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RISK MANAGEMENT, A MORE EFFICIENT ABSORPTION METHOD FOR THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

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Abstract

An extremely important subject but often superficially approached nowadays, risk, has become a serious obstacle in the process of development and implementation of any investment project considering the fact that without the elaboration and implementation of a coherent program for an efficient way of managing risk, the intended measures won't be able to ensure protection against the negative consequences that might arise. Against all expectations, risk management should not be perceived as a complex process that complicates or makes it more difficult for the teams involved in the investment project to deliver the expected results, but instead it should be seen as one of the most simple and natural methods of making the process of project implementation more effective and efficient. It is also the only instrument that gives pertinent and realistic answers to what is expected, what could affect the achieving of the intended objective and what would be the impact on the project overall. Furthermore it also presents what measures should be taken in order to avoid minimizing or on the contrary maximizing the effects and nevertheless it provides conclusions to whether the implemented measures were efficient and what did they change in the project's economy. Either way, specialized literature together with the obvious increasing interest of experts on the matter shows at least in theory that risk management implies a wide range of situations and domains, with general focus on achieving the intended objective in optimal conditions.

Key words: *risk; management; objectives; methods; process; absorption of EU funds*

INTRODUCTION

Considering what Robin S. Sharma, a Canadian writer and leadership lecturer, said „When we stop taking risks we stop living life", we can agree that risk is a concept we meet on a daily basis in all our actions, no matter if it implies personal matters, elements of an investment project or any other type of decision we should make in our personal life or as part of an organization. In this context, together with the rising need of safety and predictability, risk and risk management became in the last years more and more present in people's lives, ideas, objectives and aspirations. For these reasons all the above said are perfectly reasonable and true. As a result, we can see that risk, which is such a common and spread concept, is far more complex and wide than previously thought due to all the challenges that come with it, derived from different approaches and difficulties that might appear during the identification and control activities.

As far as the etymology of the term „risk" is concerned, there is no clear information regarding the period when the word appeared nor the context in which it appeared. Throughout time, related words came to use in various writings and according to Prof. Dr. Ioan Tofan, these words date back to Homer, who used the term „rizikon" when he referred to Ulysse's journeys, more specifically when travelling from Scila to Caribda. Later, in 1193, in the book „Carta Picena", the word „risicu" is used to describe the challenges to which the characters were exposed to. In the XII –XVII century, the expression commercial risk comes to use in Italy and in the XVII century, the term risk is also used in France and is associated with the sea navigation vocabulary [11]. Ever since, the word extended its use in various domains and it became common, developing new meanings until present days.

As a matter of fact, the purpose of presenting these historical landmarks in the evolution of the word is not to state this concrete information but to point out the fact that people have always been preoccupied with the necessity of defining risk in order to identify, quantify, evaluate, monitor and control it efficiently.

Considering this, it is more than obvious that „risk" has a variety of definitions, some simpler, some wider and vast, others more complex, but even so, it is impossible to gather general approaches and specialists vision altogether. In this article, the main focus is on two of the most common definitions of „risk" – the one we can find in any dictionary and the one that was approved by a series of experts in the risk management area.

The Romanian dictionary defines risk as a word that has its roots in the French word „risqué" and means „a possible danger, inconvenient or the probability to suffer damage" [10], and the Shorter Oxford Dictionary of the English Language defines it as „danger; the possibility of loss or injury" [9].

On the other hand, according to the definition promoted by the International Standardisation Organization (ISO) in the ISO 31000 document posted on 13th December 2009 – „Principles and directing lines" and ISO Guide 73:2009, risk is defined as a concept which describes „the effect (positive or negative) of uncertainty on objectives" [4] and it seems that this approach was the work result of an international committee formed by a couple thousands experts in the field related to risk, from over 30 countries. [12] Moreover it is estimated that this particular form of definition is the one that suggested another dimension, the one that implies risk being considered an uncertainty which gives us sufficient information and so must include certain negative aspects of a process as well as positive ones. Considering all these aspects we can assume that risk management is a process whose purpose is to identify, quantify, evaluate, monitor and control risks no matter if they have a negative or positive effect on the actions themselves.

MATERIALS AND METHODS

The purpose of the present article is to bring your attention to a new, modern and efficient method to managing risk in a process of development and implementation of any European funded investment projects. We certainly believe that implementing a risk management system as the one described in this article could lead to a better coordination and implementation of project activities and, at the same time, can generate a better absorption of European structural and investment funds.

Regarding the studied materials, we have to mention that we started our process of identifying new techniques and methods of using risk management in the EU funded projects by reading the European Union's legislation together with the national one and we continued the effort by studying several specialized papers that are mentioned in the references section of this article.

During the above mentioned process we proceeded to collect data from official documents and reports of the authorities that manage EU funds, because within them we were able to identify the correct values of the indicators referred to in the article, such as the level of absorption, budgetary allocations or others.

Given that the proposed method is not completely defined, no analysis, synthesis or interpretation of results has been performed at the level of the article as these can only be achieved after the implementation of the measures proposed at the level of a program.

RESULTS AND DISCUSSIONS

Romania, risk management and European structural and investment funds

Through regional and cohesion policies adopted over time, European Union has constantly consolidated its economic, social and territorial position with the purpose to promote a sustainable and harmonious development of all member countries and reduce demographic disparities. Romania, as a member state benefits from constant support in the process of socio-economic development since early '90 and so, has at her disposal a series of instruments and financial mechanisms called European structural and investment funds, which help, among other things, to create a viable transport infrastructure, to find solutions to specific problems in the urban and rural area, to qualify workforce to standards comparable to other member states, to modernize public institutions and education system, reinforce business environment and research institutes. Due to the fact that all these financial instruments are implemented by applying the concept based on own contribution of the member state, the EU supports most of the expenses, and so, European funding is a great opportunity for Romania and also a real gain when funds are used properly and accordingly with the thematic and specific development objectives.

For the 2014 – 2020 allocations, Romania can still benefit from European funds worth 30.8 billion Euro, through nine operational programmes which means that there is still available, until the end of the period, an allocation of 1.546 Euro per capita from different European funds [1], as pictured below in Figure 1.

Taking into account all the aspects previously debated, Romania's experience gained with the last multiannual financial frame 2007 – 2013, the recorded results, the need to continuously improve the process of accessing European funding. Also to overcome all the difficulties and challenges that the relevant participants to this process had to face throughout time. This article tackles the subject of increasing the absorption of European structural and investments funds by upgrading the risk management process during the projects.

In order to elaborate a series of hypotheses and proposals regarding the improvement of the risk management process in European funded projects, we start by studying the European Union's legislation together with the national one as well as pacts or any other strategic documents in which Romania and the EU are parts. Obviously this type of instrument doesn't need to be regulated by Community or national legislation, but unfortunately even though risk management is considered to be an extremely important part of the financial mechanisms dedicated to supporting Romania's development process and has continuously contributed to ensuring reaching national and Community objectives, the subject is not highly debated. In some strategic documents such as The Partnership Agreement 2014 – 2020 concluded by Romania and the European Union, there are paragraphs which mention the fact that through risk management instruments direct beneficiaries can receive support and so the economic impact of interventions would be better accounted for [5]. There are no concrete elements to recommend certain procedures to use in order to bring value to interventions, a better coordination and also an upgraded monitoring of the thematic objectives assumed by our country and related to the vision and regional strategy adopted in the Community space.

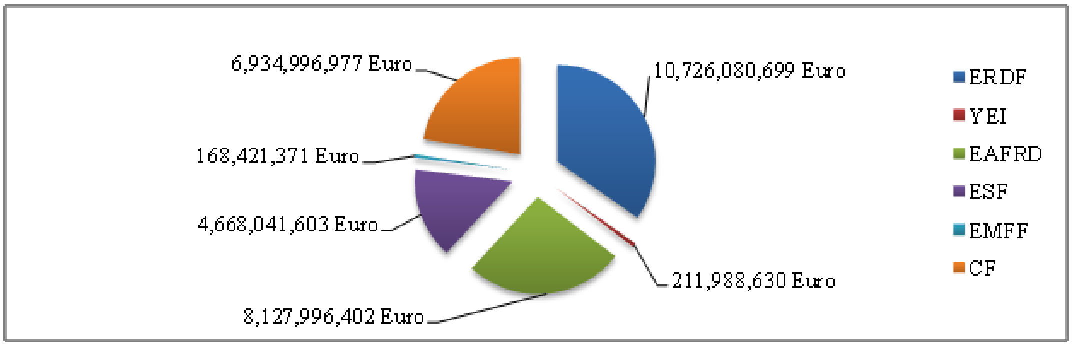

Fig. 1. EU Budget by Fund - Romania
Source: https://cohesiondata.ec.europa.eu/countries/RO – Refresh Date: 21.08.2017, Accessed on 30.11.2017

Regarding the agreement concluded by Romania and the European Union, things are clear in what the means of implementing risk management are concerned, but for the European funded projects the situation is somehow different in some aspects concerning the collaboration between the management authorities or intermediary national organisms that are authorized to handle the financing programmes and potential beneficiaries of such non-refundable funds. By going through the solicitation for financing guide and the annexes integrated in the financing programmes one can observe there is a real interest regarding the way of approaching the risk and risk management concepts in such projects.

It must be pointed out that no matter the financing programme, there is a special section dedicated to risks and their management process included in the financing solicitation guides, where every solicitor must fill the available fields with information about the identified risks that might affect the implementation of the project in connection with the conditions, activities, results, objectives, budget or acquisition plan and also they must suggest a series of measures in order to diminish or eliminate the negative effects that those risks might generate during the development of the project. For example, in the Regional Operational Programme 2014-2020, Priority Axes 2 – „Improvement of competitiveness for small and medium enterprises”, the aspects mentioned above are present in the online financing solicitation form for project proposals, MySMIS and look exactly as presented below in Figure 2 [6].

As a conclusion, based on all the information presented, we can state the fact that including these elements in the solicitation application for non-refundable funds at the moment of registration of applications is not enough without having a mechanism of continuous update throughout the eligibility evaluation steps, technical and financial evaluation and during the entire implementation and monitoring process of the investment. Furthermore we consider crucial that for the risk management process to be handled and coordinated by both parties – the management authority or the intermediary organisms at national level and the entity that benefits from the financial help. Such solution would allow a continuous reporting of the identified risks and measures to diminish such risk, to the specific objectives of the financing programme and also to the output indicators of the investment project.

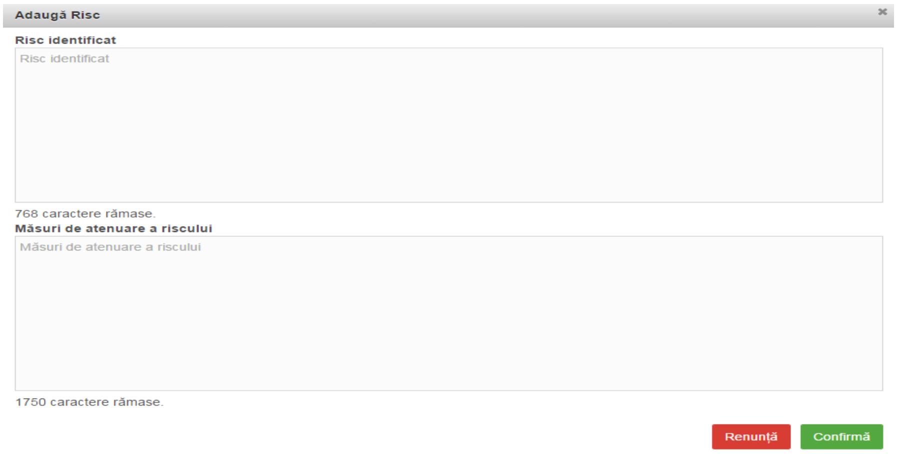

Fig. 2 .The risk section in the grant application form
Source: https://2014.mysmis.ro/ – accessed on 30.11.2017

Regardless of the complexity of different approaches and various opinions concerning the subject, we can say without doubt that risk management is often associated with a process responsible with identifying possible risk in investment projects, quantifying and evaluating, monitoring and controlling efficiently the positive or negative impact which might appear during the development of the investment. Another generally valid element of the working methods refers to the cyclic character of the risk management process, which repeats itself, going through the same stages, until it reaches the final phase of the investment project and the objectives are met. This is otherwise an important moment which is often disregarded even though it weighs a lot in the entire process of improving practices and techniques in risk management. It is the moment when the ones responsible with the management part of the project should evaluate objectively the implementation measures, actions and to come to a conclusion by delivering some proposals that could improve the risk management process in the future [3]. In order to present an accurate image of the entire risk management process, the information has been structured in Figure 3, which is an interpretation of such logical schemes promoted in different scientific papers mentioned in the bibliography

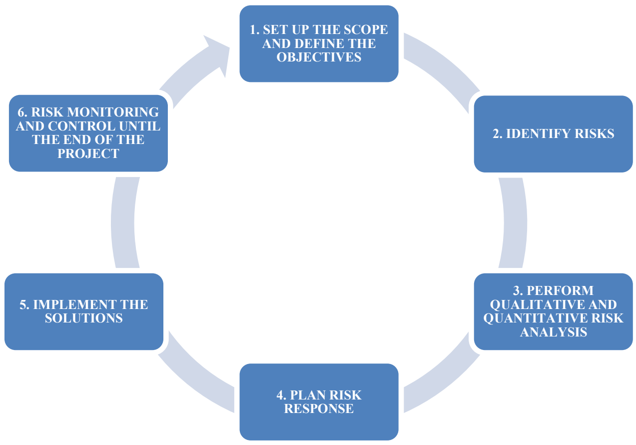

Fig. 3. Risk management process
Source: Interpreted after Hillson D. – Managing Risk in Projects, 2009, Gower Pub. Ltd, Aldershot, United Kingdom

As in these article we started from the idea that risk management is not a part of a European financed investment project and it doesn't make the beneficiaries entirely responsible for it, we will continue by going through each stage of such a process, previously described and illustrated above, presenting the relationship that should exist between the authorised entities in Romania delegated to manage the financing programmes and the beneficiaries of the non-refundable help in order to encourage European structural and investment funds absorption. This can be motivated and supported by a variety of elements but the most representative consist of the fact the specific objectives formulated by the beneficiary should focus on the personal interest and at the same time to ensure the fulfilment of the thematic objectives at national levels. Given these facts one can wonder why can't we follow this principle and apply it to the entire chain of action responsible of managing and making the absorption of European funds possible, meaning beneficiary – financing authority at national level (financier and administrator of funding programs) – European level financing authority (financier). The answer is relatively simple as the relationships between those entities are completely different from a functional point of view, and they should be treated separately at first in order to generate a risk management integrated system as follows: beneficiary – national financing authority (financier and administrator of funding programs) – European financing authority (financier).

The first stage of the risk management process consists in answering the following question: „what do we intend to do?". In order to answer the question, first we must know the purpose of the investment project and its specific objectives. After studying various solicitation guides for non-refundable financing, we came to the conclusion that

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there are no reasons to worry about this activity as it is closely supervised by the management authorities and the intermediary organizations who set the development lines for the outputs by stating the purpose and the defining objectives of the financing programme, priority axes, measures of intervention etc. As presumed, these elements are considered defining factors in the evaluation of eligibility for the solicitors as they must be connected and included in the beneficiary's objectives.

To sum up, in order to avoid any situations that might lead to contact dissolution, withdrawals of funding and blockages in the process of accessing European funds, the aspects regarding purpose and objectives are strongly outlined in the documentation for funding solicitation and they are also continuously monitored and evaluated by authorities until the end of the durability stage of the investment with the help of progress reports and monitoring visits.

The second stage of the process – „Identifying risks" consists in determining all the aspects of the investment plan or the changes that might occur under the influence of internal or external factors. This stage is poorly presented in the solicitation documents and does not include the interests of both parties implicated in the investment, but it only addresses the beneficiary. As a consequence this article suggests the endorsement and implementation of measures in order to make this activity possible under the lines of the same procedure mentioned in the first stage of the process – the supervision and coordination of financing authorities at national level.

After completing these stages it is recommended to be taken into account identifying the risk factors in a natural order, chronologically, depending on the stages of the investment project [2], as shown in Figure 4.

It is believed that experience and expertise of the management authorities and intermediary organizations is wider than the one of the potential beneficiaries, who might face for the first time the challenges of creating a risk management plan when completing the financing solicitation documentation. In that case, the intervention of the authorities managing the funding programs in Romania would be beneficial for both parties and should be translated into inclusion in the funding guidelines of clear procedures to be followed by applicants in risk management. This would allow a better organising of the activities included in the following phases of a risk management process and would also increase efficiency in monitoring investments projects by the representatives of the financing authorities [7].

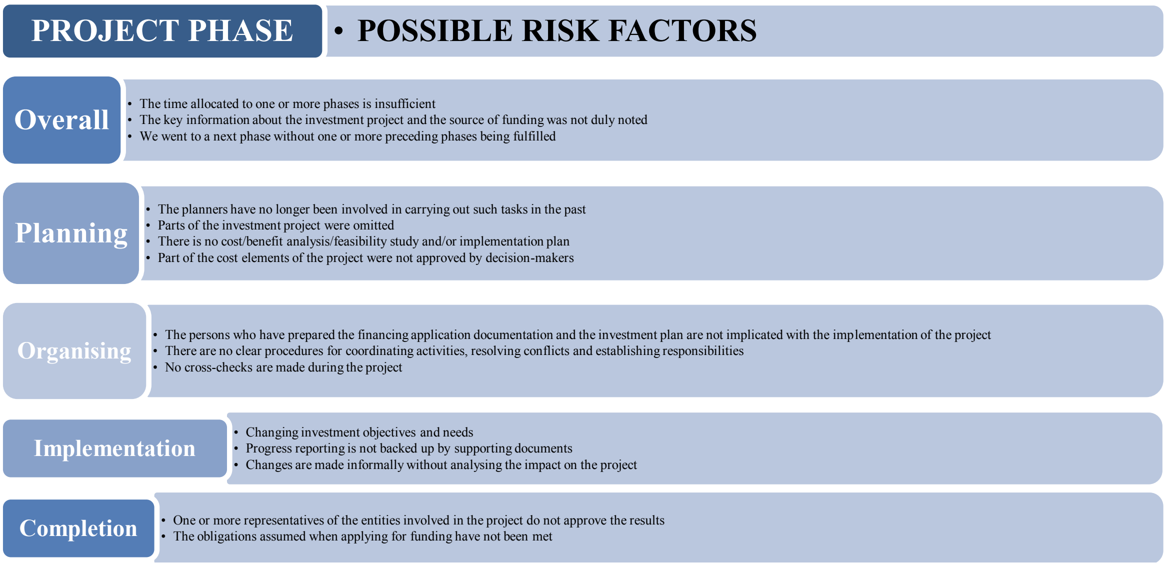

Fig. 4. Possible risk factors depending on the project phases
Source: Interpreted after Guvernul României – Manual expert implementare fonduri structurale, 2015, București, România

The next three phases of the risk management process are closely linked with the second phase. We consider that the responsibility for the qualitative and quantitative risk assessment, the drafting of the proposed measures to mitigate their impact as well as the implementation of the adopted solutions is to a great extent the beneficiary's of the non-reimbursable financial aid accessed through European programs. This is supported by the fact that the management, coordination and implementation of a risk management plan in such a project is mandatory within the beneficiary entity, which alone is responsible for the good or faulty implementation of investment.

As far as the last phase of the risk management process is concerned, the one regarding monitoring and controlling risks, it must be said that according to current practices, it is divided into two activities – one which implies reporting the progress made by the beneficiary and one consisting in the audit and control conducted by the representatives of the financing authorities.

At a simple consultation of the assessments and analyses carried out on the experiences of managing such projects, we note that over the last few years financial and institutional efforts have been enormous in this direction [7, 8]. Very many monitoring visits, with no concrete results describing the situation, have proven to be useless considering the problems that inefficient risk management can generate in the course of investing. These are the reasons why monitoring and control visits by the competent organizations should be included in the risk management plan from the start of the second phase and, at the same time, correlated with the identified risks, the measures proposed to remedy the situation, and mitigating the effects that may adversely affect the smooth running of the investment project. In fact, the reasons for such controls are clear: identification of projects in difficulty related to the duration of implementation, with the result and realization indicators; also the fulfilment of specific objectives assumed at the moment of conclusion of the financing contracts.

In the absence of a truly significant risk management plan in the project, the fact that the focus is set on the amount of reported information and less on its quality represents a big problem that we encounter at all investment projects funded under this scheme. The tendency of the experts responsible for conducting check-ups is to request as much information as possible, many of which having a repetitive and insignificant character at certain stages of investment realization. Obviously, under these conditions, the risk management process becomes, alongside the project implementation process, a heavy burden on the implementation teams on the part of the beneficiaries and at the same time an inefficient and totally irrelevant tool or mechanism for the authorities managing these funding programs.

The proposals submitted through this article have the role of supporting a method that would make the absorption of European funds more efficient and simplify the reporting, monitoring and control methodologies.

CONCLUSIONS

Finally, by invoking the title of this article, namely „Risk management, a more efficient absorption method for the European structural and investment funds", we conclude by agreeing that it is necessary to adapt and correlate the mechanisms for granting and managing European financing to the risk management process provided at the level of the investment projects.

The reasons for the implementation of such measures are obvious as they would, among other things, lead to relaxation and simplification of the relationship between beneficiaries and management authorities or intermediary organizations, better coordination and implementation of project activities by directly reporting to the objectives pursued and, ultimately, by improving the efficiency of national results by increasing the absorption of European funding.

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