ANALYSIS OF PROJECTS CO-FINANCED BY EUROPEAN FUNDS

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Abstract. This paper deals with investment projects co-financed by European funds. It is able to see European funds as an important source of money for the Czech economy. The Czech drawing is compared with drawing in neighbouring countries—Poland and Slovakia. The aim of this article is to shown ho supported projects are evaluated. Economic evaluation of these projects will be compared to theoretical approaches of business economics. Because there are several types of supported programmes, two Czech projects will be chosen and compared, namely Operational Program Prague Competitiveness and ROP NUTS II North East. Failures can always occur because nothing exists isolated from its environment. Corruption is discussed as the main problem.

1. Introduction

This paper describes economic evaluation of projects co-financed by European funds in the Czech Republic. Financial support programmes could be an important additional source of money for businesses. On one hand the government would like to support entrepreneurship but, on the other hand, they need to check and evaluate each potential project because the amount of money is limited. The public does not agree with money wasting for inefficient ideas. It raises questions such as if the government follows classical recommendations of business economics, which problems can occur during evaluation, etc.

The structure of the paper is as follows: first, the financial support programmes are introduced as an important source of money. Then, two financially supported programmes are chosen and their application requirements are shown. The methods of

evaluation are discussed. Everything is compared with theoretical approaches and recommendations of business economics in the field of investment projects and investment decision making. If it is possible, results are documented with the help of surveys. The last part deals with the problem of corruption.

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2. Investment

This article is focused on a micro-economic or business approach of investment. According to Scholleova[1] in a narrower sense investment is an asset which is not directly consumed but used for creating an additional asset, the company then sells on the market. It is hardly imaginable that any company is able to survive for a long time without investment. Each investment is connected at the beginning with one-off (short-term) cash outlay.[2] There are various sources of finance. Long-term sources are usually used for financing investment. As was already written,[3] finance sources can be divided into three categories—traditional internal sources, ownership capital and non-ownership capital. In the Czech Republic the companies mostly use bank loans and leasing as non-ownership capital. In entering the European Union in 2004, another way to capital was opened. Access to structural funds has been widened. Companies have the possibility to obtain non-returnable subsidies.

3. Financial support programmes

We will pay attention to programmes co-financed from European Union funds which are very important sources because, for a running period of 2007-2013, the Czech Republic has € 26.69 billion available.[4] There is a huge variety of beneficiaries because projects may be presented by municipalities, regions, ministries, entrepreneurs, owners of transport infrastructure, non-profit organizations, schools, research centres and others.

There are four major groups of programmes for the period of 2007-2013 which are financed thanks to European money:
- Thematic Operational Programs
- Regional Operational Programs

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[1] Scholleova, H. *Investiční controlling: jak hodnotit investiční záměry a řídit podnikové investice.* Grada, 2009, p. 13
[2] Scholleova, H. *Ekonomické a finanční řízení pro neekonomy*, Grada, 2008, p. 103
[3] Čámská, D., Kula, D. *Financial support programmes and their prediction models.* SCIENTIFIC PROCEEDINGS, 2011, year 19, issue 2, p. 728–736.
[4] http://www.strukturalni-fondy.cz/Information-about-EU-Funds available 03-30-2011

- Operational Programs Prague
- European Territorial Cooperation

These groups contain altogether 26 different programmes although this article uses data referring to the state of financial drawing of 19 Czech operational programmes (Objective 1 and 2). The state of financial drawing of other 7 programmes is not included because these programmes are part of Objective 3 of the economic and social cohesion policy implemented in the Czech Republic. By 4 January 2012 74 824 applications have been submitted in the amount of 1 166.4 billion CZK.[5] Less than half of projects have been accepted. Figure 1 shows us the latest state of implementation from January 2012. 70.5% of sources have been already allocated and 38.6% of sources have been paid to beneficiaries.
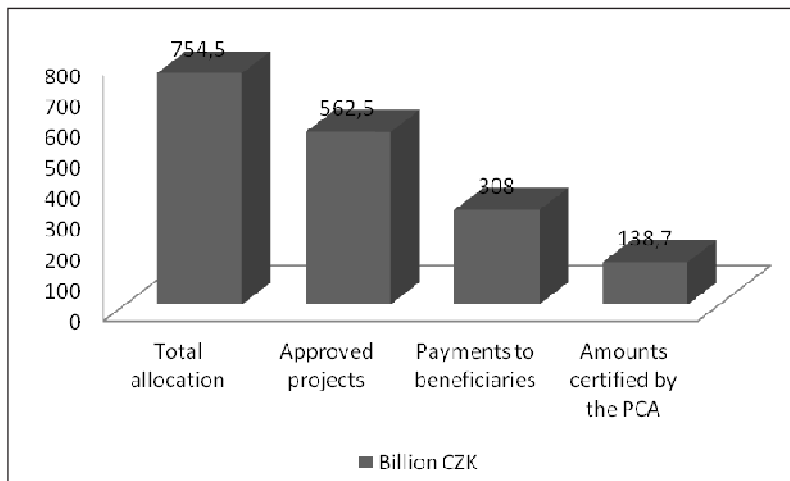

Fig. 1. Latest state of implementation of the cohesion policy.
Source: own elaboration based on data[6]

It is obvious that more than half of the money is already divided among its beneficiaries, but money is still available there. Figure 1 raises questions if enough projects have been approved, if enough funds have been drawn, if the Czech Republic is able to draw all sources. It is possible to compare the Czech Republic's drawing with neighbouring countries. Slovakia and Poland were chosen because of common history as post-transition countries. It is the reason why Germany or Austria were not chosen, because they have other priorities of cohesion policy, except former East Germany which would be comparable.

Total allocation of European funds depends on the population of a country as is shown in Table 1. Poland, as the biggest country, gets the most money, while on

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5   http://www.strukturalni-fondy.cz/getdoc/d4d084ae-cde6-466a-8ec1-c907ab9c5cb3/Mesicni-monitoro-vaci-zprava available 02-21-2012
6   http://www.strukturalni-fondy.cz/getdoc/d4d084ae-cde6-466a-8ec1-c907ab9c5cb3/Mesicni-monitoro-vaci-zprava available 02-21-2012

the other hand, Slovakia gets the least. The other rows inform about the status of the drawing. The Czech Republic data set is the newest (4 January 2012), then Poland (30 November 2011), and Slovakia (May 31, 2011). The Czech Republic and Poland show the same result in the criterion approved projects. Slovakia is the worst in this criterion. If we take into account real payments to beneficiaries then the Czech Republic has already spent the most money, almost 40% of total allocation. All details are reported in Table 1.

Table 1. Czech Republic, Slovakia and Poland—latest state of implementation of the cohesion policy. Source: own elaboration based on data

	Czech Republic[7]	**Slovakia**[8]	**Poland**[9]
Total allocation (billion EUR)	26.69	11.588	61.85
Approved projects	70.5%	59.05%	71.5%
Payments to beneficiaries	38.6%	21.67%	30.4%
Amounts certified	17.4%	17.93%	---

If almost 40% of total allocation was already spent in the Czech Republic, it is time to answer the question of how many projects have been supported. Supported projects are distinguished into three groups—cancelled projects during their implementation, already finished projects and ongoing group. Table 2 shows how the projects are divided into specific groups according to different operational programmes. All the data is valid for August 4, 2011 which means that nowadays it could be a little bit higher, but the differences are not so important.

Table 2. Current number of beneficiaries of European Regional Development Fund. Source: own elaboration based on data[10]

Opperational programmes	**Number of projects**			
	All	**Cancelled**	**Finalized**	**Ongoing**
Integrated Operational Program	6942	81	5349	1512
OP Czech Republic-Poland	1638	25	699	914
OP Transport	130	---	63	67
OP Human Resources and Employment	3120	20	7	3093
OP Enterprise and Innovation	6586	528	2162	3896

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[7] http://www.strukturalni-fondy.cz/getdoc/d4d084ae-cde6-466a-8ec1-c907ab9c5cb3/Mesicni-monitoro-vaci-zprava available 02-21-2012

[8] File Status of implementation of the SF according to the OP, priorities and actions for PP 2007-2013 available on http://www.nsrr.sk/en/cerpanie/ 02-21-2012

[9] https://www.mrr.gov.pl/aktualnosci/fundusze_europejskie_2004_2006/Documents/2011_11_30_mie-sieczna_listopad_ost.pdf available 02-21-2012

[10] http://www.strukturalni-fondy.cz/getdoc/2eec9b32-0674-48ba-a419-90fa51db8823/Seznamy-prijemcu?lang=en-GB available 09.09.2011

Opperational programmes	Number of projects			
	All	Cancelled	Finalized	Ongoing
OP Prague Adaptability	486	6	66	414
OP Prague Competitiveness	209	11	105	93
OP Fishing	630	26	17	587
OP Technical Assistance	105	4	43	58
OP Research and Development for Innovations	73	---	---	73
OP Education for Competitiveness	5733	2	7	5724
OP Environment	3578	2	1733	1843
ROP NUTS II South-East	543	7	385	151
ROP NUTS II South-West	552	7	308	237
ROP NUTS II Moravia-Silesia	489	4	273	212
ROP NUTS II North-East	537	5	271	261
ROP NUTS II North-West	291	10	131	150
ROP NUTS II Central Bohemia	490	7	253	230
ROP NUTS II Central Moravia	538	4	419	115
All programmes	**32 670**	**749**	**12 291**	**19 630**

Getting support is obviously not automatic because there are many requirements which each project should fulfil. Conditions differ according to different support programmes but some characteristics are common for all programmes.

4. Common requirements

At the beginning the core idea of the project is the most important. First of all, each project should contain the general beneficial effect. We mean beneficial in a wide sense because private companies can also ask for money. Secondly the idea of the projects has to be consistent with the objectives of the concrete operational program. Third is time, because each program has its deadlines when it accepts applications.

4.1. Parts of application

There are required parts that each application should include—logical framework, feasibility study, cost-benefit analysis and project budget. If we look at the names and content of these parts they are similar to parts of a business plan. Small exception is cost-benefit analysis which is usually not part of typical business plans which are created by profit organisations.

The business plan can be characterized[11] as a proposal that sets out a new business venture, direction, product, or course of action. Lamb[12] follows that if you write a business plan it is in order to gain support for your idea. Here we see a visible connection with application forms. According to Lamb[13] the major plan sections are the general business description, a mission statement, goals, management team, market analysis, the marketing plan, the financial analysis and appendices or supporting documents. We can compare theoretical major plan sections with two handbooks. We have chosen two examples—the handbook of Operational Program Prague Competitiveness and the handbook of ROP NUTS II North-East. It does not matter that one is called a feasibility study and the second is a study of the economic evaluation of the project.

The general structure of the feasibility study of Operational Program Prague Competitiveness[14] includes parts as general information about potential beneficent, description of project, market analysis and estimate of demand, management team and human resource management, technical and technological aspects, impact on the environment, ensure of current assets and investment, project budget, financial plan, evaluation of the effectiveness and sustainability of the project, project schedule, risk management and final project evaluation. On the other hand the document of ROP NUTS II North East[15] should contain a general business description, market analysis and estimate of demand, technical and technological solution of the project, needs and ensure of current assets and investment, financial plan, cost-benefit analysis, risk management and detailed final project evaluation. Both these documents follow theoretical approaches of business economics.

4.2. Financial plan and evaluation of project

From business economics point of view the most important parts are a financial plan and evaluation of the project. Handbooks of financial support programmes specify in detail the components of the financial plan. We do not realize any difference if we study the handbook of Operational Program Prague Competitiveness or the handbook of ROP NUTS II North-East. There are always components such as plan of costs and revenues, plan of state property and resources of its coverage and cash flow plan because costs do not have to be expenses in the same year, and revenues are not always incomes at the same period of time.

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[11] Lamb, S.E. *How to Write It: Business Plans and Reports.* Business & Economic Review; Oct-Dec2006, Vol. 53 Issue 1, p. 17-24.

[12] Lamb, S.E. *How to Write It: Business Plans and Reports.* Business & Economic Review; Oct-Dec2006, Vol. 53 Issue 1, p. 17-24.

[13] Ibid.

[14] Operační program Praha – Konkurenceschopnost *Metodická příručka: Studie proveditelnosti pro oblast podpory 3.3 OPPK* available http://www.prahafondy.eu/cz/oppk/dokumenty.html on 09-09-2011

[15] ROP NUTS II North-East – *Příloha č.5 PPŽP Studie ekonomického hodnocení projektu* available http://www.rada-severovychod.cz/file/1530 09-09-2011

Each investment project should be evaluated in an economic way if it is profitable enough and it makes sense to implement it. Literature describes many methods or criteria for evaluating. Basically the criterioa of capital projects are divided into two groups—static and dynamic criteria. The main differences between static and dynamic criteria are written in the article of authors Scholleova, Fotr and Svecova.[16] Static criteria consider mainly cash flows. They consider time in constraint mode and in principle they do not work with risk. On the other hand, dynamic criterions take into account all three factors which mean cash flows, service life and undergone risk as well. Czech companies usually prefer static criterions although they do not consider it a risk because evaluating is simple. Anglo-American literature does not take into account static criteria, such as Anthes.[17] He points out, despite the difficulty of developing good estimates, especially of benefits, four basic methods for comparing project costs and returns remain in vogue: payback period, ROI, net present value (NPV) and internal rate of return (IRR). Many more have been created, but these four have endured for decades.

Unfortunately Czech research work shows that companies prefer statistic criteria. Table 2 contains results from a survey by the Faculty of Business Administration. The sample consisted of 252 Czech companies.

Table 2. Criterion used in evaluating investment projects[18]

Type of criterion	Criterion	Number	Rake-off
static	Indices of profitability and payback	190	75 %
static	Payback period	69	27 %
dynamic	Discounted Payback Period	28	11 %
dynamic	Internal Rate of Return	55	22 %
dynamic	Net Present Value	56	22 %
dynamic	Profitability Index	20	8 %
dynamic	Benefit-Cost Ratio	8	3 %
	Others	9	4 %

It is not a surprising fact that results vary according to the size of the enterprise or size of the capital project. It is obvious that small companies will use less sophisticated methods. Anthes[19] indicates an example of the Schwan Food Co. which uses NPV, IRR and payback period to evaluate IT projects costing more than $1 million. The survey of Faculty of Business Administration shows representative results. Figure 2 confirms that large companies and more important projects are evaluated using dynamic criterions.

[16] Scholleova, H., Fotr, J., Svecova, L. *Investment decison making criterions in practice.* Economics & Management; 2010, p. 1018-1023.

[17] Anthes, G. *What is your project worth?* Computerworld; 3/10/2008, Vol. 42 Issue 11, p. 29-32.

[18] Kislingerova, E. and others. *New Theory of Economy and Management in Organizations and Their Adaptation Processes.* Survey of Faculty of Business Administration, University of Economics, Prague, 2008.

[19] Anthes, G. *What is your project worth?* Computerworld; 3/10/2008, Vol. 42 Issue 11, p. 29-32.
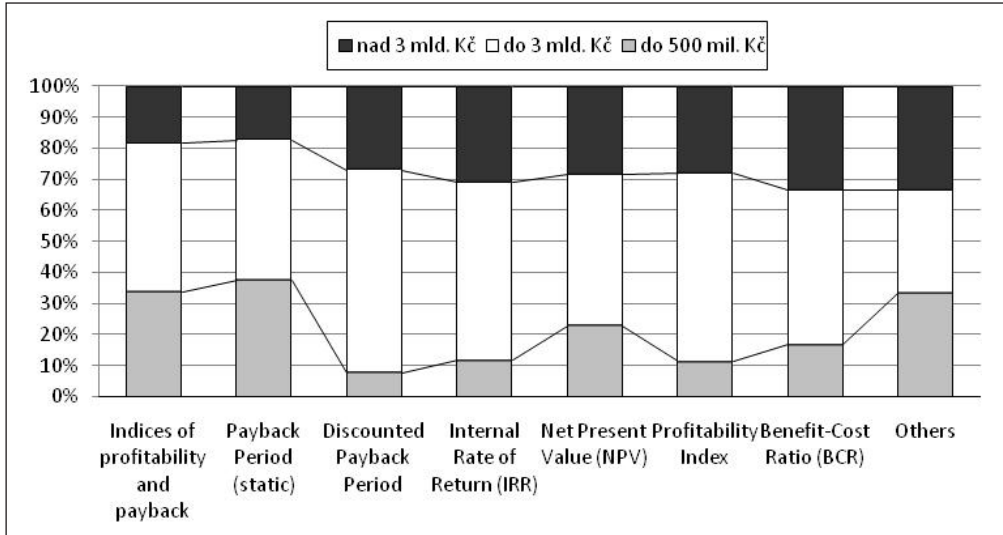
Fig. 2. Using methods depending to the size of the enterprise, absolute frequencies[20]

We have discussed capital projects in general. We see that evaluation in the Czech Republic is not ideal and does not follow all theoretical approaches and recommendations. We should answer a remaining question of how projects co-financed with European funds in the Czech Republic are evaluated. Feasibility studies emphasize dynamic criteria and they completely omit statistic criteria. Economic evaluation is a required part of each application. In the case of Operational Program Prague Competitiveness[21] it has to contain present value, net present value, internal rate of return, profitability ratio and payback period. Application of ROP NUTS II North East[22] contains the same minus profitability ratio which has the same explanatory power as net present value. Applicants do not have to count all criterions because they are counted automatically when they fill the numbers of a financial plan. It is important to note that all potential projects, that should be co-financed with European funds in the Czech Republic, undergo economic evaluation. In this case the Czech government does not follow the practices of Czech business environment.

5. Bureaucracy followed by corruption

It seems that the best approaches for investment decision-making have been chosen and they are used by financial support programmes in the Czech Republic. But, as

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[20] Kislingerova, E. op.cit.

[21] Operační program Praha – Konkurenceschopnost *Metodická příručka: Studie proveditelnosti pro oblast podpory 3.3 OPPK* available http://www.prahafondy.eu/cz/oppk/dokumenty.html on 09-09-2011

[22] ROP NUTS II North-East – *Příloha č.5 PPŽP Studie ekonomického hodnocení projektu* available http:// www.rada-severovychod.cz/file/1530 09-09-2011

we know, failures can always occur, and the consequence is that the chosen projects are not the best. Finally chosen projects do not have to be the best in main aspects such as profitability, risk or social contribution. There is no sense in discussing problems such as wrong estimation or failures of classical techniques for evaluation. Generally, the best-known problem is bureaucracy followed by corruption.

Government contracts and financial support are connected with bureaucracy and corruption in many countries. Unfortunately the Czech Republic is no exception. The document "Transparency of the regulatory system"[23] says that bureaucracy and unnecessary red tape remain a source of complaints from both domestic and foreign investors although the Czech Republic ratified OECD anti-bribery convention in January 2000. According to Transparency International's Corruption Perception Index for 2010,[24] the Czech Republic ranks in the 53rd place out of 178 countries. As DATAMONITOR[25] mentions the Czech Republic's percentile ranking on the control of corruption is 77.0 in 2008. Among the transitioning countries of the former Soviet bloc, the Czech Republic is rated as one of the better countries in the terms of perception of corruption. If we compare the Czech Republic with Poland and Slovakia as at the beginning of this article, we come to the conclusion which is shown in Table 3.

Table 3. Transparency International's Corruption Perception Index for 2010 for selected countries[26]

Transparency International's Corruption Perception Index	Czech Republic	Slovakia	Poland
Place	53rd	59th	41st

The European Union did its own Eurobarometer survey[27] which was published in February 2012. Results[28] are that it is thought that corruption has risen over the last three years. The estimation of economic costs[29] incurred by corruption in the EU is incredible, because it reaches the amount to around €120 billion per year.

Corruption remains and, even worse, has increased, and it is a general problem which cannot be solved only on the level of financial support programmes, which have their advantage, because all payments have to be certified which is another tool for the corruption fight.

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[23] *2 Macro-accessibility in Czech Republic: 2.6 Transparency of the regulatory system.* Czech Republic Economic Studies; 2007, p. 31-33.

[24] Press release: *Index vnímání korupce 2010: Česko je letos na 53. místě a patří k zemím, kde se situace zhoršil*a. < http://old.transparency.cz/index.php?lan=cz&id=16&pom_id=99> [accessed on 09-10-2011].

[25] DATAMONITOR: Czech Republic. Czech Republic Country Profile; 2010, p. 1-70.

[26] *Index CPI 2010 – Pořadí zemí.* < http://old.transparency.cz/pdf/CPI2010_tabulka%20CZ.pdf> [accessed on 02-21-2012].

[27] <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/135&format=HTML&aged=0&language=EN&guiLanguage=en> [accessed on 02-21-2012].

[28] *Special Eurobarometer 374/Wave EB76.1 – TNS opinion & social.* <http://ec.europa.eu/public_opinion/archives/ebs/ebs_374_en.pdf> [accessed on 02-21-2012].

[29] <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/12/135&format=HTML&aged=0&language=EN&guiLanguage=en> [accessed on 02-21-2012].

6. Conclusion

The paper described economic evaluation of projects co-financed from European funds in the Czech Republic. Two supported programmes were chosen—Operational Program Prague Competitiveness and ROP NUTS II North-East. Application requirements were discussed and compared between programmes. Although it seems that application requirements include all important components of classical business plans and economic evaluation follows all theoretical recommendation of investment decision-making and failures can always occur.

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19. <http://www.strukturalni-fondy.cz/Information-about-EU-Funds> [accessed on 03-30-2011].

20. <http://www.strukturalni-fondy.cz/Stav-cerpani/Mesicni-monitorovaci-zprava> [accessed on available 09-09-2011].

<21. http://www.strukturalni-fondy.cz/getdoc/d4d084ae-cde6-466a-8ec1-c907ab9c5cb3/Mesicni monitorovaci-zprava> [accessed on 02-21-2012].

EUROPOS SĄJUNGOS FONDŲ FINANSUOJAMŲ PROJEKTŲ ANALIZĖ

Dagmar ČÁMSKÁ

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