attraction process, thus contributing to increasing the absorption of European funds.

Thus, in recent years, projects developed with non-reimbursable funds have been an increasingly attractive segment for commercial banks, which have stepped up their support and funding activity for companies that have accessed and won such projects.

Banks allocate considerable resources to develop their business on this exciting and promising market segment by promoting specific products and services, training specialists and opening branches dedicated to European funds.

The role of banks in the new architecture of European funds consists of personalized financing solutions such as:

- (co-financing / pre-financing credits dimensioned by type of project, (bridge loans) but also on client's requirements, with maturities that can reach 15 years for large projects,
- bank guarantee letters for grant advances, special accounts)
- Involvement as financial intermediaries in the development of financial instruments within the operational programs (OP Initiative for SMEs, OP Competitiveness, PO Regional, PO Capital Human, PNDR) as well as the financial instruments developed under the programs HORIZON 2020, COSME, etc., programs which provides important support for the beneficiary.

The most active banks in financing the companies that have accessed and won projects with European funds in 2007 - 2013 were: BCR, CEC Bank, Banca Transilvania and UniCredit Bank.

The total amount of credits granted by them was over € 5 billion for projects developed with money from the European Union, with over 36,100 projects being funded.

Table 1 Number and value of projects carried out by banks, funded by European funds

| | Number of projects funded | Total amount of project credits-million euro- |
|--------------------|---------------------------|---|
| BCR | 1.700 | 1.570 |
| CEC BANK | 30.000 | 1.400 |
| BANCA TRANSILVANIA | 3.000 | 1.100 |
| UNICREDIT BANK | 1.400 | 1000 |
| TOTAL | 36.100 | 5.070 |

Source: Data processed from <http://www.bankingnews.ro/top-banci-fonduri-europene.html>

The main revenue that credit institutions record from companies that have accessed and signed grant agreements for non-reimbursable projects come from:

Interests and commissions related to financing and co-financing credits granted for projects benefiting from European funds;

Fees for transferring project funds to beneficiaries;

Issuance of a bank guarantee letter, or letter of convenience;

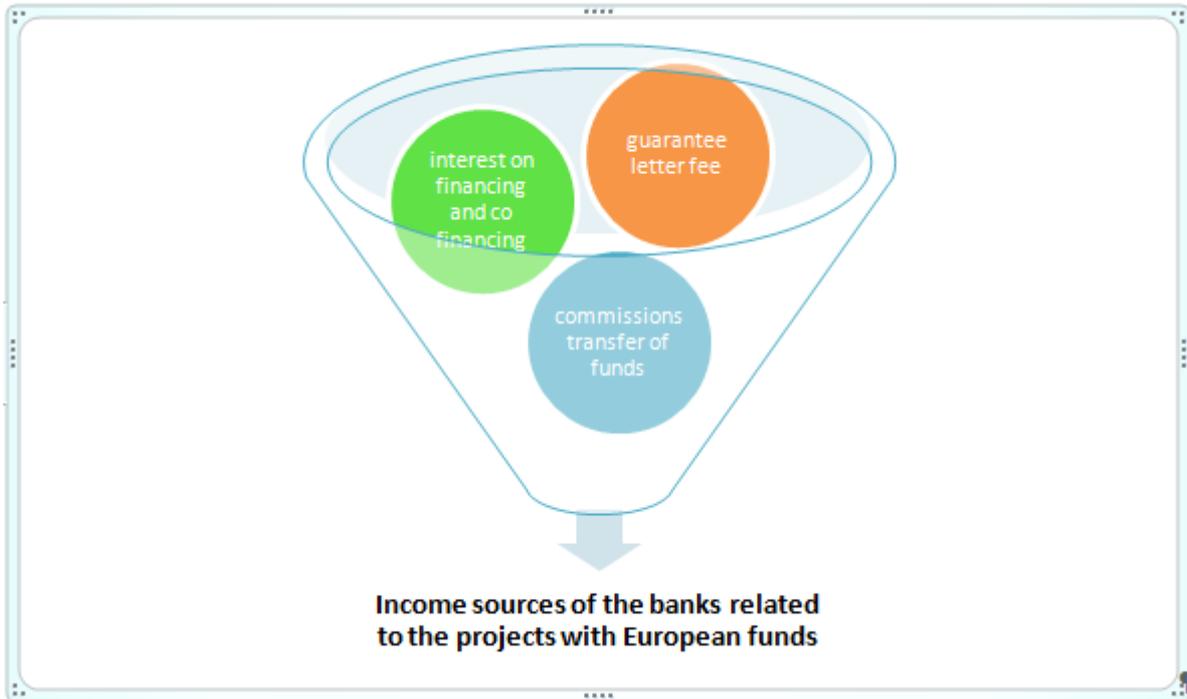


Figure 3 Sources of banks incomes resulting from projects with European funds

Analyses carried out by credit institutions show that 7% of the total value of European funded projects is borne by banks through commissions and interest on the main banking services for clients accessing European funds.

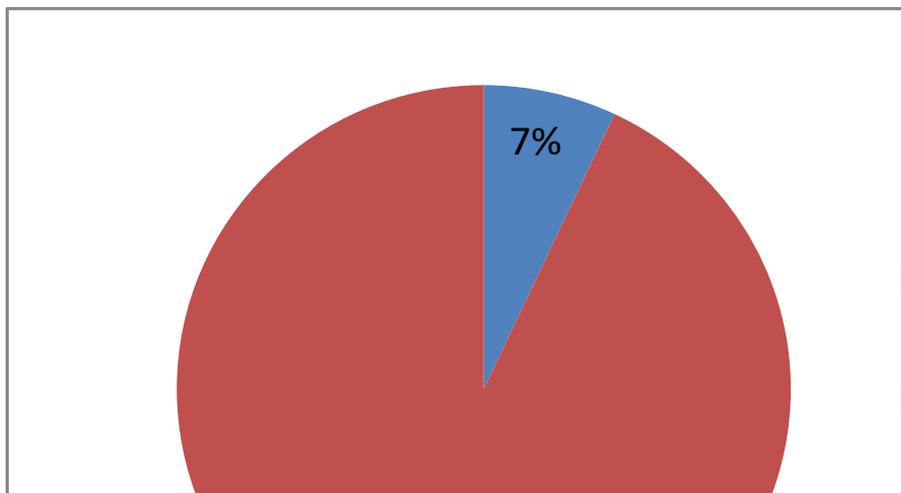


Figure 4 The share of the bank's income from companies financed with projects with non-reimbursed funds

Involvement of banks in financing companies that access non-reimbursable funds is beneficial and necessary, being profitable both for the companies, for the state, but also for the banks.

The banking sector provides liquidity to both the private sector and the public sector (government securities, loans to projects and programs carried out from public funds, loans to municipalities), which supported the ability of firms to develop and operate at normal parameters, as well as to implement investment programs.

II. CONCLUSIONS

Absorption of European funds is for Romania the defining factor that can stimulate economic growth. Even if Romania does not have the desired results on the level of absorption of European funds, credit institutions have a growing interest in the field.

Romania registers one of the lowest absorption rates in Europe, which makes it necessary to simplify and speed up the process of attracting European funds, as well as the more active involvement of commercial banks in this field.

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