

THE ROLE OF COMMERCIAL BANKS FROM ROMANIA IN THE ATTRACTION OF STRUCTURAL FUNDS

PhD. Corina BERICA

„Alexandru Ioan Cuza” University of Iași, Romania

corina.berica@yahoo.com

Abstract:

In this paper I wish to highlight the position of commercial banks from Romania in the absorption of European funds. Providing the financial resources necessary in order to carry out the project activities is one of the problems that many users have experienced. Being aware of this matter, but also constrained by governmental requirements, most banks have decided to introduce such credit facilities as well in their loan portfolio. As far as information dissemination and advertising are concerned, commercial banks have proven to occupy a leading position, but most important are the performance levels achieved by them since they started accessing these Structural Funds. In this paper I will present the funding opportunities in the field of European funds offered by two large leading banks: types of credits, benefits, commissions, statistics and even successful projects to which they are partners. Each bank has its own marketing strategy to promote these products, but over time one can notice that they are becoming increasingly interested in these grants, while the bank personnel is involved as a target group in various European programs. The interest of the banking system in supporting grants recipients can be noticeable even from the project writing phase of the project, when the banks offer financial advice in determining the estimate budget. With all the help from commercial banks, Romania has managed to achieve a rate of Structural Funds absorption of only 10%, which is outrun even Bulgaria.

Keywords: Structural Funds, absorption rate, commercial banks, credit facilities

JEL Classification: G21, O52

INTRODUCTION

From the 1st of January 2007, with the accession to the European Union, Romania was offered many opportunities, under the form of grants, or Structural Funds, offered precisely in order to remove regional, social, financial disparities between the Member States of the European Union. It is important to examine the psychological impact on the beneficiaries of these funds. Unfortunately the results are not exactly as expected. Basically, the Structural Funds have been transformed into an “illusion of wealth”, while the real reasons that push to the necessity to access them have been forgotten. The absorption rate is very low; the payments to beneficiaries – pre-financing and reimbursements – are processed in a very slow rhythm, hindering the fulfilment of the project objectives.

Looking at various studies, analyses and questionnaire surveys, it appears that the beneficiaries rank the lack of financial resources, both those meant to ensure co-financing and to carry out the activities according to the schedule, as the first major problem encountered during project implementation. The small and medium-sized enterprises, and especially the start-ups which have no source of income to support the absorption of funds, are unfortunately the first to suffer. The disappointment lies in the fact that the intention is there, but this real obstacle impedes the achievement of the targeted goal.

The terms of the contract concluded between the beneficiary and the Managing Authority do not sketch the same image on the financial support as that encountered in practice. The expected deadlines for the collection of pre-financing and reimbursements are never met, which leads to the instauration of a chaos, a “financial jam”, causing some beneficiaries to even terminate the funding contract. Being aware of this problem, the Romanian Government, wishing to ensure a higher absorption of EU funds, has come up with solutions and proposals, one of which is a call to commercial banks to foster the most profitable collaboration between them and the beneficiaries.

Interest exists on both parties, but since this is a new medium for the commercial banks as well, one can feel their reluctance in the light of credit conditions that are established with great seriousness and complying to all legal provisions.

THE FIRST IMPRESSION ... MATTERS

The involvement of commercial banks in the field of Structural Funds cannot exceed the involvement of Romanians in obtaining additional sources of income. As long as there is no interest from applicants, we cannot help wondering why don't the banks help?

Fear is felt, given the intention of some of the banks in Romania, to anchor themselves in an area less known, but of national importance. This attitude is motivated by a number of factors, many of which coincide with the impediments that the beneficiaries face when submitting grant applications.

To the common risks to which any commercial bank is subjected, we can add a new category, namely, the risk of "non-reimbursement". It sounds strange, given the real meaning of the phrase "non-reimbursement" associated with European funds. Indeed, the European Union provides grants, but they are subject to a number of factors with which the beneficiary must absolutely comply, otherwise the consequences will be borne by all the partners. This new risk that a bank must assume was not accepted at the outset, some banks completely refusing to get involved.

In most cases, the bank gets to know the beneficiary and the objective of the project in a critical turning point, when there is a desperate need to find financial support for continuity. The information that the bank receives can be augmented, since the beneficiary wants to obtain additional financial resources at any cost and in a bad moment the beneficiary can lose the money from the European Union. It is not only the beneficiary and the financial partner who lose, but also the bank which has taken up a new risk, because it had trusted too much the project objective or, why not, the applicant.

For some banks an initial success was enough to elicit the desired enthusiasm. If they have initially experienced a justified fear, now they have come to set themselves impressive goals. An example would be the objective of the Romanian Commercial Bank (Banca Comercială Română) to establish a special bank only for the SMEs wishing to access EU funds (Bankingnews, 2011).

If we consider the years of 2007 and 2008 as the forerunner years dedicated to the study and to the analysis of these European funds, then 2009 should have been a year of "bank contracts - European funds". Some banks justify the situation by the rise of the financial crisis, which led many recipients to "freeze" this productivity sector. This attitude has been diffused into the banking system, which has tightened contracting conditions for liquidity risk protection purposes.

Little by little the confidence began to persist in the banking system, with this sector of the Structural Funds being debated daily while a new marketing and advertising policy was established. First, the banks have gathered documentation on the theoretical elements of these funds from specialists and consulting companies, and then they have learnt the steps which must be followed in order to obtain grants.

Once the theoretical elements were in place, the appropriate marketing strategy to promote banking products available for potential beneficiaries in order to successfully implement projects was developed. Each bank has followed its own style, with a view to diversify the loan portfolio-European funds. A common element is the fact that in each bank involved is currently offering consulting in financing applications writing as well, both in financial and in technical matters. For example, Banca Transilvania (Transylvania Bank) has formed a team of professionals, including Vasile Pușcaș, the former Minister Delegate for European Affairs and Chief Negotiator of Romania, as head of the European Funds Department. One should not overlook the innovative idea offered by CEC BANK, which has set up a specialized office dealing with Structural Funds in each county branch, for a better collaboration with customers (Bankingnews, 2011).

Specialists in European funds within UniCredit Țiriac Bank advise to make use of examples of good practices from the other Member States. For example, in Italy, the commercial bank has a very important role in validating the financing application form. Banks also take part to the committee of assessors, offering advice from a financial standpoint. Thus, Unicredit Țiriac Bank offers a financial pre-assessment to the beneficiary, at the bank office, before submitting the project. This way, the beneficiary will certainly be aware of the possibilities of obtaining the financial

resources necessary in order to ensure the co-financing and to make the eligible expenditures. Thus, are avoided the rejection of projects due to financial lack of sustainability as well as the termination of the contract due to the impossibility of making the planned payments. The bank argues strongly that the absorption rate can even increase up to 20% if this plan is followed (www.fonduri-structurale.ro, 2010).

It is encouraging that the Romanian commercial banks have successfully moved beyond the first impression and their perspectives are admirable. This explains the confidence gained in the offered opportunities. The banks are aware that while seeking profitability, they have the chance to contribute to the change of the economic and social environment in which they live. They help Romania to reach the performance goals planned when it joined the European Union. And, why not, perhaps personal satisfaction is in this case higher than profitability satisfaction.

THE ROMANIAN COMMERCIAL BANK – THE INITIATOR

The title above reveals the courage of Banca Comercială Română (the Romanian Commercial Bank) to take on major risks by penetrating a less known sector. BCR has managed already since 2007 to get significantly involved, as the first bank that has managed to establish a unit specialized in the access to and implementation of European projects.

Most projects were submitted in 2008, when 90% of the planned operations were available to beneficiaries. There was still no dramatic change of macroeconomic indicators, due to two reasons: the negative impact of the crisis was felt and money has not yet reached the applicant. The year of 2008 has mostly covered the phase of writing and submitting projects to contracting authorities. But the Romanian Commercial Bank has been perseverant and on the look-out and has succeeded to interact with beneficiaries of the projects approved by the Management Authority in this period.

2009 was a satisfactory year for the bank, as far as the loans to support the absorption of Structural Funds were concerned, but the peak was reached during the first 10 months of 2010, which according to the statements made by Ramona Ivan, the executive director of the Financial Institutions Division at BCR, the loans amount has doubled in comparison with the end of 2009 (Bankingnews, 2011).

BCR praises its performance of having a current portfolio of approximately 1,000 loans who support the writing and implementing of Structural Funds.

The products and services, through which the bank has managed to reach the 1,000 credit indicator, are very well structured and exemplified on the official site of BCR. In addition to the details given on the site and a special entry, "Grants- EU Office BCR", the bank offers the customer a real team of professionals, ready at any moment to respond to the uncertainties of a potential beneficiary wishing to obtain a grant.

In Table no. 1 one can notice the structure of loans meant to support the accessing and undertaking of European projects in a fast and profitable rhythm. Thus, one can notice the systematic structure of the credit categories offered, each trying to cover all the needs of beneficiaries. BCR provides loans for most of the Operational Programmes related to the promotion of Structural Funds, Programme EU Office BCR. Through this programme it provides pre-financing loans, co-financing loans, bank guarantees to refund the advance payment and project implementation counselling.

The co-financing programs support the projects of very high value, worth millions of euros. These proposed investment loans help the applicant to continue the implementation of the planned activities.

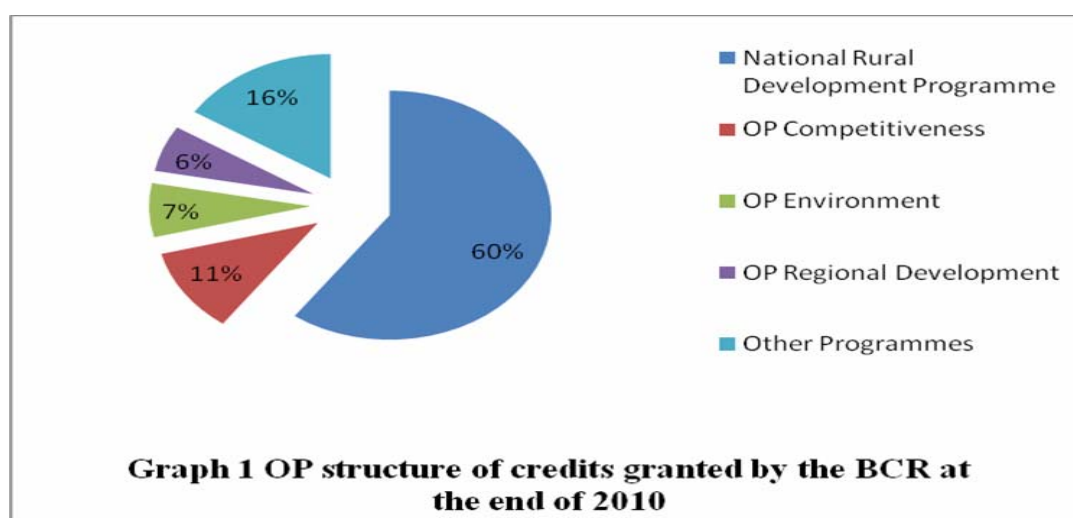
The alternative programs are designed for SMEs that want to make productive investments, for which the Structural Funds are a viable and profitable solution. Most SMEs have had to resort to a commercial bank for the success of the project currently under implementation.

Table no. 1. BCR Products and services offered to the beneficiaries of Structural Funds

Programme EU Office BCR	Co-financing programs	Alternative programs
EU Agri BCR Package	Credit for the financing of investments projects within the Global BEI Loan	Investment credit for energetic efficiency projects from EBRD sources
EU Competitive BCR Package	Loan for the financing of investment projects / credit lines / working capital loan for the SME Credit	PHARE 2000 Programme – Economic and social cohesion – credit line open to SMEs
EU Infrastructure BCR Package	Investment loan and/or credit lines and/or working capital from EBRD sources	The MARR fund – Financing Scheme for SMEs
EU Fisheries BCR Package	Loan Package for clients with core business investments in the agricultural sector IFC sources	
EU Tourism BCR Package	Loans within the rural development project in the Apuseni Mountains funded by International Fund for Agricultural Development (IFAD)	

Source: data processed on the website BCR www.bcr.ro

The structure of the loans granted by the Romanian Commercial Bank is divided according to the graph below.



Source: processed data from the *Banks' balance on the market of European funds*, [www. Bankingnews.ro](http://www.Bankingnews.ro)

In the graph above one can see that BCR has granted a large number of loans to beneficiaries who have accessed the National Rural Development Programme, a percentage of 60% being justified by the enormous disparities that exist both between the country's development regions and between the rural and urban areas.

The lowest percentage is calculated for the Regional Programme – only 6% of the total value of loans. This percentage is justified by the banks' fear to engage in such projects, where excessive bureaucracy has its say. There is also the alternative of the beneficiary insolvency, many of the funding contracts under this Operational Programme being terminated due to both internal and external factors.

SOP Environment is no less important, since BCR states that the first three co-financing loans were granted for this Operational Program, amounting to a total of 1.5 billion lei.

The Romanian Commercial Bank continues to be optimistic about the rate of absorption of Structural Funds to Romania. It considers that the SMEs will continue to be interested in accessing

European funds, but for a clear success BCR suggests a greater involvement of public authorities. The latter are afraid to access EU funds for several reasons: the lack of personnel trained in writing and project implementation matters and the lack of financial resources to support and co-finance projects. The possibility of a bank loan is ignored since public institutions do not have the necessary revenues for such a commitment.

BRD GROUPE SOCIÉTÉ GÉNÉRALE - THE AMBITIOUS

It may not play the leading role in supporting grant applicants, but the attitude that it has shown in relation with this new market segment has led to increased profitability.

The objective of the bank is to choose a vulnerable target group, with large financial needs in order to undertake daily activities. It focuses on: small and medium enterprises, large companies and public authorities. In this way, the courageous bank takes on some additional risk, since it interacts with categories that have always been reluctant in their relationship with the banking system. Until now, BRD Groupe Societe Generale added 485 loans to finance European projects with a total of 604 million lei (Bankingnews, 2011).

Structure of credits in terms of the offer the bank can be seen in Table no. 2:

Table no. 2. EUROBRD Financing Solutions

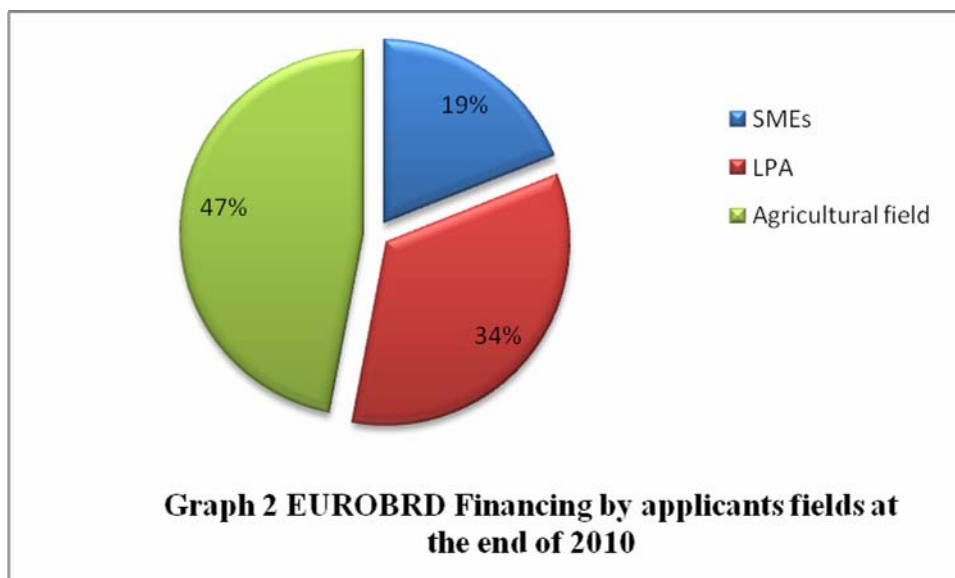
SMEs	LPA	Agricultural and fisheries field
Investment loan completing your own sources, co-financing your own contribution component	Investment loan for financing/co-financing investments, by completing the own sources and/or the attracted ones, including by means of financing programmes with European funds component	Investment loan completing the own sources for co-financing the "own contribution" component, necessary to obtaining the financing through European post-accession funds, for eligible projects included in the National Rural Development Programme (NRDP) or in the Operational Programme for Fisheries (OPF)
Loan destined to pre-financing the non-reimbursable funds of the project with the European funds component	Short/medium-term revolving investment loan for financing the payment gap between the eligible expenses made and the European grant received	Loan for financing the payment gap between the payments to suppliers of equipment/services under the project and the amounts received from APDRP (Payment Agency for Rural Development and Fishing)
The bank guarantees the recovery of the down payment granted by the Management Authority if the beneficiary fails to fulfil its obligations	Medium/long-term investment loan for financing a local investment programme (one or more investment projects, including projects with European funds component)	Loan for financing the non-eligible expenses of the project with the post-accession European funds component
Loan for financing the non-eligible expenses of projects with the European funds component		Loan for financing the necessary working capital
Financing the necessary working capital following the implementation and performance of the investment project		

Source: *processed data on the website BRD*

BRD has chosen to submit their offer through the distribution of loans by category of beneficiary. Such distribution helps potential beneficiary, and helping your time in choosing the appropriate credit. The categories for the BRD is committed to help them absorb European funds are: Small and Medium Enterprises, local public authorities, institutions and field work in agriculture or fishing.

The above table shows that bank considered pursuing the following loans structures: Investment loan, Support loan, Additional loan, Credit line.

Loan portfolio divided by the percentage activities of the beneficiaries can be seen from Chart 2:



Source: *processed data from the Banks' balance on the market of European funds, www. Bankingnews.ro*

From Graph 2 shows that most of the bank's customers wanted support in getting grants for agriculture. A difference between the BCR and BRD can see the light directed recipients. Loans to public authorities play in BRD a second place, compared with BCR who hopes and believes that they should provide proof of responsibility and a deeper involvement. The low percentage of loans for SMEs is justified institutions fear of insolvency, bankruptcy, unable to repay the loan on the terms set by contract.

In addition to funding opportunities EuroBRD program includes the following methods of support (BRD 2011):

- ✓ financing solutions tailored to the needs of clients and potential clients;
- ✓ financial consultants to identify the optimal structure of financing;
- ✓ advice regarding employment of the idea / project under the Operational Programmes and National Rural Development Programme;
- ✓ guidance, depending on the type of project, by consulting firm specializing in writing business plans, feasibility study and grant application.

BRD GSG together with BCR was able to fund the biggest project, to date, of 100 million euros. Thus, they formed a syndicate of banks in the BRD-Groupe Societe Generale has the capacity of Arranger, Lender and agent Guarantees and the Romanian Commercial Bank, as Arranger and Lender. They have signed a contract with the National Company "Bucharest Airports SA, to finance" Phase III project development and modernization of the International Airport Henri Coanda - Otopeni, each contributing with \$ 50 million.

This is one of the big projects that BRD aware. Ambitious, with more confidence in the appropriateness of these European funds, the bank applies a marketing policy aimed at, with the priority, needs of the customer. Starting in an area with little knowledge acquired creates an atmosphere of uncertainty, but with the skills of professionals can easily change things.

AN OVERVIEW

The above information can escape the advantages of the strengths offered by two commercial banks that are always in top 3. The strategy applied by each bank gives us a glimpse of the bank itself, the objective pursued.

In addition to BCR and BRD GSG, the Romanian banking system there are other banks that have had the courage to embark on the path of the Structural Funds. Each has adopted a style, a strategy that will lead to customer satisfaction and increase profitability of the bank.

Most appropriate term for Transilvania Bank-BT offered by a number of critics, analysts, is "aggressive". BT wanted, at all costs, to provide loans to attract grants, thereby engaging the best professionals staff as desired team. This attitude is strongly felt since 2010, when he created the "Platform of solutions for beneficiaries of grants from the European Union, for responsibility promptly to customer requests. Among the performance indicators highlight BT touched by granting loans for attract over 100 European funds worth 350 million lei. Areas of activity for which BT has agreed to offer their support are: agriculture, food, metal, medicine and pharmaceutical production, IT and tourism. In 2010, BT has focused, in particular, for finance agricultural plantations, farm animals, rural doctors (Bankingnews, 2011).

UniCredit Tiriac Bank is optimistic the bank, which believes that in the next two years Romania will reach a peak absorption of Structural Funds, if both recipients and supervisors and implementation of ideas proposed projects approved by the bank. They believe that the customer before submitting a project for obtaining a grant must consult with a banking specialist for the project will receive all necessary information in an efficient manner. Bank boasts of 120 credits completed with beneficiaries, amounting to 350 million lei. Of these, at a rate of 55% was awarded through the National Programme for Rural Development Operational Programme for Fisheries. The Sectoral Operational Programme Increase of Economic Competitiveness, UniCredit Tiriac Bank concluded a loan eligible highest, over 50 million lei (Bankingnews, 2011).

Promoter of agriculture, CEC Bank, the credit performance achieved by the 5042 European projects with a value of 1.28 billion lei. After June 1, 2010 the bank registered the biggest successes motivated, moreover, by establishing "European Funding Office" in each district branches. The National Rural Development Programme were set up projects worth about 350 million lei, many in the year 2010, it constituted a clear strategy by the bank. Interest in this bank, compared with the rest, relates to the provision at the end of 2010, most loans for financing projectson the Regional Operational Programme Human Resources Development Operational Programme. Bank did not ignore the SMEs, large enterprises, giving them loans to obtain funds and the Sectoral Operational Programme Increase of Economic Competitiveness (Bankingnews, 2011).

Involvement of Romanian commercial banks continue to be active, full of innovative ideas to support writing and implementation grant funds. Each has followed the objectives required in an original, but all the same purpose: helping to increase the rate of absorption of the Structural Funds. Certainly there are other interests pursued by each bank, which he will never testify but we can guess. It is obvious that the transformation of Romania into an environment of growth, with high national and international investment banks will benefit. These are the indirect effects generated by high growth of EU funding.

CONCLUSIONS

By structuring this article we tried to emphasize the role of commercial banks in Romania in order to obtain grant funding once promised to join the European Union. They are commended for the courage to anchor in a road unknown and the seriousness and responsibility for providing financial advice and banking.

Before creating a portfolio of loans designed just for this category of beneficiaries, the experts have learned from consulting firms, the competent authorities, the stages through which must pass the beneficiary of a successful project. Good listener knew to listen to customers desires by giving them answers to all the uncertainties presented by them. They are given an advisory from the time of writing the grant application until the end of the implementation of the project approved and financed.

After you have passed the stage of project approval, is the most important is financially supported by the commercial banks, if they choose for this source. This additional financial

resources necessary for the recipient to carry out their activities exactly as they were originally planned.

I learned from examples of best practices offered by two of the largest banks in Romania, BCR and BRD GSG. I 'stole' the secrets of other commercial banks involved in this area of great national interest.

If success is to call a European project performed by a commercial bank, one should not avoid this possibility. Indeed, most people have treated only the negative part of the Romanian banking system, must affirm that in our case, the Structural Funds must go beyond all pride and consider it "a necessary evil. " Mark Twain's genius phrase "A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain" can be transformed into the current situation thus: "A banker is a fellow who his lends you the before it begins to rain umbrella, until the sun is shining. "

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