

## STRENGTHENING ROMANIAN BANKS' ROLE IN THE EUROPEAN FUNDS ABSORPTION

**Assoc. Prof. Cristi Marcel SPULBĂR, PhD**

**Assoc. Prof. Dorel BERCEANU, PhD**

**Lect. Oana Rodica GHERGHINESCU, PhD**

**University of Craiova**

### 1. The role of banks in the absorption of EU funds

Since the pre-accession period is known that structural funds will come in Romania and we see that we are approaching the end of 2008 and many of the Romanian banks are being prepared just now. Studies by the research team, the result that there are exceptions. Of these 42 banks, Romanian legal persons and branches of foreign banks, including their offer has been analyzed and found that five banks have given importance to access EU funds, respectively the Romanian Commercial Bank, the Romanian Development Bank, The Bancpost, CEC Bank and Raiffeisen Bank. The first four banks have submitted their offers in the financing instruments for accessing EU funds under the International Risk Management Seminar in Public Administration. Strengthening Banks' Role In The European Funds Absorption Through Proces Instruments Co-financing.

However, the interests of banks on the contribution to access EU funds are not significantly different from what happened a few years ago with SAPARD funds. Since that time even today, there are reasons more or less merit. One is the lack of information on sectoral programs and the criteria for application and funding.

Most banks acknowledge how communication with the authorities responsible for these programs and the negative consequences have occurred. A prime example is the lack of common

procedures, which has the effect of increasing bureaucracy. Vis-à-vis this aspect, we believe that banks with the implementation of EU funds must establish a mechanism and a stream of common documents, which allow the harmonization of the documents required by banks for the granting of with those funds requested under the programs in which European funding will be awarded. We note that so far, the flow of information and communication only with no formal functional safer by requiring better coordination. In business and banking environment in itself that the development of financial funds available to Romania is in an uncertain phase, marked by the absence of transparency and organizational capacity and reduced decision-making level authorities. On the other hand, there are voices who argue that the fault belongs to the banks which are also adapted to new situations and neither have a lobby group in the relationship with the government.

The experience of other European countries shows that banks have been co-opted in the projects. In Romania, it seems that a vicious circle was created: it can not access funding if they do not co-financing banks while the banks to provide financing would at least pre-approval the authority of management.

Another explanation for the decreased interest shown by most of the Romanian banking system is the lack of projects. Perhaps if the public institutions and companies develop viable projects when the interest banks could rise to as many projects will be approved by the European Commission.

The lack of information from the authorities, bureaucracy, lack of transparency, the defective information, the decreased level of entrepreneurial initiative, development of small consulting company and not the last place in the lack of an appropriate institutional and legal framework and adapted to the European regulations are, in our opinion, the major obstacles in increasing the degree of absorption of EU funds and, by implication in the increased role of banks contributing to this process .

It is considered that to help increase the role of banks in accessing European funds we need a change in their strategy, and respectively in the treatment of this process as a long-term, under conditions until now, banks are more interested in promoting credit products due to the expansion of non-governmental credit. Although in Romania so far the effects of the financial crisis that began with a record of almost a year in the United States does not feel it is possible that future closer or more distant the banking systems are affected as a consequence of the effects of contagion and by implication, credit expansion must be tempered.

In these circumstances, the financing of European projects could become an opportunity for banks and through the prism of the degree of risk and the high volume of securities (including the EU co-financing). More, further increasing the volume of loans as a financing for projects in the structural funds, banks will obtain additional revenues flow of funds through their accounts (commissions and increased liquidity), as well as the consultancy for accessing funds and preparation of business plans made in European format.

In conclusion, the banks must also assume the role of financial intermediaries and have a more active participation in the implementation of projects with EU funding for the financing of viable projects.

Ensuring a high rate of absorption of structural funds and Cohesion Funds for

Romania depends on the ability of institutional and administrative structures to manage these funds, opportunities for the central authorities and local communities to participate in regional financing of eligible projects, the capacity of central, regional and local levels, to have access to various sources of funding from public or private.

The gain of a grant is not all it is important that the project should be carried out and targets to be achieved. In this process, the bank has a particularly important role.

A presentation of the project must be proven that there is a financing or a comfort letter from a bank. In the process of implementation, the costs are initially borne by the beneficiary, then they will be reimbursed within a period more or less. In addition, there must be a co-sizable, usually around 30-40%. If there is not enough money, the bank can provide the difference when the need is greatest. For example, a project of 1,000,000 euros to the beneficiary should be between 70-100% of the total at the beginning of the project. The financing of the bank is therefore vital because implementation of the project must be done correctly. Research conducted on the example of five commercial banks mentioned above have revealed that he understood the importance represented by the financing of European funds, banks have adapted their laws to be credited to a credit redemption in the sense of assimilation in the analysis of credit in the documents attached to the funding request submitted to the Management Authorities of programs respectively feasibility studies, business plans, financial forecasts. The application of the same documents is an advantage for the beneficiaries is intended to exempt the development of several documents with the same content but different forms.

Banks dealt a different major projects, which require completion of feasibility studies, analysis of cost-benefit of projects for which a complex analysis was carried out by the authorities resort to small projects where grid the

assessment does not cover all the aspects considered in the economic and financial analysis conducted by the bank.

In addition, the criteria grid of technical and financial evaluation of the project, the banks must have in mind the aspects relating to the solicitor in the history of the relationship with the bank's ability of repayment of credit, opportunities to ensure (taking into account that for projects with funding in the context of the structural type, except PNDR property acquired by the project can not be guaranteed to credit) it more than the experience, there have been many requests for appropriations for the financing of projects approved by the authority of management, for which the applicant does not have its own source. In addition, projects must be continued the whole period of implementation to be no cases of blockage or delays in the execution of contracts, which can thus jeopardize the whole project. To this end, it is recommended that recipients must maintain continuous contact with the banks, taking advantage of their experience in the conduct of commercial operations (eg, an error often encountered in the course of the contracts is represented by the payment in advance without asking for letters of guarantee for repayment of the advance).

Also, when initiating a project, the beneficiary must have a clear picture of what will happen and in the period following the completion of the project. This vision incorporated into the funding application gives credibility and provides additional points in the evaluation of the project.

To be financed by the bank, the project respectively, the applicant must comply with the standards of funding for banks to implement and to be sustainable for the whole period (required) to maintain the investment function .

The evaluation of projects is even more difficult than the management had not yet developed the necessary mechanisms to ensure transparency as regards the assessment / approval of

projects submitted in the operational programs. The main objective of European Union funds is to finance projects that, in the absence of these funds can not be achieved or occur in a longer period of time. The bank has any interest in financing a viable business, even if sometimes the conditions imposed on customers seem cumbersome, it does only a reduction of risks related to the project.

Considerations on the possibilities of increasing the role of banks in the process of absorption of structural funds.

Regarding the degree of involvement of banks in Romania to support those who wish to access the structural funds, one appreciates that it is quite high. Even if only one of 5 banks of 42 is actively involved in supporting the IMM, the local authorities to access these funds, we consider that the power of banks is sufficient to ensure a satisfactory degree of absorption. Thus the network of banking units which have the 5 banking institutions is 62% of total banking network in Romania, the number of employees whose banks have 5 to 49% of the total employees in the banking system.

We note that most banks have not yet developed flexible instruments and are not adapted to the challenge that is represented by access to EU funds. Sometimes, experienced in access to EU funds and in project evaluation and missing most of the banks blame faulty communication with the authorities concerning access to EU funds.

In our view, banks with the implementation of EU funds should establish a methodology and a set of documents that will allow the harmonization of documents required for access to EU funds but also the co-banks in the screening of projects.

At the same time, it is absolutely necessary the participation of banks to the authorities for the creation of the legislative, institutional and organizational measures for increasing the degree of absorption of EU funds.

From the viewpoint of increasing the role of banks in accessing European funds, it is considered that it would be good for all potential beneficiaries of these funds still have a discussion with the bank before filing the draft. You can avoid unpleasant situations in which the company may learn that there are minimal opportunities to obtain bank financing, or that this is not sufficient for the actual need of financing the project. The bank can offer solutions that have an impact on the project for which grant funding is sought. Therefore, the discussion with the bank should be started as soon as possible.

## **2. The impact of the current financial crisis on the process of absorption of structural funds**

It is important to start this analysis, first put into question the distinction between the allocation, access and absorption of structural funds.

As each of the 27 Member States of the European Union, Romania has developed the programming 2007-2013, the National Strategic Reference Framework, which includes regional and thematic priorities for the allocation of structural funds instruments (Union European Regional Development Fund, European Social Fund and Cohesion Fund).

**Allocation** of operational programs (Regional Operational Program, the Sectoral Operational Program Increase of economic competitiveness, the Sectoral Operational Program Human Resources Development, the Operational Program Development of administrative capacity, the Environment Program, the Operational Program Transport) has identified the needs of economic and social development of our country, as reflected in the national development plan and may receive financial support from the budget allocated by the European Union for the implementation of cohesion policy.

Each program has been developed and detailed in the priorities and major

areas of intervention, described and defined according to the type of eligible beneficiaries, the types of eligible activities and the activities and types of eligible costs. Thus the allocation implies the existence of an availability of funds for various projects that can be deposited by different types of candidates.

**Access** is the next step in which the potential beneficiaries prepare and file the necessary documentation on the different areas of intervention, documentation is a process of natural selection and evaluation to determine eligibility and administrative compliance audit quality technical and financial proposals for projects. Access to funds available through the allocation does not automatically coincide with the absorption. A viable project declared winner and contracted between the beneficiary and the management of the process of implementation and requires starting the process of spending money.

**Absorption** occurs when the costs incurred by the beneficiaries of the projects are audited and certified as eligible settled. The absorption depends not only on the drafting of viable projects, but also the implementation of adequate funding.

Each of the six channels of transmission of the effects of the crisis affects, directly or indirectly, access and, in particular, the process of absorption of structural funds in Romania. We propose in what follows to provide brief explanations of each:

**1. The highest rates between the interbank interest** - are translated into an increase in the general level of interest rates in the banking system and lead to increased costs related to bank loans contracted by the beneficiaries of projects commercial banks to advance to the reimbursement of expenses by contracting authorities, to cover the symbol of contribution to the project and non-eligible costs in the implementation of the project. These costs borne a good implementation of projects and increase the financial benefit of the worm project, determining the renunciation of their

contracts before signing or termination of contracts in the period of implementation of projects.

**2. The price down of assets** - are transposed into the reduction of the value which the goods are valued in order to obtain guarantees. For example, to obtain a proportion of the contracts for financing structural funds is conditional upon obtaining a letter of guarantee from a commercial bank. The vast majority of beneficiaries will get such a letter and not by blocking the money in the account, but by the evidence to hold their wealth in assets in high value placed on banks. In this context, it is clear that lowering the value of assets has a negative impact on the absorption of structural funds.

**3. Loan conditions more restrictive** - affect, as I mentioned, alternatives to ensure beneficiaries by bank loans, the advance of expenditure or the recovery of his own contribution and expenditure ineligible. It is also affected the ability of operation of the objective of the investment financed by the project after the funding period and not reimbursed the beneficiary must demonstrate the ability to maintain in the state of operation the investment objective.

**4. Lower revenues in the financial sector** - reverberating indirectly on absorptive capacity, while it leads to a lower degree of financial intermediation and implicit channel blocking progress of the funds needed for implementation the project.

**5. The loss of trust** - as a direct consequence of the reluctance of potential beneficiaries to write and implement projects, especially where there are blockages in the reimbursement of expenses by the contractors occur. However, on the basis of the depreciation of the national currency against the euro are strongly affected project beneficiaries, as all contracts for financing structural funds are signed in lei.

**6. Blocking economic** - can charge, in turn, the absorption of structural funds. In the case of large infrastructure projects financed by structural funds, which include large-scale works that can not be implemented in time when the number of viable enterprises in the construction sector, for example, is declining.

**In conclusion**, we can say that the global financial crisis is felt at the potential for absorption of structural funds in our country, because they are transmitted over the same channels that affect other areas of economic and social life. However, especially during the crisis, structural funds should be seen as an opportunity that should be enhanced by the mobilization of all necessary factors: political, institutional and organizational, since they can provide solutions to some of the ingredients the crisis - the increase in the degree of occupation, the development of viable economic activities, development of alternative resources, etc.

## REFERENCES

Bradley, J., Morgenroth, E.	<i>A Study of the Macro-Economic Impact of the Reform of EU Cohesion Policy</i> , Dublin, Ireland, 2004
Breuer, P., MacArthur, A.	<i>Une nouvelle ligne de défense contre les crises – FMI Bulletin</i> , 2007
Calvo, G., Izquierdo, A., Talvi, E.	<i>Phoenix miracles in emerging markets: recovering without credit from systemic financial crises – Bank for International Settlements</i> , 2006
Gherghinescu, O., Rinderu, P., Neagoie-Bacanu, D.	<i>Management of Structural Funds Projects</i> , Universitaria, Craiova, 2008