

European Funds: The Involvement of Banks, Where To?

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Abstract. *In our approach an analysis was conducted on how the banks operating in Romania are involved in the financing of the Romanian economy through European funds, with a focus on their role in sustainability of the projects with European financing grants, on their financing offer in the implementation of the development policy in Romania, as well as on the analysis of these bank institutions with respect to their support in the European funds attracting process by Romania.*

Keywords: EU funds, banking institutions, banks, financing mechanism, financing of the economy.

JEL Classification: F15, F36, G10, G20

1. Introduction

In Romania, the cohesion and regional development policy is implemented using specific instruments, represented by cohesion funds, structural and investment funds, which funds are allocated through various funding programs. Thus, through these programs there are financed projects whose beneficiaries can belong to public and/or private sector, aimed at regional development. One of the problems faced by beneficiaries of EU funds in the 2007-2013 programming period has been the impossibility to ensure the financial sustainability of the projects with a view to their implementation. At this stage, the banks that financed the beneficiaries of EU funds intervened to ensure co-financing or pre-financing so that they to be able to provide the cash-flow necessary for project implementation. The banking institutions in Romania providing financial support to beneficiaries of EU funds by providing them with loans or credit lines meant for the period of implementation, had a positive impact on the absorption of European funds and on the cohesion policy.

2. Were the banks involved in the project supporting?

In order to understand the role that banks operating in Romania play in implementing the projects financed with EU funds, it is necessary the following criteria particularly important to be analyzed: **the bankability of the project; the level of direct intervention by the Bank; the complementary funding method.** Thus, the **bankability of the project** means that each project must promote a profitable investment, i.e. **bankable**, or in other words **profitable for the bank**, even if the **profitability of an investment** is differently understood depending on the interested party: economic operator, local public authority, NGOs and so on. It can be said that the **bankability** of a project financed from European funds is the first essential condition that a bank is evaluating with a view it to engaging in the process of implementing it and that falls in its responsibility. Thus, the bankable projects can be considered projects with high credibility. The second criterion refers to the degree of direct intervention of the bank, namely: to the analyzing the beneficiary in terms of financial sustainability of the project during implementation, analysis of possible risks to which the bank is exposed if it would finance the project in question, the bank's product

and services offering. And the third criterion, ***the manner of complementary funding of the projects***, refers primarily to the proposal of a set of measures meant to increase the absorption of, structural and investments cohesion funds that are made available to Romania by the European Union through funding programs.

In the 2007-2013 programming period, many projects that were contracted for financing from European funds have not been implemented or their implementation was given up due to beneficiaries being unable to demonstrate financial sustainability, given that the majority of funding programs have operated on the principle of reimbursement of eligible expenditure of projects after their completion. We think that the most important aspect that must be emphasized is that many of these projects were considered viable in terms of managing authorities, but were not considered bankable by the banks that were addressed for the cash-flow need for their financial sustainability during implementation to being obtained.

By the end of 2013, the absorption rate of European funds by recorded by Romania in the period 2007-2013 was only of 33.47%, about EUR 5.1 billion³ being cashed from the European Union. It is noticeable that this rate was so low, not only because of bureaucracy, poor administrative capacity, inadequate legal framework, lack of experience in the operation and management of European funds, fraud attempts, etc. but also due to the reasons given above, i.e. due to the 40 credit institutions⁴ operating in Romania which did not support financially the beneficiaries and applicants for EU funds.

As shown in Figure no. 1, the total value of a project is made up of the value corresponding to the percentage of eligible expenditure incurred by the managing authority plus the ineligible expenditure to be borne by the beneficiary. Thus, it can be seen that the beneficiary of the European-funded project can choose the self-financing of the project if he has the cash-flow needed to support the eligible costs and expenses representing the co-financing share in the total eligible costs of the project. If the project beneficiary lacks the funds to ensure the co-financing share and the ineligible expenditure for implementation, he will be able to turn to a bank for a loan to implement the investment. From the experience of the 2007-2013 programming period, this alternative presumes the risk of the customer being unable to find any bank to support him financially in the project implementation. In addition, this alternative involves additional costs for the beneficiary, costs that are not eligible, since these costs cannot be claimed for reimbursement from the management authority.

The question is: *Why in the 2007-2013 programming period there were cases when a bank has not supported a beneficiary of a project that had an already signed contract of financing from European funds? The answer is as follows: During the 2007-2013 non-involvement of banks in supporting the beneficiaries of projects financed with EU funds was due to the following causes: either the project was misjudged because of the lack of highly qualified and experienced personnel within the management authorities or intermediate body that manage the European funds, or because the project financial-economic analysis, which shows its viability, was achieved using a different methodology than the one used by the commercial banks, or because some projects were funded based on political criteria, or because in the opinion of the bank in question the project was not bankable. Another reason why the banks did not support the implementation of projects from European funds in Romania is even the "abuse" that some banks showed during the negotiation of the financing solution with the beneficiary of the project, represented by the conditions imposed on them regarding the funding cost. It is very important to note that many of the projects financed by European funds could and still can benefit from a guarantee from the*

³ <http://www.fonduri-structurale.ro/detalii.aspx?eID=14314&t=Stiri> , page accessed on February 25, 2016

⁴ Report on Financial Stability for the year 2015 of the National Bank of Romania, page 71

National Guarantee Fund for Loans to Small and Medium Enterprises (FNGCIIMM) in the favor of the banks involved in the implementation of the said projects, which covers the risk of the loan not being refunded, in a proportion of maximum 80%⁵ of its value, up to EUR 2,500,000. However, the commercial banks, in addition to the guarantee above, requested the beneficiaries of financing contracts to provide collateral security that sometimes consisted in pledging the investment that was to be achieved by the project, while the managing authority allowed this even for other assets held by the beneficiary.

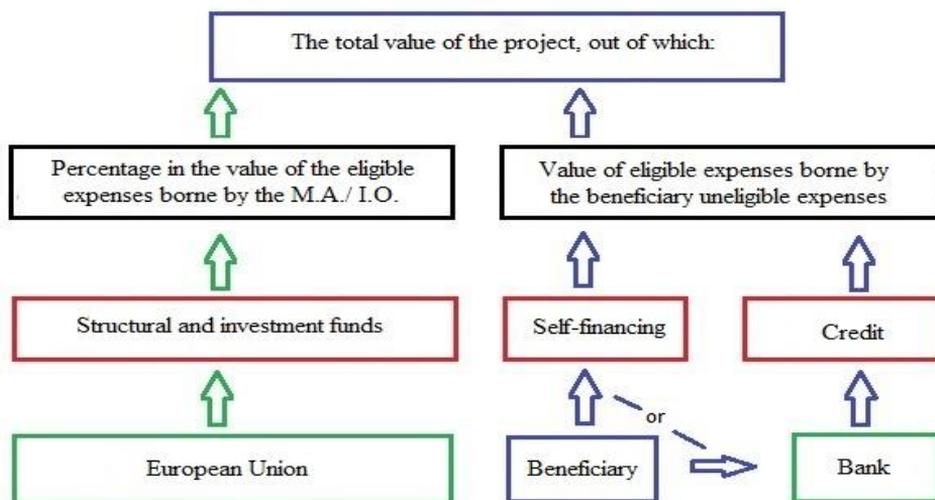


Figure 1. The mechanism of funding a project with European funds

Source: Authors' own processing

3. Analysis of bank offer intended for beneficiaries of EU funds in Romania

In Romania, the offer of the banking institutions that support the beneficiaries of projects financed from European funds is quite diverse. Thus, there can be found credit offers meant for SMEs, micro enterprises, local authorities, NGOs etc., beneficiary of financing contracts the subject matter of which is the financing of the ineligible expenditure of the project and the co-financing of the eligible cost of the project. It should be noted that some banks involve themselves early in the process of obtaining financing from European funds by a beneficiary, in the very concept phase of the project, so as the co-financing amounts of the project to be ensured and even the amounts necessary for the financing documentation/file, which documentation in some cases, depending on the type of investment, involves the development of specialist projects/studies that are very expensive. Of course, we emphasize that there are commercial banks that provide the beneficiaries of European funds with "support in the preparation of the file from the time of submission of the project until the completion of its implementation"⁶, aspect that highlights the fact that the involvement of banks in the absorption of EU funds has increased, aspect that indirectly will lead to the increase of the profitability of these banks. At the same time, we believe that the banking institutions being involved in the process of absorption of European funds is a

⁵<http://www.fngcimm.ro/index.php?page=garantii-standard-descrierea-produsului>, page accessed on February 25, 2016

⁶ http://www.librabank.ro/consultanta_fonduri_europene, page accessed on 30.03.2016

beneficial aspect which would help the absorption to enhance. Primarily, because once directly involved in the drafting of the financing file the banks will provide the applicants for the European funds with a much higher rate of success of the project and also the certainty that since the moment when the project is financed the banks will provide them with the safety of the financial sustainability of the project.

Currently, the offer of the banking institutions for the beneficiaries of projects financed from European funds has become a much clearer and more "friendly" offer as compared to the previous years, given that they have begun to give a greater importance to European funds. As an example the credit institution CEC BANK S.A. can be mentioned, which created a special department dedicated to the financing of European funds beneficiaries, namely "European Funding Office."

Table no. 1

**Banking products and services
dedicated to beneficiaries of EU funds**

Crt. No.	Description of bank product/ service	Main characteristics
1	Credits	The loan is granted: for co-financing of projects and ineligible expenses, including VAT amount financing, for the full or partial pre-financing of the grant for the project and/or for providing for the possibility to start and implement investment until the collection of the non refundable amounts.
2	Credit lines	The credit line is provided for: pre-financing all or part of the grant for the projects, co-financing the eligible expenditure, partial financing of ineligible expenditure, financing the cash needs generated as a result of the project implementation.
3	Bank Guarantee Letters	Bank guarantee letter is provided: in order to demonstrate the ability of financial sustainability of the project, in order to benefit of the advance for starting the investment, to guarantee the refund of the advances received from the non-refundable financial aid.
4	Bank comfort letters	Shall be paid at the time of submission of financing application, or within a specified period from the date of notification of approving the project in order to prove the financial sustainability of the project.
5	Special account opening	Used for receipt of pre-financing, receipt of grants and for project related payments.

Source: Processed by the authors, according to data from the official websites of the following banks: www.cec.ro, www.bancatransilvania.ro, www.bcr.ro, www.unicredit.ro.

This aspect is also noticed with other credit institutions, which have diversified their offer of banking products dedicated to the beneficiaries or even the potential applicants for European funds, as for example, BCR S.A., CEC Bank S.A., Banca Transilvania S.A. and UniCredit Bank S.A., which according to online publication www.bankingnews.ro are the most active banks at the level of European funds.⁷ **These banks granted so far loans in excess of EUR 4 billion for projects run with European funds, the same being involved in the period January 2008 - December**

⁷ <http://www.bankingnews.ro/banci-proiecte-fonduri-europene.html> , page accessed on 30.03.2016

2014 in about 32,000⁸ projects with European financing. In Table no.1. one can see the types of detailed banking products and services that are contained in the offers of the banks: BCR S.A., S.A. CEC Bank, Banca Transilvania S.A. and UniCredit Bank S.A. and addressed to the beneficiaries of EU funds in Romania.

As can be seen from the analysis of banking products and services dedicated to European funds beneficiaries presented in Table no. 1, the banks began to show a real interest in terms of involvement in supporting the implementation of projects with EU funding. The interest of banks operating in Romania for the European projects financing is highlighted by the products and services offered and by their promotion and marketing strategy. On the banking market in Romania a competition was already created in the field of crediting the beneficiaries of European funds, given that there are many banks that already have increasingly advantageous offers for supporting the implementation of projects with EU funding. However, it appears that many banks regard the crediting of the beneficiaries of EU funds as an opportunity to increase their revenue, while some banks regard the crediting of the projects financed from European funds as a fairly risky activity.

Following the completion of the S.W.O.T. analysis of the bank offers meant for the beneficiaries of EU funds launched on the Romanian market by S.A. BCR, CEC Bank S.A., Banca Transilvania S.A. and UniCredit Bank S.A., the following aspects were found, according to Table no. 2:

Table no. 2**S.W.O.T. Analysis of bank offers dedicated to the beneficiaries of EU funds**

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • the number of banks involved in supporting the beneficiaries of European funds began to grow; • the banking offer on the implementation of projects financed from European funds began to be quite varied; • FNGCIMM establishment in order to offer a warranty of 80% of the value of the eligible project costs in the favor of the credit institutions; • Many banks set up specialized departments or offices to support beneficiaries or applicants for EU funds; • the banks have hired specialized and skilled personnel in accessing European funds; • the banks place a lot of emphasis on communication with the beneficiaries of European funds, so as to find the best solution to their problems; • the banking competition has become quite strong in this area; • specialization of certain banks in supporting the implementation of projects financed with EU funds through specific grants. 	<ul style="list-style-type: none"> • high cost of credit: high interest, the existence of many commissions (granting, management, drawing, etc.); • excessive bureaucracy in the lending process, • lack of cooperation of the credit institutions with the managing authorities and intermediate bodies; • the banks prefer to credit the public sector in the detriment of private sector; • lack of involvement of banks in the projects evaluation phase; • evaluation of projects by management authorities and intermediate bodies using another methodology than that used by the credit institutions; • risk quite large and difficult to identify and manage by the banks in crediting the investments with European funds; • failure CEC BANK to be involved by a regulatory act in this regard in supporting the applicants and beneficiaries of EU funds, having in

⁸ <http://www.bankingnews.ro/banci-proiecte-fonduri-europene.html> , page accessed on 30.03.2016

	view that it is a Romanian state owned bank.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • a legislative reform that would clearly and realistically encourage the involvement of the banks in the absorption of European funds; • involvement of CEC BANK S.A. through a legislative act, in the absorption of European funds in order to increase the absorption of European funds and also in order to increase the profitability of a state-owned bank; • simplification through a regulatory act of the crediting process meant for the beneficiaries of EU funds. 	<ul style="list-style-type: none"> • lack of involvement of the banks in the sustainability of projects financed with EU funds; • emergence of a new banking crisis and/or higher interest rates and credit costs; • reduction of applicants and beneficiaries of European funds given the lack of co-financing capacity of their projects; • abolition of the European Union in view of the signs drawn by Greece and England and the crisis of immigrants; • country risk.

Source: authors' own processing

We believe that the involvement in the European funds attracting process of some banks, such as CEC BANK SA, would be one of the best opportunities that Romania should take advantage of, in order to help in the increase the European funds absorption over 2014-2020 programming period. The involvement of this Romanian bank would have to be achieved through a bill in this regard, which will also put in place a simplified procedure whereby the beneficiaries and applicants for European funds to be eligible for loans granted by the bank.

As an argument which helps in supporting the involvement of CEC Bank S.A. in the process of attracting European funds by Romania, apart from being a state-owned bank⁹, it is the experience gained by this bank in the area of European funds crediting. CEC BANK succeeded in the 2007-2013 programming period to engage itself by the end of the first quarter of 2014 in supporting an estimated number of over **21,900¹⁰ projects financed from European funds** with a total value of about **EUR 7.5 billion¹¹**. Types of banking products and services found in the offer of CEC BANK and granted to beneficiaries of EU funds in the 2007-2013 programming period until 31/03/2014 are represented in detail in Chart no. 1:

⁹ https://www.cec.ro/UserFiles/File/statut_CEC_Bank_final.PDF (Statute of CEC BANK - SA, approved by the order of the Ministry of Economy and Finance no. 425/2008, as amended and supplemented), page accessed on 05.03.2016

¹⁰ <http://theassociates.ro/files/presentations/bf36a26ff12630951627bb333c658151.pdf> , page 5, website accessed on 10.06.2016

¹¹ <http://theassociates.ro/files/presentations/bf36a26ff12630951627bb333c658151.pdf> , page 5, website accessed on 10.06.2016

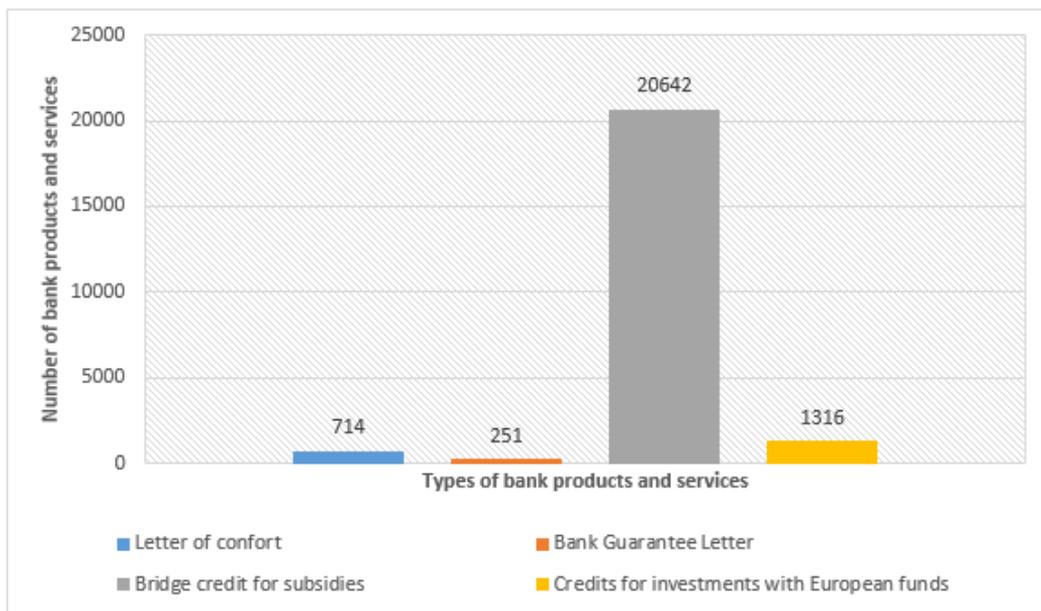


Chart 1. Banking products and services provided by CEC BANK S.A. until 31.03.2014

Source: Processed by the authors according to the data taken from the online presentation "CEC Bank's involvement in supporting the projects with accession to EUROPEAN FUNDS"¹²

Another argument which helps in supporting the involvement of CEC Bank S.A. in the process of attracting European funds by Romania is the statement of the Vice President of the institution, Mirela Iovu, made at the second edition of the conference "European Funds and State Aid 2014-2020" organized by BusinessMark¹³: "CEC Bank S.A. contributed 12% of European funds projects approved during 2007-2013 programming period." It is also to emphasize the fact that the Vice President of CEC BANK S.A. recommended within the same conference that the investment projects financed from European funds to start "only after the financing structure is clarified."

It must be stressed at the same time that, with regard to the banks in Romania, the Vice President for Investments of the European Commission, Jyrki Katainen, criticized¹⁴ the "banks' lack of interest" to support SMEs with a view to implementing projects financed through the **Juncker's Plan**¹⁵ by the **European Fund for Strategic Investments**.¹⁶ Thus, the representative of the European Commission has urged the banks in Romania to take steps for the signing of financing agreements through the European Fund for Strategic Investments, stressing on "... **the opportunities the European Fund for Strategic Investments can provide for them. Because the**

¹²<http://theassociates.ro/files/presentations/bf36a26ff12630951627bb333c658151.pdf>, page 6, website accessed on 10.06.2016

¹³<http://www.transilvaniabusiness.ro/Peste-10-din-cre-terea-economica-s-a-datorat-fondurilor-europene>, website accessed on 10.06.2016

¹⁴<http://economie.hotnews.ro/stiri-eurofonduri-21067575-exclusiv-comisia-europeana-mesaj-disperat-catre-romania-folositi-banii-din-planul-juncker-aveti-nevoie-irigatii-dam-indrumare-tehnica.htm>, website accessed on 11.06.2016

¹⁵ <http://www.consilium.europa.eu/ro/policies/investment-plan/>, website accessed on 11.06.2016

¹⁶ <http://www.consilium.europa.eu/ro/policies/investment-plan/strategic-investments-fund/>, website accessed on 11.06.2016

banks in the neighboring countries are already using them. And it is the fastest way to stimulate the Romanian economy, because SMEs make very fast investments decisions when they are financed."¹⁷

4. Conclusions

Based on our approach, we believe that the banks in Romania will have to involve themselves increasingly more in the European funds attracting process. We emphasize that for the banks the European funds segment has become very attractive, especially due to the income they can get from lending to beneficiaries of EU funds. Thus, it can be seen that after the experience of the 2007-2013 programming period, the banks have become increasingly more interested to adapt themselves to the novelties in the field of European funds absorption, arising with the new 2014-2020 programming period, in order to provide the beneficiaries and applicants for European funds with as attractive as possible offers.

In our view, a first step that should be taken to attract European funds, is to create a legislative framework by which a bank to be designated, preferably CEC Bank SA, given that it is a Romanian bank, which to support the beneficiaries and the applicants for European funds in the project implementation process. Moreover, through this legislative framework the procedure of crediting the beneficiaries of EU funds will have to be simplified, by certain detailed rules in this regard to being issued, eliminating at the same time the excessive bureaucracy in the field. We believe that in this way the bank will avoid that in the crediting process, it to pursue the funding of the "guarantees" instead of pursuing the financing of the "business", as it is normal. The crediting of the projects in the private sector must be done simply by the banks based on the business sustainability not based on collateral made available to the bank by the project beneficiary. Therefore, the banks' involvement in the European funds absorption process should be made in the preparatory phase of the funding file, so the bank to become directly involved in the project financing to being obtained.

Another aspect that would encourage the involvement of banks in Romania in the process of crediting the projects with EU funding would be the rules of the management authorities to be harmonized with the banks' rules regarding the evaluation of the projects. Thus, in this way the bankability of the project can be verified even from the project concept stage and at the same time its financial sustainability will also be possible to be checked and ensured. The implementing of such measures will provide the banks with a greater confidence in the lending process and will also help to reduce the risk they face when they credit a beneficiary of a European-funded project. Therefore, we believe that a greater involvement of banks in the European funds attracting process would directly lead to an increase in the absorption rate of European funds in Romania and also to the fulfillment of the objectives of the regional development policy.

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¹⁷<http://economie.hotnews.ro/stiri-eurofonduri-21067575-exclusiv-comisia-europeana-mesaj-disperat-catre-romania-folositi-banii-din-planul-juncker-aveti-nevoie-irigatii-dam-indrumare-tehnica.htm>, website accessed on 11.06.2016

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