

QUALITATIVE ANALYSIS OF THE RISKS IDENTIFIED IN THE MANAGEMENT OF THE NON-REIMBURSABLE FUNDS IN ROMANIA IN 2007-2013

Abstract

In line with the principle of efficiency and effectiveness provided within the Strategy for strengthening the public administration in Romania, risk management is a key element in managing non-reimbursable funds in 2014-2020. Although was made compulsory by a regulation in force since 2005, as internal management control standard, risk management undertaken in 2007-2013 by the authorities and institutions involved in non-reimbursable funds management has proven to be relatively inefficient, Romania suffering great financial corrections and suspensions in the implementation of EU financing programs.

In an exhaustive analysis of the risks identified by the responsible authorities, this research focuses on the qualitative side of risk management in an attempt to identify viable solutions for an unitary methodology for risk management, that will be used by all responsible authorities / institutions and at the level of all financing programs.

Using such a methodology would have positive effects for local communities by increasing efficiency and effectiveness of resources use, namely by ensuring a stable and predictable administrative process.

Risks, Risk Management, Non-reimbursable Funds, Public Administration

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ANALIZA CALITATIVĂ A RISCURILOR IDENTIFICATE ÎN PROCESUL DE GESTIONARE A FONDURILOR NERAMBURSABILE ÎN ROMÂNIA ÎN PERIOADA 2007-2013

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Rezumat

În linie cu principiul eficienței și eficacității prevăzut de Strategia pentru consolidarea administrației publice în România, managementul riscurilor reprezintă un element cheie în gestionarea fondurilor nerambursabile în perioada 2014-2020. Deși a fost prevăzut ca obligatoriu de legislația în vigoare încă din anul 2005, ca standard de control managerial intern, managementul riscurilor derulat în perioada 2007-2013 de autoritățile și instituțiile implicate în gestionarea fondurilor nerambursabile s-a dovedit a fi relativ inefficient, România suferind numeroase corecții financiare și suspendări în implementarea programelor cu finanțare europeană. În cadrul unei analize exhaustive a riscurilor identificate de autoritățile responsabile, prezenta cercetare se concentrează pe latura calitativă a managementului riscurilor, în încercarea de a identifica soluții viabile pentru o viitoare metodologie unitară de managementul riscurilor, care va fi utilizată la nivelul tuturor autorităților / instituțiilor responsabile, respectiv la nivelul tuturor programelor de finanțare nerambursabilă. Utilizarea unei asemenea metodologii ar avea efecte pozitive pentru comunitățile locale, prin creșterea eficienței și eficacității utilizării resurselor, respectiv prin asigurarea unui proces administrativ stabil și predictibil.

Cuvinte cheie: Riscuri, Managementul riscurilor, Fonduri nerambursabile, Administrație publică



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1. INTRODUCTION

Unlike private organizations, which are characterized by profit orientation and access to resources in a competitive system, public sector organizations have more resources and more varied ways to achieve their mission and objectives.

Such a resource that public sector organizations can use to meet the public interest is represented by the non-reimbursable funds. In Romania, which became EU member state in 2007, the non-reimbursable funds are mainly external, i.e. additional to state budget funding.

Thus, for 2007-2013 financial period, the main such non-reimbursable funds were represented by structural and cohesion funds and rural development funds (over 90% of the total non-reimbursable funds available). In conjunction with funds from the national level (i.e. state aid for SMEs), as well as other funds from international donors (e.g. World Bank, United States Agency for Development, the Soros Foundation etc.) from 2007 to 2013 it represented an average of about 4 bln. Euro annually, nearly 3% of 2013 GDP (estimated to 631,130.1 million lei current prices). Compared to the state budget for the 2013 (98,182.5 million lei revenues) the non-reimbursable funds accounted for about 18%. For the 2014-2020 financial period Romania may use an average annual allocation of about 5 bln. Euro (according to European Commission press release "Summary of the Partnership Agreement with Romania, 2014-2020", dated august 2014, Romania will have a total allocation of Euro 30,725,192,684 from the EU budget, plus national co-financing).

For the use of the non-reimbursable funds was put in place a huge mechanism consisting of more than 100 public authorities and institutions, respectively more than 5,000 employees (civil servants and contractual employees). By the level of October 2015 these were accountable for managing 197,913 submitted projects and 100,162 financing contracts only on structural and cohesion funds (convergence objective) and rural development funds.

In this very complex field risk management represents a key element for the efficient and effective use of the non-reimbursable funds. Making more efficient the risk management system should be a priority for the state authorities and institutions.

2. THE LEVEL OF KNOWLEDGE IN THE FIELD AND RESEARCH METHODOLOGY

This study aims to analyze qualitatively the risks identified in the management of the non-reimbursable funds in Romania in the 2007-2013 financial period. It starts from the economic theory of risks and concentrates on the Risk management methodologies used by the Romanian state authorities and

institutions involved within the non-reimbursable funds management as internal management control standard.

The current scientific literature in the field comprises a lot of papers treating risks from private companies' perspective and a few recent papers on themes that have also applicability to public administration (Didraga, 2013; Iordache, 2012). The studies and analysis on risk management in non-reimbursable funds in Romania are in the early stages and refers to specific issues, such as risks related to specific procurement procedures (Badea and Nicolae, 2015a) and to insurance of risks specific to non-reimbursable funds management system in Romania (Badea and Nicolae, 2015b).

Thus, the research methodology put a focus on actual Risk management methodologies used at the level of managing authorities and intermediary bodies involved in the European and national funds management system. Using the provisions of Law no. 544/2011 on free access to public information we obtained risk management procedures, risk registers and risk action plans from 35 authorities and public institutions out of the 50 intended to be covered by the analysis.

Within the exhaustive analysis of the risks identified by the Romanian authorities and institutions involved in the non-reimbursable funds management system, the current study focused on the qualitative aspects of these risks. In this respect each risk was analyzed for consistency and appropriateness to the non-reimbursable funds management activity. Out of a more than 500 individual risks cumulated from the organizations that submitted the requested information, 467 risks were considered to be specific in terms of not fully duplicating the meaning of other risks. This resulted by cumulating all the reported risks, out of which the identical risks were eliminated.

As many of the reported risks are not consistent to the accepted definition of risk, both of the economic theory and of the risk management procedures used by the mentioned state authorities and institutions, a further selection was carried on. In this respect, the risks were redefined, resulting only 120 coherent risks that cope to risk definition: potential loss, loss caused by the evolution of risk factors to the contrary of the expected results (Bârsan-Pipu and Popescu, 2003).

Both the 467 initial risks and the 120 coherent risks were distributed on key activities/areas and project cycle management phases, in order to analyze the risk coverage degree of the whole non-reimbursable management system.

3. RISK MANAGEMENT METHODOLOGIES USED WITHIN DE ROMANIAN NON-REIMBURSABLE FUNDS MANAGEMENT SYSTEM

The main conclusions of the overall analysis regarding the risk management system used within the Romanian non-reimbursable funds management system, partially published (Badea and Nicolae, 2015) or in course of publication to date, are:

- risk management procedures used by the public authorities and agencies involved in managing the non-reimbursable funds are reproductions of the Methodology for implementing internal control standard "Risk Management", issued by the Ministry of Public Finance in 2007 in order to support the implementation of Order no. 946/2005;
- the current procedures define risk as the problem (situation, event, etc.) that has not occurred, but that might occur in the future, in which case the achievement of the intended results is threatened or potentiated. In the first case, the risk represents a threat, while in the second risk is seen as opportunity. Risk represents uncertainty in achieving intended results and should be treated as a combination of probability and impact;
- although the use of non-reimbursable funds is essentially the same for all authorities and institutions involved, of course with a set of specific elements, the existing procedures are not uniform, treating different the notion of risk itself and also the ways to take action for controlling risks;
- the current procedures in force accept the fact that risk can be internal and may depend on organization's actions / omissions, so depending on the organization's own will / diligence;
- the current procedures do not include ways of financially quantify the risks;
- not all public authorities and institutions have developed and used risk registers;
- within the existing risk registers the majority of risks are operational risks (ex: risk of delay, risk of failure / error detection, risk of quality of financing);
- some of the risks have direct financial effects (ex: certification of ineligible expenditure, repeated payment of the same invoice included in several payment claims);
- there are three global risks (including with financial effects) concerning both each funding program and the funds management system in its entirety:
 - the risk of automatic decommitment (translated in low absorption rate of funds);

- the risk of establishing financial corrections by donors;
- the risk of low quality of financing (outputs, outcomes and impact of projects).
- some risks aren't included in the risk registers (ex: there are no risks related to impact assessment or quantification of projects effects), although it results from the obligations that Romania has from applying European regulations on non-reimbursable funds management;
- in most cases, the risks are identified and organized at department level (directorate, service, office), not at the operational program level;
- the human resources involved are few in number and largely without specific training in risk management:
 - 4.833 employees (reported by 42 authorities and institutions), of which:
 - only 407 employees have risk management responsibilities;
 - only 322 employees have attended a course on risk management.
- all the risks included in the risk registers have negative connotations (there is no risk as opportunity).

4. FINDINGS OF THE QUALITATIVE ANALYSIS OF THE RISKS

As mentioned above, the study focused on the qualitative aspects of the risks included in the risk registers submitted by the 35 state authorities and institutions and covering the structural and cohesions funds (convergence objective) and the national state aid funds dedicated to SMEs.

The first finding of the analysis is that the risk registers does not refer to objectives, results or activities, the risks are just divided into categories / departments. In this respect, some risks can be clearly related to a compartment activity (ex: inadequate and continuously changing national legislation, with direct implications for the work carried out within the Economic and Financial Department).

The second finding of the analysis is that the classification of the risk does not follow a certain formula. Thus, some risks appear to be related to departments (e.g. procurement department), some to activities (e.g. checking and control) and others to procedural elements (e.g. irregularities).

The third finding of the analysis is that the definition of risk is poor, with no specificity or quantification. Only a few of them had the impact annexed, while more that 74% had to be lost in the redefining process.

For example, some of the risk in the risk registers were so general that could never be quantified: “failure to achieve financial engineering activity due to limited access to the levers of allocating funds”.

The fourth finding of the analysis is that the most identified risks are related to: Financial & Accountancy (99 risks), Financing management (44), Human resources (43), Funds absorption (35), Reimbursement activities (32), Implementation capacity (20), Irregularities (22), Single Management Information System - SMIS (20).

At the end of risks redefining process, the distribution was the following: Funds absorption (6), Implementation capacity (7), Financial & Accountancy (5), Financing management (8), Irregularities (9), Human resources (7), Reimbursement activities (17), Single Management Information System - SMIS (6).

As seen in the below figure, the redefining of risks comprised a serious number reduction for Financial & Accountancy related risks (from 99 to 5), Financing management related risks (from 44 to 8), Human resources related risks (from 43 to 7) and Funds absorption related risks (from 35 to 6). We can conclude that in these areas, possible in the specific departments of the authorities/institutions there is a poorer understanding of risks than in the other areas / departments.

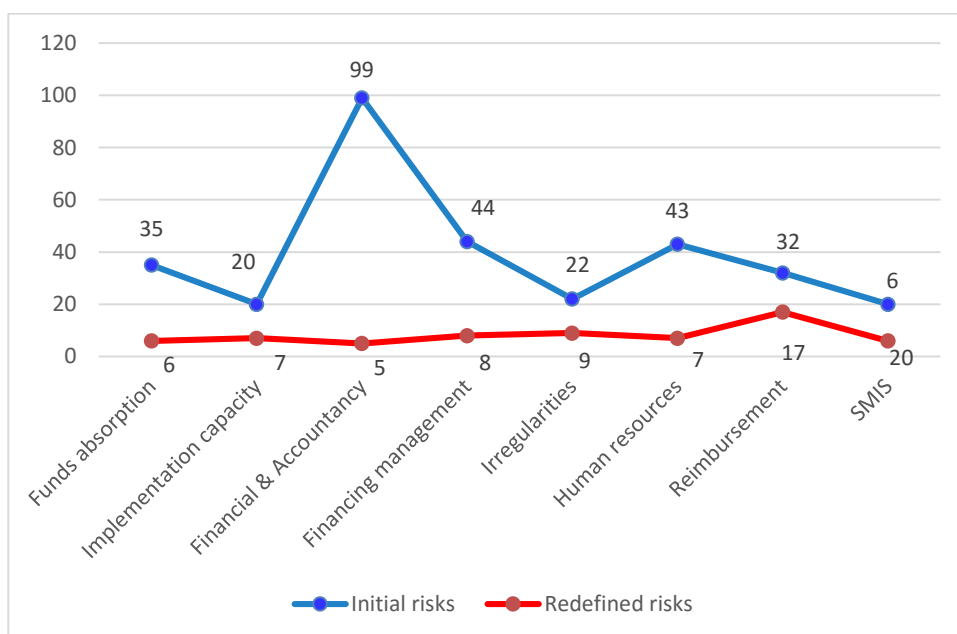


FIGURE 1 - ORGANIZATION OF RISKS ON MAIN ACTIVITIES/AREAS
Source: The Author

A big question mark we can put on the procurement related risks. Only 11 risks identified by all authorities/institutions might seem very little if we take into consideration the fact that the most financial

corrections and program suspensions Romania suffered in the 2007-2013 financial period are due to procurement related problems.

The fifth finding of the analysis is that the coverage of the Project Cycle Management phases (European Commission, 2004) is unbalanced, more that 80% of the risks (412) in the risk registers referring to phase 4 – Implementation.

Although there is logic that the risks related to implementation of programs and projects be in majority, the distribution of the risks identified by the responsible authorities/institutions shows that the accent is on doing, rather than on planning, organizing or controlling.

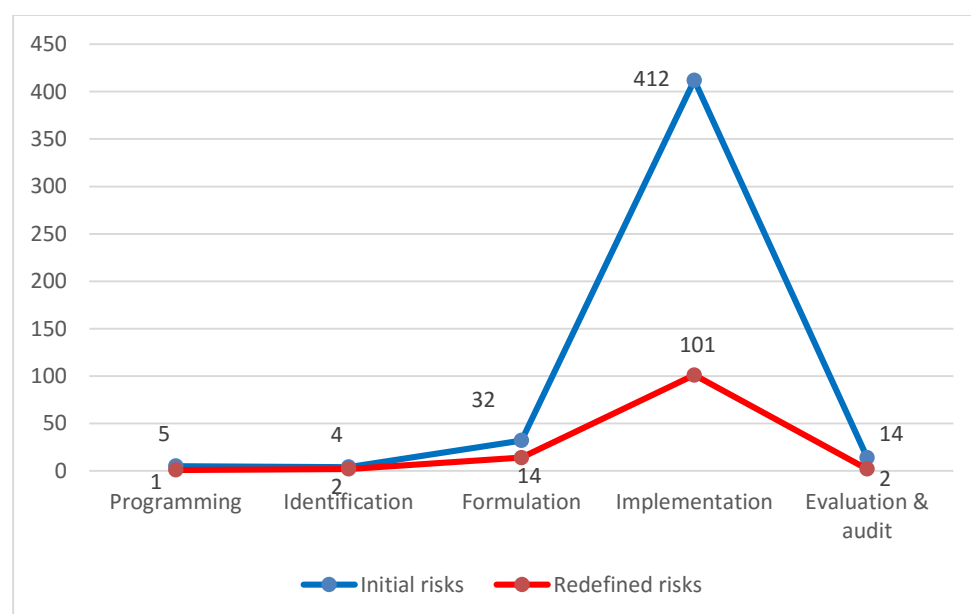


FIGURE 2 - ORGANIZATION OF RISKS ON PCM PHASES
 Source: The Author

Even in the implementation phase some risks are not included in the risk registers. For example, there is no mentioning of the risks related to equal opportunities and sustainable development, although these are transversal principles provided by the European regulations on structural and cohesion funds accession.

5. THE RELATION BETWEEN RISK MANAGEMENT OF THE NON-REIMBURSABLE FUNDS AND THE STRATEGIC MANAGEMENT FOR LOCAL COMMUNITIES

Some authors (Didraga, 2013) consider risk management as being the most important instrument a manager can use for increasing the success of a project.

With respect to non-reimbursable funds management in Romania, we treat risk management as key to development resources. If we analyze only the use of structural and cohesion funds during 2007-2013 period, we can find that:

- there are serious delays in funds accession (at the level of October 2015 the absorption rate published by the Ministry of European Funds was 56,99% out of the 19 billion Euro, allocations Structural and Cohesion Funds);
- there is an increased consumption of resources (ex: the Romanian government announced loans of 6.045 billion RON in 2014, respectively 2.820 billion RON in 2015, in order to pay the beneficiaries of structural and cohesion funds, considering that Romania failed repeatedly to receive the expected reimbursements from the European Commission);
- there is a foresight that the financial corrections imposed by the European Commission related to Romania's available budget will be about 1 billion Euro (Romanian National News Agency AGERPRES, 2015) only for the Structural and Cohesion Funds 2007-2013; this represents approximately 5.26% of the total allocated amount - 19 billion Euro.

All the available funds not used, plus the financial corrections and resources used for sustaining the financial flows of structural funds use (up to 9 – 9,5 billion Euro) represents mist development resources.

Consistent with the principle of efficiency and effectiveness stated by the Strategy for strengthening the public administration in Romania 2014-2020 (aim to achieve objectives through optimal use of available resources and obtain results to be in line with targets) the use of non-reimbursable funds represents a key element for the public sector development and the risk management have to play an important role in the strategic management for local communities in Romania.

CONCLUSIONS

There is an obvious need for improving the risk management methodologies used by the authorities and institutions involved in the non-reimbursable funds management. A direction in this respect is to create a single unitary risks register, applicable to all non-reimbursable funds (European, national or from other sources), with coherent and consistent risks covering all the activities/areas and all the project cycle management phases.

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