

Risks in implementing projects with european financing

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Abstract. The risk represents a future probable event and its appearance could cause damages, could represent a danger or a possible inconvenience. Therefore the risk is characterized by probability, exposure and vulnerability. In practice, most of the times exposure is included in consequences' evaluation. Risks analysis represents the activity of objectively establish the risk, the probability and the consequences of its appearance. Obviously risks analysis will also produce the necessary signals for finding alternatives, for evaluating the probability that distortions may appear along the path and for defining the necessary elements in decision making process in the analyzed field. There is always a risk in public administration that is also assumed by the partners when supplying services with the explicit or tacit acceptance of the manager of that authority or public institution.

Keywords: risk, european funds, public administration

1 Introduction

A **project** represents a complex of necessary activities in the process of reaching a very well defined programming objective that must respect certain features:

- A presentation form relatively standardized, structured in stages and intesively correlated to a content that is both imposed because of the differences of the reglementation and in the meantime free because of the alternative options provided by program's typology and principles;
- An allocation of resources aiming to reach specific objectives and following a planned and organized approach, evaluated and financed through specific programs and funds;
- A complex of new activities, programmed according to a previous rigorous plan, elaborated in order to achieve one or several objectives, in a definite period of time, using human resources, technical and financial resources, that have been identified when the project's proposal was created;
- A project is the highest component in the hierarchy of a program and it usually consists of several sub-projects;
- A project can be defined by five words: objectives-resources-activities-results- TIMETABLE.

2 Considerations on risk analysis

A project with European financing must respect several relevant features in order to be considered eligible: it has a very well defined purpose correlated with the priorities of European programs, the project answers to collective needs both from the beneficiary's perspective (local or regional community) and from the perspective of the team project, it must be characterized by unicity, continuous evaluation, physical quantification and values' quantification, the possibility of

implementing the project in partnership, the diversity of the involved resources, clear location in terms of time and space established when the partnership’s protocol is elaborated.

The risk represents a future probable event and its appearance could cause damages, could represent a danger or a possible inconvenience. Therefore the risk is characterized by probability, exposure and vulnerability. In practice, most of the times exposure is included in consequences’ evaluation. For this reason risk is mostly considered to have **two components**:

- the probability that an event will appear;
- event’s consequences.

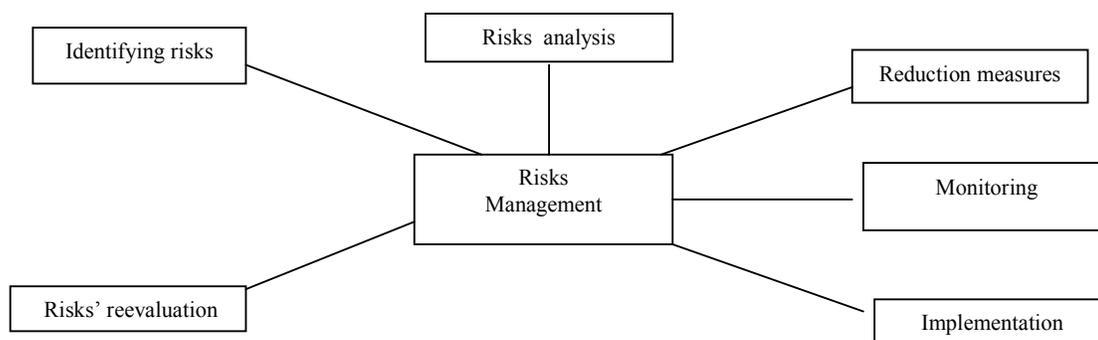


Figure 1 Risks analysis

In case of risk there can be determined each alternative’s probability while in case of uncertainty this possibility is reduced and most of the times it does not even exist.

Risks management is perceived as the activity of implementing policies, procedures and practices that aim objectives as identifying risks, risks analysis and evaluation, risks management, risks monitoring and reevaluation. **Identifying risks** represents one of the essential stages of the decision making process. There are to be considered the so-called **risk receivers** (those entities that can be affected by negative alternatives’ appearance) and also the event that may appear in relation to these entities.

The process itself is based most of the times on ”historical events”, on long-term gained experience in different fields of activity (indicators’ evolution, macroeconomic indicators – economic stagnation, inflation, unemployment, currencies evolution – periodical appearances of different natural phenomena, more or less predictable – earthquakes, floods, several socio-historical evolutions – tension zones, political management structures, social movements possibly, but also events that appear frequently within communities – the necessity to accomplish urgent projects, provide funds for several social actions etc). Within this context the identification process is accompanied by the process of establishing an extremely important risk that appear everytime together with all the other risks. For example the risk of lacking the financial reserves for covering the needs at a certain moment. So, at the present time, when the necessity to access programs represents an important matter to debate, there have been identified three major risks within projects with European financing:

- the risk of lacking the technical capacity to elaborate eligible projects;
- the risk of lacking cofinancing funds;
- the risk of lacking institutional capacity to step through the entire path from the moment of submitting the project until accomplishing the implementation respecting the terms imposed by the European Union.

These risks lead to the major risk that Romania may not absorb community funds and may become a net donor instead of being a net beneficiary of the European aid.

Risks analysis represents the activity of objectively establish the risk, the probability and the consequences of its appearance. Obviously risks analysis will also produce the necessary signals for

finding alternatives, for evaluating the probability that distortions may appear along the path and for defining the necessary elements in decision making process in the analyzed field.

We must be aware that risks analysis and risks management will not eliminate the risk. **There can not be zero risks.** Risk is the condition of success. Therefore risks analysis allows us to evaluate the effects of risk exposure, to wisely allocate resources between institutional projects as well as to elaborate plans and forecasts regarding the perspective at that action. Risks analysis is the tool that makes the difference between chance and a good management on the one hand and failure and an inadequate management on the other other hand.

But risk analysis, seen as an institutional process, is not a systematic measure.

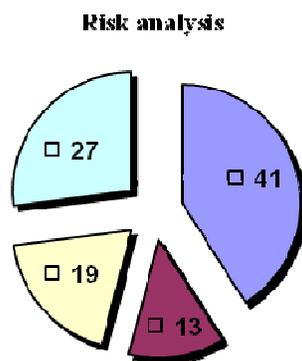


Figure 2 Risk analysis

Studies show that only 41% of the economic and social stakeholders interviewed apply a systematic risk analysis, 27% do not apply this kind of action, while 32% intend to do it in a longer period of time (13% in the next 2-5 years) or in a shorter period of time (19% in the next year)¹.

The present consideration is that structuring risks and analysing them systematically ensure a much more realistic development, better results, more solid financial support for the entire activity. The reasons for institutionalisation, risk analysis exist in a changing rhythm and they are determined by the globalisation phenomenon, by reglementations in different domains, by higher and higher citizens's expectations, by new technologies, by services, etc.

There is an entire set of methods that can be applied in case of risk analysis as it follows:

- **interdependences'method** starts from highlighting **controllable factors** – which include:

- o organizational structure and personnel structure;
- o the existing strategies within the institution;
- o security systems for the unrolled activity;
- o applied procedures (methods, techniques, tools etc.).

and also **incontrollable factors** which include:

- o system errors (technology, functioning, communication);
- o strikes;
- o social movements;
- o natural catastrophes etc.

The method underlines the interdependence of positive and/or negative events of „logical and” type or „logical or” type allowing the elucidation of threats, of measures and countermeasures.

¹ *Business Financial Magazine – April 2002, study elaborated by The Economist Intelligence Unit*

According to risk analysis' results, a set of **risk reduction measures** is being proposed. These measures must take into account the type of risks that have been identified. So a classification of risks could be the following:

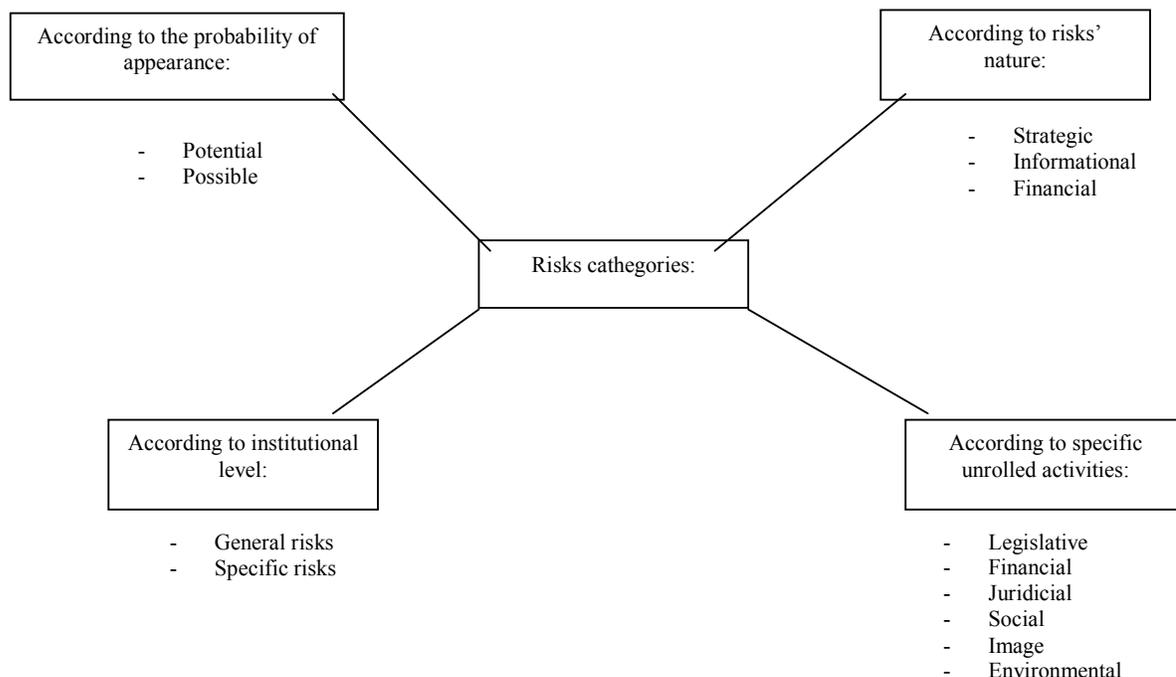


Figure 3 Risks categories

Generally when the financial part is involved, it is considered that a certain types of risks may appear and they can be identified by the internal audit:

- **organizing risks** materialized in:
 - o unformalized procedures;
 - o lack of precise responsibilities;
 - o insufficient human resources organization;
 - o old, insufficient documentation.
- **operational risks**, meaning:
 - o not register all documents in accountancy;
 - o inadequate archiving of justificative documents;
 - o lack of controll upon high risk actions.
- **financial risks** consisting of:
 - o unsecurized payments;
 - o undetected high risk actions.
- **other risks** caused by:
 - o legislative changes;
 - o economic changes;
 - o structural changes;
 - o management reorganization.

In this domain there are considered to be:

Inherent risks – caused by errors that will be produced on a regular basis, following the idea „ only the one who doesn't work will not fail". In this case the measures consists of permanent verification,

routine verification for all the elements that represent the object of the activity, no matter how important they are.

Controll risks when the applied controll does not contribute to elimination or correction of certain errors. In this case measures are connected both to prevention process and to adequate reaction to the identified errors. (registering some expenses within other chapter than the one established by reglementations can be corrected, for instance, while registering some expenses, even necessary ones, when there are no legal procedures in that sense, must be eliminated.)

Risks of not detecting something caused by the probability that a material error may not be discovered not even by the auditors. Under these circumstances the error may be found Court of Accounts' control and it implies proper sanctions. So the measure that aims to reduce or eliminate this risk should imply the alocation of the necessary period of time for controlling and if there are some doubts, the controll must be unrolled once again by the another team but after a short period of time from the first one.

Risk's evaluation is usually done after establishing criteria and a level of risk for each criterion, by using values scaled on several levels (for instance for a quatitative risk evaluation - three levels: low financial impact, average financial impact, high financial impact; for a qualitative evaluation: low vulnerability, average vulnerability, high vulnerability etc.) Each criterion is being given a weight factor and a risk factor and the sum of the scores leads to the total score of the risk for that activity, as it follows:

$$T = \sum_{i=1}^n P_i \times N_i$$

where P_i =risk percentage for each criterion

N_i =risks level for each criterion

Risk event (E) – what exactly can happen in order to damage the project?

Risk probability (P) – how probable is it to happen?

Risk sum (S) – what can be lost?

Risk event's weight (G)= $P \times S$

The above calculation must be done for all the identified risks and then the sum must be analized. This way there can be identified a hierarchy of the possible effect of risk factors and also their cumulated effect.

General opinion is that risk acceptability has the following levels:

- assumed risk between 12-15% for a minimal safety necessary to the acticity unrollment;
- assumed risk between 8-12 % for a sufficient safety;
- assumed risk between 5-8 % for a covering safety;
- assumed risk between 3-5 % for an activity considered to be safe.

Starting from an assumed risk of 12-15 % represents a risk itself considering the problems that can appear along the path and the reduced capacity to interfear in different moments of the process.

In practice the main risks consist exactly of the two essential elements:

- not obtaing the settled incomes;
- exceeding the settled expenses.

3 Conclusions

There is always a risk in public administration that is also assumed by the partners when supplying services with the explicit or tacit acceptance of the manager of that authority or public institution. As no public authority ever bankrupted, the ones having a contract with it wait for a much longer period of time in order to receive their money, sometimes from one year to another, because they want to maintain a safe relationship, yet not very profitable.

Under these circumstances risk management must take into account that Law 273/2006 for local public finances stipulates that financial crisis reglementation and insolvency reglementation is to be

applied also to local administration from 2008, in which case the risk assumed until now by different economic agents in relation to the public authority, raise considerably. This is the reason why risk analysis, adopting measures and applying them must be regarded attentively in the sector of public funds management. By increasing quantitatively the functions after European integration but also after decentralization, by new qualitative dimension that imposed itself in all the services, correlated to a poorly solved situation of the quality and quantity of administration's human resources, it is possible that very good measures may not be entirely or properly applied (for example the unique desk became inoperative because the tacit opposition of the partners – first of all the societies providing services, surveys etc.). In this case the risk consists of spending funds without covering the efficiency expected by the citizens, consists of the decedibilisation both of the process and of the institutions themselves. Therefore there must be applied a permanent process **monitoring** with **continuous reevaluations** and measures must be adopted along the path. Actually we can consider the process itself is a continuous one, with a special dynamic as a result of changes' speed and dimensions, changes within the contemporary society.

Marked by a permanent evolution in citizen's needs, this social dynamic permanently needs financial support. From the quantitative point of view it becomes more and more important, determining a continuous search for financial solutions. Partnerships, external funds, bank loans, associations of authorities, twinnings etc. are just a few forms that aim to attract financial resources.

Several times there can be found different solutions. Accepting them depends on risk analysis that accompany these solutions. Sometimes the fear to assume a risk causes an opportunity loss. In other cases the management is defective because it didn't take into account the technical and institutional capacity of the public authority/institution. The risk of losing money is high. This is the reason why we avoid to have it. The risk of lacking money is as high as the former. For this reason we take actions, with all the involved risks, in order to obtain the money (following the idea „Be it what it may be!“). So risks rise because the actions are done „in despair“.

These are only a few considerations upon several real situations met in our transitory society, a society keen on „burning“ as fast as possible the stages separating us from the „European comfort“.

Management results of each authority or public institution depend mostly on the management of the accessed funds, on assuming reasonable risks both on the decision making level and on the executive level.

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