EUROPEAN UNION'S FINANCIAL INSTRUMENTS FOR ECONOMIC RECOVERY OF THE MEMBER STATES

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ABSTRACT: The harsh conditions that marked the evolution of the Romanian financial system were strongly marked by the manifestation of the global financial and economic crisis. In the early period of the crisis, the Romanian economy already passed through a period of growth in high rates, but accompanied by the accumulation of a crucial deficit and of an increasing short-term external debt. The domestic financial system is currently under pressure from international financial turbulences and the risks of a financial collapse are growing. The decrease of the financial fireworks with public money led to a greater importance given to the fiscal system. Generaly, the need to seek new funding sources and an increasing attention to how public money is spent, were felt. An important role in Romania's economic recovery and thus in overcoming the adverse effects of the crisis is held both by external funding sources and by the effort of the state institutions to attract local and national new sources of finance in the context of intelligent management of monetary resources available to them. The purpose of this work is to give readers a quick view on some of the measures taken at the community's level to combat the effects of the global financial crisis, as well as on the main structural tools that are used at European level to ensure uniform development of EU's regions by reducing disparities between regions, the context in which local authorities are responsible for attracting and managing financial instruments allocated for this purpose.

Keywords: economic crisis, funding instruments, economic recovery plan, public administration/local government, European funds, public finances.

JEL codes G01

Introduction

The effects of the global financial and economic crisis reverberate also on the Romanian financial and banking system. Therefore, in the current economic situation, the way of attracting and spending the public funds is of crucial importance. One of the key factors in Romania's economic recovery and in the removal of the negative effects of the crisis is finding external sources of funding for projects conducted at local, regional and national level, context in which the representatives of local authorities have a special responsibility.

The present work aims to give readers useful information regarding the financial instruments of the European Union and their role in the economic recovery of the Member States in general and in the Romanian economy in particular.

The disclosure starts with some considerations on the global economic and financial crisis and the measures undertaken at EU level and not only having as aim the limitation of the negative effects of the crisis.

Subsequently, we'll make several references to some aspects concerning the effects of the financial crisis on the banking system in our country and the measures that were taken at central banks to improve the situation.

In the last part of this work we provide a brief overview of the main structural funds that offer the possibility of funding the projects designed to achieve the community goal of economic and

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social cohesion. In this context, we'll stress on the essential role of the local administration in the Romanian economy revival, part materialized, among other things, in the identification and promotion of the public objectives that can be financed.

Introductory aspects concerning the global financial crisis

The phenomenon of large-scale financial crisis affecting the global world's economy manifested itself in the global economy in various forms (particularly for mortgage loans in the United States of America) and has emerged especially after the collapse of Lehman Brothers bank, with "almost unimaginable consequences" (H. du Limbert*, Patriotismul economic a lui Sarkozy*, in Le Figaro from October 24, 2008). The degree of trust between participants in financial markets dropped drastically and risk premiums have increased at very high levels. The interbank market activity was severely affected; banks with excess of liquidity hesitate in lending their capital surplus to other banks. In this context the French Presidency of the European Union took the initiative of the negotiation and adoption of urgent measures to stop the global consequences of the crisis.

The outbreak of the global financial crisis was the subject of diplomatic negotiations at the regional level, aiming at the identification of appropriate measures in order to limit its negative effects, and also to eliminate the causes which have determined it. Undoubtedly, the European Union together with a group of countries followed a sustained diplomatic activity to combat the consequences of the economic crisis; they have not only common interests but also the appropriate means to impose a particular behavior in what concerns the national financial relations on one hand and the regional and global ones on the other hand. It was seen that from these groups of countries, the G20, created in 1999, had established diplomatic initiatives to negotiate immediate and effective strategies, its steps being preceded by extensive consultations and discussions at European level.

Built as a "Forum for consultation on international financial issues between the world's most influential economies", the "Group of 20" was born in 1999 and included South Africa, Saudi Arabia, Argentina, Australia, Brazil, Canada, China, South Korea, France, Germany, Indonesia, Italy, Japan, the United Kingdom, Mexico, Russian Federation, the United States of America, Turkey and the European Union powered to express their point of view, by its President or on the basis of rotation

The French Presidency of the European Union held several consultations with some of the EU's countries, and the European Commission's President Jose Manuel Barroso, and finally, on 7 November 2008 it convened the leaders of 27 EU's Member States with the intention of adopting a program of adequate measures to combat the effects of the financial crisis, measures taken by the European Union and which were to be promoted worldwide (see Capèle*,* in Le Figaro of 13 October 2008).

Among the measures negotiated by the French presidency of the Union, the main focused on: **a.** the involvement of national institutions; **b.** the involvement of European institutions **c.** the involvement of universal institutions in fighting against the effects of the global financial crisis. Although the views of some European leaders regarding the "ways of fighting against the crisis" were different, a consensus was shaped on the imperative that these ways must be applied at both national and European level and worldwide.

On 26 November 2008, the European Commission presented an economic recovery plan that included two central elements: **a.** measures for short-term fiscal stimulation to impulse the demand, protect the jobs and give to the consumers the confidence in the ability of purchasing the products they need; **b.** The European Commission proposed that - in the coming period (the years 2009-2001) - to put more emphasis on "*smart investment*" in order to determine the economic increase (see Mazilu, no. 1/2009, p. 76).

The European Council's works were held in Brussels on 11-12 December 2008 and even from the start have been found compromise solutions, expression of the will of EU leaders, to combat the effects of the financial crisis perceived, moreover, as a priority for all Member States.

The European leaders discussed in Brussels the European Commission's proposal concerning the "Economic recovery plan for about 200 million Euros". The ways that would promote "the economic recovery plan" involved a contribution of 1,5% of the European Gross Domestic Product/Income, as Germany is regarded, they were more cautious as it is the main contributor to EU's budget (Peer Steinbrueck declared at ECOFIN's reunion that Germany's effort, namely those 32 billiard euro for stopping the economic crisis are too much).

The Romanian banking system in the context of the problems the Romanian's economy is facing today

Once with the amplification of the crisis effects, the financial system from Romania has evolved *"under strong conditions marked by virulent manifestation of the global financial and economic crisis" (*see Socol, 2009, p. 56). As noted, the interbank market activity was seriously affected; banks with excess liquidity hesitate in lending the surplus capital to other banks.

Worldwide the responses of central banks and governments to annihilating the crisis effects were unprecedented. The cooperation between the world's major central banks had become increasingly close and the monetary policy actions were increasingly well correlated. In this context, the main measures adopted by the central banks were: (see National Bank of Romania*, Report on the Financial stability 2009*, p. 14)

- rapid and significant relaxing of the monetary policy;
- increasing the amount and frequency of operations to ensure market liquidity;
-enlarging the eligible collateral base and the maturity liquidation offers.

The difficulties of the economic agents in obtaining financing and contracting demand in fund balance and fortune had a negative impact on the production volume. In contrast, monetary and fiscal policy measures have been supplemented by extending the protection of the depositors.

The Romanian banking system, deeply affected by the amplification of the financial crisis, was orientated in the first part of 2008 with preference towards the lending activity, and since the last quarter of 2008 towards increasing the portfolio of state titles/government securities, a trend which persists to this day.

As shown in the content of the "*Financial Stability Report*" (see The National Bank of Romania, 2009, p. 25) for the year 2009 of the Romanian National Bank, the Romanian banking system remains well capitalized, but the current international financial crisis began to be felt with the last quarter of 2008, particularly on the external flow channel and the portfolio of loans as a result of the national currency depreciation and economic slowdown. Moreover, credit institutions have recorded solvency levels above the minimum settled limit of solvency. A positive aspect is the slowing trend of lowering the solvency indicator compared to previous years, and this happened on the basis of the capital increases made by the shareholders of the credit institutions and on the basis of reducing the growth of non-government credit.

The essential role played by the local government in the economic recovery of Romania

Modern social relations show that, along with the development of the market economy and the improvement of its complexity, it should develop, accordingly as area, content and efficiency, the economic information, so that it can supply the necessary decision-making, so it can reflect the exact patrimonial situation of the entities and the financial and economic results (see Briciu, 2009, p.11).

Local governments are essential in developing the local infrastructure, the social services and business environment, as a result of the benefit arising from knowledge of local problems and needs. From this perspective attracting development funds by the local administration is an element that can't be neglected in view of reaching the objectives for economic and social cohesion of the European Union's regional policy (see European Commission, *Working for the regions. EU Regional Policy 2007*-2013, 2008, p.3.).

The European Commission (see for more details regarding the role of the European Commission in implementing the European programs and administrating the European funds Europäische Union, 2006, p. 21, and also Pascal Fontaine, 2006, p. 20) proposed on 26 November 2008 an economic recovery plan (see Mazilu, p. 76) and also decided to reallocate the funds targeted - with priority toward disadvantaged areas in the Union. Based on the analysis of the European Commission they saw the need to be taken the necessary measures to accelerate payments for projects carried out on structural funds.

As it is well known, Romania as a member of the EU is receiving large amounts of money coming from the EU's budget, known also under the name of structural funds. Accessing these funds requires a laborious procedure by which the experts identify, in the case of public investment, public-interest objectives – which are found in programs financed by these funds. Here we believe that local government can play a major role, as it may identify and promote successful public objectives which may be subject to European funding.

At the end of 2006 SAPARD (Romania received annually in 2000-2006 through this program, 150 mil. EURO, this amount had as destination to help Romania for its adhesion, this help was given in agriculture and rural development. To these amounts are added as co-financing from the national budget another 50 mil. EURO (for more details regarding the pre-adhesion funds see Ionescu and Toderaş, *Politica de dezvoltare regională*, Ed. Tritonic, Bucharest, 2007, p.89-115) funds and cohesion funds for the instruction period were closed. Presently, for the period 2007 - 2013, at the EU structural funds are operating three most important instruments in regional policy being created at different times with the role of coordinating regional policy at European level and to come in addition to national and local budgets for the development of regional policy projects (see Ghiolţan, 2008, p. 31), as follows:

- European Regional Development Fund. European Regional Development Fund (ERDF) - the first Structural Fund, it gives money for the strengthen of the economic cohesion, social and territorial cohesion by reducing the disparity between regions, by sustaining the structural development and structural adjustment of regional economies, including the redevelopment of industrial areas suffering from decline.
- European Social Fund (the second structural fund, it gives money for training initiatives and job creation)
- Cohesion Fund (Cohesion Fund - used to finance transport infrastructure projects and environmental protection in those Member States of the EU where the GDP per inhabitant is lower than the average of 90% of the EU) where there are added another two complementary actions:
- European Agricultural Fund for Rural Development - contributes to the competitiveness of agriculture and forestry, the management of agriculture, and environment and diversification of economic activities in areas with low urban population
- European Fishing Fund - aims to ensure the continuity of the fishing activities and the rational exploitation and protection of fish resources, the development of viable enterprises in this sector.

Financing is possible on the basis of projects where the local administration will be eligible to access them - alone or in partnership - in all operational programs - excepting the Transport and Technical Assistance where the public administrations are not listed as eligible beneficiaries - the condition of eligibility for the local public authority is to ensure technical capability and financial resources necessary in the process of co-financing the project. It's about: Sector Operational Program - Increasing economic competitiveness, the Sector Operational Program - Transport Sector Operational Program Environment, Sector Operational Program Administrative Capacity Development, Operational Program Technical Assistance, Program-border cooperation in the EU's internal borders, transnational and interregional , The cross-border cooperation at the external borders of the European Union, the National Program of Rural Development, Operational Program for Fisheries. (for more details see: Moise and Hada, p. 211; ABC's Structural Funds, the newspaper issued by the Ministry of European Integration; www.mie.ro)

Romania will benefit from structural funds – 19,7 million Euro from the EU between 2007-2013, which means that Romania will have to spend 7,7 million Euro, daily, including Saturdays and Sundays, after 1st January 2007. These financial resources will have to be managed effectively as it is necessary to get where they are needed, otherwise exists the danger of losing them. Even though the money will not be attracted in projects in Romania, each taxpayer will contribute to the amount by which Romania will contribute to the EU's budget (see Lazăr, 2008 and Lazăr and Drăgoi, 2009, p. 101.)

From this amount 19.2 million Euros will be directed towards the objective of convergence, and 455 million Euros will be allocated to the objective of territorial cooperation. Allocation of funds will consider the initiatives and projects having as aim to improve basic infrastructure and to bring it to European standards, long-term competitiveness, human capital development, administrative capacity building, promotion of balanced regional development. The declared purpose as a contribution to GNP growth by 15-20% until 2015 and increasing the employment rate of labor from 57.4% to 64%. (see European Commission, *Working for the regions. EU Regional Policy 2007-2013*, 2008, p. 27).

According to financial analysts, Romania will not be able to access the structural programs and will be only able to take one third of the available money, which in the present time, when any financial resources in infrastructure having local or national economic purpose are vital, thus it appears as primordial the role of the public administration, that is why in the public administration should be included specialists promoted on the basis of competence - in our opinion public managers. Unfortunately, in many cases, the practice already established in the Romanian executive is to promote on political reasons – political clients who are unable to manage public affairs in a state of crisis.

In the given situation, we believe that in Romania only the control bodies work in practice, they approach the relationship with those administrated from the accounting point of view, in a repressive, sanctioning manner that discourage the private initiative. The consequence is reflected in the drain over the borders of the country of those capable to successfully run a private initiative. Furthermore, the lack of information and lack of financial support for the economic agents accessing European funds, are leading to loss of funding - although the projects are eligible - the refusal of banks to provide financial support for that project or, conversely, high interest, untenable to be sustained as a result of the financial problems in the banking system in the current economic situation. All this, dabbled by a tax burden (which from our point of view is inciting to fiscal evasion) have in the rulers' pleadings just one justification: economic crisis.

However, there are other examples of fiscal policies of other EU countries, for instance Germany, which has taken clear steps to relax fiscal problems facing the German society in the current economic situation. Also in this respect, the EU's fiscal policy materialized by the proposal of the European Commission Member States to follow the example of Great Britain. The European Commission promotes the view of the British prime minister to reduce VAT in the Community of up to 15%, which argues that such a measure would be likely *"to support national economies"* (see also Dumitru Mazilu, 2009, pag. 76).

In this context we distinguish a strong need for the professionalization of local public administration by applying the principles of economic management in the design, implementation and effective monitoring of local public services.

Conclusions

Fighting against the multiple effects of the financial economic crisis involves consultations between the international community to find appropriate solutions together with their implementation in an efficient manner as possible. At regional level, EU policy makers have tried to agree on an effective plan for economic recovery for the Union under the current economic conjuncture. The global response to the crisis effects materialized in strengthening the cooperation between central banks around the world and the correlation of monetary policy actions. The economic consequences of the crisis are also felt by the Romanian banking system. As presented in the context of the current economic performances, the local authorities are responsible for attracting funds for regional development through the elaboration and control implementation of competitive projects, able to effectively contribute to the launching of the underdeveloped areas, this thing being possible only in assuming increasing transparency, reducing taxation and the professionalization of local government.

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