# FINANCING OPPORTUNITIES FOR COMPANIES THROUGH EUROPEAN FUNDS

**Suciu Gheorghe**
Lecturer Professor, "Dimitrie Cantemir" Christian University Braşov,
ucdc.suciu.g@gmail.com
**Bârsan Pipu-Nicolae**
Associate Professor, "Dimitrie Cantemir" Christian University Braşov
nbarsan@gmail.com

***Abstract***
*Under the current circumstances, companies must access European funds by making some projects that lead either to the acquisition, construction or creation of jobs. To this end, they must have previous positive results, a strong financing capacity and compile a viable business plan. Financing can be ensured through own resources or loans from financial institutions, and it must be ensured until the European funds can be collected. The low absorption rate of around 10% shows that in Romania the management must make great efforts to catch up with those countries that solve many of their problems through European funds.*

***Keywords:*** *financing, structural instruments, eligible value, public and private co-financing.*

## 1. Introduction end back ground to study

This article aims to provide new insights into the process of business financing and opportunities offered by European funds. The main purpose of this study is to present the most important European funds that can be accessed by Romanian companies and how to obtain investments with low costs. In order to get structural funds, the company must firstly present a viable project (business plan). Secondly, the company must fulfill certain eligibility criteria and lastly, it must have enough own or loaned resources to finish the project. The invested money will be recovered after the vouchers are verified by competent authorities.

This work is a result of scientific research, based on the analysis of literature regarding structural instruments used in accessing European funds, and also ways of financing companies.

## 2. Some aspects of financing opportubities for companies through European funds

### 2.1 Long term financing

**The great recession** is already in its sixth year. In august 2007, BNP Paribas announced the closure of two investment funds in the US because of the losses and difficulties in evaluating financial assets. During the transaction session, the Dow Jones index depreciated by 400 points. Afterwards, some signs appeared showing that there aren't enough liquid assets, the climax being the bankruptcy of the Lehman Brothers bank in September 2008. The easily-given credits by banks were not returned and banks had to make provisions which then transformed into losses. Many banks had to ask for help from the government, which bought some of their shares. This was almost a form of nationalization.

Nowadays countries are facing the sovereign debt problem, being forced to borrow money from international financial institutions, in order to avoid bankruptcy. In this context, it is getting even harder to finance a company's production activity and to find investment resources.

**Financing** means to make capital available to fulfill some projects determined by investments. It contains all the capital sources and means of payment used for making a project. Financing can be internal or external.

In case of **internal financing**, the money comes from the company's own capital and it comprises the amortization, adjustments, provisions and undistributed results.

**External financing** includes the financial amounts ensured in three ways:

- capital growth (in kind shares or issuance of shares);
- indebtness (bank loans, mortgage bound, leasing);
- subventions and accessing of non-refundable European funds.

Before making an indebt analysis of any business plan one must know what his financing resources (own sources, loans, subventions) and financing needs (tangible and intangible assets, stocks, debts, salaries and taxes) will be. This activity represents the analysis of the financial equilibrium. It is done with the help of working capital indicators (WC), need for working capital (NWC) and net treasury (NT).

There are certain correlations that must be respected in a company. Usually, fixed assets are financed from long term resources, and current assets from the current debts.

Financing sources can be classified according to their time use. Thus, if the time for using financial resources is higher than one year, it is a long-term financing. This long-term financing covers the company's sustainable needs, materialized in economic growth, modernization, retooling, in order to raise profitability in the future.

If the period is lower than one year, it is short-term financing. The sources for short-term financing are the producers, advances given by clients, debts towards the employees, duties and taxes, dividends, current assets.

Companies can receive from the government or European financial institutions 3 categories of aid:

- subventions related to assets, which consists in buying, making or purchasing assets on a long term;
- non-monetary subventions at a fair value, is represented by the reception of lands or assets for a long term basis from public entities;
- subventions given to incomes, when money is given for creating jobs.

The received European funds have a double meaning: in the first part of the time period, the company will bear the financing for the acquisition, construction of assets, while in the second part, after checking and auditing the expenses, the company will get back part of (or all) the investments. Initially one needs a financing, then a source for financing the company.

After collecting the subvention, the **working capital** (**WC**) will grow, by including them in the company's permanent capital. WC shows the long term equilibrium of the company, through permanent sources (ownership equity and long-term debts) and net fixed assets.

**WC = Ownership equity + Long-term debts – Net fixed assets**

**A positive working capital** signifies a long-term financial equilibrium, the surplus financing the short-term financing needs of the operating cycle. The growth of the working capital can have multiple causes:

- the growth of ownership equity through different ways;
- the growth of indebtedness through short or long-term credits, subventions; as a result, the financial expenses will grow which will influence the exercise's results;
- decrease of net fixed assets as a result of fixed assets or amortization.

**A negative working capital** highlights the impossibility of fully covering of long-term financing. Usually, companies with high production cycles should register a significant positive working capital, and those with relatively short cycles can accept lower values of the working capital. Companies that are in the retail trade business can survive having a negative working capital, because big companies allow the payment of goods after a certain period. The reduction of the working capital can have multiple causes:

- growth of fixed assets because of investments or reevaluations;
- reduction of ownership equity;
- refund of medium and long-term loans with positive effect on the financial structure.

Long-term financial equilibrium with the company's own sources is realized with the help of own working capital (OWC). This is defined as the difference between the company's own capital and fixed assets.

**OWC = Own capital – Fixed assets**

**Foreign working capital (FWC)** is calculated as the difference between the working capital and the company's own working capital:

**FWC = WC – OWC = Long-term debts**
**WC = OWC + FWC**

## 2.2 EU instruments for granting European funds

**Structural instruments** represent the non-refundable financial aid received by Romania, as a member of the European Union, through European Regional Development Fund, European Social Fund and Cohesion Fund.

European Union was created for economic and political reasons, as a counterbalance for the US, China, Japan. Of course, it requires hard work to make it function like a single state. In 2012, EU has 27 members, Romania being one of them. There are great economical, social and cultural differences between these countries. In order to reduce these differences, multiple financial European instruments are being used, European funds being one of them. The financing project's cycle has 6 stages: identification, preparation, formulation, financing, implementation and evaluation.

**The main non-refundable European funds** are: Structural Funds (SF), European Agricultural Funds for Rural Development (EAFRD), European Fishers Fund (EFF), European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF), European Globalization Adjustment Fund (EGAF), European Union's Solidarity Fund (EUSF), the Civil Protection Financial Instrument (IFPC), Instrument for Stability (IS) 2007 – 2013.

**Structural Funds (SF)** are the most important financial instruments of the European Union, through which European regional policies for economic and social cohesion are implemented, by mainly developing the countries from regions that are less prosperous.

**European Regional Development Fund (ERDF)** is the most essential between the structural funds because its main mission is to reduce the regional discrepancies in the EU. The accessed funds are meant to:

- modernize and diversify the economic structures of the primary countries and regions;
- modernize the basic infrastructure in the following domains: transportation, telecommunication, electrical grids, environment, water supplies;
- amplify the institutional capacitates of public, central and regional administration;
- innovate and develop knowledge economy;
- protect the environment and reduce risks;
- develop transnational cooperation;
- give access to transport and telecommunication services that are of general economic concern.

The main objectives of the **European Agricultural Funds for Rural Development (EAFRD)** are:

- improvement of the competitiveness of agriculture and forestry by supporting reconstruction, development and innovation;
- improvement of the environment and the countryside by supporting land management;
- improvement of the quality of life in rural areas and diversification of economic activities.

EAFRD represents a financing opportunity for the Romanian countryside, its value being of approximately 7.5 million Euros, between 2007 and 2013. Similar to the SAPARD program, EAFRD also relies on the co-financing principle of private investment projects.

Through EAFRD one can access non-refundable funds that represent between 50 and 70% of the project's total eligible value, these funds being a **public co-financing**, to which **private co-financing** must be added, meaning the financial contribution of the one requesting the European funds.

Public co-financing represents the financial aid given to the beneficiaries of the European Agricultural Fund for Rural Development by the European Union and Romanian Government.

Private co-financing can be accomplished through the company's **own resources**, this being valid also for those who already have the necessary funds for financial contribution, or through money given by sponsors, donations and legacies, that can be proved according to the law. Another way is through **bank loans**, in case the beneficiaries do not have the necessary funds for their own financial contribution, but otherwise fulfill the conditions necessary for taking a bank loan.

Non-refundable funds can be obtained only for certain expenses, depending on the type of investment and only after those expenses were made. The beneficiaries of the European funds will receive the money through the Payment Agency for Rural Development and Fisheries (PARDF) **or** Agency for Payments and Intervention in Agriculture (APIA).

Thus, through EAFRD, the following **expenses** can be covered:

1. Construction, modernization and expansion of buildings and of other structures related to the production process.
2. Acquisition of new machinery and equipments, including IT, software, hardware.
3. Expenses representing the payment of architects, engineers, consultants, feasibility studies, acquisition of patents and licenses with the percentages found in the datasheet of the measurements.
4. Acquisition of new, specialized means of transportation, when they are mentioned in the feasibility study / supporting reports / business plan. A need for such a means of transportation must be real and it must be used only for the activities mentioned in the appendices of the application for financing. It cannot be used for the employees' or beneficiary's personal interests.
5. Tools and specific instruments, including those for protection against fire and for labor protection.
6. Acquisition of land, representing maximum 10% of the project's total value, only when exploitation is moved, in order to respect the environmental standards.

There are also some expenses for which EAFRD does not give funds:

- buying, renting or leasing of buildings;
- taxes, customs duties, import taxes, other revenues from the state budget;
- operational costs, including maintenance and renting costs;
- bank fees, guarantees' costs, judicial expenses and other similar expenses;
- any other expenses mentioned in the datasheet as being non-eligible.

The beneficiaries of the European funds must comply with certain conditions:

a) during the contract, all the eligibility and selection criteria assumed in the application for financing must be respected; the beneficiary cannot modify the project for at least 5 years from the last payment made by Payment Agency for Rural Development and Fisheries (PARDF);
b) any prejudice against a third party is entirely the beneficiary's responsibility;
c) there should not be any conflicts of interest; examples of conflicts of interest:

- goods or work suppliers involved in the project have common shareholders with the beneficiary company;
- natural persons which are related to the shareholders or administrators of the beneficiary company and which are employed as service providers in the project;
- public servants, employed in the local or central administration, which are also employed as service providers in the project.

d) if the beneficiary breaks the financing contract clauses, PARDF can void the contract. In this case, the beneficiary has to give back all the received money as non-refundable financing and also the interest and other penalties.

**European Social Fund (ESF)** represents the main instrument of the European social politics and its main objective is to improve the way in which the labor market works in the European countries.

**Cohesion Fund (CF)** is meant to finance those projects related to the development of environment and transportation infrastructure in the member states which have the gross national product/citizen under 905 of the European average. About 167 million inhabitants in the EU live in regions which are beneficiaries of the Cohesion Fund.

**European Union's Solidarity Fund (EUSF)** represents a financial aid given for the following activities:

- rehabilitation of infrastructure in calamity areas, of electrical factories, telecommunication, transportation, health and education;
- insuring temporary shelters and ambulance services for the affected population;
- measures for protecting the cultural patrimony after the calamity.

## 2.3 National institutions with attributions in the management of external non-refundable post-adhesion funds

Until 2007, candidate countries wanting to join the EU received funds through multiple financing programs: PHARE, ISPA, SAPARD, CARDS. After the 1st of January 2007, all these programs were replaced with the Instrument for Pre-Accession Assistance (IPA). The funds are divided into 5 components:

I. Support for transition and institution-building;
II. Cross-border cooperation;
III. Regional development (transportation, environment, economic growth);
IV. Human resources development;
V. Rural development.

After joining the EU, member countries receive non-refundable external funds. According to article 7 from HG nr. 457 from 2008, related to the institutional framework for coordination and management of structural instruments, Ministry of Economics and Finance is designated as the authority to coordinate structural instruments. Its responsibility is to prepare, develop, harmonize and supervise the operation of the legislative, institutional, procedural and programmatic framework, in order to manage the structural instruments.

**The main national institutions** that manage external non-refundable funds are: Authority for Coordination of Structural Instruments (ACSI), Management Authority (MA), Authority for Certification and Payment (ACP), Intermediary Organisms (IO).

**The Authority for Coordination of Structural Instruments (ACSI)** is the national coordinator of non-refundable assistance in relation to the EU. ACSI coordinates the preparation and activity of the legislative, institutional, procedural framework for the management of structural instruments and also programs, coordinates, monitors and evaluates the use of non-refundable financial assistance.

**Management Authority (MA)** is a public organism that insures the management of financial assistance from structural funds. For each operational program there is a management authority (usually at the ministry levels). The Management Authority operates under ACSI and it authorizes the payment of eligible expenses.

**The Authority for Certification and Payment (ACP)** is part of the Ministry of Public Finance and it is responsible with the certification of the money from the expenses statement transmitted to the European Commission, receiving from the European Commission of funds transferred to Romania from structural instruments and transferring them to beneficiaries / payment units related to the management authorities of funds received from structural instruments, and also receiving funds from the country's budget, in case of operational programs which use direct payment mechanism.

The Ministry of Public Finance insures the management of structural instruments through accounts opened at Romania's National Bank and/or Treasury.

**Intermediary organisms' (IO)** attributions are authorized by the Management Authority, in order to implement the operational program that is being inventoried. The main operational programs are:

- regional Operational Program (ROP), which has 10 centers in Romania;
- sectoral Operational Program "Increase of Economic Competitiveness" (SOPIEC) is organized in the main ministries where European funds are absorbed;
- sectoral Operational Program "Human Resources Development" (SOPHRD) structured on regions;
- sectoral Operational Program "Environment" (SOP Environment), having structures in 8 cities.

**The project's total value** represents the total of funds associated with the expenses necessary for the project's implementation, at the beneficiary's level, made of the contribution's counter value from structural instruments, the value of public and/or private co-financing, and also the value non-eligible of public and/or private expenses.

## 2.4 Auditing the European funds

**The Audit Authority** is an independent organism from the operational point of view from the Court of Accounts and other authorities responsible with the management and implementation of non-refundable community funds. The Audit authority has regional structures in the counties, where agencies, management authorities and intermediary organisms which manage community funds unfold their activities.

The following categories of funds are in the competence of the Audit Authority:

a) pre-accession non-refundable funds given to Romania through programs such as PHARE, IPA, SAPARD;

b) post-accession non-refundable funds: Structural Funds (SF), European Agricultural Funds for Rural Development (EAFRD), European Fishers Fund (EFF), European Regional Development Fund (ERDF), European Social Fund (ESF), Cohesion Fund (CF);

c) other categories of non-refundable funds.

The Audit Authority conducts the following form of audit: compliance audit, system audit, operations audit and audit at the end of the project.

The main objective of **compliance audit** is to obtain a reasonable assurance that the management and control systems meant to implement the operational programs co-financed through structural and financial instruments, financed through the European Community's budget, are organized according to European regulation.

The objective of **system audit** is to obtain a reasonable assurance that the management and control systems function in an efficient way, thus preventing errors and irregularities; however, if they do appear, the system should be capable of detecting and correcting them.

**Operations audit** wants to obtain a reasonable assurance that the expenses statements transmitted to the European Commission are exact, and the related transactions are according to applicable national and European norms.

The objective of **the audit at the end of the project** is to obtain a reasonable assurance that the project (program) was implemented according to European requirements.

The Audit Authority performs external public audit for all the entities that manage, certify, implement and/or benefit of non-refundable community funds, without taking into account the form of ownership and/or their legal nature.

For each accomplished mission, the Audit Authority compiles a written **Audit Report**, which has the following **sections**: introduction, executive summary, audit methodology, findings, conclusions and recommendations, response of audited entities, general conclusion.

Based on the audit report, the president of Audit Authority takes a decision through which it establishes the following **measures**:

a) suspension of measures that contravenes to legal regulations from the financial, accounting, fiscal domain;

b) blocking budgetary funds when they are used illegally or inefficiently;

c) elimination of the found irregularities in the examined financial, accounting or fiscal activity.

The Audit Authority **reports to the European Commission** the way in which the non-refundable community funds are used, and the main findings and recommendations are included in the annual public report of the Court of Accounts.

The Audit Authority has **unlimited access to documents and information** necessary for doing its duty, regardless of the natural or legal persons who has them.

**The funds necessary for the Audit Authority to perform work** is assured from the state's budget and are included in the expenses budget of the Court of Accounts.

## 3. Conclusions

By accessing European funds, a company can grow, develop and better its management and long-term economic performance. In order to do this, it must identify the domains in which there are European projects, make a viable business plan and finance itself or loan the necessary amount.

In order to raise Romania's absorption rate of European funds, there are several measures that must be taken:

- improve the management and control system of European funds absorption and clearly establish the attributions and roles of the institutions involved in the activity of management and control of funds, including from the perspective of public acquisition system;
- simplify the checking and reimbursement procedures related to the beneficiaries' expenses;
- use of European resources for the thermal rehabilitation of buildings;
- monitor the list containing the 150 strategic projects;
- hire more people in the intermediary organisms and authorities' management; their appointment should be based on professional criteria, and not politics.

## 4. Bibliography

[1] **Bostan I.,** Auditul public extern, Universul Juridic, Bucharest, 2010;

[2] **Dragotă V., Ciobanu A., Obreja L., Dragotă M.**, Management financiar, Vol II, Politici financiare de întreprindere, Editura Economică, Bucharest, 2003;

[3] **Dincă M**., Gestiunea financiară a firmei, Transilvania University's Publishing House, Braşov, 2011;

[4] **Morariu A., Suciu G., Stoian F.**, Audit intern şi guvernanţă corporativă, Editura Universitară, Bucureşti, 2008;

[5] **Ross Stephen., Westerfield Randolph., Jaffe J.** – Corporate finance, Ed. McGraw – Hill/Irwin, vol. 1, 2003;

[6] **Suciu G.**, Control şi audit guvernamental, Lux Libris, Braşov, 2012 ;

[7] **Suciu G**., Gestiunea financiară a întreprinderii, Infomarket, Braşov, 2009;

[8] **Suciu G., Bârsan-Pipu N.**, „Analiza echilibrului financiar", Buletinul ştiinţific al UCDC-FBC Braşov, nr. 13/2012, pag. 147-155,Editura Infomarket, Braşov, 2012;

[9] *** Ghid privind accesarea, contabilitatea, fiscalitatea, auditul şi managementul proiectelor cu finanţare europeană, Editura CECCAR, Bucureşti, 2011;

[10] *** OUG Nr. 64 din 3 iunie 2009 privind gestionarea financiară a instrumentelor structurale şi utilizarea acestora pentru obiectivul convergenţă, MO din 30.12.2010;

[11] *** HG nr. 457 din 2008 privind cadrul instituţional de coordonare şi de gestionare a instrumentelor structurale, MO nr. 364 din 13.05.2008.

[12] *** www.ue.ro