INNOVATIVE FINANCIAL INSTRUMENTS IN THE EXECUTION OF EUROPEAN UNION BUDGET

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Summary

One of the main reasons invoked to support the use of public funds through financial instruments is that these funds can be used several times: they are therefore “renewable”. For example, if a loan granted through such an instrument was repaid after three years, the repaid money could be used later to provide a new loan. Was examined therefore examined whether this renewal effect really materialized. The extent to which funds are renewed in practice depends on the type of financial support but also on the investment period of the instrument concerned.

The objective of this article is to highlight that financial instruments have been and are always a way of supporting the attraction and bringing of specific advantages compared to other forms of financing from the European Union. The imbalance between the development environment of Central and Eastern Europe countries, candidate countries and EU member states, is quite large and the regions it is even more pronounced. These differences represent serious obstacles in the smooth functioning of the entire Community. The existence of the word “poverty” in some areas of the EU border disrupts the harmony and balance within the community and prevents the creation of an area of equilibrium across the European continent.

Essentially, to reduce these imbalances, EU financial support to candidate countries through pre-accession structural instruments, which have a particularly important role in this process.

I believe that the Financial Instruments are an effective way of mobilizing cohesion policy resources to achieve the objectives of the Europe 2020 strategy. Targeting projects with potential economic viability, financial instruments provide support for investment through loans, guarantees, capital investment and other bearing mechanisms of risk, which may be combined with technical assistance, interest rate subsidies or contributions to the guarantee fees in the same operation.

In addition to the obvious long-term benefits of fund recycling, financial instruments contribute to mobilizing additional public or private co-investments to address market failures, in line with the priorities of the Europe 2020 strategy and cohesion policy. Their implementation structures involve a wealth of expertise and know-how, which contributes to increasing the efficiency and effectiveness of public resource allocation. Moreover, these tools provide a wide range of incentives to improve performance, including greater financial discipline at the level of supported projects.

Keywords: financial instruments, support, budget, U.E.

1. Introduction

During the period from December 1989, as in the years to come, to the integration of Romania into the EU and beyond, economic agents, public institutions and other organizations have been and will be in the position to justify a particular demand, especially financial, to develop projects, but of course, the drafting of projects should not be limited to situations where it
is questioned to obtain financing, in particular, from an external, as far as possible nonrefundable
source.

The purpose of this article is to highlight the fact that financial instruments are an aid
leverage to provide financial support from the European Union

A project can intervene whenever it is envisaged to coordinate an assembly of activities of a
different nature, the realization of which aims at the successful completion of a complex and
specific mission.

Financial instruments are used to invest in the structural funds from the programming period
1994-1999 (present through the PHARE program). Their relative importance increased during the
2007-2013 programming period and currently accounts for around 5% of the total erdf resources. In
light of the current economic situation and increasingly scarce public resources, it is expected that
the role of financial instruments under cohesion policy will be increasing over the 2014-2020
programming period.

Financial instruments are increasingly being used to provide financial support from the
European Union budget through loans, guarantees and capital investments. For the 2007-2013
programming period, an amount of approximately € 21.5 billion has been allocated from the
European Union budget for financial instruments. Was found that, although these instruments may
bring some specific advantages compared to other European Union funding, such as grants, their
implementation nevertheless presents some difficulties that might limit their effectiveness.

2. What are the financial instruments?

It is worth noting that the European Union is currently facing considerable challenges,
such as economic and financial recovery and refugee crisis management. In this context, EU
decision-makers are looking for solutions to maximize the effectiveness and efficiency of the EU
budget available.

So, financial instruments are a way to provide financial support from the European
Union budget. The financial support to final recipients through financial instruments can
take the form of loans, guarantees and capital investments.

If well implemented, financial instruments have two specific advantages over non-
reimbursable funding [1]:

- the possibility of using public funding (by mobilizing additional private and public
funds to complement the initial public funding); and
- the renewable nature of the capital endowment of these instruments ( the
possibility of using the same funds in several cycles). The need for loans to be
reimbursed, guarantees to be released and capital investment to be recovered
should in principle also have an impact on the behavior of final recipients, leading
to a better use of public funds and reducing the likelihood that these recipients will
become dependent on public funds support.

During the programming period 2007-2013, 25 of the 28 Member States have used financial
instruments created under the umbrella of the European Regional Development Fund (ERDF) and
the European Social Fund (ESF): In total, 972 instruments have been created in the EU financial
instruments under the ERDF and 53 ESF financial instruments. By the end of 2014,
approximately EUR 16 billion of ERDF and ESF operational programs have been paid in the
form of contributions to these instruments. This is a significant increase from EUR 1.3 billion in
the 2000-2006 programming period and from the EUR 0.6 billion allocated for the 1994-1999
programming period for this type of instrument. During the same period, 2007-2013, the total
contribution from the EU budget to the 21 financial instruments managed directly or indirectly by
the European Commission amounted to approximately EUR 5.5 billion. These centrally managed financial instruments operate in all EU Member States. [3]

For the period 2014-2020, Romania has over € 43 million, according to the Multi-Annual Financial Framework 2014-2020, of which the allocation for the Structural and Investment European Funds - FESI- is approximately € 31 million.

The table below highlights the main types of financial instruments that are funded by the European Union.

**Table 1. Main types of financial instruments financed from the UE budget**

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<th>LENDING (LOAN)</th>
<th>GUARANTEE</th>
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<td>&quot;Agreement by the creditor shall make available to the borrower a sum of money agreed to an agreed time and under which the debtor is obliged to repay the amount within the time agreed.&quot; In a financial instrument, a loan can be useful where banks are not willing to lend on acceptable terms to the borrower. In the case of this type of loan, banks may offer lower interest rates or longer repayment terms, or the requirements imposed on collateral may be less stringent.</td>
<td>&quot;Written commitment to assume responsibility, in whole or in part, for the duty, obligation or performance by a third party of its obligations in the event of an event giving rise to the performance of such a guarantee, such as the impossibility of repaying the loan&quot; [6]. Guarantees normally cover financial operations such as loans</td>
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<th>CAPITAL INVESTMENT</th>
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<td>Providing an enterprise with a direct or indirect capital investment in exchange for the full or partial ownership of that undertaking when the capital investor can exercise a certain control over the management of the enterprise and benefit from its profits. Financial situation depends on the development and profitability of the enterprise. This is achieved through dividends and the sale of shares to another investor (&quot;exit from the investment&quot;) or through an initial public offering</td>
<td>&quot;A type of financing that involves a mix of equity and debt, which implies a higher risk than debt privileged and less risk than common equity. Quasi investments can be structured as debt typically unsecured and subordinated in some cases convertible into equity capital or preferential. 'Risk-return profile normally falls between debt and equity in the capital structure of the company.</td>
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Source: Comisia Europeană, BEI, FI Compass – Financial Instrument products. Loans, guarantees, equity and quasi-equity

Compared to non-reimbursable funding (which is the traditional method of funding from the EU budget), financial instruments, if well implemented, can bring two specific benefits:

- the possibility of leveraging public funding (by mobilizing additional private and public funds to complement the initial public funding);
- and the renewable nature of the capital endowment of these instruments (in other words, the possibility of using the same funds in several cycles) allows each euro in the funds channeled through financial instruments to be used in principle several times.

The need for loans to be reimbursed, guarantees to be released and capital investment to be
recovered should in principle also have an impact on the behavior of final recipients, leading to a better use of public funds and reducing the likelihood that these recipients will become dependent on public funds support.[5]

The revised 2012 version of the Financial Regulation contains a first common definition of financial instruments; this has begun to apply in the sectoral regulations for the 2014-2020 programming period

During the 2007-2013 programming period, the regional nature of financial instruments has resulted in the creation by the Member States of a large number of small financial instruments.

3. The use of financial instruments financed from the EU budget

It is remarkable that the EU budget can be executed through management, management or indirect management, the latter two categories being part of the centralized management mechanism.

Financial instruments can and are used in various areas of the EU budget as:

- The financial instruments under shared management in the field of cohesion policy are mainly under the umbrella of the European Regional Development Fund (ERDF) and, to a lesser extent, under the European Social Fund (ESF). Starting with the 2014-2020 programming period, financial instruments can also be used for the Cohesion Fund. Each tool should be implemented within an operational program, the implementation mode being decided by the management authority responsible for the program, together with the size and design of the instrument. Financial instruments are also used within the framework of the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF).

- The financial instruments for managed centrally funded from different budget areas such as research, business and industry, education and culture etc. For these instruments, the Commission, together with its partners, is directly involved in the design and development of the investment strategy and related endowment. The decision to set up these instruments is taken by the budgetary authorities (the European Parliament and the Council) on the basis of a Commission suggestion.

In the case of shared management, financial instruments may be constituted as autonomous funds or as sub-funds of a holding fund, hereinafter referred to as "specific funds" (see Figure no 1) [7]. A fund, sometimes referred to as the "fund", is a fund created to manage different types of instruments. It also allows contributions from one or more operational programs to be allocated to one or more financial instruments.
According to the most recent data reported by the Commission, 972 financial instruments were created in the EU at the level of the FEDR and 53 in the FSE. Of these, 903 are FEDR specific funds and 49 are FSE specific funds. 31 of the FEDR instruments are managed by the EIB Group, which includes the European Investment Fund (FEI) and the BEI Investment Bank (which have a special status, as these entities may be designated as fund managers without a public procurement procedure. They also manage most of the centrally managed instruments, whose administrator is designated in the legislative proposal.

For centrally managed instruments, the total contribution from the EU allocated to the 2007-2013 instruments in all budget areas has been raised to around € 5.5 billion, this amount being distributed among financial instruments. These instruments work in all EU Member States.[4]
Under the EU budget, European structural and investment funds (the ESI) is the main source of funding for capital and investment infrastructure, benefiting from a total budget of about 450 billion euros for programming period 2014-2020.

As Ionela Popa, Denisa Parandel and Diana Codreanu point out in their article "Reforming the EU budget in the current economic crisis", the European Union is seen as a force for economic renewal in Europe and globally, which needs to fund the needs of 500 million citizens. To do this, it needs an innovative budget tailored to the new realities of globalization, responding to the current challenges and creating opportunities for tomorrow.

4. Conclusions

Following this documentation, we have noted that funding instruments are increasingly being used to provide financial support from the EU budget through loans, guarantees and capital investments.

So after this support in the period 2007-2013, only financial instruments were allocated from the EU budget an approximate of about 21.5 billion euros. For the 2014-2020 period, an allocation of € 450 billion has been approximated for all financial instruments allocated from the EU budget, of which Romania has allocated € 43 million for this period.

The European Union is currently confronted with considerable challenges such as economic and financial recovery and refugee crisis management. In this context, EU decision-makers are looking for solutions to maximize the effectiveness and efficiency of the EU budget available, representing less than 1% of the Union's gross domestic product.

In conclusion financial instruments are not projects themselves, but they are an instrument that provides funding from the EU budget. Under Cohesion Policy, the decision of a management authority to provide support from an operational program through a financial instrument is not both a decision to invest or not the resources of the program, but rather a choice of how to invest them: through grants punctual or financial instruments which provide support refundable.

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