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**DOCTORAL THESIS**

**ABSTRACT**

**Structural and Cohesion Funds – A challenge for the  
Romanian Financial-Banking System**

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### **Addenda**

**Key-words:** cohesion policy, structural and cohesion funds,  
cofinancing, operational programmes, bancability, crediting,  
public authorities, international financial crisis, absorption

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capability, macroeconomic and econometric patterns, performance, CORE indices, survey

### **Introduction**

Once Romania adhered to the European Union, it has been offered the possibility to join a rounded, unified community in which members' solidarity is strongly felt. The idea of joining this great European community is not a randomly imposed one, but rather a clearly mentioned goal. First of all, it aims at strengthening solidarity among member states along with the erasure of some discrepancies that outlined ideas like "richer or poorer" or "stronger or weaker".

This approach, along with the desire to mutually support states, regardless of wealth, has a long history, each phase of it being supported by strong pillars. All these changes have been experienced and interpreted differently by each of the member states, as well as by their subsequent communities.

The differences among the member states of the European Union in regards to the development level, productivity and labor force can be erased by accessing Structural and Cohesion Funds made available through 2007-2013 programming.

A well-quantified impact for the 2007-2013 programming is yet to be issued, 5 years upon completion, when the database shall be finalised and audited by the experts of the European Commission. It is only then that the goal of erasing regional deficiencies could be proven, along with the issuing of complementary measures for the next programming.

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Although for the moment there is no economic growth impact to be seen, there can be noticed some visible results on the level of each member state, such as the selected and absorbed amount or the leverage between commitment and reality. It is this leverage that justifies the placement of each member state as well as its possibility to aggrandize 100% or discuss the reasons that lead to the respective situation.

Even though the majority of beneficiaries from Romania had financial difficulties in implementing approved contracts, especially due to failure to reimburse in 45 days, 85,2% out of 201 respondents in a questionnaire survey carried out for the purpose of the current research, evinced an interest in continuing to access non-refundable funds during the next programming, 2014-2020, too. The reasons for this interest are multiple, but, in general, we can assess the fact that these funds are the only financing source for all the involved economic factors or that negotiations prior to the 2007-2013 programming overestimated the sums that Romania, a newcomer in this area, can absorb, by disregarding the factors that could derange the matter-of-course of implementation.

### **Thesis Objectives**

The doctoral thesis entitled **Structural and Cohesion Funds – A challenge for the Romanian Financial-Banking System** aims at shedding a light on the utility of the cohesion policy, the involvement of the financial-banking system within the sustainability of non-refundable projects, the absorption capability for Structural and Cohesion funds in Romania, the impact analysis of European funds on economic growth.

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Through its aimed objectives, the current research can be an information resource for both the final beneficiaries of the Structural and Cohesion Funds, and the ruling and governmental authorities controlling the implementation of these funds.

**The general objective** is to analyze the relationship between Structural and Cohesion Funds and the financial-banking system in Romania, focusing on the evaluation of the impact the non-refundable projects have on the economic growth.

**The aim** of our research is to identify the usefulness of Structural and Cohesion Funds within the context of economic growth in Romania as well as issuing a set of suggestions for institutions controlling and implementing these funds in order to increase the national absorption rate.

This aim is analitically developed through **research specific objectives**:

- Identifying the necessity of the cohesion policy;
- Identifying the role of financial-banking institutions in sustaining non-refundable projects;
- Analysing the absorbing capability of Structural and Cohesion Funds in Romania;
- Identifying the impact of Structural and Cohesion Funds on economic development by use of macroeconomic patterns;
- Analyzing the performance of the cohesion policy in Romania during 2007-2011;
- evaluating the impact of Structural and Cohesion Funds on the economic development in Romania.

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### **Scientific Research Methodology**

The research strategy combines a multitude of methods, techniques, instruments, know-how that helps outline and carry out the proposed objectives.

During the first phase of research, we have used adduction in order to emphasize the main theoretical notions on European Funds. We have further used the method of scientific observation, along with the techniques of direct observation, document reading which have been used according to the objective of each chapter.

We have used comparative analysis in order to emphasize the features and examples of efficient practice for each of the programming periods, from start to present. The same method has been used when monitoring the CORE indices – a comparative analysis between Romania and the rest of the European Union member states.

In order to evaluate the impact of Structural and Cohesion funds on economic growth in Romania, we have used two quantitative methods: an analysis regarding the causality between two macroeconomic indices and a survey applied to the people involved in writing or implementing non-refundable projects.

For these two quantitative methods, we have used the technique of mediately gathering data, by using official statistics, Eurostat, the Ministry of European Funds website and the websites of Management Authorities for the seven operational programmes.

For the econometric part, we have used as a statistic instrument Eviews 7.0 and for interpreting survey results and validating set hypothesis we have used SPSS soft.



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### **Thesis Structure**

The current research is aimed to be structured in two main parts:

- THE FIRST PART, comprising the introduction and the first two chapters, is a defining, clasifying and examining one, shedding a light on the methodology, concept and practice of the cohesion policy, of the Structural Funds and on the role of the financial-banking system in sustaining the non-refundable projects.
- THE SECOND PART of this paper, comprising the next four analytical chapters and the conclusions and recommendations, primarily deals with comparative analysis elements in the area of absorption capability in Romania, as well as with patterns of macroeconomic simulation. The impact analysis of coehsion policy performance during 2007-2013 is presented, along with the impact of Structural and Cohesion funds on economic growth in Romania.

In the end, we present the conclusions and recommendations of reasearch, the main future areas and aspect that had limited research.

The synthesis of the chapters follows:

#### **Synthesis of chapter 1. *The Need for a Cohesion Policy within the European Union***

This chapter presents the main phases in the evolution of the cohesion policy, the main idea of which sprung from the need to implement a policy to erase economic and social differences among member states of the European Union.

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Because of its territorial influence, the cohesion policy can be easily misread as the regional policy.

### **Synthesis of chapter 2. *The Involvement of Financial-Banking Institutions within the Sustainability of Non-Refundable Financing Projects***

The second chapter highlights the collaboration between financial-banking institutions and project beneficiaries who are unable to carry out proposed activities by means of their own financial resources. In this case, we present the financial mechanism through which a commercial bank gets involved in the sustainability of non-refundable projects and provides solutions for transforming the latter in bankable ones.

### **Synthesis of chapter 3. *Absorption Capability of Structural and Cohesion Funds in Romania. Comparative Analysis***

Chapter three presents the evolution of European funds absorption within the context of the international crisis along with the measures applied by financial-banking institutions and the Romanian Government in order to increase the absorption rate. This chapter also focuses on the current situation of non-refundable funds absorption, the reason for suspension of some operational programmes and the role of the Audit Authority in this phase. The chapter provides details on the main factors contributing to a low rate of absorption in Romania, and offers a comparison between the current programming and the ended ones, in order to see examples of efficient practice.

A relevant sub-chapter deals with the role of the financial system in supporting European projects and the means to ensure the national co-financing that Romania is obliged to provide. Although the co-financing means are not

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varied, the importance of the institutional dimension stands out within the European funds absorption activity.

### ***Synthesis of chapter 4. Impact of Structural and Cohesion Funds through Macroeconomical Patterns on Economic Development***

The fourth chapter presents the main features, advantages and disadvantages of the HERMIN and QUEST macroeconomic patterns, measuring provisions of Structural and Cohesion Funds absorption, within a comparative analysis. It also presents the Romanian version of the HERMIN pattern – HEROM and it identifies a series of variables that lead to a different impact, according to the generated macroeconomic pattern.

### ***Synthesis of chapter 5. Performance of the Cohesion Policy in Romania during 2007-2011. Impact Analysis***

Through the fifth chapter, the thesis highlights the status of CORE indices on the level of foreground themes CSNR 2007 in EU 27 and Romania by the end of 2012, with some exceptions, as reported by June 2012. The progression of the Cohesion Policy 2007-2013 is reflected by the payments carried out by the European Commission to member states against the financial assignments established in the beginning of the programming and by the erasure of differences in the following areas: research – development- innovation and SMEs, energy, environment, transportation, communication and labor market.

### ***Synthesis of chapter 6. Evaluation Methods for the Impact of Structural and Cohesion Funds on the Economic Growth in Romania (personal contribution)***

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The last chapter presents a quantitative analysis through which we estimate the causal relationship between national absorption of Structural and Cohesion Funds and the GDP by using the VAR method.

Along with the econometric part, we have also carried out an exploratory inquiry by means of a survey applied to people involved in writing and implementing financing applications. The resulted database comprised 201 responses and was subjected to a multitude of quantitative analysis by using the SPSS econometric soft, in order to validate the initial hypotheses. We aim at finding out what the problems that the majority of users and beneficiaries have confronted within the framework of seven Operational Programmes proposed through the Convergence Objective are, as well as the solutions they have suggested in order to help current and future applicants.

### **Conclusions**

Once Romania joined the European Union, the state has become more focused on developing a larger economy, with effects on its internal evolution.

When we discuss the fact that differences continue to be noticed, regardless of the payment levels on behalf of the European Commission, there are two aspects that play a very important role in the process: the administrative capability to absorb and use these funds and the acceptance of some differences that cannot be avoided regardless of the level of transfer.

The involvement of the banking system in supporting Structural and Cohesion Funds is determined by the imposed conditions of a new concept, bankability. The role of the financial-banking system in the absorption of European funds is carried out in three ways:

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- from the point of view of bankability, a concept required by the relation between the two sides, by analyzing revenue, granting trust and granting a predictable and stable income;

- from the point of view of the direct intervention of bank in European projects, by configuring a presentation of the banking status in optimal conditions, by ensuring a permanent cash-flow and of the risks involved in granting a loan and the service packs offered to beneficiaries;

- from the point of view of the complementary financing means offered by financial-banking institutions, by highlighting the proposal of some supplementary measures, meant to accelerate the national absorption rate in the case of Structural and Cohesion Funds and the influence of the International Monetary Fund on the non-refundable projects from the European Union.

The means to measure the impact have been structured in four categories, as follows: macroeconomic structural patterns, monitoring CORE indices as stipulated by the provisions of the European Union, econometric quantitative patterns and survey quantitative patterns.

Monitoring CORE indices as stipulated by the provisions of the European Union for each operational programmes is a difficult task and can only be completed upon a longer period, long time after the 2007-2013 finishes.

Out of the analysed and presented econometric quantitative patterns, we drew the conclusion that the majority are generated upon completion of the Cohesion policy programming, and access to a database containing all the necessary information is easier.

The reasons for which we have found that there is no casual relationship between the payments the beneficiaries receive on behalf of the Structural and Cohesion Funds and the GDP level are multiple, some of them being highly subjective. The effects of European Funds are short-term, a conclusion

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we drew from the employment numbers, and the number of employees, respectively. Once the non-refundable projects are ended, these elements might disappear if the beneficiary does not ensure financial and institutional sustainability in order to continue working with the established team. The shortness of time for analyzing the differences might be considered as yet another argument in favor of the variation of payment on behalf of Structural and Cohesion Funds not influencing the GDP. This causes a certain deviation between the time the European Funds are absorbed and the one the GDP modifies.

The last means to measure the impact of Structural and Cohesion Funds 2007-2013 has been chosen due to a number of reasons: the fact that we were in the middle of implementing the current cohesion policy, the lack of a quantitative database, the weak monitoring of CORE indices we are forced to fulfill as well as the difficult situations that a number of operational programmes have confronted, namely the adjournment phase.

Bearing these facts in mind, we have carried out a survey among the beneficiaries of non-refundable financing in order to identify the means to apply the general knowledge on Structural and Cohesion Funds, to highlight issues and difficulties they have faced during the management phases of the project, to identify solutions/instruments used to support non-refundable project implementation, and to analyze the impact of European funds on the economic and financial status-quo in Romania, as envisioned by the respondents.

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