

# ASSESSMENT AND PROBLEMS OF PROJECTS IMPLEMENTED BY COMPANIES AND CO-FINANCED BY THE EUROPEAN UNION FUNDS IN LATVIA

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## Abstract

The aim of the research is to study the correlations of the risk degree of the projects co-financed by the European Union (EU) funds and implemented by companies in Latvia with the amount of non-obtained project co-financing during their implementation.

Findings: The research shows that in all phases of the project cycle, starting with planning and finishing with implementation a great role in achieving of project aims is paid by a qualitative risk management process that allows identify early and prevent different risks of project implementation.

Although, to obtain project co-financing of the EU, the risk management process is stated as obligatory requirement already in the project financing phase, the practice shows that not always entrepreneurs have sufficient capacity to carry out a qualitative risk management process.

Research methodology: Research quantitative and qualitative methods of data analysis have been applied to carry out the research. To summarize the project risk management experience in the world and to analyse the results of the previous research the monographically descriptive and logically constructive method has been used. To assess the risks of the projects co-financed by the EU and to analyse their correlations with other indices that characterize projects the primary data obtained with the permission of the system holder from the information system of the European Structure and Cohesion funds of the Ministry of Finances of the Republic of Latvia have been used in the research. The obtained data have been analysed applying the sociological research data procession program – Statistical Package for the Social Science, using both descriptive and analytical data procession methods.

Conclusions: Having analysed the research data it can be concluded that in the projects co-financed by the EU:

- the length of their implementation affects the amount of the non-obtained financing of the projects;
- the degree of the project risk assessment correlates with the amount of the non-obtained financing of the project during its implementation.

The risk management process in the projects mostly takes place only in the project planning phases when it is stated as the obligatory requirement to get co-financing. The research shows that the obligatory requirement compliance quality and obtaining of co-financing depend on the risk management process quality during the project implementation. It allows conclude that it is necessary to research additionally and look for deeper regularities between the risk management process organisation and the ability to run projects qualitatively in companies.

*Keywords:* project management, project risk management, European Union funds.

*JEL Classification:* M21.

## Introduction

Since Latvia joined the European Union (EU) in 2004 companies have a possibility to use the co-financing provided by the EU funds to implement different business ideas applying for the co-financing and while implementing projects. The EU fund support both in the planning periods of 2004-2006 and 2007-2013 has been various for entrepreneurs providing a possibility to develop entrepreneurship both in industrial companies and the ones of other fields implementing and developing new innovative products and services, supporting also research linked with the field and activity of the company and facilitating export of new products and services.

To successfully raise and obtain co-financing of the EU funds for projects entrepreneurs have to comply with preconditions in all phases of the project life cycle, that is, in project application evaluation phase it has to correspond to all criteria of finance support allotment and has to observe all normative act requirements by the EU and Latvia in project implementation including carrying out project risk management. Accepting the project the involved institutions under the guidance of the EU funds accept project risk evaluation that corresponds to the criteria and the risk management process ability to provide project implementation. However, despite the above mentioned in the EU fund planning period 2007-2013 controlling the project implemented by entrepreneurs non-adequate expenses worth almost 7.7 million Ls have been stated, what means that the project implementers have not been able to fulfil normative act

requirements by the EU and Latvia for correct usage of the financing and they do not get it after the project has been implemented. The greatest non-compliances in project implementation so far have been stated in legislation violation of public purchases, as well as in inability to implement project correspondingly to the mentioned in the submitted project what shows that the risk evaluation described in the submitted project before starting the project implementation cannot effectively provide risk management process during project implementation what causes problems for companies to get the EU co-financing in full amount due to incongruous expenses during project implementation.

The aim of the research is to study the correlations of the risk degree of the projects co-financed by the EU funds and implemented by companies in Latvia with the amount of non-obtained project co-financing during their implementation.

### **Literature review**

Many-year experience of project management shows that during every project implementation there are risks to achieve the project aim (Rippenberger, 2000). Risks can be various and contradictory, and to classify them different criteria can be used, and with the help of these criteria it is possible to group the risks, for instance, in finance risks and in operational risks, etc. Risk grouping is an essential part of risk management in order to choose the most effective risk management methods (Pettere, Voronova, 2003). Project risk management is specific because like a project itself it has limited time, however, classical risk management methods can be used in project risk management. Project risk management is a process that envisages identification of project implementation risks, their analysis and planning of the events to minimize the risk setting and their affect on project aim achievement, as well as planning of unforeseen expenses for project implementation (Barton, Shenkir, Walker, 2002). Project risk management process can be dividend into several phases. The first phase is risk evaluation phase when risk analysis is made and every risk setting probability, as well as risk effect on project aim achievement is evaluated. The second phase of risk management is the phase of working out the action plan in order to envisage preventive events to avoid project risks. The next project risk management phase can be called the phase of the action plan implementation during which not only the previously worked-out events for risk decreasing are carried out, but also, if necessary, the action plan for risk decrease is supplemented. Research literature recommends during the project implementation to envisage also extraordinary action plans if the action plan to avoid project risks turns out to be ineffective and some of the risks has set in during the project implementation and is a threat to successful project implementation (McGrew, Bilotta, 2000). Effective project risk management is a continuous process during the whole project implementation time (Barton, Shenkir, Walker, 2002). Effective risk management includes all organization and is developed to indentify the possible events which can affect project implementation in future in order to receive more qualitative information to make decisions, thus improving the quality of strategic decisions, as well as to manage risks in accordance with the risk level allowable in the organization (Verdina, 2008). Today a new paradigm in risk management is described in research literature, and this paradigm, contrary to the old paradigm what stated that risk management is done irregularly and fragmentarily and allowed risk management process include only separate risks, states that risk management process is continuous and all employees of the organization are involved in it. Project risk management process according to the new paradigm includes risk management both in the project planning phase and in the implementation phase, and includes all risk groups which can influence successful implementation of the project. However, practice shows that in Latvia in the risk management process of the projects co-financed by the EU still the old approach when risk identification and evaluation is done only when risks have already set in dominates, and risk evaluation in the project preparation phase is done mostly only formally.

### **Research methodology**

Research quantitative and qualitative methods of data analysis have been applied to carry out the research. To summarize the project risk management experience in the world and to analyse the results of the previous research the monographically descriptive and logically constructive method has been used. To assess the risks of the projects co-financed by the EU and to analyse their correlations with other indices that characterize projects the primary data obtained with the permission of the system holder from the information system of the European Structure and Cohesion funds of the Ministry of Finances of the Republic of Latvia have been used in the research. The characterizing data of the projects implemented by

entrepreneurs and co-financed by the EU concerning project length in months, project total finance amount and project implementation present status, risk level evaluation, as well as stated inadequate expenses during project implementation have been obtained. To make the primary data analysis, the data were grouped and characteristic values were given numeral codes, for example, for project risk level evaluation – for “low” the code 1 was given, for “average” – 2 and for “high” – 3. The secondarily obtained data were used for the data statistic analysis.

The obtained data have been analysed applying the sociological research data procession program – Statistical Package for the Social Science, using both descriptive and analytical data procession methods, including frequency measurements and correlation analysis.

## Results

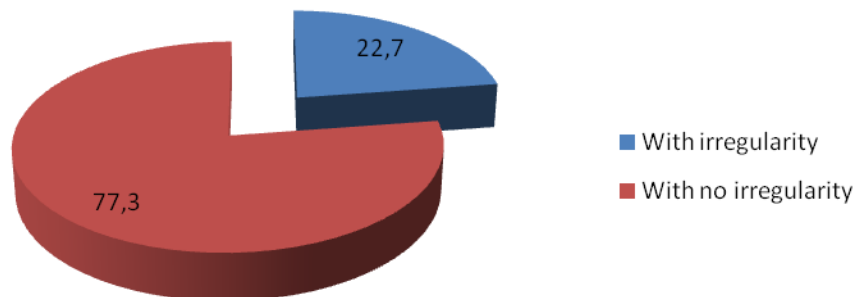
To research problems and connections in the cases of inadequately made expenses by Latvia companies which implement projects with the EU co-financing in the context of risk management process the data were obtained with the permission of the data base holder and analysed concerning the entrepreneur implemented projects with the EU co-financing during the planning period 2007-2013. In the research different project characterizing values were analysed, for instance, total risk level evaluation, the length of the project implementation, the total financing amount of the project and the sum of inadequately made expenses, if such sum has appeared during the project implementation. The analysed data comprised 1733 projects, including 570 projects being implemented now, 334 discontinued due different reasons projects and 829 successfully finished projects. The involved competent state institutions under the guidance of the EU funds have made the project total risk level evaluation following the methodology developed by the Ministry of Finance, LR for all above mentioned projects. The project risk level evaluation is calculated taking into account the length of project implementation, the project total amount of financing and the type of finance receiver, and the projects are classified as low, medium and high risk level projects.

Summarizing and analysing the obtained information about entrepreneurs' implemented the EU co-financed projects it can be concluded that projects are mostly evaluated as low or medium risk projects (see Table 1).

**Table 1.** Entrepreneurs the EU co-financed project division according to total Project risk evaluation

Project risk class	Frequency	Percent
Low risk project	784	45.2
Medium risk project	800	46.2
High risk project	149	8.6
Total	1733	100

However, regardless of the above mentioned, in 22.7% of the cases at least one nonconformity of project implementation conditions has been stated during the project implementation, which has caused financial effect on the amount of the project EU go-financing (See Figure 1). Summing up the information about the entrepreneurs' implemented project amount of inadequately made expenses during the EU fund planning period 2007-2013 it should be said that this sum is considerable – 7 667 676 LVL.



**Figure 1.** Share of EU co-financing project's following an irregularity

Taking the risk evaluation methodology which states that higher risk projects are those which have a longer project implementation time and bigger amount of total financing as the basis correlations between the above mentioned project characterizing values and the fact whether there are inadequate expenses which an entrepreneur cannot get as the project EU co-financing, as well as the amount of inadequate expenses sum were looked for.

To evaluate the project implementation time correlation with inadequate expenses in the projects and their amount the projects were divided into three parts:

1. The projects with the implementation time up to 6 months;
2. The projects with the implementation time up to 12 months;
3. The projects with the implementation time more than 12 months.

Having made correlation analysis between the project implementation time and inadequate expenses, it was stated that Pearson correlation coefficient is 0.84, and it allows conclude that there is rather close correlation between these values. The longer the project is implemented, the bigger is a possibility that there are inadequate expenses during the project implementation. However, the analysis of the research data shows that there is no statistically significant correlation between the length of project implementation in months and the amount of the sum of inadequate expenses, what means that there are also other factors which affect the amount of inadequate expenses. To evaluate correlations between the project total financing and the amount of the sum of inadequate expenses the projects with at least one inadequacy having financial character on the EU co-financing were looked separately at in the research. Correlation analysis was made for the mentioned projects. Analysing correlations between the project total financing and the amount of the sum of inadequate expenses there was a rather close correlation (Pearson correlation coefficient – 0.71) what allows conclude that the bigger is the project total financing, the bigger is the possibility for a company to have bigger losses during the project doing inadequate to project implementation rules payments. The above mentioned connections allow think that entrepreneurs do not use the available EU co-financing as there are inadequate expenses in projects. It allows say that entrepreneurs do not have sufficient capacity or understanding about project risk management process and the old paradigm or the fragmentary approach in risk management is used. The research shows that it is necessary to carry out additional research concerning factors which affect the risk management process in the EU co-financed projects in Latvia.

## Conclusions

Having analysed the research data it can be concluded that in the projects co-financed by the EU:

- the length of their implementation affects the amount of the non-obtained financing of the projects;
- the degree of the project risk assessment correlates with the amount of the non-obtained financing of the project during its implementation.

The risk management process in the projects mostly takes place only in the project planning phases when it is stated as the obligatory requirement to get co-financing. The research shows that the obligatory requirement compliance quality and obtaining of co-financing depend on the risk management process quality during the project implementation. It allows conclude that it is necessary to research additionally and look for deeper regularities between the risk management process organisation and the ability to run projects qualitatively in companies.

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