FINANCING RESOURCES AVAILABLE FOR LOCAL ECONOMIC DEVELOPMENT

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Abstract
This paper reveals that domestic credit is becoming more involved in local economic development, even if it is considered an expensive resource. The loans are presented as a resource available for various "actors" of the local community – individuals, business agents and local authorities.

Keywords: *development funds, municipal bonds, public-private partnership, bank loans, economic development, resources, local authorities*

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Introduction

In conditions where, EU funds are limited as value, and also in terms of destination; the foreign direct investments, although effective, are experiencing a continued reduction in economic crisis and unpredictable Romanian business environment conditions; the bond market is in decline, due to the crisis and to the lack of investor confidence in the public domain, especially on long term; the public-private partnership may bring delays in decision making due to diversity of interests, the domestic credit is becoming more involved in local economic development, even if it is considered as an expensive resource.

The domestic credit is more involved in the local economic development, it can be accessed by all local stakeholders, businesses, local authorities and individuals. A variety of loan products available is able to cover the market requirements.

Using all financial local resources available, considering each one's efficiency, can generate spectacular results in local economic development.

Literature review

For local development, the literature highlights in multiple approaches, the realities at local community level. Relevant papers from this perspective are presented by renowned authors, such as:

– Lucica Matei, Stoica Anghelescu, in *The Local Development. Concepts and Mechanisms* (2009), started the analysis from established international models of local development, highlighting the role of public services in local development. Also, the authors analyze the legal and institutional support related to local development. The paper also highlights management issues, and related local development partnership.

– According to author Valeriu Iuhas, expressed in the paper *The Economic Regional Development – Economic and Social Implications* (2004), the transition from centralized command economy system to the market economy, has caused profound structural changes in the entire Romanian society, both politically and socially, especially economically. Economic, political, social and cultural changes in Romania led to the aggravation of existing imbalances in the development of spatial (regional) and the appearance of new gaps in the development of different regions.

– Roxana Mosteanu in *The Financing Regional Development in Romania* (2003) shows how the promotion and implementation of regional development policy in European Union countries is at the primary, is essential for the harmonious development of the entire territory.

– Other special approaches for local development, I met in the authors: Altar Moisa, *Models for grounding growth strategies for accession to the European Union* (2002) and Aurel Iancu, *Romania's economic development. Competitiveness and integration into the European Union* (2003).

Given the complexity of the processes and phenomena in local development, the authors focused on social aspects within local and general economic context.

Theoretical foundations

Currently, the Romanian economy is characterized by significant demand shortfalls, generating high levels of unemployment and underemployment and a low level of activity in various economic sectors.

Obviously, more extensive areas of the country are getting away from the growth process. This reality is the result of a combined action of several factors, such as aging population, lack of jobs, unskilled labour force, and total lack of attractiveness for investors.

The phenomenon of poverty, characteristic of such areas, is amplified by the growing process of social exclusion, which includes access to education and basic services. This phenomenon is present not only in rural but also in mono-industrial urban areas, especially those ones exposed to industrial restructuring.

- ***Local economic development in Romania***

The regional development policy represents the *ensemble of actions* that ensure *the economic growth and social development* of geographical areas organized in development regions, *the improvement of the international competitiveness* of Romania and *the decrease of economic and social* gaps between Romania and EU states.

The strategy of the National Development Plan 2007-2013 is structured in **six national development priorities** including: *the increase of economic competitiveness and development of a knowledge-based economy, the development and* *modernization of transport infrastructure, environment protection and its quality enhancement, human resources development, development of a rural economy and the increase of agriculture productivity, the decrease of development gaps between the country's regions*. This strategy is based on three ways of action:

– ***Encouragement of domains with potential for increase and having a high added value*** by ensuring competitiveness, attracting foreign direct investments, supporting SME within these domains, developing rural economy and increasing the productivity of the primary sector.

– ***Alleviation of deficiencies in infrastructure and human resources qualification***, which burden the development of economic fields that generate high added value: transport, energy, environment and labour.

– ***Promoting a balanced regional development and decreasing social discrepancies*** by supporting and implementing local and regional initiatives, with local authority's involvement.

The main *objectives* of the regional development policy in Romania are the following:

a. *Decreasing regional imbalances* by recovering social and economic delays and preventing new imbalances.

b. *Correlating governmental sectorial policies within regions* by stimulating initiatives and by capitalizing local resources in the purpose of a durable development.

c. *Stimulating interregional cooperation*, both internal and external, including euro-regions, involving development regions within European organizations that promote social-economic and institutional development.

The following *principles* fundaments regional development policies:

– *Decentralization* of decisional process from the central government to the local authorities.

– *Partnership* between all the shareholders who are involved in regional development.

– *Planning* of resources' usage in order to achieve objectives.

– *Co-financing*, through financial contributions, of various parties involved in regional development projects.

Starting from principles, we will analyze in the following section the financial resources availability for local development.

• ***Financial resources available for local development***

Development funds

Romania's access to European grant funds became possible by entering the EU. The purpose of these funds is to reduce both the development gaps between Romania and the other member states and between Romanian regions.

The total amount of Structural and Cohesion Funds, allocated to Romania, was 19.668 billion Euros, of which:

• 12.661 billion Euros represent *Structural Funds* for the "*Convergence*" objective;

• 6.552 billion Euros are allocated through the *Cohesion Fund;*

• 0.445 billion Euros represent *Structural Funds* for the "*European territorial cooperation*" objective;

The following table shows the resources allocation by year:

Table no.1

European grant funds for Romania between 2007-20013

Billion Euros

Year	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Convergence	0.830	1.215	1.654	1.997	2.154	2.319	2.489	**12.661**
Cohesion Fund	0.445	0.638	0.858	1.030	1.109	1.192	1.278	**6.552**
European territorial cooperation	0.060	0.061	0.062	0.064	0.066	0.068	0.070	**0.455**
Total	**1.335**	**1.915**	**2.576**	**3.092**	**3.330**	**3.580**	**3.837**	**19.668**

From the amount of 12.661 billion Euros, the European Regional Development Fund receives 8.997 billion and the European Social Fund receives 3.684 billion.

In addition, there are two complementary funds: the European Agriculture Fund for Rural Development, which consists of 8.022 billion Euros and the European Fishing Fund, which consists of 0.231 billion Euros.

By adding 6.552 billion Euros from the Cohesion Fund, we get the total amount of 27.466 billion Euros, which represents the European contribution to Romania's development in 2007-2013.

The Structural and Cohesion Funds contribute to the achievement of the EU cohesion policy objectives, by implementing the Operational Programs at the national level.

From the total cost of each project, the beneficiary must pay the ineligible expenditures and the co-financing. The share of the co-financing varies between 0% and 75% of the eligible expenditures and they are set for each program.

At national scale, having a direct regional impact, is the Regional Operational Program, developed within "Convergence" objective. The total budget of the program is 4.4 billion Euros. The EU finances 3.7 billion, while the rest of the amount is ensured by national funds, 14% from public co-financing and 2% from private co-financing.

Municipal bonds

Bonds represent a form of loan, with multiple creditors, given for a fixed period, with a fixed or variable interest rate, which can be transferred to a third party through the stock market. The fixed or variable interest rate is presented from the moment of bond issue. The investors who buy these securities become multiple creditors of the issuing entity.

Within the context of this presentation, *bonds* represent medium/long term securities, issued by a local public authority, whose reimbursement is guaranteed trough the revenues of the administrative entity.

The main bond issuers are the public administrations (both central and local). The purpose of issuing bonds is to cover budgetary deficit and to finance important investments for the community.

The contraction of local public debt by issuing bonds respects the legislation regarding securities. The issue can be made directly by public authorities or by agents and specialized institutions.

Currently, on the market, there are bonds with variable interest rate, usually correlated with the ROBID and the ROBOR. The change of the reference rate influences the coupon's rate.

The current situation of municipal bond issuing is far from showing the public authorities' interest for attracting additional resources in this way.

Table no. 2

Resources attracted by issuing municipal bonds

Million lei

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Value	1.50	12.65	46.51	31.79	38.75	84.65	155.00	236.00	258.50	865.35
Number of issues	2	8	13	10	6	9	6	7	10	71

From the total amount of 865.35 million lei gathered from municipal bond issues, more than half are located in two regions: the West (33%) and the Nord-East (25%). The third region is the Centre, with 22%. At the county level, Timis is on the first place, with 21%, followed by Bacau and Alba, with 13% each.

Some regions and counties show prominent issuers of municipal bonds, such as Alba, with 10 issues, Timis, with 9 issues, Brasov, with 7 issues, Bacau and Hunedoara, with 6 issues each.

Foreign direct investments

The foreign direct investment (FDI) represents a long term investment relationship between a resident entity and a foreign one. This type of relationship involves a significant managerial influence from the investor in the company in which he invested.

There are considered as foreign direct investments the following:

a) *share capital* and the reserves assigned to a foreign investor who holds at least 10% of the subscribed capital of a resident enterprise;

b) *loans* between the investor and the enterprise;

c) *reinvested profit* by the foreign investor;

FDI components are:

– *equity capital*, respectively subscribed and paid up capital owned by non-residents in resident companies, and the share of the reserves;

– *net credit*; the loans received by foreign direct investment enterprise from foreign direct investor or the group of non-resident companies to which the investor belongs, less the credits granted by direct foreign investment enterprise to foreign direct investor or to other companies within the group of companies.

Between 2005 and 2009, the annual average of net input of foreign direct investments was 6900 million Euros.

The following table presents the annual inputs of foreign direct investments, split on net participations (including reinvested profit) and the received net credit.

Table no. 3

Net inputs of foreign direct investments

Million Euros

Year	Total, of which	Net participations		Received net credit	
		Value	%	Value	%
2005	**5,213.0**	3,852.0	73.9	1,361.0	26.1
2006	**9,059.0**	6,832.0	76.0	2,227.0	24.0
2007	**7,250.0**	3,547.0	49.0	3,703.0	51.0
2008	**9,496.0**	4,873.0	51.3	4,623.0	48.7
2009	**3,488.0**	1,729.0	49.6	1,759.0	50.4

The amount of foreign direct investment increased from 2005 to 2009 reaching 49.984 million Euros at the end of this period. Compared to 2005, the increase was more than 220%. This amount includes differences in value arising from revaluation due to changes in exchange rates and prices, as well as accounting restatements.

The following table presents the territorial distribution of foreign direct investments.

Table no. 4

The distribution of foreign direct investments on development regions

Million Euros

Year	**2005**		**2006**		**2007**		**2008**		**2009**	
Region	**Value**	**%***	**Value**	**%**	**Value**	**%**	**Value**	**%**	**Value**	**%**
TOTAL, of which:	**21,885**	**100**	**34,512**	**100**	**42,770**	**100**	**48,798**	**100**	**49,984**	**100**
Bucharest	13,264	60.6	22,205	64.3	27,516	64.3	30,594	62.7	31,699	63.4
Centre	1,838	8.4	2,653	7.7	3,541	8.3	4,146	8.5	3,703	7.4
Southeast	1,610	7.4	2,559	7.4	2,942	6.9	3,551	7.3	2,938	5.9
South	1,491	6.8	2,228	6.5	2,448	5.7	3,411	7.0	3,576	7.2
West	1,388	6.3	1,948	5.6	2,365	5.5	2,626	5.4	3,095	6.2
Northwest	1,257	5.8	1,570	4.6	1,907	4.5	2,108	4.3	1,940	3.9
Southwest	745	3.4	938	2.7	1,379	3.2	1,226	2.5	2,058	4.1
Northeast	292	1.3	411	1.2	672	1.6	1,136	2.3	975	1.9

Until 2008, excepting the Southwest Region, the general and regional trends were ascending. At the national level, the increase was more than 220%, from 21.885 million Euros in 2005 to 49.984 million Euros in 2009. This trend maintained in the regions. In 2009, the amount of foreign direct investment decreased in 4 development regions. In the Centre, Southeast, Northwest and Northeast the amount decreased with 10-18% compared to 2008.

Regarding the structure of foreign direct investments, 50% of the annual amount of FDI represents tangible and intangible assets. This aspect shows a significant durability of the foreign direct investment.

The analyzed data indicates the orientation of foreign capital towards industry and the decrease of tangible and intangible assets in this economic field from 34.9% in 2005 to 24.3% in 2009.

Public-private partnership

The public-private partnership is an economic mechanism consisting in the association of two partners – a public authority and a private investor – in the purpose of creating a public commodity or a public service, as they are defined in the Romanian legislation.

The public-private partnership project, realized entirely or partially with own financial resources or resources attracted by the investor, according to a public-private partnership model, refers to the following:

a) cooperation between the public partner and the private partner;

b) private financing of the public-private partnership;

c) the purpose of the partners is to finance and to apply the public interest objectives and to respect the stipulations of the public-private partnership contract;

d) the risks are assigned proportionally and fairly between the two partners.

The following table shows the situation of public-private partnerships on a regional scale:

Table no. 5

Public-private partnerships on development regions

Region	Number of PPP, of which:	Local halls	County Councils	Other authorities
Northeast	5	3	2	-
Southeast	4	2	2	-
South	5	-	4	1
Southwest	3	-	3	-
Northwest	8	4	-	4
West	4	1	3	-
Centre	3	2	1	-
Bucharest	8	2	5	1
TOTAL	**40**	**14**	**20**	**6**

By analyzing the regional distribution of public-private partnerships and the sectors where they were used, it is noticed that:

– In the whole country, there are approximately 40 projects in different stages.

– The involvement of central authority in local development using this method of financing is very low (only 15%).

– Regarding the regions, the first place is occupied by Bucharest and Northwest, with 8 projects each, followed by South and Northeast, with 5 projects each.

– The fields where this type of projects was implemented are the infrastructure (parking, roads, motorways and airports), collecting waste, residual water treatment etc.

– Compared to the needs for development, the public-private partnership is poorly used.

Bank loan

The role of bank loan in financing local economic development must be analyzed according to all factors involved in local development: local public authority, private economic agents and individuals.

One of the consequences of local public finance decentralization is the increase of the need for financial resources for financing the expenditure caused by taking over some attributions of the central authority. This situation, together with the international trend, led to the right of local public authorities to access bank loans. Because of this, all the local economic actors have access, in one way or another, to the bank loan.

Conditions for offering a loan to different customers vary from one bank to another through some features such as cost, timing, volume etc. Although they are an expensive resource, bank loans have some advantages that include them among the available resources for local economic development: immediate access to the resource, flexible terms for acquiring them, variety of types, negotiable cost etc.

- ***SWOT analysis of non-budgetary resources for financing local economic development***

FINANCING SOURCE	STRENGHTS	WEAKNESSES
BONDS	• Ensuring a high degree of autonomy for defining the terms and conditions of the loan. The local public authority decides aspects regarding the value of the loan, interest rates, loan deadline etc.; • The direct access of population to the municipality's investment process, lacking some imposed measures (taxes or supplementary fees). The local population can buy bonds, thus becoming involved in completing local interest projects;	1) Limit imposed by the possibility of guaranteeing such a loan: part of the public authorities' claims, which represent current revenues and split quotations from the income tax; 2) They are dependent on the investor's behaviour; 3) They are sensitive to the economic context (ex. economic crisis);

	• The increase of local citizens' standard of living, through the increase of revenues due to the coupons, for those who invest in bonds, and the benefit of the objective realized on this way; • Lower total costs; • Ensuring the liquidity needed for paying the principal through a new issue;	
CREDITS	1) Regarding the local public authority, the loan represents a resource attracted in favourable conditions. Its purchase takes place through an auction, in which the most advantageous offer is accepted; 2) The resource is independent of investors' behaviour; 3) The contract timing is flexible; 4) The distribution of this resource on investment objectives is on the public authority's decision; 5) It is available to the entire local community;	1) There is a limit imposed by the law to the local public authority; 2) Local policymakers' reluctance; 3) Local policymakers' economic culture; 4) Economic instability in both private and public sector, with consequences on the labour market;
EUROPEAN FUNDS	1) They do not require costs; 2) The access to one domain or another, according to the way they are structured, is not limited;	1) Structural funds operate on the principle of reimbursement of expenditure by the eligible beneficiaries; 2) They have a high level of bureaucracy during the approval stage; 3) Both the total value and the annual value are limited; 4) They are assigned to well specified fields;
PUBLIC PRIVATE PARTNERSHIP	1) Higher acceptance of measures by including private enterprises in development activity; 2) Enlargement of the work frame by attracting a convenient resource; 3) The separation of the accomplished objective from the administrative mechanism offers a better image through the high degree of flexibility; 4) The economic flow is simplified; 5) The ongoing of projects at a rapid pace;	1) Less information because of reducing contact with the public administration; 2) Costs transferred to beneficiaries; 3) Financial dependence on private; 4) Diversifying interests may cause delays in taking decisions; 5) Lack of decision competence;
FOREIGN DIRECT INVESTMENTS	1) They help the decrease of the current account deficit; 2) They have a significant contribution to the development of economic productive sectors;	1) The investment decision belongs to the investor;

FINANCING SOURCE	RISKS	OPPORTUNITIES
BONDS	1) The emotional impact of the economic crisis on the investors; 2) The risk of not paying the principal because of the decrease of revenues from taxes and fees; 3) The risk of not paying the interest;	1) The fact that there were no delays of payment and all the issuers complied with the schedule of payment provided in the issuing prospect demonstrates the accessibility of this type of financing; 2) The positive image helps attracting citizens towards public investments and opens the way for a direct communication between the community and the local administration; 3) The insurance for the local public authorities of resources needed for local development, not having the possibility of increasing their capital by issuing shares; 4) They can be used in hedging contracts for decreasing the risk of changing the interest rate; 5) Financial risk can be insured;
CREDITS	1) Evolution of the exchange rate; 2) Evolution of the interest rate;	1) They are banking products with negotiable components; 2) They are offered to the entire community; 3) They represent the main method of restarting the economy;
EUROPEAN FUNDS	1) A weak concern for attracting European funds; 2) The loss of the right of receiving such funds;	1) For their attraction and use it can be used special assistance; 2) They represent a source of development on multiple areas and they are organized in various domains;
PUBLIC PRIVATE PARTNERSHIP	1) The failure to accomplish the project's tasks; 2) Inexact designing and developing; 3) Incorrect estimation of the demand; 4) Environment impediments; 5) Financing; 6) Performance level; 7) Legislative dynamics; 8) High level of bureaucracy;	1) It represents a solution for achieving some objectives; 2) It joins public and private interest; 3) It helps the increase of the labour market; 4) It may contribute to the improvement of salaries;
FOREIGN DIRECT INVESTMENTS	1) Lack of predictability of the Romanian business environment; 2) The risk of adopting managerial decisions which are independent of the local interest, because of the investor's significant managerial influence in the investee company;	1) The performance indicators of those companies which received foreign direct investments are deteriorating harder because of the investments' structure; 2) Contribution of managerial knowledge due to the investor's significant managerial influence in the investee company;

Conclusions

The wide offer of financing resources can satisfy the local economic development's needs. It is important to know these resources, their strengths, weaknesses and their limits.

One example consists in European funds vs. other available financing sources, regarding the fact that Structural and Cohesion funds are grant resources, without costs. However, Structural Funds operate on the principle of expenditure reimbursement by the eligible beneficiaries. Those who are not accepted in the program must finance the projects in advance from state funds or private funds. The settlement is made after the assessment of the projects. The amount supported by the European funds varies between 30% and 85% from eligible expenditure. In this case, the rest of the financing can be ensured from other financing resources.

On the other hand, European funds have destinations settled in advance. Individuals cannot access these funds for their personal needs.

On the local scale, the following chain of causes illustrates the connections between the components of the local economic structure: financing source – jobs – consumption – taxes and fees – local budget income – local development.

The proper choice of a financing resource involves the analysis of development priorities, of free resources and of those that include costs and the possibility of involving the private sector by attracting foreign direct investments or by handing some objectives to private partners.

Regarding the concrete situations that took place over the time, the question that arises is whether the main problem in Romania is the optimal usage of resources rather than a wider usage of them.

The optimal usage of the available financial resources for local economic development involves a good knowledge of alternatives and of the complementarity of these resources.

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