

THE ROLE OF EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT IN FINANCING ROMANIA'S ECONOMY BEFORE AND DURING COVID-19 PANDEMIC

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***Abstract:** Since its inception, the EBRD has been committed to promoting the market economy, private initiative and entrepreneurship. The EBRD provides finances for the banking system, and industrial and commercial companies, regarding new partnerships and but also investing in companies that already are functioning. It also provides finances for public enterprises. All EBRD projects are made as to meet the client's necessities and according to the economic and financial conditions of the sector, region or country. In this paper we intend to present the EBRD's activity in Romania in the last 3 years but also its strategy for Romania for the present and next period, the period that is and will continue to be marked for a long time by the effects of the covid-19 pandemic.*

***Key words:** financing, strategy, performance, results, effects*

INTRODUCTION

The EBRD provides finances for the banking system, and industrial and commercial companies, regarding new partnerships and but also investing in companies that already are functioning. It also provides finances for public enterprises.

All EBRD projects are made as to meet the client's necessities and according to the economic and financial conditions of the sector, region or country [8]. Direct investment usually are between € 5 million and € 230 million. The European Bank for Reconstruction and Development usually is financing maximum 35% of the whole the project [1].

The EBRD generally is finances projects that under similar conditions won't be able to attract finances otherwise. Every project will have assigned some specialists with dedicated skills for that specific sector, region and country.

Using donor financing, it mobilizes capital investment and expertise and gives access to local companies to consultants with a various experience in the field. Donor programs are financed by governments and international organizations and are managed by the European Bank for Reconstruction and Development [11].

Although the EBRD has remained loyal to realise it's initial objectives in the last years the transition to the market economy forced it to adapt it's activity [3].

In early 2017, for example, started to use transition as more than a competitive market economy, but also as green, inclusive, resilient well-governed, and integrated.

During it's existence the EBRD realized that countries need changes that can't be done only through project finance but they also need to make a better investment environment and ways to reform their policies [14].

A characteristic that no other bank has is that European Bank for Reconstruction and Development fulfills a political mandate, in the sense that it helps those countries that apply the principles of multiparty democracy and pluralism. Protecting the environment is also at the heart of the bank's business.

A commitment to promoting sustainable development and the environment has been explicitly presented since its inception [2].

More recently, the transition to the green economy transformed the environmental financing in an important measure of the Bank's performance. In 2019, the financing of this area was about 46 percent from the bank annual investment, that being more than the limit of 40 percent that was target it to be reached until the end of 2020 [7].

The COVID-19 pandemic created a big challenge for the countries in which EBRD has its activity and for all its shareholders. To combat this the EBRD committed all its activities to 2020 and 2021 in this sense, and is planning to make finance for more than € 21 billion.

MATERIALS AND METHODS

In realising this paper we used the information available at the EBRD and Romania Ministerial level in order to emphasize the importance of the EBRD finance for the Romanian economy in general and in the context of the coronavirus pandemic especially. We made an analysis of the activity of EBRD in Romania, we identified the level of realization of the objectives assumed and we shortly presented the next country strategy of EBRD in Romania.

RESEARCH RESULTS

General considerations regarding Romania's relationship with the EBRD

Bank Romania has been a member of the EBRD since 1991 [10]. In Romania, the EBRD is one of the top institutional investors. To date, the Bank has invested 8.710 billion euros in 446 projects [4].

Through these investments and the direct involvement of the Bank's representatives on the Boards of Directors of a large number of companies in which it has invested, the EBRD has managed to improve corporate governance practices and expand political dialogue. The Bank's portfolio has expanded rapidly in areas such as large-scale privatization with strategic investors, greenfield investments in the private sector, financial sector and infrastructure development in the areas of energy, transportation, communications and municipal infrastructure. The Bank actively supports the development of the non-banking financial sector by promoting investments in leasing and insurance companies, as well as in capital funds, pensions and mortgages.

EBRD activity in Romania

The Romanian private sector is very active, being fueled by high FDI in the automotive, ICT, agri-food and real estate and being supported by the sector of Small and Medium Enterprises which is very developed [9].

Things could stay even better if it weren't for the bureaucratic obstacles and bottlenecks caused by low national infrastructure. The decline of FDI in the past years (especially in greenfield investments) has reduced the transfer of modern skills and processes. Access to financing for corporations and SMEs remains limited due to difficult banking lending practices, underdeveloped capital markets and very few alternative ways of finance

The EBRD is an important institutional investor in Romania. The bank invests in both the private and public sectors, in areas such as energy, transport and municipal infrastructure, as well as in financial institutions.

The country strategy for Romania approved by the EBRD in September 2015, proposed as directions for action for the period 2015-2019 to expand access to finance by stimulating lending and capital market development, reducing regional disparities and encouraging inclusion, and improving competitiveness in the private sector [5].

Next, we will present the main achievements of the EBRD's country strategy for Romania for the period 2015-2019, followed by a presentation of the objectives for the next period, which will be marked by the effects of the coronavirus pandemic.

If we refer to the evolution of the number of projects financed annually, in the following figure we can see that after a significant decrease in 2018, funding increased in 2019 from 19 to 22 in number.

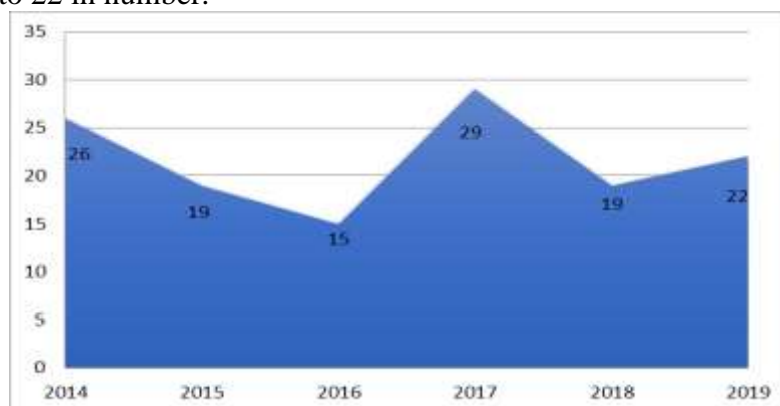


Figure 1. The evolution of the annual number of ERBD projects in Romania

Source: made by the author based on: <https://www.ebrd.com/where-we-are/romania/data.html> [7]

From the point of view of the value of financing, the trend is not the same as the number of financing. From the following figure it can be seen that the value of EBRD financing registers a downward trend starting with 2017.

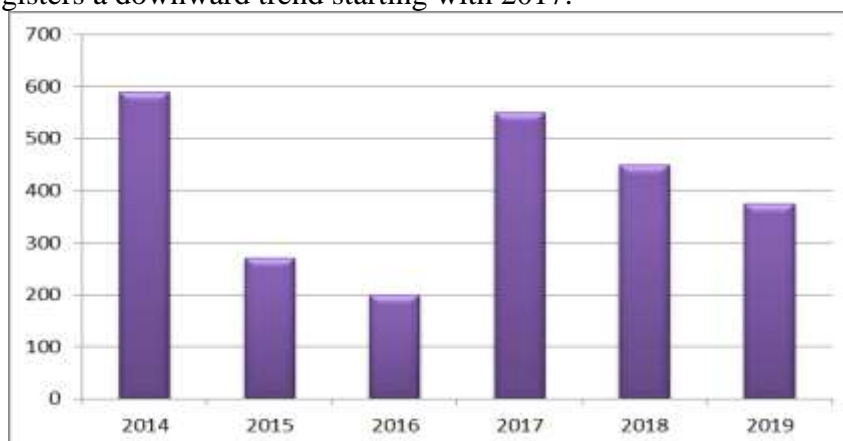


Figure 2. The evolution of annual investments made by ERBD in Romania- million euro

Source: made by the author based: <https://www.ebrd.com/where-we-are/romania/data.html> [7]

The cumulative investment activities of the EBRD in Romania at the level of December 2019 are presented in the Table 1.

Table 1.

ERBD investment activities in the country (December, 2019)

Portofolio	1,896 milions euro	Active projects	165
Participation in Private Capital	21%	Operating assets	1,525 milions euro
Private participation	76%	Cumulative net investment	8,695 milions euro

* Private participation - cumulative bank investment: on a successive 5-year basis of the portfolio

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania-romanian> [6]

The distribution of the EBRD portfolio in Romania in the period 2015-2019 is presented in the following figure. We can see that during the analyzed period, the financing

in the field of financial institutions and in industry, trade and agribusiness increased while those destined for sustainable infrastructure registered a downward trend.

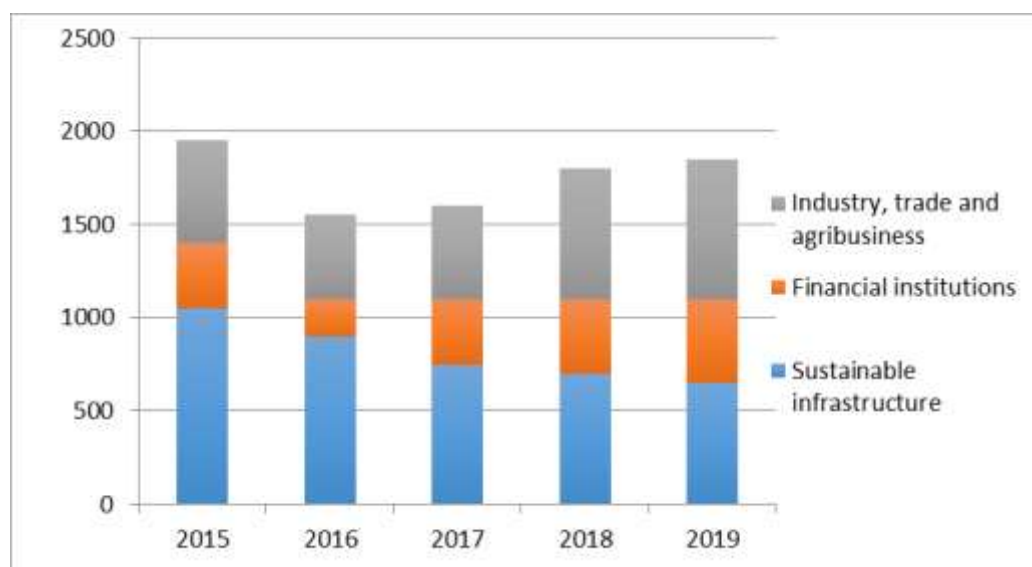


Figure 3. The composition of the EBRD portfolio in Romania

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania-romanian> [6]

At the level of 2019, the financing in the trade and agribusiness industry had the largest share, respectively 41% of the total financing, followed by the sustainable infrastructure with 36% and the financial institutions with 23%.

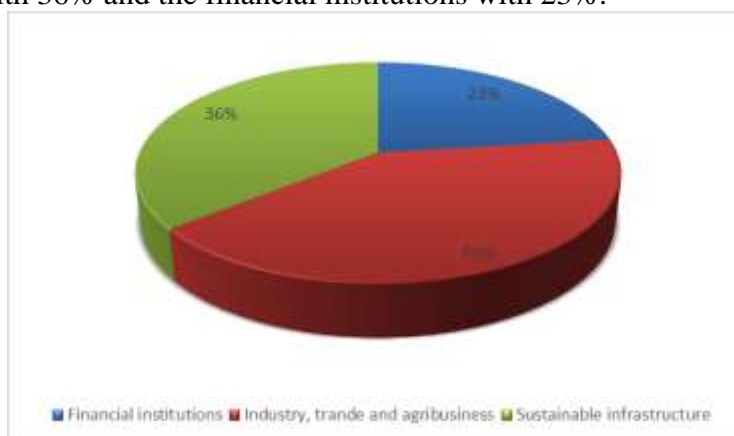


Figure 4. Distribution of the EBRD portfolio in Romania in 2019

Source: made by the author based on <https://www.ebrd.com/where-we-are/romania/data.html>[7]

Implementation of the previous Strategy (2015-2019)

The EBRD carries out, every three years, in collaboration with the Romanian Government, a country strategy that outlines the priority areas for development and identifies the financing modalities.

On September 30, 2015, the ERBD approved the Country Strategy for Romania for the next four years, a document that outlined the main areas of interest and intervention of this institution.

For the period covered by the strategy, the EBRD considered the following directions of action under three priorities, with interventions to take place through potential financial instruments.

These priorities were:

Priority 1: Expanding access to finance by stimulating credit and developing capital markets.

Priority 2: Reducing regional disparities and stimulating inclusion through marketed infrastructure

Priority 3: Increasing the competitiveness of the private sector through targeted investment [6].

In general, the main results of the transition obtained in the Country Strategy for 2015-2019 can be summarized in the following figures.

We can see from these that most projects, 79% are on schedule, 18% are partially on schedule and only 3% are likely to fail.

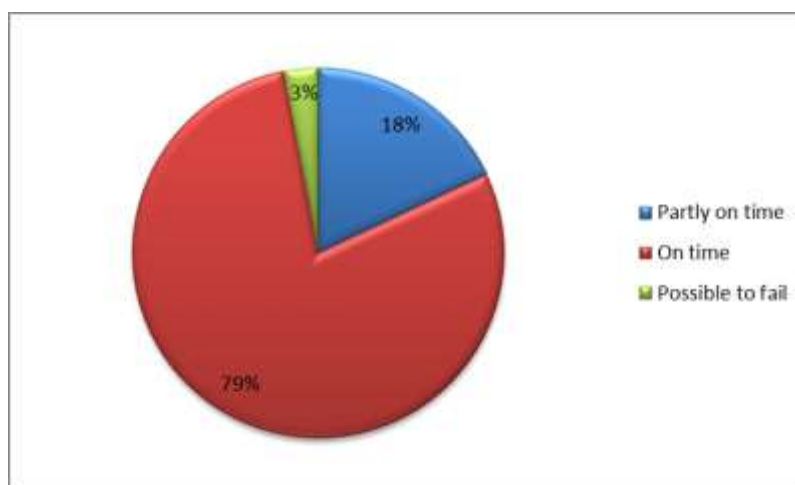


Figure 5. Transition Impact Performance

The performance of the transition impact reflects the likelihood of projects achieving the expected transition impact from the time they are signed. Calculated on the basis of an active mature portfolio (> 2 years).

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania> [6]

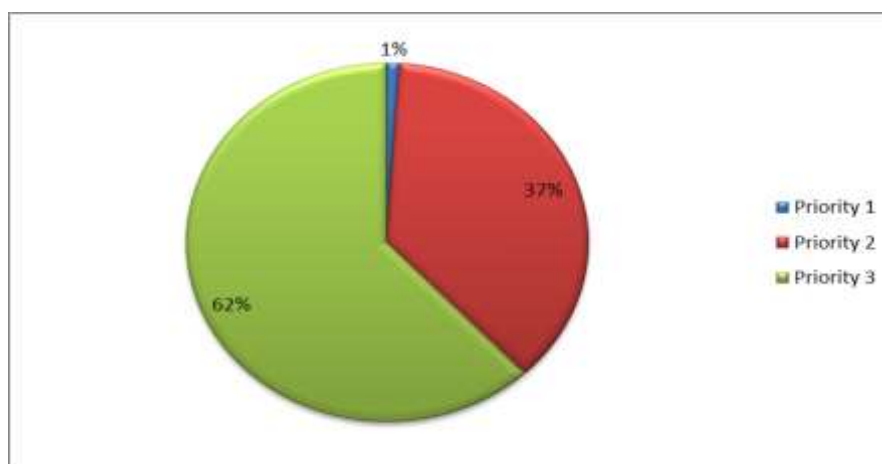


Figure 6. Technical cooperation, grants and concessional loans

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania> [6]

If we refer to the distribution of EBRD activity on the 3 priorities, we can say that almost half of the EBRD's efforts were directed to Priority 1, 16% to Priority 2 and 39% to Priority 3.

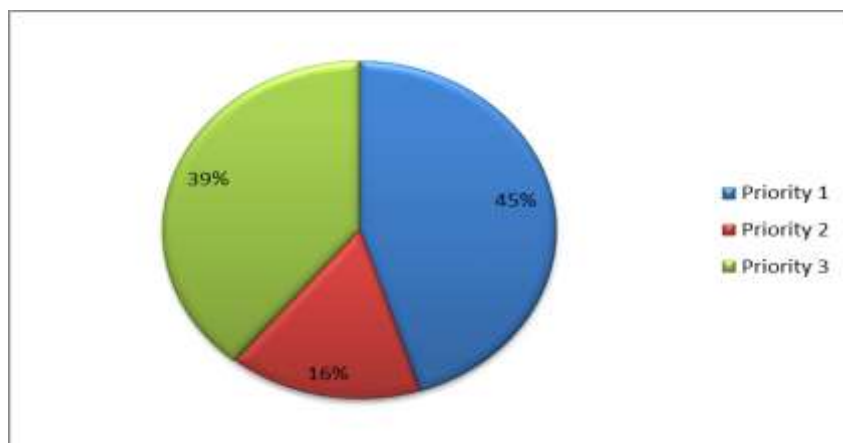


Figure 7. Strategic alignment 2015-2019

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania> [6]

EBRD strategy for the period 2020-2025

Table 2.

Strategic priorities (2020-2025)

Strategic priorities (2020-2025)	Main objectives
Promoting investments in sustainable infrastructure and regional development	<ul style="list-style-type: none"> ✓ Improving the quality of institutions. ✓ Improving the quality of sustainable infrastructure for efficient economic interactions. ✓ Increased access to municipal infrastructure that unlocks economic opportunities.
Supporting productivity by expanding corporate innovation and modernizing skills	<ul style="list-style-type: none"> ✓ Expansion of competitive companies; strengthening the role of SMEs in the economy. ✓ Improving product and process innovation and technology penetration levels (including ICT). ✓ Improving business skills, standards and sophistication; access to skills development.
Expanding financial intermediation and capital markets	<ul style="list-style-type: none"> ✓ Diversified and in-depth financial system. ✓ Consolidated resilience of the sector. ✓ financial, including capitalization, financing structure and risk management practices. ✓ Development of financing solutions for the local capital market and the local currency. ✓ Increasing the variety and sophistication of non-banking financial products and services.

Source: made by the author based on <https://www.ebrd.com/strategy-and-policy-coordination/strategy-for-romania> [6]

The EBRD is well positioned to support the modernization of Romania's economy, including by diminishing the impact of the Covid-19 crisis and economic recovery. The Bank is ready to help prepare and finance sustainable infrastructure projects which will help decreasing transitional limits in terms of governance, inclusion and integration, and will make available more opportunities for the economic and financial field and will increase the infrastructure quality.

Regarding the private sector, the EBRD will help Romanian Enterprises to increase their competitiveness through developing innovation and rising the level of technological penetration. The bank will continue to collaborate with banks and non-bank financial

institutions in order to make the financial sector more sophisticated and to develop national capital markets.

The bank will support the increasing of the access to project financing especially for small and medium enterprises.

The strategic priorities targeted by the EBRD in Romania for the period 2020-2025 and are presented in the Table 2.

CONCLUSIONS

Self-defined as a bank of transition, the European Bank for Reconstruction and Development is the first international financial institution to emerge in the post-Cold War period.

Inaugurated less than two years after the fall of the Berlin Wall, the EBRD was created primarily to support the development of the market economy in the countries of the former communist bloc.

The bank's experience in Romania provided lessons that will be taken into account in future operations.

The EBRD is an important international institution, especially due to its ability to deal with problems related to the restructuring of large steel complexes but also the problems of small and medium enterprises, by ensuring an adequate volume of liquidity.

The EBRD is a major investor in Romania and combines direct investment with support for reforms that contribute to improving the country's business environment and mobilizing investment from other sources. Through these investments and the direct involvement of the Bank's representatives on the Boards of Directors of a large number of companies in which it has invested, the EBRD has managed to improve corporate governance practices and expand political dialogue. The Bank's portfolio has expanded rapidly in areas such as large-scale privatization with strategic investors, greenfield investments in the private sector, financial sector and infrastructure development in the areas of energy, transportation, communications and municipal infrastructure. The Bank actively supports the development of the non-banking financial sector by promoting investments in leasing and insurance companies, as well as in capital funds, pensions and mortgages.

The country strategy for Romania approved by the EBRD in September 2015, proposed as directions for action for the period 2015-2019 to expand access to finance by stimulating lending and capital market development, reducing regional disparities and encouraging inclusion, and improving competitiveness in the private sector. Most of these objectives have been achieved, respectively 79%, 18% are being achieved and 3% are likely to fail.

For the period 2020-2025, the European Bank for Development and Reconstruction (EBRD) has a new strategy for Romania, which focuses on infrastructure development, the financial sector, but also productivity growth [15].

The EBRD's Board of Directors approved the new strategy for Romania, which will define the bank's involvement and investments in the country in the next five years, the financial institution announced on Friday.

The EBRD's activity in Romania will include measures that respond to the coronavirus crisis and support economic recovery efforts. Thus, in the period 2020-2025, EBRD investments and policies will support: sustainable infrastructure and regional development; increase productivity by supporting expanding private companies and improving workforce skills; as well as financial intermediation and further development of capital markets, he transmits.

The EBRD is well positioned to support the modernization of the Romanian economy, including to help the country overcome the impact of the coronavirus. It will channel investments in areas where Romania needs the most support: infrastructure development, especially in regions; boosting productivity in the private sector and further developing the financial sector and capital markets.

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