



UNIVERSITATEA „BABEȘ-BOLYAI” CLUJ-NAPOCA
FACULTY OF ECONOMICS AND BUSINESS
ADMINISTRATION



Ph. D. Thesis

SUMMARY

**“CONTRIBUTIONS TO THE METHODOLOGY
FOR ANALYSIS, SELECTION AND FINANCING
OF INVESTMENT PROJECTS
FROM EUROPEAN STRUCTURAL FUNDS”**

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Cluj-Napoca, 2012

STRUCTURE OF THE DOCTORAL THESIS

INTRODUCTION

CHAPTER I

GRANT PROGRAMS - CONCEPTS, TYPOLOGY, EFFICIENCY

- 1.1. Non-reimbursable financing programs - instruments of communitarian policy
- 1.2. Types of non-reimbursable financing programs operated at the European and international level
- 1.3 Reviews regarding the efficiency of grant programs

CAPITOLUL II

STRUCTURAL EUROPEAN FUNDS – SIGNIFICANCE AND ROLE

- 2.1 Structural Funds - specific financial instruments of EU Cohesion Policy
- 2.2 The role and significance of the European Structural Funds in the EU Cohesion Policy. Study over the contracting period 2007-2013.
- 2.3 Perspectives over the European Structural Funds in the contracting period 2014-2020.

CAPITOLUL III

EUROPEAN STRUCTURAL FUNDS – CASE STUDY OF ROMANIA

- 3.1 Economic prerequisites of accession to the European Union
 - 3.2 Financial aid from EU pre-accession funds - for Romania. Case study over the period 2000-2006
 - 3.3 Financing from EU post-accession structural funds after - for Romania. Case Study over the period 2000-2006.
 - 3.3.1 Strategic programming documents regarding the allocation of EU structural funds provided for Romania
 - 3.3.2 Characteristics of the main European Financing Programs and of the institutional structures created for their implementation in Romania
-

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

CHAPTER IV

**ABSORPTION CAPACITY OF THE EUROPEAN STRUCTURAL FUNDS -
METHODOLOGICAL APPROACHES, EMPIRICAL STUDY**

- 4.1. Absorption capacity of EU structural funds - theoretical and methodological approaches
- 4.2. Analyzing the absorption capacity of EU structural funds in the Northwest region of Romania. Case Study

CHAPTER V

**THE ROLE OF FINANCIAL AND BANKING INSTITUTIONS FROM ROMANIA IN
OPERATION OF INVESTMENT PROJECTS FINANCED FROM EUROPEAN
STRUCTURAL FUNDS**

- 5.1. Banking products created in order to ensure support for investments financed by EU structural funds
- 5.2. National Credit Guarantee Fund for SMEs– implications regarding insurance of bankability for investment projects financed by EU structural funds
- 5.3. Involvement of the Romanian commercial banks in implementation of investment projects financed by EU structural funds

CHAPTER VI

**COMPATIBILITIES REGARDING THE BANKABILITY OF INVESTMENT
PROJECTS AND THE MECHANISM OF EU STRUCTURAL FUNDS FINANCING**

- 6.1. Characteristics of quantitative and qualitative evaluation used in selecting investment projects financed by EU structural funds
- 6.2. Identification of common methodological elements used banking systems and by the European institutions involved in the implementation of investment projects
 - 6.2.1. Cost Benefit Analysis methodology - content, principles, advantages, limitations
 - 6.2.2 Using the methodology of cost-benefit analysis for projects financed under the European Structural Funds in 2007-2013. Case Study.
- 6.3. Possibilities for improving the mechanism of structural funding from European funds

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

- 6.3.1 Economic and financial analysis of a project funded by European Structural Funds. Case Study
- 6.3.2 The need for introduction of bankability in the financial analysis of projects financed by European Union structural funds
- 6.3.3 Sensitivity and risk analysis on projects financed from European Union structural funds
- 6.3.4 Methods to correct the residual value to ensure the correlation of banking analysis with the analysis requested by the financial institutions in the framework of projects financed by EU structural funds
- 6.4. System of economic and financial indicators used in the banking analyzes for investment projects financed by EU structural funds. Econometric application
- 6.5. Proposals for a common system used by banking institutions in Romania and the European Commission for the economic and financial analysis of investment projects financed by EU structural funds.

CONCLUSIONS, LIMITS AND PERSPECTIVES OF THE RESEARCH

References

Annexes

Key words: Analysis methodology, Selection and financing of investment projects, European structural funds, bankability, financial-economic analysis, cost-benefit analysis, evaluation of investment projects, financing of investment projects, selection of investment projects, absorption capacity, investments, loans.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

INTRODUCTION

The European Integration came with new challenges for the entire Romanian society, especially for investment project promoters: private companies but also local, regional and central public authorities. The major opportunities for companies, from the former candidate countries from the European Community, came from the operation on the free market and the possibility of accessing EU structural funding. Such as private companies and public authorities at local, regional and central authorities in other candidate countries, companies and public authorities in Romania have been reformed in order to adapt to the requirements of new European legislation and in order to successfully access European funding programs specifically designed for them.

In the same time, responding to the requirements of the market, the banking system created new services which are dedicated to the above-mentioned entities to support the development, implementation and co-financing of the projects financed from the European Structural Funds. The lack of experience in this specific field shown by the applicants, on one side and by the management authorities and the banking system which are ensuring the funding, on the other side, creates serious impediments for achieving a higher absorption rate of European Structural Funds in Romania. (Fundația Soros România, 2009 and Departamentul pentru Afaceri Europene, 2009).

We also notice the lack of methodology for implementation of funding programs tailored to Romanian realities. Another major problem is the mismatch between economic and financial indicators requested by the European Commission with those imposed by banks, so that European structural funding recipients are not able to access bank credit products that would secure co-financing or to fund the cash flows required to implement the financed investments.

In the presented context this doctoral thesis aims at bringing "**Contributions to the Methodology of Analysis, Selection and Financing for Investment Projects from European Structural Funds**", a topic of major interest for both potential beneficiaries, for management bodies, but also banks to enable them to prepare specific to banking products.

Contributions to the methodology for analysis, selection and financing of investment projects from European Structural Funds

From the extensive field study of EU structural funds the main topics, which are proposed to be approached, in this research paper are: identifying key funding programs at the European level, analyzing the factors influencing absorption capacity, linking banking and financial performance indicators with those of used in the cost benefit analysis of the European Commission and, not the least, reduction of implementation and funding risks of projects from European Structural Funds.

Objectives of thesis

The Doctoral Thesis proposed to be made under the name of: **“Contributions to the Methodology for Analysis, Selection and Financing of Investment Projects from European Structural Funds”** deals with common problems for both public environment (EU, national government, regional or local) and also for the private sector (beneficiaries, banking, etc..) to finance investment projects from European Structural Funds, with a significance in the development of new strategic investments. This paper aims to introduce theoretical and practical aspects less known, the application of models and the interpretation of a case study, highlighting the main positive and negative aspects that influence absorption capacity and access to EU structural funds in Romania, used for financing of investments in business infrastructure.

The main objective of this research is to study theoretical and practical aspects of the mechanism for financing investment projects from European structural funds, in particular to examine the correlation of the analysis indicators used to assess efficiency of investment projects imposed by the European Commission in relation to the indicators required to be achieved imposed by the banking system as the main entity which is providing co-financing of investment projects financed by EU Structural Funds.

The scientific approach consists in identification, monitoring and evaluation of the most effective strategies for accessing EU structural funding, to ensure the best benchmarks of investment project related to a good enough level of banking indicators so that an economic entity benefits both the European funding and a bank loan used for co-financing.

Contributions to the methodology for analysis, selection and financing of investment projects from European Structural Funds

In this context the main hypotheses of this work which will be demonstrated later are:

- Capacity to absorb EU Structural Funds can be increased by the introduction of appropriate methodologies which can bring effects both at the level of applicant for funding and at the level the of management authorities and within the banking system.
- There exists a certain level of financial indicators to analyze the efficiency, of the investment project, to ensure its funding from the European Structural Funds and to provide its co-funding from the banking financial resources.
- Risk of ongoing and successful completion of an investment financed by EU structural funds can be reduced by use of modern integrated financial management and accounting methods introduced and applied in the selection of beneficiaries of EU funding.

Current state of knowledge and position in the specialized literature

The research topics presented above are studied in the literature in recent years, in their various aspects. Papers presented by Reilly A. (2004), Elgar (2005), Dick (2005), and more recently by Steunenbergh and Dimitrova (2007) but also, documents of the European Commission (2007), exemplify and detail various aspects of European integration and its components, including the role of EU structural funding programs as essential pillars for achieving economic and social cohesion and increased competitiveness of the EU Member States.

Highly relevant studies in the field those coordinated by the Romanian European Institute: Which are characterizing structural funding policies and strategies regarding European funds with some very detailed analysis regarding the implementation of these programs in Romania.

Regarding the strategy of ensuring optimal absorption capacity and its growth the study realized by Bourguignon and Sundberg (2006) informs us that absorptive capacity is defined as “ability of low-income countries to productively absorb large amounts of external assistance”, the focus of this paper is prioritizing over analyzing the usage international aid granted.

Contributions to the methodology for analysis, selection and financing of investment projects from European Structural Funds

Finally, for a detailed analysis of efficiency in usage of European Structural Funds in Romania and in order to increase the absorption capacity were studied performance indicators both at project level and also at the of the bank, were noticed many differences between them and were proposed corrective actions based on the work of the following authors: A. Boardman, D. Greenberg, A. Vining, Weimer, D. (2004), Stancu, I (2006), Trenca I. (2006), Trenca I. (2008) but also through the usage of the official methodology in this field provided by the European Commission: European Commission (2002), European Commission (2006) and European Commission (2008).

Research Methodology

According to the reviewed published literature from Romania and existing at the international level the scientific support of a doctoral work is provided by the appropriate use of methods techniques, processes and tools according to subject and type of research.

In order to achieve the objectives of this doctoral thesis are proposed to be used the following research methods:

- The method of analysis and synthesis, induction and deduction, analogy - which are the main research methods used directly in the initial phases of work: Chapters I, II and III and later used as a basis for economic, mathematical and statistics research methods.

- In Chapters IV, V and VI, the transition to case studies are introduced factorial and comparative analysis methods, statistical and mathematical methods (classification, benchmarking, graphics analysis), economic modeling methods used for forecasting and presentation how key indicators of financial efficiency and bank indicators are performing on potential investment financing and for access to credit financing.

These are quantitative and qualitative methods and will be used in accordance with the methodology recommended by the European Commission. To achieve objectives of the thesis was used and analyzed national and international specialized literature and reports of the European Union, European Institute of Romania, European Commission Managing Authorities, government, international and non-governmental sector sources. Are used the

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

methodologies: financial analysis, banking, eligibility, or cost-benefit analysis (complying with the EC methodology) with all its components: financial analysis, economic, sensitivity and risk analysis.

Structure and organization of the thesis

Given the above and in order to achieve the purpose for which it was initiated this research is proposed to be divided into two main parts:

- The **FIRST PART** containing an introductory chapter and first three chapters of the thesis is one of definition, classification and assessment of methodological standpoint, conceptual and practical concepts of non-reimbursable financing, Grants, European funding a both continental and Romanian level.

- The **SECOND PART** of this paper, comprising the three chapters of analysis and the conclusions chapter, mainly contains elements of analysis and concrete case study in the analysis of absorption capacity in Romania, the role of banks and banking methods in the European structural funding. Finally, research findings are presented, followed by subsequent proposals, limits and perspectives to supplement or extend it.

The synthesis of the chapters for the paper is realized below:

SYNTHESIS OF CHAPTER – INTRODUCTION

Chapter "**Introduction**" is a prologue that connects to the research problem under study, making a broad review of the current state of knowledge and position within the studied literature, presenting the objectives of this thesis and its research methodology. At the end of this chapter is introduced and presented the structure and organization of the thesis.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 1 - GRANT PROGRAMS - CONCEPTS, TYPOLOGY,
EFFICIENCY**

The first chapter of this thesis conceptually defines the financial aid grants, focusing on the economic, financial but also on political elements of resource transfers known as grants or non-reimbursable funds.

External assistance grant is encountered since the mists of history closely linked with evolving historical and economic development of society and becoming one of the most important instruments of domestic and foreign policy. Such grants or programs of external assistance grant programs can be defined as the internal and external policy instruments that transfer financial or non-financial resources from donors to the recipient based on specific conditions. Often external assistance grant assistance is linked to external / internal refundable assistance provided by credit/banking institutions.

Are also analyzed, in this chapter, are the main types of grants, existing at the global level, their development and changing role as instruments for the implementation of strategic policies at national and international level. After the 90's The European Commission directly or through its members is the main provider of foreign reimbursable funding through its funding programs which are targeting both member and third type countries (OECD, 2010). These programs will be discussed in detail in the next two chapters.

At the end of the chapter are presented and analyzed, briefly, the controversies about the role and place of grant funding programs and the main pros and cons opinions regarding them. Thus, high efficiency and high absorbency is required both by critics and by promoters of foreign aid grants. Strong debates about necessary reforms for grants access, are taking place in the academic world, but also in the economic and political environment. This topic is discussed in detail both from conceptual and practical points of view in the fourth chapter.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 2 - STRUCTURAL EUROPEAN FUNDS -
SIGNIFICANCE AND ROLE**

This section discusses the European Structural Funds in the three dimensions of their methodological standpoint, their evolution and prospects of their development in 2014-2020.

Since the early years until today the European Commission and later the newly developed European Union bodies have a close relationship, even symbiotic, with the transfer of grants to the Member States. These transfers have been subsequently called European Structural Funds.

The main instruments of cohesion policy are the three Structural Funds: the European Social Fund (established in 1958), European Regional Development Fund (established in 1975) and the Cohesion Fund (established in 1993) with an allocation for 2007-2013 period of an amount of 347 billion Euros, representing over a third of the entire European budget (European Commission, 2009).

Programming period 2007-2013 is considered one of maximum expansion for European funding programs marked by massive restructuring of European funds available to the European Commission by reducing them and grouping under clearly structured finance instruments according to European policy objectives. This period is also marked by doubling of funds allocated to the 8 countries that joined in 2004 and the allocation of structural funds premiere Romania and Bulgaria according to an analysis performed by Economist Intelligence Unit (2007).

The programming of Structural Funds for the period 2014-2020 is marked by analysis and restructuring proposals of the structural funds, increasing their intervention level, integration with other financial instruments (including bank) and the introduction of the Europe 2020 objectives as priority objectives.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 3 – STRUCTURAL EUROPEAN FUNDS – CASE STUDY
OF ROMANIA**

The **third** chapter of this thesis deals with issues concerning the integration of Romania into the European Union and European programs. It's analyzing the pre-accession and post-accession structural funding.

Thus initially are presented "*the economic premises of accession to the European Union*" by analyzing the aggregation AGREGG95: GDP gap of Romanian economy to the other Member States during the pre-accession but also the major changes in terms of legislation and organization that took place at national level in order to achieve the European integration. Establishment of the first National Development Plans and financial resources for their implementation are major elements of reforms adopted by Romania in this period. The most important of these documents, due to its proximity to the moment of accession, the 2004-2006 National Development Plan is focused on the following priorities: economic competitiveness, infrastructure development and tourism development, modernization of agriculture, rural development, supporting research, technological innovation and IT etc... Implementation of these priorities was achieved through pre-accession programs (especially SAPARD, ISPA and PHARE) supported by national programs.

After accession the main strategic planning documents of Romania for accessing and managing EU Structural Funds are: the National Development Plan and National Strategic Reference Framework, which is, in Romania, the strategy agreed with the European Commission for European cohesion policy implementation and development regional and structural instruments.

The National Strategic Reference Framework (NSRF) 2007-2013 was adopted based over the provisions of NDP 2007-2013 and reiterates that its key objective is GDP growth by 10% by 2015. NSRF, an implementation programmatic document, summarizes a number of five priorities on which were established seven operational programs and their related complementary programs.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 4 – ABSORPTION CAPACITY OF THE EUROPEAN
STRUCTURAL FONDS - METHODOLOGICAL APPROACHES, EMPIRICAL
STUDY**

The fourth chapter of this research represents the first chapter of the practical analyses and it refers to: “**ABSORPTION CAPACITY OF THE EUROPEAN STRUCTURAL FONDS - METHODOLOGICAL APPROACHES, EMPIRICAL STUDY**”.

Absorption capacity is generally defined as "*low-income countries' ability to productively absorb large amounts of foreign aid*", the central issue is proper prioritizing grants received (Bourguignon and Sundberg, 2006).

The analyses realized by de Boot et al (2001), is the first in which the absorption capacity is presented systematically. In this paper absorption capacity has been defined as "*the measure to which a Member State is able to consume in an effective and efficient ways the financial resources allocated through Structural Funds*" (Boot, de Veet, Feeks, 2001). Based on this work Wostner (2008) established three specific factors that influence absorption capacity: macroeconomic absorption capacity, absorption capacity management - administrative and financial capacity of absorption.

Later proceed to build a case study that analyzes the absorption capacity on the North Western Romania on three key areas of intervention for Regional Operational Programme. This absorption capacity analysis, through the case study mentioned above, showed the significant differences in Romanian economy. They are caused by a complex of economical factors critical to the internal and external recipients, leading to the reduction of the capacity to access European funds.

Since many of the items notified during this analysis indicates that there is a direct link between the absorption capacity, the financial components of accessing, contracting and implementation of investment projects and their bankability, and is absolutely necessary to establish a level of financial indicators indicating that project is eligible for loan and for funding.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 5 – THE ROLE OF FINANCIAL AND BANKING
INSTITUTIONS FROM ROMANIA IN OPERATION OF INVESTMENT PROJECTS
FINANCED FROM EUROPEAN STRUCTURAL FUNDS**

The first part of the fifth chapter identifies the main banking products developed to ensure support for investments financed from EU structural funds. After the launch in 2008 of the main structural EU funding programs focusing on the development of competitive SMEs a record number of SMEs have applied for obtaining grants for investments in various funding programs, especially in the ROP and SOP, which were presented in previous chapters. The initial success of SMEs that have successfully applied and even managed to gain access to European funding was overshadowed by a new and more acute problem: lack of financial resources for co-financing to support the investments or expenditures in the early stages project funding. In this context, and in the absence of sufficient domestic resources for co-financing of EU projects, beneficiaries were back again to seek the support of financial sector: banks and / or the National Credit Guarantee Fund for SMEs (FNGCIMM). Therefore majority of Romanian banks have created specialized product package exclusively devoted co-financing and / or pre-financing guarantee of different types of EU funding projects to customers based on their own bank analysis methodologies.

The role of banks in providing resources for co-financing grant funding and running projects has become essential. But as emphasizes several studies, only projects considered "bankable" can successfully call and may benefit specific banking products.

A noteworthy aspect is that sometimes banking methodology for calculating these indicators and the initial calculation is different from the Structural Funds managing authorities leading to indicators calculated with the same name but give completely different results.

These elements many times led to the blocking of the project in the bankability stage of many projects considered eligible and with high score obtained at the level of managing authorities. Therefore many times, even with the complicity of the banks the beneficiaries presents two different documentations of analyses: one to Authority Management and one to the bank.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER 6 - COMPATIBILITIES REGARDING THE
BANKABILITY OF INVESTMENT PROJECTS AND THE MECHANISM OF EU
STRUCTURAL FUNDS FINANCING**

The most consistent chapter of this research, is the sixth chapter, this is predominantly practical, for analysis of “**COMPATIBILITIES REGARDING THE BANKABILITY OF INVESTMENT PROJECTS AND THE MECHANISM OF EU STRUCTURAL FUNDS FINANCING**”. Within this chapter, case studies are constructed based on real issues in the EU funding projects, based mainly on sinuous relationship between eligibility for funding of projects and their bankability.

As mentioned often in this paper the access to EU structural funds led to changing the planning of economic activities in the Romanian private companies. Managers or entrepreneurs began to pursue the launch of new finance because they have realized that EU funds can complement its own sources of investment projects in companies. Treating the financing project and European money as universal panacea for solving financial-economic and / or social beneficiaries becomes a danger highlighted even by specialists.

In order to identify common aspects of several financing programs have been studied the criteria for evaluation of the most popular European funding programs for SMEs infrastructure of ROP Axis 4.1., Axis 4.3. and Axis 5.2. and from SOP Axis 1. Therefore in the present study are analyzed theoretically and practically the cost-benefit analysis and its components: financial analysis, economic analysis and sensitivity analysis and risk as defined in the methodology of the European Commission (EC).

In order to avoid confusion between the various financial and economic analysis methodologies for Economic - Financial Analysis of the Cost Benefit Analysis will use the term economic - financial EC.

In these analyzes are introduced elements of bankability of projects and are proposed elements for the adjustment of inconsistencies between CBA and banking. It also performs analysis and are proposed methods for correction in order to establish the residual value,

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

another big controversy in the analysis of project effectiveness in terms of banking and structural funds.

In order to establish and select some indicators mainly banking, to be introduced in the analysis of eligibility European Commission, has started using statistical methods and economic modeling them.

Therefore it was noted that the correlation of the criteria for the award of grants, the economic and financial analysis indicators EC with bankability criteria could be a great solution to current challenges: making bankable projects funded projects and thereby increase absorption capacity of the beneficiaries.

The main segment of the analysis in this section consists in analyzing and proposing a model for evaluating financing project, containing both components of banking analysis and those required by the European Commission.

In this context to end of this chapter based on all elements of the analysis suggested a common analysis, evaluation and selection of investment projects to be supported by both the banking system and the European Commission. Later this system was tested and validated in a case study.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

**SYNTHESIS OF CHAPTER - CONCLUSIONS, LIMITS AND PERSPECTIVES OF
THE RESEARCH**

In which concerns the last chapter: “**CONCLUSIONS, LIMITS AND PERSPECTIVES OF THE RESEARCH**”, this is intended to describe the findings from the research, will highlight some recommendations both in the construction of the banking and specific project indicators and the development methodology for the implementation of European structural funding programs in Romania correlated to banking methodology. Also proposes to study the further research needs not covered by this doctoral dissertation. Given the importance of this chapter the main findings will be presented in detail in the lines below.

CONCLUSIONS

The doctoral thesis proposed to be made under the name of "**Contributions to the Methodology for Analysis, Selection and Financing of Investment Projects from European Structural Funds** " meets common problems for both public environment (EU, national government, regional or local) and also private environment (beneficiaries, banks, etc..) to finance investment projects using European Structural Funds, with a significant importance in the development of new strategic investments at National and European level.

A highly debated notion from economic, social and political point of views, are reimbursable funding programs, but which are rarely discussed by their conceptual and practical aspects at the level of the scientific world in the Romanian economy. Thus the scientific approach of this paper consists in identifying, monitoring and evaluation of the most effective strategies for accessing EU Structural Funding, to ensure the best benchmarks of investment projects related to a good enough level bankability indicators so that an economic entity can benefit both of grant and bank loan co-financing.

From conceptually point of view the external assistance funding programs or grant programs can be defined as the internal and external policy instruments that transfer financial or non-financial resources from donors to the recipient based on specific conditions. Of course, these transfers are made to meet the economic, political or social interests, and to promote certain foreign policies of non-reimbursable assistance providers as Hunt (1987) points out.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

Originally conceived as a political or military purpose financial and material transfer, the assistance grants evolved especially since first grant programs appeared and, in particular, since the emergence of European structural funding programs.

EU political vision of the founders was from the beginning that it can be reached a large single European market only by effective measures of liberalization and open markets, by hindering barriers to market forces and by intervention measures for reduction of development disparities between the Member States'. To finance these large volumes of financial transfers were built more funding programs, the so-called structural financing programs (Jovanovic 2005).

Thus from the earliest years to the present day the development of the European Commission and later of the European Union bodies have a close relationship, even symbiotic, with the transfer of grants to the Member States. Following an explosive development of European structural funding programs: the European Social Fund, European Regional Development Fund and the Cohesion Fund are currently the main instruments of EU policy in the Member States and account for over one third of all European budget (European Commission, 2009).

Upon accession to the European Union, Romania had substantial gaps in the main economic indicators both regarding the countries forming the EU-10, but also to most other candidate countries. Recipient of grant funding programs from pre-accession funds (PHARE, ISPA and SAPARD) Romania have had access to EU structural funds only since 2007. During the 2007-2013 structural financial assistance focused and was allocated based on the seven operational programs and complementary programs related.

One of the most debated topics within this period both in Romania and the other Member States is absorption capacity and growth. After 2013, when the subject will become critical to accelerate implementation of projects remaining to be settled by the end of 2015, according to the operational policy of spending funds in a period of $n+2$ years. In the European Union's absorption capacity has been defined as "*the extent to which a Member State is able to fully spend in an effective and efficient way the allocated financial resources from the Structural Funds*" (Boot by Veet, Feeks, 2001).

Contributions to the methodology for analysis, selection and financing of investment projects from European Structural Funds

In this paper it is proposed to be analyzed: cases study of absorption capacity in Romania, the North Western Development Region, and were drawn some conclusions and were proposed measures for correcting the deficiencies noticed. It was noted that there is a direct link between absorptive capacity, financial components of access, contracting and implementation of investment projects and their bankability. In this context is absolutely necessary to establish a level of financial indicators through which a project is both eligible for loans are the banks and eligible for funding, as well.

After joining the European Union, in the context of the financial crisis, the role of the banking system has undergone a profound transformation in the relationship with beneficiaries of EU funding projects: specialized banking products were developed and marketed by some Romanian banks to attract customers interested in specialized bank products: for co-financing or for support of project implementation. If in 2007 the main source of financing / co-financing investment was considered to come from own sources, since the initiation of European infrastructure programs, accessing the banking system has become the dominant factor in guaranteeing or securing financial resources for co-financing and implementation of investment projects. Numerous banking products and lending rules have been adapted to the requirements of funding recipients.

Thus as previously presented some financial indicators and some selection criteria have become essential in bankability analysis. Also can be noticed some discrepancies between the system of analysis the project eligibility performed by the banks and the performed by financing bodies, which has led to surprising situations where some projects have been accepted for grant contract but did not have access to bank loans and in this context have failed and have not been implemented their projects. In some cases the projects have been implemented with unsatisfactory results.

As shown in recent studies (Hampl et al, 2011) investing in infrastructure is conditioned by making these investments in profitable ones: bankable. This is essential, even if the term "*profit*" is perceived differently by different stakeholders: banks, project management, beneficiaries, the European / national management.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

Often this leads to a situation in which the proposed projects do not have real relevance for applicants or later fail due to lack of experience in project implementation or business field in general. Treatment of project funding and European money as universal panacea for solving financial-economic and/or social problems at the level of beneficiaries becomes a danger highlighted even by specialists.

In a presentation called „*Coresponsabilitatea – Cheia Succesului*” Iorga(2011) draws attention to four issues worth mentioning at beneficiary level:

- The fact that "*European funds are public funds*"
- The fact that "*European funds are not for beneficiaries "with no money"*"
- The fact that "*European funds are not an "emergency solution"*"
- The fact that "*European funds are a school of resource management*"

In these circumstances it is clear that eligibility criteria to obtain higher score, in order to evaluate the project, is a major concern to the applicants of projects, on the one hand. On the other hand, as a counterbalance to this trend, the contracting authorities have been initiated a continuous process of updating the guideline of finance, in general, and particularly the assessment scales.

The main criteria for project selection have been studied and were proposed methods to correct the calculation of some indicators, introducing new elements of analysis with bank-specific analysis of European Structural Funds eligibility of projects. At the end of this research was developed and recommended implementation of a joint project selection system that combines specific selection criteria specified in the methodology of the European Union combined with elements of the bankability methodology.

**Contributions to the methodology for analysis, selection and financing
of investment projects from European Structural Funds**

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