

The Influence of Romania's Banking Institutions in the Absorption of Structural and Cohesion Funds in the Period 2014-2020

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Abstract

The absorption of EU funds made available to each member state of the European Union is one of their main priorities, also a priority of Romania in the 2014-2020 programming period, given that European funds are considered an important alternative source for financing the economy, with the help of which we will be able to meet the three new priorities of Europe Strategy 2020, namely "smart growth, sustainable growth, growth favorable for inclusion". In our opinion, the authors, one of the most important obstacles in the absorption of European funds, obstacle that is common to all Member States, is the inability of potential applicants for EU funds, be they representatives of local public authorities, NGOs, religious units, SMEs, micro enterprises, other categories of eligible applicants, etc. to demonstrate the financial sustainability of the project during implementation, namely to be able to sustain the imposed compulsory co-financing programs as a share of total eligible costs of the project and bear the ineligible costs of the project. The demonstration of financial sustainability during the implementation of a project financed from European funds can be made by the applicant either by demonstrating its ability to self-finance the charges imposed by the managing authority of the funding program, namely through the co-financing share of eligible and ineligible expenses for the project, either through a credit agreement concluded with a bank or through a letter of guarantee, letter of comfort, etc. issued by a banking institution. In this regard, as it can be seen, the role of banking institutions in the absorption of European funds is particularly important, aspect that shall be highlighted in this article, which is oriented towards the discovery of hypotheses not towards the confirmation or refutation of hypotheses.

Keywords: *European funds, European Union, banking system, banking institution, absorption, Europe Strategy 2020, co-financing, credit, financing.*

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Introduction

The research activity highlighted in this article was done considering the existing economic theories and legislative framework in force and specialized books and articles on the role of banking institutions and structural funds and the investment made available by the European Union.

This article has tried to highlight the elements considered by the authors as the most relevant, both in terms of theory (theories, concepts, etc.) and in terms of practical analysis, which led *to drawing conclusions about the role and influence of banking institutions in Romania in the absorption of structural and cohesion funds in the period 2014-2020*. Therefore, the article is divided into two main sections, the first trying to summarize an analysis of banking institutions in Romania and in the second trying to present an analysis of the structural investment and cohesion funds that are made available to Romania by the European Union in the period 2014- 2020, through a cohesion policy and a regional development policy. The article ends by the conclusions drawn by the authors on the impact, role and influence banking institutions in Romania will have on the absorption of European funds in 2014-2020.

1. Banking institutions in Romania

In modern economies the banking institutions forming the banking apparatus of a state are represented by the central bank, which has the role to achieve monetary, credit and currency policy of that State and the banks in the system represented by commercial banks and other credit institutions. Starting with the contemporary period “Banks became one of the main instruments of economic policy”(Marin Opreșcu, Jenica Popescu, Cristi Spulbăr, Roxana Nanu, Alina Manta, Currency, Credit, Banks, University Manual, Sitech Publishing House, Craiova, 2013), being involved in crediting the national economy.

According to the paper Banking Management developed by Heteș-Gavra Iosif, Heteș Gavra Roxana and Buglea Alexandru, the first signs on the performance of banking activities in Romania “consist of a series of stone plates discovered in a gold mining area. One of these plates contains details on the contract of establishing a "banking institution" and is dated March 28th, 167, A.D.” (Heteș-Gavra Iosif, Heteș Gavra Roxana and Buglea Alexandru, Banking Management, University Horizons Publishing House, Timișoara, 2014). During that period, banks lent funds that were created as capital, their profits being generated by the interest that they charged. Over time, banks were preoccupied with the currency exchange operations, given that, in the Romanian territory, a total of 70 coins have circulated for centuries. The first bank was founded in 1721 in Sibiu and its main purpose was granting loans based on guarantees, exchange currencies and making certain payments.

Referring to Romania, the first bank established was the National Bank of Moldavia, in the year 1857 (Marin Opreșcu, Jenica Popescu, Cristi Spulbăr,

Roxana Nanu, Alina Manta, Currency, Credit, Banks, University Manual, Sitech Publishing House, Craiova, 2013). The year 1864 brought a big change in the Romanian banking system, in a positive sense, so that this year, the Savings and Consignments House was established, which was the only bank that lent the state until the creation of the National Bank. Subsequently, the Romanian banking system included other banking institutions such as: the Bank of Romania, Albina Bank (founded in Sibiu in 1872 with Romanian capital), the Rural Financial Credit, Aurora Bank, the Rural and Urban Financial Credit, etc.

The National Bank of Romania was founded in 1880, and it has as a model the National Bank of Belgium. This bank had unique role of coinage and operations could achieve commercial securities discounting, discounting of Treasury bills, gold and silver trading, buying public securities, cash operations, etc. The National Bank of Romania was the first step towards organizing the banking and the credit system in Romania.

In the second half of the nineteenth century and the first half of the twentieth century in Romania were created new banks such as: the Agricultural Bank, the Bank of Commerce in Craiova, the Discount Bank in Bucharest, the Romanian Credit Bank, the Romanian Commercial Bank, etc. Therefore, the number of banks in Romania increased in the years 1929-1930 when the economic crisis occurred, crisis which affected and bankrupted many banks: "if in 1934, 1204 banks were active in Romania, in 1940 there were only 446 operational" (Heteş-Gavra Iosif, Heteş Gavra Roxana and Buglea Alexandru, Banking Management, University Horizons Publishing House, Timișoara, 2014). After 1947, year that can be considered as the peak of development of the Romanian banking system (banks had large resources, were led by true specialists according to international standards), and the Romanian banking system has been in a constant restructuring, so that, in 1989, Romania had five banks: the National Bank of Romania (the central bank), the Investment Bank, the Romanian Foreign Trade Bank, the Bank for Agriculture and Food Industry and the Savings and Consignments House.

As can be seen, until 1989, banks in Romania have been "specialized banks", serving some sectors of the economy and cover certain categories of customers, for example, the Savings and Consignments House was considered as "highly specialized", meaning that Romania's population had banking relationships only with this kind of institution. Since the 1990s, together with the reform on economy, we also reformed the banking system. Therefore, under the new legislation, the Romanian National Bank was the central bank and the other commercial banks had the status of joint stock companies. The main problems of the banking system after 1990 were related to the privatization of large state-owned banks and to the adaptation of the Romanian banking legislation to international standards. Regarding this issue, in Volume 1 of the paper Currency and Monetary Theory, the author Silviu Cerna affirms: "The fair resolution of these issues is likely to put the banking system in Romania in the logic of market economy" (Silviu Cerna, Currency and Monetary Theory, Vol. 1, Mirton Publishing House, Timișoara, 2000).

Apart from commercial banks and the central bank, the Romanian banking system also includes other banking institutions such as: credit unions, savings houses, municipal credit houses, financial companies (specializing in certain areas: leasing, consumer credit, real estate credit, regional development, support to SMEs, etc.)

With the integration of Romania into the European Union, regarding the Romanian banking system, it was observed that the activities and management of Romanian banks have been redesigned, meaning that many small banks were forced to merge or be acquired by foreign banks with large amounts of capital who were attracted by the potential of the Romanian banking market at that time, namely a low level of indebtedness of the population.

The integration of Romania into the European Union has brought, besides the above-mentioned reform, major changes in the internal development policy of the Romanian banks, meaning that, with the advent opportunity to access European funds offered by the EU cohesion and regional development policy to finance various projects, they also had to include in their offer, to support the eligible applicants wishing to access European funds, banking products to help them face the intermediate bodies or managing authorities that were funding programs, in terms of demonstrating the financial sustainability of the project during implementation or letters of comfort, letter of guarantee or loans granted to implement the projects with European funds.

According to the websites of several commercial banks in Romania, they have offers for crediting beneficiaries or applicants for European funds. Therefore, some banks offer, on the Romanian market, banking products for certain stages of a European-funded project. For example, in the start-up phase of the project there are banks (<https://www.bancatransilvania.ro/pentru-companii/utile-companii/fonduri-europene/>) that can offer banking products such as: letter of comfort, letter of guarantee, in the implementation phase they offer banking products such as: bridge loans (credits that can “provide the possibility to start and implement the investment until cashing non-refundable payments”), investment loans (credits that co-finance the applicant until repayment), credits for VAT (short-term loans to finance VAT).

2. Cohesion and structural funds allocated to Romania in the 2014-2020 programming period

Considering that, in the period 2007-2013 (the first programming period for accessing European funds made available to Romania by the European Union under the cohesion and regional development policy), according to the data on the official website (www.fonduri-ue.ro) of the Ministry of European Funds, on 31.07.2015, the absorption stage of structural and cohesion funds on each operational program was as follows (http://old.fonduri-ue.ro/res/filepicker_users/cd25a597fd62/rezultate/std_abs/Raportare%20Programe%20Operationale%2030%20iulie%202015.pdf):

Table 1 Stage of Structural and Cohesion Funds absorption on 31.07.2015

Item no.	Name of the operational program	Allocation 2007-2013 (million euro)	Expenditure statements related to the projects submitted at the EC (million euro)	Absorption rate (%)
1	POR	3,966	2,529	63,77
2	POS MEDIU	4,413	2,131	48,29
3	POS TRANSPORT	4,288	2,521	58,79
4	POS CCE	2,537	1,498	59,06
5	POS DRU	3,476	1,617	46,53
6	PO DCA	208	173	83,26
7	PO AT	170	110	64,34
8	TOTAL (%)			55,51

Source: www.fonduri-ue.ro

It can be seen very clearly, through a simple mathematical calculation, that the average absorption rate of structural and cohesion funds was 55.51%, a rather small percentage compared with other Member States and, last but not least, taking into account the financing needs of the Romanian economy in order to achieve economic growth and sustainable economic development.

It should be emphasized that one of the main reasons which made the average absorption rate of European funds to be so low in the period 2007-2013, besides a poor administrative capacity, the weak legal framework in respect of European funds, the high level of bureaucracy, the high level of irregularities and suspected fraud recorded in the field of European funds, etc. was the inability of many applicants and even beneficiaries of financing contracts to prove they can financially support the implementation of the project in question, aspect that could be easily solved, in our opinion, through a legislative framework designed to stimulate banking institutions to give credits, grant letters of comfort or bank guarantees in a much easier way to beneficiaries and / or eligible applicants for EU funds.

Regarding the programming period 2014-2020, according to the website <http://www.fonduri-structurale.ro>: "Romania has allocated, for the Cohesion Policy, the amount of 21.825 billion euros, amount which will be indexed to inflation over the seven years" (<http://www.fonduri-structurale.ro/detaliu.aspx?eID=12489&t=Stiri>). These funds will be accessible through the new operational programs made in this regard.

**Table 2 The financial allocation to each of the main operational programs
which will be awarded EU funding during 2014-2020**
(<http://www.fonduri-ue.ro/>)

Item no.	Name of the operational program	Allocation 2014-2020 (million euro)
1	POCU	4326,84
2	POC	1582,77
3	POIM	11881,71
4	POAT	251,21
5	POR	8250,03
6	POCA	553,00
7	PNDR	8015,6
8.1.	RO-BG - COOPERATION	258,50
8.2.	RO-MD- COOPERATION	89,10
8.3.	RO-UA- COOPERATION	66
8.4.	RO-RS- COOPERATION	88,10
8.5.	RO-HU- COOPERATION	231,80
8.6.	RO-BMN- COOPERATION	49
8.7.	RO-HU-UA+RS- COOPERATION	81,3
8.8.	INTERREG Europe - COOPERATION	426,3
8.9.	URBACT III- COOPERATION	74,3
8.10.	INTERACT III- COOPERATION	2,1
8.11.	DUNAREA- COOPERATION	2,1
8.12.	ESPON- COOPERATION	48,60

Source: <http://www.fonduri-ue.ro/>

Given Romania's financial allocation in the period 2014-2020 presented above and taking into account that Romania does not have the ability to self-finance the economy, there are a small number of potential lenders to the state and credit conditions are quite tough, we believe it is absolutely the right moment in which Romania will have to strengthen its administrative capacity to harmonize national legislative framework with the European one, to eliminate bureaucracy from European funds and provide real legislative facilities, that can be enforced immediately, to banking institutions to be involved in supporting the implementation of EU-funded projects, in order to seize the opportunity to finance the Romanian economy from structural and cohesion funds made available to Romania by the European Union in the period 2014-2020.

Conclusions

In our opinion, the authors of this article, the absorption of European funds will be and should certainly be higher in the period 2014-2020, compared to the previous programming period, for the following reasons: the current Romanian legal system is more consolidated than the one in the 2007-2013 period; we believe

the level of corruption and fraud with European funds decreased in the period 2007-2013, specialists were formed for accessing European funds and implementing projects with European financing, therefore existing experienced human resources.

Therefore, if we manage to reduce the bureaucracy in this area, to harmonize the legal framework and not least to create a legal framework so that it may involve the banks in the stages of development, implementation and even post-implementation of EU-funded projects in order to co-finance the beneficiary / applicant (both co-financing related to the eligible expenses and the ineligible expenses). In this respect, we believe the banking institutions, commercial banks in Romania should be involved early in the process of obtaining financing from European funds, even from the concept phase of the project so that they can ensure the co-financing amounts of the project and even the amounts necessary for the financing documentation / file, documentation which, in some cases, depends on the type of investment and involves the development of specialized projects / studies that are very expensive.

In our view, the involvement of banking institutions in the absorption of European funds would lead to filing several projects provided the bank supports the elaboration of financing files, selecting several projects for funding (the bank will be directly involved in the project's financing, therefore give advice through its specialists in preparing the financing documentation), safety of ensuring the financial sustainability of the project during the implementation period (the bank will grant loans to beneficiaries for project implementation), attracting more European funds towards Romania, hence the growth of the absorption rate of European funds.

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