

THE MECHANISM OF PAYMENT REQUESTS - AN INSTRUMENT FOR FACILITATING THE FINANCING FROM STRUCTURAL FUNDS OF ROMANIAN PUBLIC ACADEMIC EDUCATION INSTITUTIONS

Cristina-Petrina Drăgușin Ph. D Student
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract : Today, when the national academic education system is chronically underfinanced, the universities must identify, more than ever, in addition to their current resources, other funding sources that will contribute at reaching the assumed missions. A significant funding source is represented by the EU funds. Starting with the 4th trimester of 2013, the universities can use the mechanism of settlement for payment requests, as public beneficiaries that implement projects financed from structural funds. The paper focuses on the implementation of the payment requests mechanism by the public universities and presents itself as an applicative study through which we will highlight its methodology and steps, together with the accounting representation of its application, taking as landmark the University of Craiova. We considered mainly aspects related to the interpretation of the applicable referential in connection with its practical application, meaning the accounting valorization of the financing facilitated by the application of the mechanism.

JEL classification: **I22, I29, M41, M48**

Key words: payment request; reimbursement request; structural funds; operational programs; own contribution

1. INTRODUCTION

In Romania, the academic education institutions from the public sector function as universities funded from: the amounts from the State budget, extra-budgetary incomes and funds from other sources, all these resources being understood as own incomes, according to the valid law.⁶⁵ Concerning the administration of these resources, it is essential that we highlight that, currently, the Romanian universities benefit from **university financial autonomy**, which gives them the right to manage their own resources, while respecting the valid legislation.

Lately, obtaining the financial resources necessary for the activities of the universities has become an issue of financial management and the university financial

⁶⁵ National Education Law no. 1/2011, published in Romanian Official Gazette, Part I, no. 18 of 10 January 2011, as amended and completed by Government Emergency Ordinance no. 21/2012.

autonomy is manifested especially in obtaining and using **the extra-budgetary incomes**.⁶⁶

A special category of extra-budgetary incomes is represented by the amounts obtained by universities from **EU funds**, as beneficiaries, according to the contracts.

Between 2007 and 2013, the application of the National Strategic Reference Framework, as an harmonizing objective of the national development priorities with the EU community level ones, was accomplished through operational programs financed by EU-funds inside the „Convergence” and the „European Territorial Cooperation” objectives.⁶⁷

Today, a better absorption of the structural funds represents an important priority of the Romanian Government since it implies attracting significant amounts for investments, for finalizing and starting new infrastructure projects, for developing human resources, for creating new jobs.⁶⁸

One of the measures adopted by the Romanian Government for increasing the absorption rate of EU-funds and for insuring the continuity in projects’ financing is to launch the mechanism of payment requests’ settlement.

This work is part of an extended research which will form part of the doctoral thesis called „The accounting and financial management of public higher education institutions”.

2. OBJECTIVES

The general objective of this work is to highlight an image on the mechanism of settlement for payment requests in public institutions of academic education which benefit for EU non-refundable funds.

In the context of an interesting and challenging thematic, as a result of the recent launching of the settlement mechanism, this study suggest the solution of the University of Craiova for the accounting valorizing of the financing facilitated by its application.

3. METHODOLOGY

The research methodology used in elaborating this paper is based on the processing and interpretation of a multitude of data and information collected from various sources such as: valid regulations, specialty works, reports published by the Ministry of European Funds, information spread by academic education public institutions, but also various points of view issued by the specialty organisms concerning the themes approached during the investigative process.

4. THE RELATION BETWEEN THE PAYMENT REQUESTS AND THE REIMBURSEMENT REQUESTS

Both the payment requests mechanism and the reimbursement requests involve a triple relations between the financer, the beneficiary and the suppliers (goods suppliers, service providers, executors etc.).

⁶⁶ Avram, M., Drăgușin CP, The Current Status of Academic Education Financing in Romania, Annals of Faculty of Economics, University of Oradea, Vol. 1, Issue 1, pp. 837-845, 2013.

⁶⁷ www.fonduri-ue.ro

⁶⁸ www.gov.ro

Both mechanisms are based on a funding contract between the financier and the beneficiary. In its turn, the beneficiary, for realizing the financing contract's object, concludes various contracts with thirds. Based on these contracts, the suppliers deliver goods, provide services, execute works or guarantee them through letters of bank guarantee and issue invoices or advance payment invoices.

In this stage comes the distinction between the two mechanisms:

- **In the first case**, the beneficiary will proceed to pay the invoices and, based on the payment documents, will make and submit to the financier the reimbursement request. After collecting it, the beneficiary will recover part of the consumed resources for paying the goods, the works, the services or advance payments. In other words, for this mechanism, the financing works based on the reimbursable principle, according to which the beneficiary will pay the expenses and then he asks back the amount for reimbursement. The main disadvantage is the great gap of time between the moment when the payments are made for the activities of the project and the moment when the money are actually received, thus appearing the necessity of insuring with liquid assets throughout the reimbursement period.
- **In the second case**, based on the invoices or advance payment invoices accepted for the payment, but not yet settled by the beneficiary, he will make and submit to the financier the payment request. The beneficiary will be able to make the payment towards the third suppliers only after covering the payment request by the management authority. Actually, the valid legislation defines the payment requests as *„requests made by the beneficiaries of projects financed from structural instruments, through which they ask to the management authorities the amounts necessary for paying the reimbursable expenses, representing eligible expenses correspondent for the structural instruments and the public contribution insured from the State budget, and also for the payment of the VAT, considered non-eligible, correspondent for the eligible expenses.”*⁶⁹

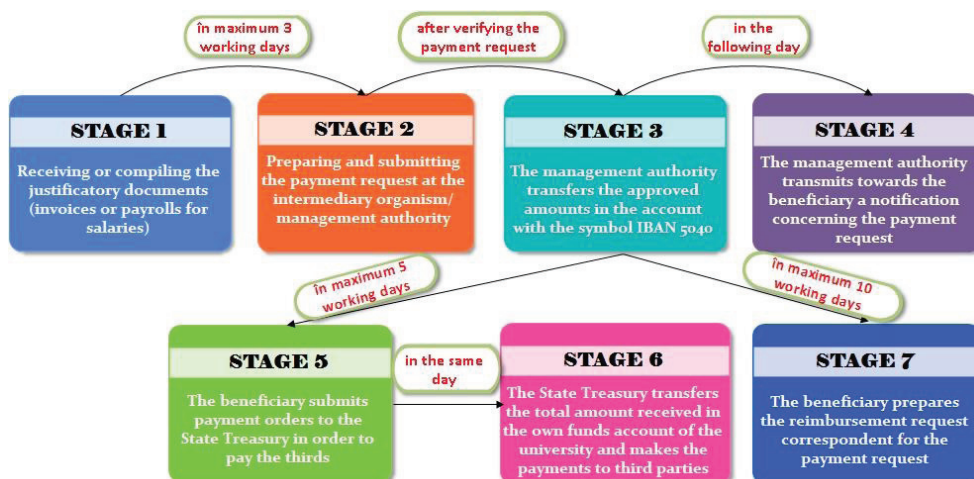
We can now see the remarkable difference between the reimbursement request and the payment request: the reimbursement request is based on already paid documents, while the payment request is made only based on non-reimbursed documents.

The two mechanisms will function simultaneously, giving the beneficiaries the possibility to choose either the classical system, either the new launched alternative.

5. THE STAGES OF THE MECHANISM OF PAYMENT REQUESTS

Basically, the financing methodology specific for the mechanism of payment requests, graphically represented in Figure no. 1, implies the following stages:

⁶⁹ Government Emergency Ordinance no. 84/2013 for the amending and supplementing Government Emergency Ordinance no. 64/2009 regarding the financial management of structural instruments and their use for the convergence objective, published in Official Gazette no. 579 of 11 September 2013.



Source: Own interpretation after the Government Emergency Ordinance no. 84/2013 [5]

Figure no. 1 – The stages of the reimbursement for payment requests

Stage 1 – receiving or compiling the justificatory documents (invoices that certify the goods’ delivery, work execution or service supply, advance payment invoices or payrolls for salaries, scholarships, subventions or prizes);

Stage 2 – in maximum 3 working days since the receive or drawing up the justificatory documents, if their were accepted for payment, the beneficiary puts together a payment request and submits it, together with the justificatory documents, at the intermediary organism/ the management authority;

Stage 3 – after verifying the payment request, the management authority transfers the value of reimbursable expenses and the VAT for the eligible expenses in an account specially opened for operations through the mechanism of payment requests, on the beneficiary’s name, at the territorial agencies of the State Treasury; particularly important is that the management authority will realize the transfer only for the amount of the contribution from the European Union and the contribution from the State budget, and thus, the beneficiary has the obligation to insure that he has the necessary funds for covering its own contribution, in order to fully pay the documents necessary for the payment request;

Stage 4 – in the following day after the day in which the transfer was made, the management authority transmits towards the beneficiary a notification concerning the payment request, with the approved and transferred amounts; the notification must respect a minimal information content, including: a number and a date for each justificatory document, the identification information of the beneficiary, the amounts correspondent for each justificatory document with breakdown on: amounts that are being paid from the money received from the management authority and amounts from own contribution, eligible expenses with correspondent VAT, non-eligible expenses with correspondent VAT; the beneficiary submits to the territorial agency of the State Treasury a copy of the notification received from the management authority;

Stage 5 – not later than 5 working days since the collection of the amounts from the account specially opened at the State Treasury agency, the beneficiary submits, in order to pay the thirds, payment orders made for each justificatory

document, respecting the breakdown on the individualized elements during the fourth stage, according to the notification transmitted by the management authority;

Stage 6 – after all the necessary verifications, but in the same day in which the payment orders were received from the beneficiary, the territorial agency of the State Treasury transfers the total amount received from the management authority in the own incomes account of the beneficiary academic education institution, from where, based on the submitted payment orders, the transfers towards thirds will be made;

Stage 7 – not later than 10 working days from the collection of the amounts transferred by the management authority, the academic education institution must prepare the reimbursement request correspondent for the amounts paid through the mechanism of payment requests and to submit it at the intermediary organism/management authority; if the amounts are not justified through a reimbursement request, these will be given back to the management authority.

5. THE GENERAL OPERATIONS FOR APPLYING THE MECHANISM OF PAYMENT REQUESTS REFLECTED IN ACCOUNTING

For the accounting reflection of the operations made by the academic education institutions through the mechanism of payment requests, in the following we will bring forward the case of the University of Craiova, as public beneficiary that implements projects financed from non-refundable external funds.

The University of Craiova is by far the most prestigious academic education public institution from the entire region of Oltenia. In recent years, the university was intensely focused on the challenging goal of attracting funds also from other sources than the ones coming from budgetary financing, following the identification of new financing opportunities in order to diversify the own income sources. A financing opportunity on competition fundamentals was realized in accessing and starting implementing structural funds financed projects.

In order to implement strategic projects that generate added-value, the main objective of the University of Craiova implied: diversifying the range of partners, diversifying the major intervention directions accessed and optimal allocation of the financial, logistical and human efforts necessary for the ongoing of the projects.⁷⁰

Between 2009-2013, the University of Craiova accessed and implemented 53 projects from which: 38 projects financed through the European Social Fund and 15 projects financed from the European Regional Development Fund.

For the projects financed from external non-reimbursable funds distinct accounting evidence is kept, using analytical accounts for each project. The projects are individualized on cost centers and on activities.

The funds come from the European Union (through the European Regional Development Fund or the European Social Fund) and from the national budget, through the national contribution allocated in order to reach the assumed objectives. To this, is added up the university's own contribution, as a beneficiary of the added-value brought by the projects.

For the mechanism of payment requests, a distinct account was opened at the State Treasury with the symbol IBAN **5040** „**Available for the mechanism of**

⁷⁰ Annual Report of the Rector of the University of Craiova regarding the institution status for 2012 available at http://www.ucv.ro/pdf/despre/strategie/Raport_de_activitate_2012-2013.pdf accessed on 02/01/2014

payment requests”, through which are received the amounts from the management authority, amounts that will be transferred subsequently by the Treasury in the university’s own incomes account. Particularly important is that, from the account with the symbol IBAN 5040, the beneficiaries cannot make withdrawals or transfers since the money that had arrived in this account, through the specially created mechanism, have a precise destination.

In this context, in the accounting of the University of Craiova, the following accounting registrations, specific for the mechanism of payments requests are made:

a) Based on the banking statements for the account opened at the Treasury with the symbol IBAN 5040, the following are being registered:

1.The collection of the amounts received from the management authority representing the counter value of the payment request, minus the part of the own contribution of the university. Records are distinct, respecting the percentages mentioned in the grant agreement.

| | | |
|---|---|---|
| 5151 | = | 4585.2 (4585.3) |
| „Available in lei from external non-refundable funds” | | „Amounts from FEN (the state budget) in the mechanism of the payment request” |

2. The transfer of the amounts received from the management authority in the own incomes account of the University of Craiova (account opened at the Treasury and with the symbol IBAN 504601):

| | | |
|----------------------|---|--|
| 581 | = | 5151 |
| „Internal transfers” | | „ Available in lei from external non-refundable funds” |

3.The correction of the artificially transferred rollovers with amounts that do not represent net payments:

| | | | |
|--|---|--|------------------------|
| 5151 | = | 5151 | |
| „ Available in lei from external non-refundable funds” | | „ Available in lei from external non-refundable funds” | With the amount in red |

b) Based on the bank statements correspondent for the treasury account with the symbol IBAN 504601, the following are registered:

1.The collection of the amounts transferred from the account with the symbol IBAN 5040:

| | | |
|---|---|----------------------|
| 5601 | = | 581 |
| „Available for the institutions integral financed from own incomes” | | „Internal transfers” |

Chapter 40.10.16 „Amounts received during the mechanism of payment requests”

2.The payment of the amounts due to suppliers or fixed assets suppliers, while the own contribution of the University of Craiova is supported from its own incomes; the payment towards thirds will be made simultaneously for the amounts transferred from the account with the symbol IBAN 5040 and for its own contribution, insuring the complete settlement of the assumed obligations, as follows:

| | | |
|------------------------------|---|--|
| 401 „Suppliers”/ | = | 5601 |
| 404 „Fixed assets suppliers” | | „ Available for the institutions integral financed from own incomes” |

The chapter Operational Programmes
Expenses title 56 „Projects financed from external non-refundable EU funds” with the following breakdown:

56.xx.01 National financing

56.xx.02 External non-refundable financing

56.xx.03 Non-eligible expenses

where xx is 01 for ERDF and 02 for ESF

c) After the payments, in accounting is registered the claim of the University of Craiova towards the European Commission for payments made under the title 56 „Projects financed from external non-refundable EU funds” for part of the eligible expenses correspondent to the non-refundable external EU funds, thus:

| | | |
|--|---|---|
| 4505.5 „Amounts received from the European Commission that represent incomes from the general consolidated budget” | = | 473.01 „Amounts that are to be requested for reimbursement” |
|--|---|---|

d) When drawing up the reimbursement request, in accounting the amounts correspondent for the structural instruments and those representing the state budget state contribution are distinctly highlighted, as it follows:

Amounts correspondent for the external EU non-refundable funds:

| | | |
|--|---|--|
| 4583.1.1(4583.1.2) | = | 775 |
| „Amounts to receive from the Certification Authorities/ Management Authorities for payment made in <i>the current year (in the previous year)</i> – PROJECTS FINANCED FROM EXTERNAL NON-REFUNDABLE EU FUNDS” | | „Financing from external non-refundable EU funds” |
| | | Chapter 45 „Amounts received from EU in the made payments account” with the following breakdown: |
| | | <i>45.10.xx.01 Amounts received during the current year</i> |
| | | <i>45.10.xx.02 Amounts received during the previous years,</i> |
| | | where xx is 01 for ERDF and 02 for ESF |

Amounts correspondent for the budget funds:

| | | |
|---|---|---|
| 4583.2.1(4583.2.2) | = | 778 |
| „Amounts to receive from the Certification Authorities/ Management Authorities for payment made in <i>the current year (in the previous year)</i> – BUDGET FUNDS” | | „Incomes from the national contribution correspondent for the programmes/ projects financed from external non-refundable funds” |
| | | Chapter: 42.10.39 „Subventions from the state budget to the institutions that are completely financed from own incomes for projects financed from post-EU aderation projects” with the following breakdown: |
| | | 42.10.39.01 for payments made during the current year |
| | | 42.10.39.02 for payments made during the previous years |

When submitting the reimbursement request to the management authority, the claim of the University of Craiova towards the European Commission ends:

| | | |
|---|---|---|
| 473.01 „Amounts that are to be requested for reimbursement” | = | 4505.5 „Amounts that are to be received from the European Commission representing incomes from the general consolidated budget” |
|---|---|---|

e) Subsequently, the reduction of the amounts that are to be received from the management authorities is registered with the amounts received through the mechanism of payment requests:

Amounts correspondent to external non-refundable funds:

| | | |
|---|---|--|
| 4585.2 | = | 4583.1.1(4583.1.2) |
| „Amounts from FEN in the mechanism of payment requests” | | Amounts to receive from the Certification Authorities/ Management Authorities for payment made in <i>the current year (in the previous year)</i> – PROJECTS FINANCED FROM EXTERNAL NON-REFUNDABLE FUNDS” |

Amounts correspondent for the budget funds:

| | | |
|--|---|--|
| 4585.3 | = | 4583.2.1(4583.2.2) |
| „Amounts from the state budget in the mechanism of payment requests” | | „ Amounts to receive from the Certification Authorities/ Management Authorities for payment made in <i>the current year (in the previous year)</i> – BUDGET FUNDS” |

f) The amounts received through the mechanism of payment requests are regularized by reducing the amounts showed in the chapter “Amounts received in the payment requests mechanism” and highlighted in the chapter for incomes specific for that programme:

| | | | |
|---|---|----------------------|------------------------|
| 5601 | = | 581 | With the amount in red |
| „Available for instututions completely financed from own incomes” Chapter: 40.10.16 | | „Internal transfers” | |

| | | | |
|--|---|----------------------|--------------------------------|
| 5601 | = | 581 | With the amount in black |
| „Available for institutions completely financed from own incomes” | | „Internal transfers” | |

Chapter: 45.10 or 42.10.39

5. CONCLUSIONS

The mechanism of the reimbursement requests was one much disputed, especially by public beneficiaries. In their quality of public beneficiaries, academic education institutions have experienced serious problems related to cash flow due to immobilization of some significant own resources to support projects financed from structural instruments.

In the pessimistic context in which universities face amplified budget pressure of non-refunding payments made for the implementation and project development, *we believe that the mechanism of payment requests has emerged as a finance facilitating tool from non-refundable external funds, representing an effective alternative demarche for public beneficiaries.*

Analyzing the comparison of the two mechanisms, tailored to the specific of the state universities, *we find that the mechanism of reimbursement requests undoubtedly favors the financier and the providers and disadvantages the beneficiary university.* Academic education institution bears all project costs, facing with the budgetary pressure. Instead, the financier enjoys total safety because he reimburses the counter value of certain goods, works or services effective paid by the beneficiary. Regarding the suppliers, they are advantaged by the shorter term of payment, fixed by the agreement with the beneficiaries, which, although they are submitted to budgetary pressure, they all have the interest to make the payment as soon as possible in order to request at the reimbursement the amounts spent. *In case of the mechanism of the payment requests, we believe that only part situated in disadvantage are the suppliers.* They will face with an eliminatory criterion at the public acquirement procedure that is longer payment terms set by the beneficiaries especially to apply the mechanism just recently released. Regarding the financier, in this case we may speak of total safety too because he will validate the payment of the delivered goods, done works, services provided or guaranteed, as appropriate. The indisputable advantage appears in case of the universities that enjoy in this situation a cash flow provided by the payment request.

Despite the significant advantages offered by the new mechanism, in case of the University of Craiova, by the end of 2013, only two projects have opted for its implementation. The main reason is not the lack of information, nor reluctance, but the fact that many projects were already completed and most are nearing of the completion. But, despite the difficult times faced, the University of Craiova tries an optimistic approach toward funding opportunities 2014-2020.

Finally, considering the advantages and disadvantages of the two mechanisms, *we believe that the possibility of the beneficiaries to choose either the classic system or the new alternative, is an advantage, allowing the selection of reliable variant relating to the context, available resources, additional sources of financing and payment terms.*

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