IEEP

EU Structural Funds

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1 DEVELOPMENT OF REGIONAL POLICY OF THE EU

1.1 The Cohesion Policy in the EU Budget

The EU considers the reduction of differences between regions and gradual levelling of different social and economic levels with simultaneous preservation of their historical and cultural values to be a top-priority task. In compliance with the principles of economic and social cohesion there were gradually created the structural funds with their basic aim to reduce backwardness of handicapped regions, including country regions, through development programs and projects and to arrange balanced and sustainable development of these areas. In contradiction to the Common Agricultural Policy of the EU, which strictly follows the agreed standards and rules and has a pretension character, the structural funds provide sufficient space for individual attitudes to concrete problem solutions.

The structural policy of the EU makes an important part of the EU policies and it is an expression of solidarity of countries with high economic potential in relation to the economically backward countries. The structural policy of the EU is - in compliance with this principle – aimed at creation of comparable conditions for economic competition of the member states. It is a policy of economic and social cohesion, expressing the general will of solidarity within the EU.

The basic aim of the structural funds is mainly the help in development of economic and social balance within the scope of the EU and gradual reduction of differences between individual regions.

So as to fully appreciate the importance of the policy of economic and social cohesion (the regional policy) within the current individual policies of the EU, it is necessary to depict the basic expense items of the EU budget.[1] But it is necessary to state in advance that the importance of the cohesion policy has significantly changed

[1] The main incomes of the EU currently include 0,75 percentage (since 2004 only 0,50 percentage) of value added tax levied in individual member states (but the VAT base, from which the 0,75 percentage is paid, is not allowed to exceed the limit of 50% of the country GNP), as well as customs fees for goods imported from non-member countries to any of the EU countries. The last important source of incomes of the EU budget is the payment of up to 1,27% of GNP of individual member countries, to be paid by the member countries with

in the course of the European integration process, respectively that it strengthened and so the beginnings of the European regional policy were quite modest.

In 2002, the EU budget reached the sum of EUR 95,7 milliard. The main expenditures of the EU budget include the common agricultural policy (46,3 % of the budget), the economic and social cohesion policy financed from structural funds and from the Cohesion fund (33,6 %), other internal policies, mainly the science and technical policy of the EU (6,4 %), help to subjects abroad (4,9 %), administrative costs (5,4 %) and other expenditures (3,4 %). That means that the main dominating budget items include the common agricultural policy and economic and social cohesion policy (in summary, they represent 80 % of all the budget expenditures).

It is important that for quite a long time there has been promoted the trend of expenditures reduction referring the Common Agricultural Policy (reaching as much as three quaters of the EU budget in the 70's and 80's) and to the contrary, there are gradually increased the means designed for regional politics (only 5 % in 1975).

A significant difference between the Common Agricultural Policy and the regional and cohesion policy performed from the means of the structural funds and the Cohesion Fund includes the fact that the Common Agricultural Policy is more pretension and payments are performed „automatically" in compliance with pre-set rules and they are not usually bound to any concrete purpose, while the regional and cohesion policy always supports only particular projects contributing to fulfilment of the policy aims.

So we can summarise that the importance of regional policy within the scope of Community policies is very high and it further strengthens. The existence of regional policy on supra-national level is a world-unique feature. That is why we will state in the following section the most important reasons leading the EU to dedication of so much means for the regional policy.

1.2 Reasons for Existence of Regional Policy on the EU Level

contributions from the first two sources (i.e. customs and payment of 1 percent of VAT) are lower than 1,27 of their GNP.

All the countries of the European Union gradually started the realisation of their own (i.e. „national“) regional policy, trying mainly to reduce the differences in life level between regions and to fight against high long-term unemployment rate, mainly by support of economic and social structures in backward areas or in regions with unsuitable industrial structure. In some countries (e.g. in the Netherlands) the regional policy is strategically aimed – i.e. at strengthening the competitiveness of the most important agglomerations on supra-national level.

Together with regional policy performed by the individual member countries of the EU there are also several reasons for existence of relatively independent regional policy co-ordinated on the EU level (and also co-financed from the EU sources).

1. While establishing the EEC (in 1958) it was supposed that most of the regional problems would be solved by means of economic growth supported by the establishment of the Community. Simultaneously, it was supposed for the market integration to make the competition sharper and to cause in this way problems mainly in regions with significant concentration of old industrial branches and that is why it would be necessary to provide them with special assistance. The idea of compensation of some negative consequences of the Community establishment became the core of the first concept of the then EEC regional politics.

2. An important reason for regional policy on the EU level is also the discrepancy between seriousness of the regional problems and abilities of the Member States to solve those problems. Countries with the most serious regional problems usually cannot afford to use sufficient funds on their own regional policies. Moreover, there is a risk that the backward regions from the least developed states will not withstand the strong competition while obtaining the foreign investments.

3. Another reason for the existence of the European regional policy is the requirement of some Member States for compensation of the regional impacts resulting from other „non-regional“ policies of the EU, mainly the Common Agricultural Policy (which is generally advantageous for the states with highly developed agriculture), but also for compensation of common scientific and technical policy of the EU (the most successful applicants for grants referring to strategic research projects of the EU are significantly concentrated in the largest agglomerations and so called Alp zone). A

typical example of a country being interested – due to the above stated reasons – in compensation in the form of strong regional policy of the Union is the Great Britain. It is disadvantaged by large trade volumes (i.e. also import) from the countries of the former Commonwealth (custom fees regarding goods imported from countries out of the EU are the receipts of the Union), as well as by low volumes of its own agricultural production – that means that Great Britain gets less than other countries from the Common Agricultural Policy.

4. The necessity of the EU regional policy existence emerges even from the reason that governments frequently used the regional problems to excuse for provision of subventions to industry, supporting it in its fight against foreign competitors.

5. Probably the most important group of reasons for existence of the EU regional policy is an ambitious project of the Economic and Monetary Union (EMU), the most important symbol of which is the introduction of a common currency of Euro. This is a project that was prepared as soon as in the 60's, but due to its complexity and political sensitivity it was successfully performed as late as in the 90's (see the Maastricht Convention). The Member States that joined the EMU had to give up their national currencies, including the possibility of affecting the exchange rate using the tools of their own monetary policy. However, the possibilities of devaluation or revaluation, respectively discount exchange rate change and intervention of the central bank on the foreign currency market are several of a few means, available to the governments of individual countries to protect their economies from full consequences of common market existence. The introduction of a common currency represents a direct limitation of the autonomy of macro-economic policy of individual countries not only in the above-mentioned monetary sphere, but in the sphere of fiscal policy as well (see the Maastricht criteria limiting inter alia the extent of public debt and deficit of public finance.

In case of the Euro-zone, the states are forced to give up this last tool for reduction of possible economic problems – they must be sure about real efforts of the Union to help those part of the territory that appear in extremely difficult company.

The success of the EMU depends also on the fact whether there will be successfully created a real common economic complex (approaching the parameters of the optimal currency area) so as to avoid asymmetric regional shocks, respectively a

situation when the individual countries and regions pass different stages of economic cycle. In such a case it would be practically impossible to conceive a common monetary policy without scarifying the interests of one or another group of states. Taking into consideration the fact that the advantages of common currency will be unevenly distributed from the territorial point of view, the regional policy will represent a specific form of compensation of the less developed regions. (The discussion on advantages and disadvantages of monetary union introduction ranks among controversial topics, to which insufficient attention is paid in our country as well as in the EU countries). Introduction of common currency further strengthens the importance of the EU regional policy even due to the fact that the regional policy of the Union will fulfil in fact the stabilisation role of fiscal policy (even though significantly reduced). Other adaptation mechanisms – e.g. international migration – are relatively too weak. Just the discrepancy between the highly strict monetary policy of the EU on one side and highly limited fiscal policy (measured e.g. in relation to the GNP of the European Union) on the other side represent the main risk for efficient functioning of the EMU. Another significant risk is the possibility of budget indiscipline of some member states, respectively different understanding of the importance of individual elements of the Stability Pact. It is probable that before the admission of the first states from east Europe to the EU and mainly the EMU, the mechanisms included in the Stability Pack will be subject to a thorough discussion and consequent reform. But in any case it seems highly probable that the importance of regional policy will be further increased in relation to the extension and deepening of the EMU.

It is possible to suppose that the entry to the economic and monetary union will be advantageous and favourable for the CR only after conversion with the EMU members – all of that not only in closely monetary criteria, but also as far as the basic structural characteristics and other parameters is concerned – e.g. the work productivity growth, technologic advantageousness and innovation skills.

If it be to the contrary, i.e. in case of preliminary introduction of Euro, there could occur a mass loss pf Czech economy competitiveness. On the other hand, in case of the other new member states to enter the EMU but the Czech republic would not, this fact would undoubtedly play a negative role at least in relations to foreign investors, who

would tend towards preference of other states without exchange rate risks and without extraordinary costs related to the Czech currency conversion.

And finally it is necessary to note that the European regional policy, respectively the policy of cohesion is an exhibition of a kind of solidarity on the EU level and it has an important meaning in strengthening of the common identity. From the point of view of creation, respectively strengthening of European identity the existence of a common currency may play a specific – but now hardly foreseeable - role.

1.3 Development of regional Policy of the EU

The development of regional policy of the EU may be divided into several main periods having their specific features and differences in some spheres.

1st period: 1958 - 1974

In the course of the first period, the regional politics of the then EEC closely aimed at strengthening the sources dedicated at national regional policy of individual states. The regional policy was performed on the basis of the preamble of the establishing Rome Agreements, stating the necessity „to strengthen the economic unity of member states and to arrange their harmonic development on the basis of reduction of differences existing by and between the individual regions and of reduction of backwardness of less developed regions “.

In 1958 there were established 2 sector-oriented funds – the European Social Fund and the European Agricultural Guarantee and Rectification Fund. There existed hardly any common regional policy of the EEC. The regional policy was performed in the form of relatively isolated projects. The General Directorate for Regional Policy (DG XVI) was established as late as in 1968. Help within the scope of regional policy aimed at that time at regions suffering from reduction of heavy industry and backward country regions. Social policy was performed independently on regional policy.

A significant role in support of the least developed regions played the European Investment Bank – its priority was to provide favourable loans for implementation of

large infrastructure projects or other development projects in the sector of agriculture or industry in given regions.

That means that it is not possible to speak about „European" regional policy at that period, as there did not exist any significant system of co-ordination of national regional policies.

On the other hand, some states have already had a strong tradition and well-developed mechanisms in realization of their own regional policy.[2] Just the French regional policy played a key inspiring role in later periods referring the creation of the integrated European policy of cohesion, mainly in case of introduction of most of the basic principles of the policy.[3]

2nd period: 1975- 1988

A landmark for the development of regional policy was the admission of Great Britain (and two small countries – Ireland and Denmark) to the European Community (EC) in 1973. Great Britain required compensation for high subventions to the EC budget and low receipts from the common agricultural policy in the form of the Community help in re-structuring of old industrial regions, extremely affected by the world economic crisis in the 1st half of the 70's. That is why there was established the European Regional Development Fund in 1974 – the ERDF (it started to operate in 1975), whet it had available 4,8 % of the EC budget. The means from the fund significantly aimed at re-structuring of old industrial regions. The fund paid up to 50% of costs for support programs prepared by governments of the relevant states. Even in the course of this period, the dominant feature of EC regional policy was its complementarity in relation to national regional policies. In the end of the period, the share of the ERDF fund in the EC budget reached 9 %.

In the 80's, the EC started to develop for the first time its own regional policy aimed at support of cross-border co-operation, development of power industry and telecommunications. Support of these spheres was performed in the form of

[2] mainly France, as well as Italy to a significant level

[3] principle of programming, partnership, complementarity, etc.

„Community Initiatives“, while this form of support exists in its limited form up to now.

In 1986, there was accepted the „Single European Act“ that explicitly sets the cohesion policy with the aim of elimination of individual consequences of common market for less developed countries of south Europe and other less developed regions.

3rd period: 1989 -1999

In this period there was performed a radically reformed regional politics on the basis of a whole complex of changes in European legislation, accepted in 1988. The reform included integration of national policy with social policy and a part of agricultural policy into so called structural policy, which is currently defined as the policy of economic and social cohesion. The individual formerly established funds (ESF, ERDF and EAGGF) were merged in this way into so called solidarity funds, which are currently marked as structural funds. The by-now last structural fund – the Financial Instrument for Fishing Standardisation (FIFG) was established in 1993 and it started to operate in 1994.

The main impulse for the regional policy reform was the necessity to react to the acceptance of Spain and Portugal into the EC in 1986, while their regional problems were of significantly different character than the problems of regions supported up to that time within the regional policy. That is why the attention of regional policy was re-directed to the hitherto prevailing support of structurally affected areas towards support of the least developed areas.

At that period, the regional policy was not for the first time implemented on one-year basis, but in the course of newly established medium-term periods called program periods. For the program period in 1989 - 1993 there were for the first time defined the 5 aims of regional policy, which reversed the position of European policy in relation to national regional policies.[4]

[4] As from the time of this reform, the national regional policies became just an addendum to the European national policy.

After the admission of Finland and Sweden into the EU in 1995, the five aims were completed with the sixth aim, reacting to the specific situation in Arctic, underpeopled areas:

1) Support of development and structural changes in backward regions.

   These areas were defined as regions where the annual GNP per one inhabitant in the course of last 3 years was below 75 % of the EU average.[5] The basic unit for setting are the NUTS II regions. In these regions it was possible to apply for support of mainly the following types of activities: direct investments into production with the purpose of creation or saving of jobs, support of small and medium companies, development of infrastructure, development of education, science, research and health care, investment aimed at environmental protection, re-qualification and measures for support of agricultural areas development (including tourism support).

2) Conversion of economic structure in regions affected by industrial decline

   The regions must have been characterised by above-average unemployment rate in relation to the EU average value in the course of last 3 years, the share of employees, employed in the industry, must have exceeded the EU average and there must have been a significant reduction of jobs in industry. The basic unit for setting are the NUTS III regions.

   The range of supported activities included mainly investments into new production programs, measures for soil building and environment rehabilitation, research and development support, support of small and medium companies and re-qualification programs.

3) Fight with long-term unemployment and making easier the employment of young people and marginal groups of inhabitants.[6] The ESF fund was used for support of measures in the sphere of specialised school system, re-qualification, support of education systems, etc.

[5] counted on the basis of purchase power parity
[6] This was a horizontal aim – i.e. without regional limitation.

4) Support of labour adaptation under conditions of fast scientific and technical progress (horizontal target). The ESF fund supported mainly the re-qualification programs and specialised courses.

5a) Change of structure of agricultural production (horizontal target).

The EAGGF and FIFG funds supported measures for improvement of life conditions, diversification of the economic base, reduction of production costs, support of production premises processing agricultural products and there were also supported the marketing programs.

5b) Development of agricultural areas

The regions were on the level of NUTS III, depending on level of social-economic development measured by the GNP sum (but the critical value has not been stated) and there was also taken into consideration the share of economically active persons working in agriculture, the sum of receipts and the extent of migration balance or low density inhabitation. There was also taken into consideration the peripheral position, sensitivity towards structural changes in agriculture, size of agricultural enterprises, age structure of agricultural employees and problems with the environment. The financial means from the ERDF, ESF and EAGGF funds were used for support of programs for diversification of the economic base reducing costs or improving the production quality, marketing programs and programs improving the environment and supporting small and medium enterprises.

6) Help for Arctic areas with extreme low density of inhabitation

It concerned areas with inhabitation rate below 8 inhabitants/km^2, as counted on the basis of NUTS II regions. (This aim existed as from 1995 up to 1999).

The basic differences between support of individual aims included the maximal sum of support from the side of the EU (up to 75 % in case of aim No. 1, up to 50 % in case of other aims), as well as the range of supported activities (in case of aim No. 1 there was supported a wider range of activities, including direct support for enterprises in case of increasing the employment rate, then also the construction of trans-European roads, investments in the sphere of education and health care).

The third difference between the regions included into individual aims was the maximal sum of the EU support that could have been reached. In general, the highest sum per one inhabitant could have been obtained in the regions of Aim No. 1. This also applies to the current program period.

The maximal sum of support for individual regions is set on the basis of the following criteria: maturity of the relevant state (higher support for regions in the least developed countries), maturity of the region itself, the population size in the given region and seriousness of structural problems, including the unemployment rate.

The reform in 1988 also introduced so called principles of structural policy of the EU and mainly there was developed the programming system. That allowed for the currently existing system of European regional policy to be abandoned – it was established on the basis of support for individual projects that must have been approved by the authorities of the European Union. This procedure proved to be less and less flexible as there permanently increased the number of projects with gradual extension of the European Community a an increase of the budget, reserved for the policy.

That is why there was started the development of program documents, representing the agreement, respectively a contract by and between the relevant member state and the European Commission referring the method of using the means, the aims to be reached and other obligations of both of the contracting parties.

The basic aim of the introduction of the principle of programming, respectively the program documents was the possible de-centralising of the decision-making on selection of concrete projects supported from the EU sources in relation to the authorities of individual member sates. In this way, the European Commission authorities could have got rid of solution of matters related to individual projects and so they paid attention to the conceptual matters and control.

In the second half of the period, there was strengthened the principle of assessment and monitoring, mainly on the basis of requirements of representatives of Great Britain, who demanded establishment of efficiency of use of the financial means from the structural funds.

The Cohesion Fund was established in 1993. The means provided from the Cohesion Fund should allow the weakest states of the EU to meet the demanding Maastricht criteria for introduction of common currency. The Cohesion Fund is not a part of the structural funds (SF). That is why the functioning of the fund is adjusted by a separate instruction[7], significantly different from instructions for structural funds.

The main differences between the Cohesion Fund and structural funds are as follows:

1) assessment of legitimacy – not on the level of NUTS II respectively NUTS III regions, but on the level of whole states;
2) significantly narrower range of supported project in comparison with structural funds (only large construction in the sphere of transport infrastructure and in the environmental sphere);
3) The Cohesion Fund is implemented through large projects, approved by the European Commission and there is required the existence of program documents;
4) The level of co-financing from the Cohesion Fund may reach as much as 85%.

But regardless these and some other differences, the activities financed from the Cohesion Fund have principally the same aims as the programs financed from the structural funds. The criterion for member state support from the Cohesion Fund is its GNP value lower than 90 % of the GNP value in the EU per one inhabitant.

The last important change that occurred in this period was the fact that in relation to the admission of Finland and Sweden into the EU in 1995 there was established a new Aim No. 6 aimed at support of areas with low density of inhabitation.

[7] Instruction of the Council of EC 1164/94

4th period: 2000 - 2006

We will discuss the current period here only in short, as it is a subject of a separate chapter.

Changes prepared for the program period were motivated by two main facts. The first one was the necessity to prepare the cohesion policy for the approaching extension of the EU in former communist states, while the other one included the efforts to make the procedures more simple, together with implementation structures and elimination of bureaucracy of the cohesion policy in general.

The main changes included:

- higher decentralisation of support implementation[8]; reduction of the number of Aims from 6 to 3, reduction of the number of Initiatives from 13 to 4,
- more unified attitude to implementation of EU support in all the member states thanks to the complex of methodologies issued by the European Commission.

There was significantly strengthened the role of the principle of assessment and monitoring, mainly it concerned the specification of requirements and introduction of computer systems for monitoring and assessment, stronger stress put on quantification of effects, introduction of assessment in the mid of the program period (continuous assessment and allocation of newly established performance reserve on the basis of its results, etc.).

But it is necessary to put stress on the fact that some initial principles of the reform were to some level opposite – mainly the stress put on more thorough assessment and monitoring of the cohesion policy efficiency, the necessity to respect quite detailed methodologies and increase of requirements referring arrangement of the public informedness, requiring inter alia development of special plans securing know-how of individual types of subjects on support from the EU sources, the general

[8] I.e. higher responsibility of member states – e.g. there were extended the scopes of rights of the monitoring committees.

administrative burden connected with drawing of support within the cohesion policy lead to an increase. Similarly, there was performed only the half-way of the changes that should have allowed financing of the cohesion policy after the admission of the new member countries.

The volume of support for new member states will be significantly lower than it used to be for the hitherto main recipients.

So the hitherto development of regional policy of the EU may be summarised in the form of statement that the regional policy of the EU started as an addendum to national regional policies, while it is to the contrary at the present time – it dominates over them. Significant changes of the regional policy of the EU occurred usually in relation to the extension of the Union and that is why other changes may be expected even in the course of the next program period (2000 - 2007).

1.4 Probability of EU regional policy change in the period 2007 - 2013

Just at the present time it is apparent that in the next program period, starting in 2007, the situation will be significantly different and the policy of economic and social cohesion will consequently require a significant reform. Due to these reasons the discussions have already started, in relation to publication of so-called Second Report on Economic and Social Cohesion.

The report contains hitherto results of the policy, main factors of the current regional development and there is also depicted the prognosis for the future. The Second Cohesion Report also contains 10 questions to serve as a base for discussions on future reform. It is important that just now it is possible for the representatives or even public in the future member states to participate in the discussion. The discussions have also included the „Second European Cohesion Forum“ (in May 2002) with participation of the representatives of the Czech Republic.

1.4.1 Contents of the Document “Second Report on Economic and Social Cohesion”

The contents of the „Second Report on Economic and Social Cohesion“ may be summarised in short in several points:

1) The report states significant changes in global context for the whole EU,[9]
2) It enumerates the changes to be brought by the extension. Regardless significant economic growth of some candidate countries there still persists a significant distance from the average of the member states of the EU in competitiveness and in then area of living standard, differences in the level of social and economic maturity will be significantly increased after the extension,
3) The centre point of the policy of economic and social cohesion will move to the east.[10] The main result of the analytic part of the report on cohesion policy results is the determination that on the level of member states there occurred an approach in the level of GNP per inhabitant, which was undoubtedly supported by the policy. On the other hand, there increased the differences between regions inside of the member states and within the EU as a whole.
4) On the basis of these two – to some level opposing – facts, i.e. deepening of differences between regions inside of the current EU members and the necessity to move the centre point of economic and social cohesion to the east there emerges the necessity of a thorough reform of such policy.

An important fact that can be counted from data published in the statistic amendment of the Second Cohesion Report, is the change of the average GNP per inhabitant after the admission of the candidate countries, which is of fundamental importance even for the „movement“ of the limit for support according to the Aim, i.e. 75 % of the average GNP in the EU. On the basis of existing data it is possible to calculate that after the „big bang“ the average GNP per inhabitant will decrease in 13 percent points, i.e. the limit of 75 % would be reduced in fact to the level of current 62 %. But it is possible to expect that

[9] Mainly the transformation of economy towards branches, based on knowledge and demographic ageing of inhabitants of developed countries.

[10] From 105 mil. of candidate countries inhabitants, 98 mil. live in regions NUTS II with GNP per inhabitant value below 75 % of the average of current members of the EU. According to the current rules they would be entitled to receive support according to Aim 1.

economies of most of the candidate countries will grow faster in the course of the following several years in comparison with the EU average and so the decrease could be in 1 – 2 percent points lower.

from the above stated data it emerges that the title to support will b lost by a significant part of hitherto supported regions – that means that in many states of the EU there will not be any region entitled to receive support according to Aim 1.[11] The data are of great importance even from the point of view of possibility of drawing support for individual Czech regions NUTS II as from 2007.

1.4.2 Reasons for Existence of the Cohesion Policy after Extension of the EU.

Before starting to outline the possible adjustment of the cohesion policy, lets try to assess whether and how will change the reasons for existence of regional policy on the level of the European Union (see the following table).

Probable changes of the main reasons for existence of the cohesion policy after the EU extension

Reason for existence of the regional policy of the EU	**Supposed change as related to the extension**
1.Compensation for protected branches because of sharper competition in the European market.	It is not too much relevant, more probable is weakening of importance (free trade has already been adjusted by association agreements).
2. Abuse of national regional policies for support of problematic enterprises.	The possibilities of new member states to rescue (subsidize) loss enterprises will be limited, there appears the possibility of development of acute regional crises.
3. Compensation of regional consequences of „non-regional“ policies of the EU (mainly the common agricultural policy and the scientific and technical policy).	The situation will differ in individual new member states; the CR will probably draw relatively little from the other policies of the EU, due to quite limited extent of agriculture and due to probably low success of Czech research institutes and companies in the competition for grants related to solutions of top-class research projects. In general, the reason will not bee very relevant.

[11] At the present time such states include only Denmark and Luxemburg.

	will not bee very relevant.
4. Discrepancy between seriousness of regional problems and ability of states to solve the problems.	Will be significantly increased.
5.Establishment of economic and monetary union requiring at least frame fulfilment of conditions for an optimal currency areas (the regional policy plays the role of reduced fiscal policy).	First-class importance, necessity of significant approaching of competitiveness of the new member states to the current members of the EMU (necessity of the „high-road“ strategy).

From the list it emerges that the importance of historically oldest reasons for realisation of European regional policy will be reduced after the extension (mainly reasons No. 1, 2 and 3). Just to the contrary, there will be strengthened the importance of reason No. 4 and reasons related to perspective inclusion of the new member states into the economic and monetary union will be of fundamental importance. So as the new member states can withstand the conditions of the Euro-zone, there must be significantly increased the level of competitiveness and productivity of their economic systems, the quality of infrastructure and the environment (so called “playing field balancing“). This must be supported mainly by sources designed for the cohesion policy.

1.4.3 Prepared Reform of the Policy of Economic and Social Cohesion for the New Program Period(2007 - 2013)

The report on economic and social cohesion expressly states the following 4 possibilities of a reform of the criterion for supporting compliance with Aim 1:

1) Keeping the level of 75 % of the average GNP per EU inhabitant,

2) Keeping the level of 75 % of the average GNP per EU inhabitant – but its completion with temporary programs for those regions which do not fall within such criterion range,
3) Increasing the level above the 75 % of the average GNP per EU inhabitant, ,
4) Introduction of two levels: one for the existing member states and a second one for the new member states.

Variant 1) will probably be unacceptable for the current support recipients, i.e. for most of the current member states, variant 4) will be unacceptable for the new member states as it would create two categories of members. Variant 3) will face significant financial demands. So it is probably variant No. 2 that will be the issue, but it will have to be completed with some below stated adjustments.

But there appear opinions stating that support should be obtained even by some regions not meeting the criteria – for example isolated islands or regions with environmental problems. In this way there could occur a not too much transparent situation like in case of the current Aim 2, where criteria are not quantified for some sub-categories of the Aim, which creates space for discussions on individual cases.

Significant changes are considered also in the field of programming. A concrete aim is represented by a significant reduction of the number of program documents. there is also considered the possibility of cancelling the program documents of National development Plan and consequent Community Support Framework. The main reason is the fact that in the EU countries there already exists[12] a sufficiently exact idea of possibilities referring use of means from the structural funds. So it would be possible to perform the support directly through the operation programs. Similarly, there is considered the cancellation of program addenda, while some of their elements would be included in operation programs.

Reduction of the number of program documents would lead to reduction of burden related to their processing in member states as well as to reduction of burden related to discussing them (even on the side of the European Commission) and it would also allow simplification of implementation structures.

[12] Respectively it will exist as from 2007.

Some probable / possible other partial changes:

1) Strengthening the residential policy and solving problems of towns, adjustment (reduction) of the range of measures for those entitled to get support from structural funds of the EU,
2) combination of national and regional prosperity features for setting the regions supported from structural funds,
3) further tightening of rules for provision of support from EU sources and/or reduction of the maximal sum of co-financing,
4) it is being considered whether to keep the performance reserve for the best operation program selected on the basis of continuous assessment (it represents a specific element of competitiveness – but this is demanding from the administrative point of view)
5) Some states suggest to increase the volume of means invested into the cohesion policy above the hitherto valid limit (0,45 % of GNP of the EU).

In the sphere of implementation it is possible to expect trials referring simplification of structures, which is a rather opposing in relation to the partnership limit, the expected increase of the role of regions and local authorities as well as economic and social partners in the next program period. Undoubtedly there will be further strengthened the stress put on monitoring and assessment with the aim of increasing the efficiency of supporting programs.

A significant simplification would occur in case of reduction of the number of structural funds, respectively in case of a merge of all the structural funds into one structural fund designed for regional projects and the Cohesion Fund supporting large projects on national level.

In this way there would be significantly simplified all the administrative, mainly in cases when it is necessary for one project to be supported from two structural funds. But it is not very probable for this radical proposal to pass.

Gradually, there is more and more supported the idea of connection of the regional and scientific and technical policy of the EU, mainly support of innovation

activities in backward regions, respectively their inclusion into the all-European research projects.

Finally, we can state 10 questions published in the Second report on Cohesion, as related to the future policy of economic and social cohesion:

1) What will be the role of the cohesion policy in the Union, consisting of nearly 30 member states in the context of fast economic and social changes? How can be strengthened the economic convergence and o keep the European model of the society?
2) How to make the policies of the Community more coherent? How could be improved the contribution of other policies of the Community to cohesion?
3) How should be reformed the cohesion policy in preparation for a non-precedent extension of the Union? Should the cohesion policy also include the efforts for enforcement of area cohesion?
4) How could be the cohesion policy more aimed at measures bringing the highest added value for the Community?
5) What should be the priorities so as to reach a balanced and sustainable space development in the Union?
6) How could be supported the economic convergence of the backward regions of the Union?
7) Which type of the Community intervention is necessary for the other regions?
8) Which methods should be used for distribution of sources from the funds among the member states and the regions?
9) Which principles should be used for control of implementation of supporting programs of the Community?
10) What should be the response to the growing needs, taking into consideration the economic, social and area dimensions of cohesion?

Responses to these questions will only be searched for and it will not be easy. That is why it is possible to expect very intensive or even sharp discussions referring these questions. This is not anyhow affected by the fact that at the present time (year 2002 and beginning of the year 2003) the discussions were shaded by the finishing

admission negotiations and by a fundamental discussion on further aims of the European integration itself (see the Convent EU, established for this purpose, where representatives of all the future member states participate in discussions).

Unless there will be started intensive discussions on reform of the cohesion policy as soon as in 2003, which is not too much probable, we can be nearly sure that the preparation of the cohesion policy reform will be started practically immediately after the admission of new members in May 2004, so as it would be possible to finish the whole legislative process in time.

The negotiations will be very complicated due to 3 main reasons.

- The number of member states will increase from 15 to 25, which will further develop cumbersomeness of all the negotiations and it will extend the spectrum of opinions and so it will be much more difficult than now to find any consensus.
- the cohesion policy reform will be discussed under conditions of changes of the institutional structure of the Union and the decision-making mechanisms;
- the cohesion policy reform is closely related to the reform of common agricultural policy, which represents a traditional dispute inside of the EU. The last trial to reform it in 1999 was finished by only minor changes due to pronounced opinions of both of the main groups. The more urgent will become the policy reform necessity in the program period of 2007 - 2013. That is why it is necessary to make clear our own priorities for the approaching negotiations.

2 CURRENT REGIONAL POLICY OF THE EU

After the admission of the Czech republic into the Union there will be of importance the form of regional policy of the EU in the current program period which is to be finished in 2006. The reasons include low level of economic development of most of the Czech regions in comparison with the EU average.

The EU considers reduction of differences between regions to be the main task. There should be gradually balanced and levelled the social and economic levels of countries with simultaneous preservation of their historic and cultural values. In compliance with principles of economic and social cohesion there were gradually established the structural funds with their basic aim including reduction of backwardness of disadvantaged regions, including country regions and to keep balanced and sustainable development of such regions through development programs and projects. In contrast to the Common Agricultural Policy of the EU, which strictly follows the agreed standards and regulations and is of pretension character, structural funds provide significant space for individual attitudes to solutions of concrete problems.

The structural policy of the EU makes an important part of the EU policy and it is an expression of solidarity of countries with high economic potential in relation to the economically backward countries. The structural policy of the EU is aimed – in compliance with the above stated principle – on creation of comparable conditions for the economic competition between the member states. It is a policy of economic and social cohesion, expressing general will for solidarity within the EU.

The basic aim of structural funds is to support development of economic and social balance within the EU and to gradually reduce difference between individual regions.

2.1 Target Areas of Structural Policy

Focus of help from structural funds is subject to strict stipulations and regulations formulated in the Instructions of the EU Council and it is related to pre-set aims of structural policy in relation to priorities of regional and politic measures. As from 2000, there were set two regional aims and one horizontal aim for human resources.

Aim 1 is designed for backward regions with the GNP per inhabitant being lower than 75 % of average GNP per inhabitant in the whole European Community.[13] Additional support should be provided to regions with high unemployment rates.[14]

Aim 2 will be related to regions affected by changes in industry, services and to declining country regions. It is designed mainly for the social restructuring of regions. Similarly as in case of Aim 1, the EU intervention for the regions falling within Aim 2 combined with all and any forms of structural support, including measures aimed at human resources, while it is aimed at regions of the NUTS III size.

Aim 3 will support development of human resources, it will modernise the education system and create higher employment rates. Means reserved for Aim 3 should help in modernisation of job markets in compliance with many-year plans of employment and the new chapter of employment, set in the Amsterdam Agreement. Aim 3 should support activities in four spheres:

- realisation of economic and social changes,
- long-term education and education systems,
- active policy in the sphere of job market – e.g. fight against unemployment,
- fight against social discrimination.

But in case it is possible to apply requirements and support claims only within one aim.[15]

[13] Converted in purchase power parity, so as the data are comparable.
[14] Aim 2 concerns the whole CR, except for Prague, to which Aims 2 and 3 apply.
[15] It is not possible to finance one project from two sources. But it is a common practice for such a project to be divided into two, with their characters corresponding with the given program – these two parts are financed from two different fonds.

In regions of Aim 1 it will be possible to draw support from all the structural funds (European Regional Development Fund = ERDF, European Social Fund = ESF, European Agricultural Guarantee and Exposure Fund = EAGGF and the Financial Instrument for Fishing Grant = FIFG[16]) to strengthen the economic and social cohesion via accepted regional policy. The most extensive support is related to the areas belonging to Aim 1 regions**.**

Such a support allows development of structural accommodation of the region within the whole range of possibilities. At the present program period, the structural funds aim mainly on three ranges of problems:

- stronger concentration of financial help from structural funds,
- higher level of decision-making de-centralisation referring the use of structural funds and the general simplification of their introduction,
- strengthening of structural funds efficiency and control of use of financial means provided from the funds.

For the period as from 2000, special attention of the EU is paid to country regions. The regions that can be supposed to have country character, must meet the criteria set by the Instruction of the Council No. 1257/99 referring new directions of country regions development.

2.2 Characteristics of Individual Structural Funds

European Regional Development Fund (ERDF)

The activities of the fund aim mainly at backward regions. The fund provides investment support mainly in regions with lower development level – mainly in education and health care system. It also provides support for construction of so called trans-European networks, research, etc. Basically, this fund is related to:

- economically backward regions – i.e. regions with GNP per inhabitant being lower than 75 % of the whole EU average (aim region 1),

[16] It depends to which operation program is the project presented.

- regions with reducing industrial production with necessary re-structuring of regional economy (aim region 2),
- regions aimed at support of country regions development (aim region 2).

European Social Fund (ESF)

It ranks among the most important tools of regional policy of the EU. Drawings from ESF are – similarly as in case of the ERDF – bound to aim areas 1 and 2, i.e. regionally set. It concerns mainly the support of education systems in economically backward regions, as well as support of general and specialised education in pre-set regions.

In general, the ESF is designed for support of elimination of long-term unemployment and inclusion of young people into economically active life. It solves equal conditions in the job market for men and women, national minorities and problematic groups of people. In this direction it does not have only regional character and it corresponds with the intentions of Aim 3.

European Agricultural Guarantee and Exposure Fund (EAGGF)

Depending on its purpose, this fund has been divided into two sections:

Guarantee Section – from this section there are paid all and any measures related to application of the Common Agricultural Policy. The guarantees are mainly aimed at the price area and they are designed mainly for export subventions and internal interventions. At the present time, the guarantee section will also cover the selected activities within the Horizontal Plan of Country Regions Development. This document is being processed by the Ministry of Agriculture.

Orientation section – it participates in financing of structural and social policy, including improvement of production conditions including modernisation of farms, improvement of country infrastructure, support of education and research, help in sales and processing sphere. Even though the share of this fund expenses in total expenses of the EAGGF fund increases, it still remains – from the point of view of th extent of means used – not too much important in comparison with means dedicated to the

market regulation and price guarantees. As from 2000, the trend of supports from this section changes in favour of support for agriculture in disadvantages areas and development of country regions.

Financial Instrument for Fishing Grant (FIFG)

It is aimed at programs supporting re-structuring of fishing industry. It is engaged in environment for fishing, hygiene, package engineering and distribution of fish products.

2.3 Orientation of Supports from Structural Funds

The aiming of help from each and every fund is set by the Instruction of the Council.[17]

In case of the *European Regional Development Fund* it concerns support of the following:

- Investments into production designed for increase of the number of permanent jobs or for preservation of their current number,
- investments into infrastructure,
- development of local potential: local development and development of small and medium enterprises in problematic regions,
- research and development,
- investments aimed at environment.

From the *European Social Fund* it is possible to support mainly the solution of long-term unemployment:

- development of new jobs,
- integration of long-term unemployed people into the work process,

[17] Mainly the Instruction of the EC Council 1260/1999; 1262/1999 (on European Social Fund); 1257/1999 on European Agricultural Guarantee and Orientation Fund; 1261/1999 (on European Regional development Fund) as amended by 1783/1999; 1263/1999 (on Financial Instrument for Fishing orientation).

- integration of young people into the work process,
- re-qualification and qualification programs,
- support of equal possibilities in the job market.

From the *European Agricultural Guarantee and Orientation Fund* there will be financed:

- support and keeping viable farm communities in the mountains or in less favourable regions,
- support for young farmers,
- support of agricultural structures adaptation,
- improvement of structural yields of the soil,
- support of agricultural production quality,
- country infrastructure development,
- support of investments into tourism,
- prevention of natural disasters, renewal of villages, protection of country (cultural) heritage, development and use of forests, protection of the environment and country, financial management, etc.

From the point of view of the agricultural resort, the decisive role is played by the *European Agricultural Guarantee and Orientation Fund (EAGGF)*, the supporting section of which supports mainly the following:

- Preservation of business subjects in less favourable areas (LFA), mainly in the mountains and sub-mountains,
- economic activities of your farmers (below 40 years of age),
- improvement of country structures,
- plot adjustments,

- conversion and diversification of activities,
- improvement of agricultural production quality,
- development of multi-functional agriculture, environmental protection and protection of countryside, renewal of villages, etc.

From the *Financial Instrument for Fishing Grant (FIFG)* are financed the following:

- care for fish breeding and aqua culture
- development of favourable environment for fishing,
- keeping the hygienic standards in fish processing and distribution of fish products, etc.
- improvement of conditions for fish haul and distribution.

Together with the above stated structural funds, there remains the Cohesion Fund for support of economically weaker countries after 2000, with its aim to support extensive projects in environmental sphere and in relation to trans-European transport routes.

2.4 Setting the NUTS units

So called Nomenclature of Area Statistic Units – NUTS[18] is used in the EU for various mutual comparisons (mainly comparison of efficiency of support means spent). A fundamental meaning has their setting for statistic needs of the EU and for the purpose of inclusion of various-level regions under individual aims with regional impact of the structural policy of the EU. Setting the area that should be affected by the structural and regional policy of the EU is a professionally and operationally demanding activity, as admission of another member state into the EU is conditioned by introduction of these hierarchically organised territorial units (NUTS). When setting the NUTS it is necessary – together with the existence of area administration

[18] from the French "Nomenclature des unités territoriales statistiques"

levels – to start from their complementarity[19] and it is necessary to monitor even the size of units in the CR in relation to the practice applicable in the EU.

NUTS I – area unit of large area type (countries, micro-regions) of the given state (the largest regional comparison unit); it usually consists of several units of the NUTS II level. The CR is registered as NUTS I.

NUTS II – a lower unit that usually corresponds with the level of the medium item of the area administration classification of the given state. In case of these area units, the size reaches one up to two million of inhabitants[20], the area reaches – in case of small states comparable with the CR – approximately 3 up to 10 thous. km^2 (the average in EU reaches 23 thous. km^2). On 26 October 1998 the Government of the CR accepted Resolution No. 707 on setting of area units NUTS, which must be approved by the EU.

In the CR, the NUTS II level consists of the total of 8 units, consisting of 1 - 3 new regions (VÚSC), having 1 up to 1,664 mil. inhabitants.

NUTS III – a unit that generally corresponds with the level of the lowest area administration region of state administration (the level of districts and possibly regions). In case of small states of the EU the size – depending on the number of inhabitants – reaches 200 up to 400 thousand inhabitants, while the average in the EU reaches 410 thousand of inhabitants. The area of units reaches – in case of small states – approximately 1 up to 3 thous. km^2 (the average in the EU is 5,4 thous. km^2). A kind of an equivalent – but not an exactly corresponding one – to this level of units is represented by 14 regions in the CR (VÚSC).

NUTS IV – it represents the level of districts, respectively micro-regions. The inclusion of districts in the CR corresponds to the habits in the EU from the point of view of the number of inhabitants and the area.

[19] I.e. higher-order units consist of a specific number of whole lower units.
[20] less e.g. in Austria and Finland, the average in EU is 1,83 mil. of inhabitants.

NUTS V – this is the level of municipalities, respectively "authorised" municipalities, i.e. municipalities with transferred scope of activities of the state administration. The definition of NUTS in the CR corresponds with the EU standards EU, event though approximately 30 % of municipalities in the CR have less than 200 permanent inhabitants.

In the CR the average number of inhabitants of area and administrative units in 14 regions (NUTS III) reaches 737 thous. inhabitants and 5,6 thous. km^2. In case of districts (without Prague) it is 120 thous. of inhabitants and 1 thous. km^2. In its proposals, the CR propped upon current setting of NUTS regions in member states of the EU. Regions NUTS II and III have direct relations to structural funds.

Basically, the area statistical units are set by natural historically set borders (of a state, area, region), which simultaneously take into consideration even the demographic point of view, the landscape configuration and natural migration of inhabitants into catchment areas, control and business centres as well as regional differences.

Assessment of the area from the point of view of differences between individual regions must be seen in a whole complex of criteria. Together with natural and demographic criteria, these include mainly the economic and social criteria. On the basis of these criteria it is possible to set the problematic regions and causes causing such regional differences. At the present time, an important criterion is represented by permanently sustainable employment and consequently stabilisation of inhabitants in regions.

The quality development of regions and living standards of the inhabitants, culture and nature, development of tourism, etc. increase the social and economic attractiveness of regions and they are mutually related to the employment of inhabitants.

The principle of solidarity, including elimination of negative consequences of territorially unbalanced development of regions and participation of the EU in

reduction of backwardness of affected areas, is contained in the Maastricht Agreement (chapter XII) as an accompanying principle of structural and regional policy of the EU.

Support means from structural funds should serve for further development of business in areas that are disadvantaged from the point of view of natural and economic conditions, for stabilisation of structurally weak areas and for maintenance of cultural countryside.

An important help will be the use of structural funds mainly in those regions that have available weaker development potential, but simultaneously they have pre-assumptions for efficient use of invested means. It will concern regions with economic and social re-construction in progress, where social and economic changes can not be done without significant supports from the European funds and initiatives.

2.5 Principles of Structural Funds Use

So as the structural funds could be used, it is necessary to fulfil conditions based on principles and rules set by the EU, mainly processing of project documentation – especially the National Development Plan, Community Support Framework [21] and operation programs of regional and sector character. An important condition is establishment of an institutional security including payment and implementation agencies, monitoring and control committees, control authorities; preparation of projects administration and implementation or further measures, conditioning financial support from the EU.

Financial contributions of funds are subject to stipulations contained in the general Instruction of the Council referring the structural funds (No. 1260/99).

Rules for contributions into funds are summarised in the following list.

Region falling within	Maximally	If it is a country using the Cohesion Fund

[21] The Community Support Framework is an agreement by and between the European Community and the given country.

Aim 1 Aim 2 or 3	75 % 50 %	the contribution may rise up to 80 %
Investment into infrastructure Aim 1 Aim 2	 40 % 25 %	50 %
Investments into companies Aim 1 Aim 2	 35 % 15 %	

Note: These are maximal shares for financing from structural sources. The financing is (it must be) completed with financing on national level (state budget, budgets of regions, municipalities, co-financing by solving parties). The share of the project solving party may differ depending on size of the contribution of structural funds as well as the national sources.

For each and every approved priority included into the help via the sector and regional operation program there is set a maximal contribution from the funds.

The contribution from funds to sector and regional operation programs performed in compliance with so called Community Support Framework must be in compliance with the financial plan of the community support, announced in this document approved by the Government of the CR and by the European Commission.

The contribution from funds will be differentiated on the basis of the following:

- seriousness of specific problems mainly of regional or social character that should be eliminated on the basis of pre-set help,
- financial capacities of the relevant member state, taking into consideration mainly its relative prosperity and the necessity to avoid excessive growth of budget expenses,
- in consideration of the mission and aims of the funds according to the priorities of the Community,

- importance given to the priorities from the regional and national point of view,
- concrete characteristics of the relevant priority with the aim of supporting the needs in the sphere of development of human resources and employment,
- optimal use of financial means in compliance with financial plans, including combination of public and private sources, depending on which types of help were selected in compliance with Instruction of the Council No. 1260. The financial participation of the EU – regardless the above stated conditions – must lead to extension of the hitherto existing national support.

The financial means provided from the structural funds to the member states are not allowed to replace the means of the national development policy. The financial participation of the EU in application of the economic and social cohesion policy is not allowed to mean reduction of expenses from national sources into this sphere.

The use of structural funds and improvement of absorption capacity of means from the EU is related to other principles. The **principle of programming** puts stress on integrated (multi-branch) and several years lasting access to assistance for backward regions. The several-year attitude creates requirements for preparation of public budgets, taking into consideration the arrangement of co-financing of structural funds measures for the whole planning period of the EU.

This is the principle when structural funds do not contribute to financing of individual events, but to support of development programs with consequent programs classified according to priorities and measures. Their structure includes analysis and strategy of the pre-set area development and definition of terms and conditions for the program implementation.

On the tactics level there are created programs, when – taking into consideration the extent of the program – it concerns mainly the identification and obtaining financial resources, preparation o investments for regional development, setting the place of their allocation, etc. These also include proposal of a set of projects for the programs.

Within the scope of so-called operative measure there are implemented concrete measures for fulfilment of priorities in the form of projects. On this level there are implemented the projects, the financial sources are drawn and impacts are assessed.

The project, as understood by the EU, is not a random resolution to process any problem or idea. It is a part of target-oriented programming process being a complex solution of regional priorities from pre-set programs reacting to main problems of national economy, through measures leading to project proposals inter-related with programs through common targets and priorities.

An important part of the program is the setting of its financial frame, created by the means of the EU as well as state, regional and other financial means, private sector means, etc. In fact, it concerns fulfilment of the **principle of additionality**, when money from structural funds of the EU are added to the state budget. Means spent from the EU budget should complete – not replace – the public expenses of the given state. In practice, any measure performed within the scope of structural funds includes participation of the EU budget as well as participation of the budget which will benefit from realization of the relevant project (e.g. state, region, municipality, private sector, etc.).

In relation to the above stated it is necessary to note the **principle of concentration**, which supposes in practice the concentration into areas with highest expected benefits from invested means. The intention of the EU is for the financial means not to be distributed into many small projects, but to be concentrated into projects bringing maximal effects for the region.

The principle of subsidiarity secures for the decision-making to be performed on such a level which is materially more suitable for the solution and which is closer to the problem solved.

Programming and designing of structural funds type in the EU is performed on several levels. On the strategy creation level, the output includes – on the basis of assessment of mainly the social and economic conditions – a specific policy (agrarian, regional, social, etc.).

Mainly the guarantee that – within the scope of the project creation and implementation – the project monitoring and assessment will be arranged, represents fulfilment of another principle, conditioning the use of structural funds – this is the **principle of monitoring.**

The monitoring process related to use of structural funds reflects the de-centralised attitude to the EU subventions, distinguishing the level of responsibility for more efficient use of financial means from structural funds not only on the level of the Community, but also on national, regional and local levels. That means extension of monitoring and assessment procedures in new methods of assessment – not only the pure financial control of financial means spent.

The monitoring system for control and assessment of results in the course of preparation, implementation and assessment of development programs and projects must fulfil the following basic functions:

- to create a consistent hierarchic system, providing detailed and aggregated information for all the decision-making levels in all the stages of programs, respectively projects,
- to provide technical arranges for control of data credibility on all the levels (central, regional, local) in compliance with the process of de-centralisation of public administration,
- to arrange continual collection of initial data and their updating depending on concrete program development and on development of its projects in regular regime and with regular (monthly, quarterly, half-yearly and yearly) summarising,
- to prepare the monitoring system as a part of the control system of structural help for the pre-admission period and for the period after the admission of the CR to the EU,
- to arrange control of implementation, gradual fulfilment and realization of aim through measures and projects.

If the programs and projects are to be correctly structured and successful, their indicators must be set.

Indicator is a type of an indicating instrument with pre-set input and output value for assessment of pre-set aims efficiency. Indicators for monitoring purposes should provide information designed for quality and efficiency improvement of the financial support.

They should also be measurable in different stages of the given operation program implementation. The quantity character of the indicators supports the process of program preparation and it provides so called reference points for monitoring and assessment.

While the inputs and outputs are related to the monitoring process, the results and impacts are used for assessment of efficiency of invested means.

Monitoring and assessment is performed in three stages:

- **Preparation Stage – pre-realization (ex ante)**

  - it concerns monitoring of programs before starting the realization, that means assessment of expected benefits and influences - economic, environmental, etc.

- **Continuous Realization Stage - realization (interim, on going)**

  - it concerns monitoring of programs and their individual projects in the course of the realization.

- **Post – Realization Stage – post-realization (ex post)**

  The stage of consequent assessment aims at assessment of use of efficiency and purposefulness of help.

Partnership[22] is an extremely important principle to which stress is put in the EU documents – the application plays a decisive role in selection of projects. This principle puts stress on active participation of relevant authorities on all the levels

[22] It is an obligatory condition in many programs.

(local, regional, state and EU) in preparation, realization and monitoring of results of measures, performed within the scope of structural fund programs.

The targeting of financial help from structural funds is subject to strict stipulations and rules stipulated in Instruction of the EU Council and it relates to pre-set aims of structural policy in relation to priorities of regional political measures.

2.6 Program Documentation[23]

Priorities and related measures aimed at their realization are included in the program documentation without which the means from structural funds can not be used. Every country, i.e. also the Cr, has processed so called **National Development Plan - NRP** (National Development Plan; original title within the EU: Regional Development Plan - RDP).

This is a basic analytic material usually containing characteristics of social and economic problems in a region of the NUTS II level (using the SWOT analysis). More, there are included the strategies of regional development, sector and regional operation programs, their implementation and institutional arrangement of structural processes.

The NRP is a pre-assumption for formulation of the Community Support Framework, which is an important negotiation document with pre-set extent of EU support for regions. Its concrete form will be – after finishing the negotiations – published in the EU Gazette.

The Community Support Framework (CSF - Community Support Framework) will be processed on the basis of presented development plans for regions belonging to Aim 1 and there will be defined:

- which priorities will be solved on the basis of common financial means of the EU and the relevant state,

[23] It will be mentioned only generally in this section. It will be discussed in more details in the section, dedicated to preparation of such documents in the CR.

- extent and forms of co-participation of the financial support,
- extent of support and periods for their provision.

After approval of the framework by the European Commission there are presented the operation programs – regional and sector – branch ones. The operation program must include a detailed description of the area, priorities, aims of the solution and budget proposal for its implementation.

For the area of Aims 2 there is being processed the Unified Program Document.

2.7 Institutional Provision Preparation

After approval of operation programs by the European Commission, the control authorities are appointed, deciding about financing of individual projects proposed within the scope of each individual operation program. The control authority is responsible for efficiency and use of structural funds means. For this purpose, the will be established the help monitoring system, providing collection of financial and statistic information. It is responsible for realization of the operation program and the program amendment, while it close co-operates with the Monitoring Committee. The control authority is also responsible for processing of annual reports and organisation of help assessment. If we are to summarize the role of the Control Authority, then it is the subject that is responsible towards the European Commission for efficient use of structural funds means.

For each and every operation program, unified program document, as well as the Community Support Framework, the Monitoring Committee is established. This authority is established on the basis of an agreement by and between the Control Committee and partners in the given branch (area). A representative of the European Commission participates in the position of a consultant in the operations of the Monitoring Committee.

The task of the Monitoring Committee is to supervise the efficiency of support realisation from the structural funds. In this field the committee co-operates with the

control authority. The participation of partners is very important as just these representatives may efficiently mediate information on real situation.

Other institutions, included into the system of help administration, include payment agency[24] and payment units[25] their task is to administrate the financial payments from the European Community up to project solvers.

It is necessary to develop in advance the regional structures, participating in preparation and implementation of Regional Operation Programs.

From the above mentioned it emerges that this procedure supposes close co-operation by and between the European Commission and corresponding authorities on national, regional and local level, as well as co-operation by and between subjects, support recipients (regions, towns, municipalities, private subjects), for whom the financial means are designed.

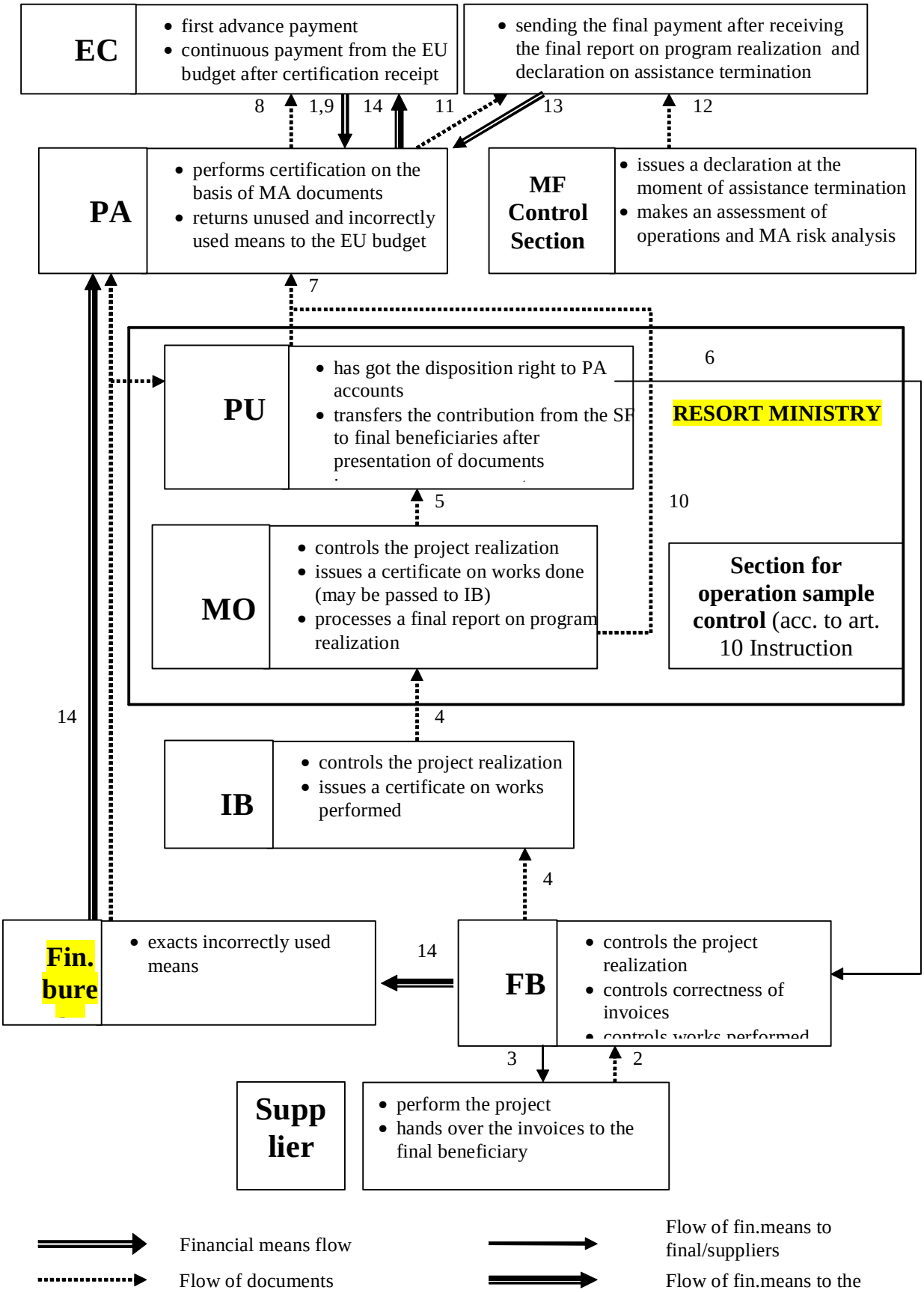
Supposed structure of financial flows within individual operation programs:

1. The European Commission (EC) sends and advance payment)so called payment to account) to the payment agency (PA)[26] at the beginning of the program period;
2. The supplier sends an invoice to the final beneficiary and asks for payment;
3. The final beneficiary (FB)[27] controls correctness of the presented invoice and pays the invoice. The supplier confirms the invoice payment by a stamp and signature on the invoice;
4. The final beneficiary sends copies of paid invoices and payment orders on the basis of which the invoices were paid to the control authority (respectively to the intermediating beneficiary (IB), if being included in the system) and he requires payment of a corresponding share from structural funds;

[24] For the Czech republic this is the National Fund at the Ministry of Finance of the CR.
[25] For every operation program and unified program document a special payment unit has been created.
[26] For the Czech republic this is the National Fund at the Ministry of Finance of the CR.
[27] The subject that organises grant invitations and receives project designs. FB means Final Beneficiary.

5. The control authority (respectively the IB through the control authority) hand over the controlled documents together with a certificate of performed works to the payment unit and asks for payment of the financial means to the final beneficiary;
6. The payment unit controls the documents presented and makes payment to the account of the final beneficiary from the account of the payment agency which it is entitled to dispose of.
7. Three times a year, the payment unit gives to the payment agency a summarisation of expenses, which is a base for the certification of performed expenses;
8. The payment agency sends the certificate to the European Commission together with a request for continuous payment performance;
9. The European Commission sends the continuous payment to the account of the payment agency;
10. In the end of the program period, the control authority send a final report on program realization to the payment agency;
11. The payment agency sends a certificate together with other requested documents to the European Commission and asks for final balance payment performance;
12. The control section of the Ministry of Finance sends to the European Commission a Declaration on Assistance termination (so called winding-up)
13. The European Commission makes a payment of the final balance;
14. Payment of financial means that are to be returned to the European Commission.

Financial Flows of Structural Funds



3 PROJECT CYCLE

3.1 Basic Structure of the Project Cycle

The method of planning and consequent performance (implementation - realization), performed in mutually consequent steps, is called the project cycle. The cycle starts with idea (brainwave) identification and development of the idea into the form of a work plan, that may be realized and assessed. The ideas are identified in compliance with the approved strategy.[28] Such a procedure secures participation of all the engaged parties and taking into consideration all the important pieces of information necessary for receipt of fundamental decisions in the course of the project life.

In general, the project cycle divides into six stages:

1) Programming
2) Identification of ideas and brainwaves
3) Formulation of consequent steps (ideas development)
4) Financing arrangement
5) Realization (implementation)
6) Assessment

The contents and course of individual stages will differ depending on concrete conditions, but anyway the project cycle is characterised and inter-connected by three common issues:

- The cycle defines the key resolutions, requirements regarding information and concrete responsibility in individual stages.
- The stages of the cycle are gradual – every stage requires successful termination of the previous stage.
- The cycle draws from experience, built on existing projects and uses them for reaching further improvements.

[28] On national, sector and regional level.

Characteristics of individual stages of the project cycle:

1) Programming

The contents of this stage include an analysis of the situation on national, regional or sector level, processing of an overview of social and economic indexes, formulation of priorities and measures.

2) Identification

In the course of this stage there are identified the intentions of projects that are further developed in detail. There are included consultations with potential users. The results of such negotiations include a resolution on selection of ideas that will "pass" for further processing in the formulation stage.

3) Formulation

Selected ideas (brainwaves) are processed within the scope of this stage into operation project plans. The future users and other engaged parties participate in detailed processing of project intentions. These are consequently assessed from the point of view of their practicability and sustainability.[29] On the basis of the above stated, a resolution is accepted on processing the project design and on search for financial means for project realization.

4) Financing

In the course of this stage, the project is verified by the financing agency (authority). On the basis o the above stated, the agency together with the partner country accept a common resolution on method (procedure) of the project realization and this is formally set in official documents setting the measures on the basis of which the project is to be financed and realized.

5) Realization

This is the stage of mobilisation and project realization. There is arranged the announcement of tenders and conclusion of orders for technical help, supplies of services and works (mainly construction). In the course of the realization stage the

[29] Reaching the requested success and fulfilment of aims and arrangement of long-term benefits for the beneficiary.

project team regularly assesses – in co-operation with the future beneficiary and engaged parties – the real progress of the project and compares it with planned aims.

If it is necessary, it operatively receives measures aimed at rectification of established differences, or on the basis of establishment of serious changes, mainly of the external environment and based on mutual agreement it performs necessary changes of aims.

6) Assessment

The main aim of the assessment performed by the financing agency together with the partner country is to assess the compliance of results reached with pre-set aims (fulfilment of measurable indicators) and to assess the knowledge and experience brought by the project realization. These findings are further used for improvement of future projects and programs.

This attitude to assessment is one of the basic new ideas of the project cycle management: these are not individual cases – projects, but a permanent and practically never ending process. After the project realisation, a thorough assessment is performed, assessing the course of the previous project as well as fulfilment of its aims and fulfilment of pre-set indicators and experience, new knowledge and ideas brought by the project. On the basis of the above stated there are consequently formulated other ideas – their future development in the following project cycle develops the project and supports its sustainability.

Even though the assessment stage generally follows the realization stage, it is a standard practice to make medium-term assessments just in the course of realization so as the knowledge obtained could be applied in the course of the given project.

Preparation of programs and projects (especially in the current candidate states) usually includes a complex process requiring active support from many parties.

Experience of the main financing institutions shows that many decisions related to projects are done without sufficient consultations with recipients and engaged parties and without analyses of necessary information. The purpose of the project cycle is to arrange for the engaged parties to participate in decision-making and that the decision-making is based on important and sufficient information.

Classification of a project cycle into six stages provides a minimal base for efficient preparation of projects, realizations and assessment.

In the course of the project cycle it is very important to strictly distinguish the stage of identification and formulation. The project preparation is performed in social and economic context when the expectations are sometimes stilted and in the course of mutual negotiations it is necessary to solve requirements that are sometimes opposite as well as the aims of individual participants.

A consistent fulfilment of the identification stage will arrange development and processing of all and any important ideas and non-omission of any interesting and important idea.

In the course of the formulation stage the project ideas may be developed in full – on the basis of real needs of users – which also secures their sufficient acceptance by all and any engaged parties.

3.2 Project Cycle Management

The Project Cycle Management – PCM – process was introduced by the European Commission at the beginning of the 90's with the aim of improving the processing quality and project management and consequently the efficiency of provided help. Before the introduction, there was performed an analysis of help efficiency by the Committee for development OECD in the course of the 80's.

The analysis results showed that a significant part of projects processed before that time – on the basis of which financial assistance from public means had been provided – did not correspond with new requirements. the analysis set the following reasons:

- poor planning of projects and their preparation,
- many projects were not of importance for the beneficiaries,
- all and any risks were not sufficiently taken into consideration,
- there were omitted the factors affecting the long-term sustainability of yields from realization of projects results,
- knowledge and experience from previous projects were not sufficiently included into new projects and procedures.

Comparison of the original and the new PCM attitude (reasons supporting the PCM)

Original attitude	**PCM attitude**
• Unclear strategic frame	• Sector attitude
• "Supplier" understanding of projects	• Solutions based on clients' requirements
• Insufficient analysis of the situation	• Analyses deepening and improvement
• Planning aimed at activities	• Planning aimed at targets
• Non-verifiable benefits	• Verifiable benefits (measurable indicators)
• Pressure on costs control	• Stress put on quality
• Short-term vision	• Concentration at sustainability
• Non-unified project documentation	• Standardised forms and documents

The project cycle management method integrates the individual stages of the project cycle and so it allows systematic assessment of outputs. This methodological attitude arranges for the aims and outputs to be assessed in the course of the whole project duration from the point of view of their sustainability. The method also arranges for the project developers to respect in full the needs of users ("client attitude").

The PCM allows the project processing subjects to aim at real needs of beneficiaries through processing of detailed analyses and on the basis of logic frame method application. That secures respecting of the requirements referring project sustainability just from the very beginning of the project course. A strong point of the PCM is also the fact that all and any project documents are standardised and processed on uniform forms, containing all and any data necessary for project justification. These data are carefully verified in every project stage and if it necessary for future work (progressing to the next stage of the project cycle), they are – after being approved by all and any engaged parties[30] - adjusted depending on situation development and

[30] All the partners included in the solving party's team.

needs. The PCM method is clear and transparent and it allows efficient monitoring and assessment.

The basic principles of project cycle management may be summarised in the form of the following points:

- Fulfilment of individual stages of the project cycle and the order of its individual stages with the aim of providing conditions for acceptance of structured resolutions based on high-quality information.
- Orientation at clients through workshops organised in key stages of the project and formulation of aims for arrangement of long-term benefits from the project results for the target groups.
- Inclusion of sustainability aspects to the project design with the aim of long-term benefits arrangement.
- Use of a logic frame for arrangement of a consistent analytic attitude to preparation and project management.
- Integrated attitude, joining the aims of each individual project with the aims of the European Commission and national and sector aims of the given country secures for the project operation plans and budgets to be prepared on the basis of processed logic frame.
- And that standard documentation is used for the whole term of the project duration so as to arrange complex and consistent procedures of key outputs processing. The main tools include thorough monitoring of the project in all and any stages of the project cycle, mainly from the point of view of its importance, feasibility and sustainability.

Integrated attitude

Mutually interconnected aims	**Standardised documentation**
National/regional/sector aims	Feasibility study
Logic frame	Financing plan

Operation plan/budget	Annual report
	Final assessment report

The PCM connects the principles for management of financial assistance use, analytic tools and techniques and applies them within the decision-making process of the project cycle with the aim of securing the following:

- the projects are **important** – they correspond with pre-set strategies and needs of beneficiaries
- the projects are inter-related with national / regional / sector aims
- the beneficiaries (users) are included in the planning process from the evry beginning
- the problem analyses are thoroughly processed
- the aims are clearly set – from the point of view of benefits for target groups
- the projects are **feasible** – the aims are realistically set
- the aims are logic and measurable
- there are fully considered all and any risks and pre-assumptions, including the abilities of the financing agency
- monitoring concentrates at important aspects
- the projects are **sustainable**
- factors affecting sustainability are used in processing the project design
- the assessment results are used in further projects conceiving

3.2.1 Tools for Projects Planning and Management

Tools for Projects Planning and Management provide practical mechanisms for arrangement and clear proving of importance (relevance), feasibility and sustainability of the project. The basic tool used in the PCM is the Logical Framework Approach[31] (LFA).

[31] Logical Framework Approach - LFA.

The LFA is an efficient approach for negotiations with engaged parties and it allows explanatory and synoptic finding and identification of problems, definition of aims and activities necessary for reaching them. Using the project framework, the project developers test their importance, feasibility and sustainability. More, in the course of programming and projects preparation they fulfil the function of a key tool for the stage of realization and assessment.

There is provided a base for action plan preparation, monitoring system processing and assessment frame. The engaged parties should be maximally incorporated into the process.

So as the LFA is efficiently used, it must be supported by other tools for technical, economic (including financial), social and environmental analyses.

The logic framework is a main tool used in creation of projects in the stage of identification and formulation. The LFA application in the course of the identification stage helps to arrange for the presented intentions (suggestions) to be serious (important), while in the formulation stage it provides feasibility and sustainability.

The LFA application divides into two stages:

1. Analytic stage: an analysis of the current situation, formulation of the "future required situation" vision, selection of strategies for reaching the required status
2. Planning stage: project intention (intention, idea) is processed in details necessary for its realisation.

Analytic stage	**Planning stage**
Problem analysis – identification of the engaged parties, their key problems, limitations and opportunities, it sets causes and impacts of mutual relations	Logic frame – definition of project structure, inner logic testing, and formulation of aims in measurable form
Aims analysis – it formulates the aims on the basis of selected problems	Specification of activities – setting the time consequence and mutual relations of individual activities, their duration, it sets responsibilities

Strategic analysis – it identifies various strategies for reaching aims, it defines general aims and project purpose	Financial sources – costs on individual activities, budget

1. Analytic Stage

The projects are designed in such a way so as to solve problems of beneficiaries (users). Correctly designed projects reflecting real needs of beneficiaries urgently need current situation analysis.

But in relation to the above stated it is necessary to be aware of the fact that the same situation may be assessed by individual engaged groups from different points of view and so the assessment may differ. From this point of view it is important to "engage" in the analytic stage the key groups of engaged parties. This is usually done through workshops, where problems and expected results are discussed in an open way. The analytic stage is usually divided into three stages: Problem analysis, Aims analysis and Strategy analysis.

Problem analysis

The aim of problem analysis is to identify negative aspects of the existing situation and to define the relations between consequences and causes of existing problems. It includes three steps:

- Identification of engaged parties affecting the designed project.
- Identification of main problems that may occur from the side of beneficiaries
- Development of the "tree of problems" with the purpose of setting causes and consequences.

Analysis of engaged parties

The analysis of engaged parties provides a useful starting point for analysis of problems. It contains identification of all the engaged groups that will be probably affected (+/-) by the designed project. Using the discussions and discussion techniques (e.g. brainstorming) the interests of individual groups are found. Based on application of information and stimuli obtained from engaged parties, the designers are able to

organise the preparatory works in a better way and mainly to plan necessary investigations needed for efficient organisation of the planning workshop.

Gathering maximal possible volumes of information and realization of necessary analyses before the workshop date is an important condition for successful start of project works. Information on existing problems are obtained from various sources – most frequently from interviews and discussions with relevant experts, from overviews, reports and statistics. Participation of key engaged parties in the planning workshop is of extreme importance from the point of view of successful formulation of important, feasible and sustainable projects. So as to reach some aims, there is necessary a consultation with men and women in the population, mainly from the point of view of their role relation role to the project activities.

In most countries, men and women fulfil different tasks in their work and families and there is also a different possibility of their access to resource, control of their drawing and participation in decision-making process referring the sources distribution and allocation. In fact, sexual discrimination is a frequent reason for reduction of efficiency and project impacts. That is why it is a fundamental requirement to analyse – before acceptance of a resolution in the matter of setting the aims, strategies and sources allocation – the potential impact of a project to men, women and other groups (e.g. children, seniors, ethnic minorities).

Planning Workshop

As soon as there are successfully summarised all and any necessary information and after performing all and any analyses, it is time to call to order the planning workshop for all the project "participants". On the basis of available information the engaged parties will identify the key problems, existing in the given situation. The main technical tool in this stage is processing of so called "tree of problems".

The tree of problems is a simple method of problems setting in their hierarchic order. Within the first step, each identified problem is summarised. ON the basis of the above stated there is selected the initial problem and another related problem and consequently the following items are set:

- whether the problem is a cause of the status, described on lower level
- whether it is a consequence of the status described on higher level
- whether the problem is neither cause nor consequence of the status described on the same level

In the course of processing of the tree of problems, next steps are used for identical way of adding other problems. When the tree of problems is finished, the basic problem is selected. The basic problem should be approved by various engaged groups as a central problems on solution of which the project will aim.

The problem analyses processing may lead to discovery of another basic problem in later stage, but this fact will not affect the applicability of already performed analyses.

After being completed, the tree represents an exhausting (complex) demonstration of the current situation.

Aims analysis

While the problem analysis presents negative aspects of the existing situation, the aims analysis presents positive aspects "required – expected future situations" It includes transformation – re-formulation of problems into aims:

PROBLEM	AIM
Low innovation activity	Increase of innovation activity of entrepreneurs
Poor economic results of entrepreneurs	Improvement of economic situation of entrepreneurs
Insufficient competitiveness	Creation of conditions for obtaining competitive character

Then, the tree of aims may be created as a positive mirror reflection of the tree of problems, in which the relation "causes - consequences" becomes the relation "means - results". In the final stage of processing, all the aims may be divided into simple topics and these collected in groups providing a base for the Strategic Analysis.

As soon as it is finished, the tree of aims provides a complex view of the future and required situations.

An example of a procedure for processing the tree of aims is set in Appendix No 3.

Strategic Analysis

The last stage of the analytic stage is the selection of a strategy (strategies) to be used for reaching the required aims. The strategic analysis includes resolutions on which aims are to be included INTO the project and which aims will stay OUT of the project and what will be the purpose of the project (immediate aim) and global aims. More, the research of mutual relations logic research, the strategic analysis, shows feasibility of various designs.

2. Planning Stage

The main output of the logic analysis is the table of the project logic framework. The logic framework contains individual steps of the project.[32] That provides a based for control of the project feasibility. For the management (the project management), the logic framework defines the tasks that are to be fulfilled, necessary sources and concrete responsibilities of individual members of the project management. In the second and third columns (objective verifiable indicators and verification sources) the logic framework provides information necessary for monitoring and assessment of the project realization progress.

Logic Framework Table

The previous chapters are engaged in the logic framework table and its structures. The logic framework processed for a concrete project is a part of the chapter "Case Study". It is a highly demanding process to set-up a good logic framework and it requires a lot of knowledge and experience of the designer. In the EU countries, the topics of logic framework are discussed at several-day seminars. In

[32] If there will be successfully realized the individual activities of the project, then the planned results will be reached, which will fulfil the purpose - the aim of the project. From this logical procedure emerges the identification of important pre-assumptions and risks.

this chapter we would like to provide the listeners with just basic information, summarising the work principles for setting up the logic framework table.

Logic framework table set-up – basic procedure steps

The aims set fro the project are processed in the first column of the LF. In the course of this stage it is important to confirm that the aims are correctly set and defined:

Step No. 1: Definition of global aims of the project

The general (global) aims of the project should explain why is the project important for the society and they should document long-term benefits for the beneficiary as well as fro other groups. The aims also prove how the program is based on regional and sector policies of the EU and national regional and sector operation plans.

Step No. 2: Definition of purposes – an immediate aim of the project

The immediate aim (purpose) of the project is based on the main problem and it aims at its solution. It provides reasons for the project proposal.

There are formulated the benefits gained by the beneficiaries thanks to project realization and they describe changes that occur due to project realization. The experience shows that it is better to concentrate the project output at one purposes, as if there exist several purposes within one project, the efforts start to disperse, which is risky for the success of the solution.

Step No. 3: Definition of results (outputs) necessary for reaching the immediate aim

The results (outputs) describe WHAT we want to be brought by the project and they allow the project management to set concrete responsibilities for their fulfilment.

Step No. 4: Definition of activities that must be performed for reaching the results (outputs)

The activities define HOW will the project team realize the project. Based on our experience it emerges that for each output there should be proposed 3 – 5 activities.

Step No. 5: Verification of vertical logic relations "if/then"

The logic framework structure is based on the analysis principle "CAUSES/CONSEQUENCES". If the above stated activities are performed, the following results are reached. If we reach improvement of entrepreneurs' professional level thanks to their training, then – logically – the column of purpose should include improvement of their economic results. The stronger relation between the cause/consequence among individual elements, the better the project.

Step No. 6: Definition of pre-assumptions / risks related to every level (line)

Even though we prove clear logical relations between data in the column Aims, Purpose, Results, Activities, there always exists a possibility that there will appear factors that may breach the relations and negatively affect the project realisation. The pre-assumptions/risks are the data of uncertain factors that may affect relations among individual elements. These are mostly external factors that cannot be affected by the persons involved in the project.

Step No. 7: Definition of objectively verifiable indicators on all levels

The main principle is the rule: "If it can be measured, it can also be managed and controlled". The indicators demonstrate the results. As measurable indicators they allow distinguishing of successful fulfilment of pre-set results.

Step No. 8: Definition of the method of verification (of information sources)

This section describes information sources that will serve for confirmation of pre-set indicators fulfilment.

It is an important rule that pre-set indicators must be verifiable in some way – there must exist the comparison information. If it is not so, another indicator must be searched for.

Step No. 9: Logic framework control + control of its relations on the basis of control sheet use.

Logic Framework Use for Formulation of Activities and Budget Processing

After set-up of the logic framework table starts the stage of project realization planning. From the logic of the procedure it emerges that measurable verifiable indicators on the Activities level are usually of material character as well as other inputs or budget. On the basis of the above stated we can prepare a complete performance budget. It is not a direct part of the logic framework table, but it is a fundamental document making its integral appendix.

The steps of the procedure are as follows:

1) Processing the list of main activities
2) Processing the activities into manageable and controllable tasks
3) Verification of logic and time consequences and mutual relations of individual tasks
4) Realistic estimation of individual time stages of the solutions
5) Summarisation of the list of main activities
6) Defining the "milestones" – basic time and logic points of the project
7) Defining the need of special expertises processing
8) development of tasks within the scope of the realization team (responsibilities, co-operation, etc.)

After fulfilment of this stage we will start the set-up of a detailed budget. A responsible and realistic estimation of necessary financial sources must be based on careful and deep budgeting.

The procedure is as follows: the list of activities from the logic frame table is transferred to the budget form and for each activity there are specified necessary sources (inputs) quantified on the basis of period and simultaneously there is identified the origin of individual sources (EU, state budget, regional means, own sources).

Use of Logic Framework for Assessment of Project Designs

In the course of the preparatory stage of the project cycle the logic framework of the project is a very important planning tool. It allows to uncover weak points and

omissions of the project and formulate questions for experts (preparatory studies). It also provides very good guidelines for assessment of quality of the financial part of the project. As it has been already said, the main criteria for projects assessment are: importance, feasibility and sustainability. These project characteristics are documented by professional expertises and other studies or confrontation with available sources of information.

In ideal case, the importance, feasibility and sustainability are assessed twice: at first in the identification stage (a part of the opportunity study) and then in much more detail in the formulation stage (as a part of the feasibility study). Project designs are frequently formulated in advance and due to this any many other reasons only one study is processed for a significant majority of projects – it is usually the feasibility study. In such a case it is important that the project processing authors are able to arrange high-quality and exhausting setting for the study.

The recommended procedure for projects assessment includes six basic items providing a base for an analysis of the project complexity and extent.

This attitude may be described as the project "classification" and its consequent "reconstruction" with the aim of identification of gaps and discrepancies – consequently there are formulated the questions that must be answered by the feasibility study. This procedure also provides a useful means for adjustment of the project design into the logic framework form – in case that the project designer has not already done so.

1) Analysis of problems and aims
2) Identification of logic relations and pre-assumptions
3) Assessment of pre-assumption
4) Sustainability assessment
5) Identification of indicators
6) Preparation of settings for the studies

As soon as the feasibility study is processed, the project manager makes an assessment of conclusions and recommendations, including the project of financing. In this stage of project preparation, the design is processed in the form of a logic framework table and it is not necessary to repeat the process of specification

and re-composition of the project. The application of this procedure for assessment of projects quality allows elimination of future serious problems in the sphere of seriousness (importance), feasibility and sustainability of projects.

Sample of questions formulation:

Importance (seriousness)

- Are the beneficiaries clearly set?
- Are the problems of beneficiaries sufficiently described?
- Are the problems analysed to the necessary extent and in sufficient detail?
- Does the immediate aim (purpose) secure a real benefit for the beneficiary?
- Is the necessity of results sufficiently documented?

Feasibility

- Will the project contribute to fulfilment of a global aim (in case of fulfilment of pre-assumptions)?
- Will the pre-set purpose be fulfilled in case of reaching planned results?
- Are the external conditions sufficiently defined?
- Is the performer sufficiently equipped and ready for fulfilment of pre-set aims in planned time and extent?

Sustainability

- Will the important authorities and institutions support the project even after its termination?
- Is the suggested technology suitable for local conditions?
- Does the project arrange – in its course and in the future period – environmental protection?
- Will women (and some other groups) have appropriate access to benefits and outputs of the project in the project course and in the following period?
- Will the project performer be able to arrange all and any activities necessary for use of the project results after its termination?

3.2.2 Monitoring and Reports Processing

After processing the project and discussing it, there are secured the necessary financial means and other sources and there starts the most important stage, i.e. the realization (implementation). Only rarely, the realization is performed in strict compliance with the plan. In most of the cases it is not unusual for the project to take – in the course of realization – a completely different direction than planned. In such a case the project management must solve a very difficult and important task, including introduction of efficient control in the course of realization so as to secure reaching of pre-set aims. This is the task of monitoring, which can be defined as systematic and continuous data collection, their analysis and application of obtained conclusions for further project management and decision-making on future project directions.

Monitoring

- it is an activity used for project management
- it secures continuous comparison of the project progress with the plan with the purpose of operative receipt of corrective measures
- all management levels participate
- it uses official regular reports as well as informal everyday communication
- it aims at assessment of sources drawing and use, activities and results reached.

The project monitoring is an integral part of everyday project management. Its purpose is to obtain information on the basis of which the management may identify problems emerging in the course of realization and take efficient measures for their solution and assess progress reached.

Basic structure of the monitoring system

1) Analysis of project aims
2) Monitoring of the realization progress
3) Monitoring of measurable indicators fulfilment
4) Designing the structure and processing the regular reports on the course of realization

5) Preparation of a realization plan for the monitoring system (specification of engaged employees, their required training, exact setting of information contents and responsibility for individual stages).

3.2.3 Projects Assessment

The term "assessment" means regular monitoring and analysing of importance, efficiency, usefulness, impacts, economy, financial viability and sustainability of the project in relation to pre-set aims. The aim of the assessment is to assess the project progress in comparison with expected aims and results and use of obtained experience for improvement of consequent projects.

Basic assessment criteria:

- Importance (seriousness)
- Preparation of the project and related documents (logic and complexity of the planning process, inner relations and design complexity)
- Efficiency (costs, ability of the management to quickly transfer activities into results, quality of results reached)
- Usefulness (contributions of results for fulfilment of pre-set aims, how can the pre-assumptions and risks affect the project results)
- Impacts (project impact on the surroundings, environment and other wider aims formulated within the logic framework)
- Sustainability (probability of the project benefits to continue – mainly its activities and results, with special attention paid to the expected development of political support, economic and financial factors, social and cultural aspects, fair attitude to employment of men and women, suitability of technology, ecology and capacity of institutions.

A separate point of assessment includes assessment of compliance with the logical framework.

- Costs (comparison of current costs and the plan)
- Activities (comparison of current activities with the plan)

- Results (assessment on how the activities performance secures reaching of results, comparison of reality and values of planned measurable indicators)
- Immediate aim - purpose (reaching sustainable benefits for the target groups
- Global aim (project benefits for wider sector and regional aims)

4 SWOT ANALYSIS AS A TOOL FOR EFFICIENT STRATEGY FORMULATION

4.1 Strategy

The program solution of the main flow of „assistance“ in the system of structural funds requires formulation of strategy on each level of the control level. The strategy setting allows fulfilment of the main rules of distribution and it pre-sets the contents of main activities in pre-defined time period. The efficient strategy formulation is based on clear definition of the basic purpose to be reached by the strategy as well as precise assessment of external environment and a thorough analysis of internal environment. For the needs of an individual state as a subject of help is the basic purpose defined by aims 1, 2, 3. For individual lower levels of control (regions, associations of municipalities and other subjects) is the basic purpose specified in detail within the scope of already defined aims, respectively measures of the higher level. The application of the subsidiarity principle should be a guarantee for the aims of the higher level to already reflct the specific features of lower levels.

The strategy of each level must be consistent with conditions of its application. Mainly, it must use the existing or supposed opportunities and minimise the impacts of the most serious threats. The strategy must put realistic requirements on internal environment of its realization. In other words, the efforts of the control structure to push through the opportunities of permanent development must be based not only on existence of such opportunities, but also on internal strong points of the given environment.

Then, the base of a well-formulated strategy is the fact that such a strategy reaches a corresponding relation by and between the opportunities and threats of the given environment and internal weak points and strong points defined in such environment.

4.2 SWOT analysis[33]

SWOT analysis is a systematic identification of the factors and a strategy, that ideally represents the relations between them is based on the pre-assumption that if it is to be efficient, it must maximise the strong points and opportunities and minimise the weak points and threats.

SWOT analysis is introduced into application schemes of distribution in the form of a standard procedure, unifying and standardising the procedures for application of structural funds, but also forcing the engaged employees to apply and learn the historically verified methods of strategic planning. A new item in these efforts is the balancing of three basic pillars of permanent structural development, consisting of the pillar of economic development in compliance with the pillar of social environment development while keeping or improving the local and global environmental stability, representing the third pillar.

The first stage of the analysis includes the external environment analysis providing information necessary for identification of opportunities and threats of the given environment. In case of application of structural funds it frequently occurs that such opportunities and threats are generally pre-defined on higher level than the level belonging to the relevant analysis. But the relevant lower level consequently solves the SWOT analysis in an already defined area, for which the assistance is purposefully aimed. In such a case there is usually applied – in the form of an initial activity – the internal analysis of strong and weak points and in case of opportunities and threats there are more or less set their causes.

External environment analysis

Opportunities

An opportunity means an important positive situation of the external environment of the intension solved. The key trends may be one of the opportunity sources.

[33] SWOT means Strengths, Weaknesses, Opportunities and Threats.

The sources of opportunities may be identifications of hitherto overlooked situations, regulation changes, new trans-European or other connections, views of political changes, suitable newly established situations and other important events.

Threats

Threats mean important negative situations of the external environment of the intention solved. The threats are key obstacles in the current or intended position to which we want to bring the solved intention. Limitation of the production segment, regulation limitations, political resolutions, negative development in strucure of the immigrating or emigrating population (caused by external conditions, e.g.. admission to the EU). A source of other threats may be establishment of competitive environment and elimination of opportunities by connection of trans-European roads in neighbouring regions and other newly established or expected negative situation.

Internal environment analysis

The second basic stage of the analysis is the internal environment analysis, providing information necessary for identification of strong and weak points.

Strong points

Strong points are sources, skills or other advantages in relation to general standards or external environment or supposed positive development based on sources of the intension solved and allowing relatively favourable position referring the given intention circumstances.

Weak points

Weak points include limitations or imperfections related to general standards or external environment or supposed negative development based on sources of the solved intention and relatively weakening the given or supposed position in relation to circumstances of the given intention.

Application

The SWOT analysis may be used in several ways for support of the analysis and definition of future strategy.

The most common way includes its application and use within the Log Frame system, mediating systematic discussions referring the given situation and basic alternatives of future issues of the intended activity (project, development, situation, firm, region).

The advantage as well as disadvantage is the fact that features considered by one solving persons to be an opportunity may be considered by another solving person to be a potential threat. But anyway, different solutions may point at potential power of the investigated subject and different perspective perception of the given efforts. But the most important fact is that the SWOT analysis systematically passes through the whole field of aspects of the given situation. As a result, we receive a dynamic frame for strategic analysis creation.

The use of the logic frame is a standard procedure in the assistance distribution system. In application form you can usually find the standardised form of the frame, already requiring the general issues, as determined by the analysis and definition of the strategy of the higher control level. As it has been already said, the pre-defined general issues for our project represent the purpose, for which a part of the assistance was set off

5 PROJECT TECHNIQUES

Selected project techniques used in project control of structural funds

The item of project technique can be included into the wide item of quantity techniques of planning and creation of a schedule. In case of structural funds, a majority of projects have a different character than the project of production and sales, typical for the industrial sphere – the techniques have usually been already created there. Together with generally used planning techniques as techniques and predictions and analyse of the point of return of an investment, linear programming and simulation techniques, project planning within structural funds – these are usually used by the Gantt diagram and PERT/CPM.

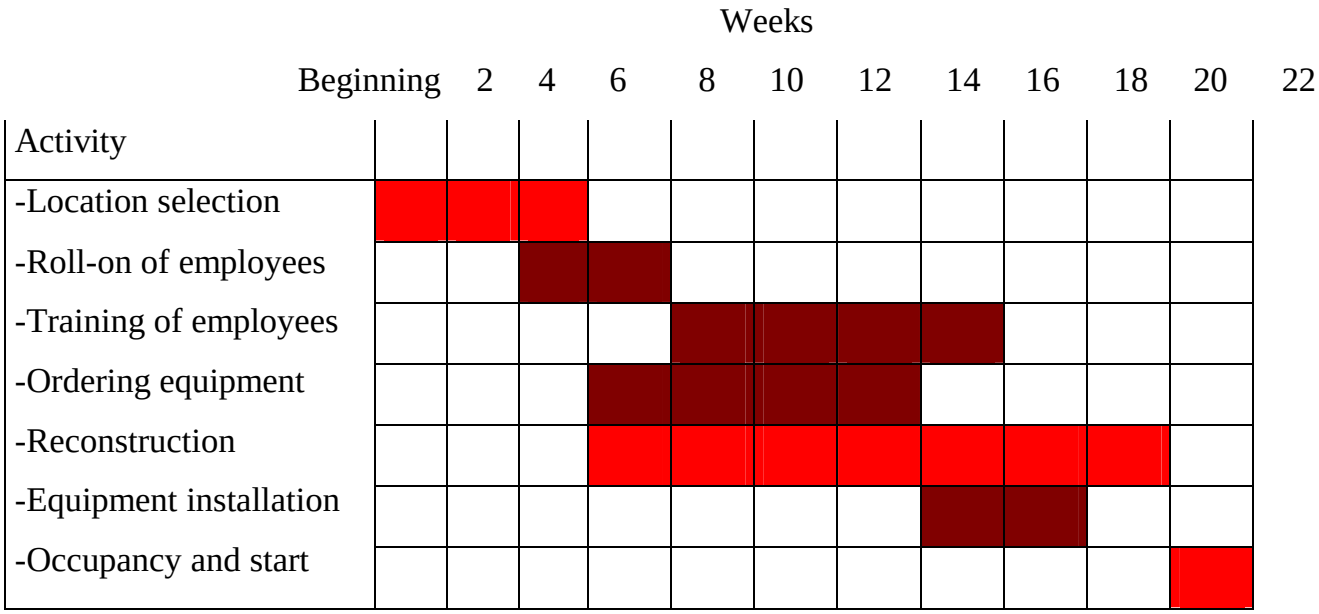
5.1.1 Gantt diagram

The Gantt diagram is a popular aid for planning and development of a schedule for simple projects. The diagram allows the designers to plan the individual activities of the project and consequently monitor the real progress with the originally designed time schedule. For preparation of a schedule it is necessary to identify the main activities of the project, pre-assumptions for their duration and the progress of their following. On the basis of such a set-up schedule it is possible to compare the activities that are performed in advance and those that represent a threat for the time schedule. The comparison will allow the managers to concentrate efforts in the most needed areas so as to meet the project schedule.

Even though the diagram does not show some relations between the activities, it is very popular thanks to its simplicity and good organisation. Even though it is possible to mark (for example by colour marking) the dependent activities representing a critical path, where – in case of a time delay of one of the activities a time delay of the whole project occurs – the relations of associated activities may be assessed only in case of projects with a very limited number of activities. In case of more complicated

projects it is possible to use the Gantt diagram for preparatory project activities, where further planning is processed using network methods, where the most extensive use may be connected with the below stated techniques.

The figure shows the use of Gantt diagram using a simple project of an investment plan for establishment of an information centre.



6 PROJECT PREPARATION AND CONTROL

LOGIC FRAMEWORK

	Intervention Logic	**Objectively verifiable indicators for results reached**	**Sources and means for verification**	**Initial pre-assumptions**
General aims	What is the general aim in wide meaning, as supported by the project fulfilment?	Which are the general key indicators related to the general aim?	Which are the information sources for these indicators?	
Purpose of the project	What are the specific aims to be reached by the project?	Which quality or quantity indicators show the level of fulfilment of the specific aims of the project?	Which are the information sources that exist or may be obtained? Which are the methods required for getting such information?	Which are the factors and conditions that are not under direct control within the scope of the project but they are necessary for reaching such aims? Which risks do we have to consider?
Expected results	Which are the concrete outputs we suppose to be necessary for reaching specific aims? Which are the supposed impacts and benefits of the project? Which improvements and changes will be brought by the project?	Which are the indicators used for measuring whether and to which level the project meets the supposed results and impacts?	Which are the information sources for these indicators?	Which external factors and conditions must be realized so as to reach expected outputs and results in compliance with the plan?
Activities	Which are the key activities that must be performed and in which order so as to reach expected results?	**Methods:** Which methods are required for implementation of the activities – i.e. employees, equipment, training, studies, supplies, operation premises, etc.?	Which are the information sources on project progress?	Which preliminary conditions are required before the project(s) beginning? Which conditions out of direct control within the project must exist so as the planned activities may be implemented?

7 FINANCIAL ANALYSIS OF PROJECTS

The financial analysis of the project and the economic evaluation of the investment – these topics are included in the final chapter of a business plan or the feasibility study. The financial analysis consists of the following parts:

- assessment of financial conditions: availability of sources, conception of financing
- calculations and assessment of financial indicators
- summary of indicators for the investment assessment
- overview of general investment and operation costs
- overview of the project financing progress on the basis of material and time stages
- financial analysis conclusions

The conclusions of the analysis represent an important input for fundamental resolution in preparation and realization of the project. They are the initial comparison base for measuring the project success in all of its stages.

For setting the costs and benefits emerging from projects that were financed in full or in part from public financial means it would naturally be ideal if it would be possible to monitor all and any values in market prices. As the costs and benefits frequently have a non-material form that can not be verified by the market, it is necessary to assess them on the basis of methods allowing – on the basis of professional estimation emerging from many real pre-assumptions – setting the values on various levels of precision (analysis of costs minimisation, method of average annual costs, analysis of costs and benefits, analysis of costs efficiency, analysis of costs usefulness).

Cost Benefit Analysis - CBA[34]

A specific feature of the CBA in comparison with other procedures includes the ability to include into consideration not only the costs and benefits that can be exactly financially expressed and that immediately emerge from the project for the subvention receiver, but it also includes financial evaluation of all and any other "social" benefits – costs and expenses as emerging from the project for inhabitants of the village, region or state.

[34] English term: Cost Benefit Analysis.

The methodological attitude allows assessment of advantageousness of investments into projects, that – from the strictly accounting point of view are not profitable, but they bring significant social (out-of-economic) effects.

The CBA provides a very good base for decision-making on efficiency of use of public means, but it provides the beneficiary of the assistance, the municipality or association of municipality with a highly plastic idea of financial demands of the realization and the project operation and on the basis of use of real input information – so it is possible to get a good base for quite exact expression of "social" benefits of the project for the region, municipality and the whole society.

In this way the CBA allows evaluation of even investment projects, which does not bring direct financial profits by taking into consideration the out-of-economic - „social“ features that are quantified and included into the general assessment. In this way, the view of the project becomes complex – not only strictly accounting – and it allows comparison of several projects or alternatives.

How to measure the social benefits of education, new road or cycling routes, sewerage system and water mains, water works, information and training centre or solution of water areas and green areas in a village? In these cases we usually perform the correct economic analysis by using the category of opportunity costs.

For assessment of non-tradable property, when we do not have available the market value, there are usually used the values of so-called opportunity costs, representing the value of the best alternative use (opportunity) of the economic property or the value of the expendable opportunity. Such costs on an opportunity represent the value of lost profits or services.

A few samples just for illustration:

1) Inputs used for getting 1 barrel of oil may be used for cropping 2 MT of wheat. Opportunity costs of one barrel of oil therefore mean 2 MT of wheat, that could have been risen, but they had not, as the financial means were used for getting oil.
2) Our net monthly family profits reach 30 000 CZK. After separation of money necessary for arrangement of everyday of the family, there are 8000 CZK left. We can "postpone" consumption of this sum and put the money to a bank or invest them. We can also decide on immediate purchase of a new washing machine, to organise a great party or to go for a great holiday. If we decide to go for holiday, it is possible to say that the opportunity costs were related to the possibility to spend

a few days at the sea, satisfaction of purchase of a new washing machine or the feeling that my money get more valuable in the bank.

3) E.g. a highway may be routed outside a protected natural area, but that would mean extension in x kilometres and necessity of construction of two highway bridges. That all represents increased investment costs.

   The second variant offered is the possibility of the highway routing through the protected natural area and to make the construction significantly cheaper in this way. The opportunity costs referring the highway routing through the protected area are in this case represented by precious area damage, limitation of tourism in this area, necessity of appropriation of land, negative environmental consequences in the area and irreversible negative changes of the valuable area plus reduction of life quality of the inhabitants and visitors. In summary, the costs may be several times higher than costs on construction of the longer route leading out of the protected area.

Projects assessment using the method of costs and benefits analysis is an obligatory part of every request for financial support from the pre-admission program SAPARD for priority 2. "Permanently sustainable development of country areas" and it is possible to suppose that it will also be an obligatory part of the request for financial help from structural funds, oriented at country development and country business activities after the admission of the CR to the EU.[35]

From profitable business projects within the scope of which material and exactly measurable profits are created together with new jobs up to non-profitable events performed by villages or other subjects where it is supposed that after their termination the solvers will have to subsidy them from their own means, respectively they will have to arrange other sources of incomes.

The cost and benefit analysis should include:

- methodology description
- considered alternatives
- direct and indirect costs and benefits in the construction stage
- direct and indirect costs and benefits in the operation stage
- basic pre-assumptions in trading business and benefits

[35] The reality will depend on resolutions of control authorities of individual operation programs.

- assessment of costs and benefits that can not be fully assessed or quantified
- who will have the main benefit from the project and supposed level of use
- results of analyses expressed in IRR values (inner returnability rate), NVP (net present value) and BCR (benefit – to – cost ratio)
- assessment of risks and uncertain items (supposed influence on results of changes in main parameters).

Methodology Description

- description of methodological pre-assumptions and procedures used
- general characteristics of included expenses and receipts

Costs – direct costs and all and any other negative effects emerging from the project realization

Yields, benefits – direct receipts and all and any other positive benefits of the project:

Receipts – financial sums obtained by the subject in relation to realization and operation of the project

Benefits – an effect established by the project realization, that can not be expressed in the form of an exact financial sum, but it can be deduced on the basis of a professional estimation

Alternatives Considered

In case of processing materials for obtaining the financial assistance from the EU it is necessary to apply standard procedures required by the EU, i.e. the project cycle with its base, guaranteeing selection and sufficient justification of an optimal variant. Due to this reason only two variants are considered:

- project realization in compliance with processed documentation
- non-realization of the project (zero variant)

Direct and Indirect Costs and Benefits in Construction (Investment) Stage

Costs in Construction Part

In this part we make an analysis of the sum we are going to invest to the project. As a base for the investment analysis we will use the business plan or the feasibility study, detailed budget and financial tables, processed within the scope of the project cycle. It

is always necessary to consider the total costs on project, as the sum required as assistance form any program (fond) of the EU will be in a majority of cases lower.

The reasons is the fact that in case of investment projects the assistance never reaches 100 % and some items are non-approvable – non-acceptable[36] for provision of financial help.

We take necessary data from the business plan, the feasibility study, the financial table and detailed budget.

The total sum of the investment entering the CBA then consists of the following items:

Pre-investment costs

- costs on project works, expert opinions and construction supervision, costs on preparation of documents for the request for financial assistance from the EU programs (including CBA)

Investment costs

- Investment costs on event realization including the VAT (from the point of view of assistance from the EU, the VAT is not an approvable cost)
- If the subvention recipient is a municipality, it is returned – in compliance with the applicable VAT act – the value added tax after the project termination. The VAT is returned from the sum of financial assistance of the EU, the remaining VAT must be paid by the municipality from its own sources.

Indirect Costs in Construction Stage

- opportunity costs of sources used – for example a municipality could place money dedicated for the project solution to a bank and to receive the interests – the financial mans are invested into project realization – the interest would no be gained in such a case, but the financial means, engineering and employees could be used by the municipality for other events, etc. (see the explanation above),
- other influences of the construction / realization, e.g. possible influences on the living environment, health conditions of inhabitants, quality of human life, etc. (these are stated for complexity, this is practically impossible in case of projects

[36] For example for the pre-admission program SAPARD the non approvable costs – i.e. costs that can be covered from the EU financial assistance – do not include project documentation processing, processing of feasibility study, requests for financial assistance and work of experts.

realized with the assistance of the EU, as any project that would negatively affect the environment or human health would never be accepted for assistance provision).

Yields in investment stage

There are calculated possible yields, emerging in relation to the investment realization, i.e. in majority of cases on the basis of construction. Such yields may emerge for example in case of the event to be performed by a business subject (a supplying company) with headquarters in the village, which is the beneficiary. The municipality will receive into its budget the taxes and local inhabitants will find jobs.

Direct and indirect costs and benefits in operation stage

Expenses in operation stage

In this section we assess costs related to realization, necessary for arrangement of operation of the built in vestment and for consequent reaching of project results:

- material purchase
- purchase of power, water charges, communication performances
- purchase of services
- costs on repairs and maintenance
- personal costs – divided into salaries and social expenses
- financial payments (e.g. loan interests, banking fees and other fees)

Yields in operation stage

Yields emerging from the project existence at the time of its operation, emerging for individual engaged beneficiaries from the results:

Municipality receipts:

- receipts from fees (fees for services)
- receipts emerging from development of business activities of entrepreneurs and from development of employment
- receipts from return of a part of VAT
- receipts from real estate taxes
- receipts form rent of property

Receipts of other municipalities in a group (micro-region)

- receipts emerging from development of business activities of entrepreneurs and from development of employment

Receipts of entrepreneurs in the municipality

- receipt from profit increase

Receipts of other inhabitants of the micro-region

Receipts of the state and other subjects in the CR

Assessment of costs and benefits that can not be assessed on full and quantified

- in crease of life quality level at inhabitants
- improvement of environmental conditions
- improvement of transport accessibility of the municipality
- improvement of local roads quality
- improvement of demographic structure of the village inhabitants
- improvement of knowledge of the entrepreneurs and farmers in the sphere of economy, tax legislation and accounting
- improvement of computer literacy of the inhabitants

Basic pre-assumptions for assessment of costs and benefits

In this chapter of the CBA will be contained a brief description of all the pre-assumptions that were used as a base for calculations and for each pre-assumption there will be set the procedure for setting the individual values, respectively sources (research on site, literature, expert opinion, etc.) used as a base for values setting.

One of the basic pre-assumption to which extraordinary attention must be paid is the service life (sustainability) of the project – i.e. the period for which it will bring benefits. This parameter that significantly affects the CBA results must be set in real sum, taking into consideration the character and specific features of the project, based on consultations and expert opinions of relevant professionals.

Who will have the main benefits from the project and expected level of use

There will be discussed the main target groups that will benefit from the project realization.[37]

Results of analyses expressed in IRR (internal returnability rate), NVP (net present value) and BCR (benefit – to – costs ratio) values

Each and every input item, set in the first year of the monitored period is analysed in the relevant chapter of the business plan.

The financial analysis of the project is based on projection of a discounted financial cash flow and its results include indicators of financial internal returnability rate FRR and financial net present value. The resulting values show which net profits are generated by the investment in the course of the monitored period based on its operation and how it fulfils the criteria of acceptability required by the financing organisation.

The economic analysis of the project is based on projection of discounted economic cash flow and its results include the indicator of economic internal returnability rate ERR. The inputs for this analysis include financial costs and investment yields in the construction and operation stage, as well as the social and economic benefits for the municipality, the given micro-region, respectively other beneficiaries of project results.

Methodological description of individual indicators

The **NPV**[38] is set by the difference between the current value of the future cash flows and the price of the investment (cash flow in year zero).

Interpretation of calculated values:

- NPV >= 0 the project is acceptable
- NPV < 0 the project is not acceptable

[37] E.g. in case of the project „education, Training and Information Centre for the micro region N.“ these will be the inhabitants of the village where the centre will be built and other inhabitants of the micro-region, majors, municipal council members, small entrepreneurs and farmers. Supposed level of use will be gradually increased as the centre will be accepted by the inhabitants and as it will gain experience.

[38] Net Present Value

The investment project may be considered acceptable in case of the indicator to be equal to zero or higher.

The higher the value, the better the project (under otherwise identical pre-assumptions). That means that in case of mutual comparison of projects, there should be selected the project with higher NPV value.

The **IRR**[39] is defined as a discount rate with the NPV value equal to zero.
Interpretation of calculated values:
NPV > 0.....the project is undoubtedly advantageous, its IRR is higher than the pre-set DS

NPV = 0.....the project is on advantageousness limit, its IRR is equal to pre-set DS
NPV < 0.....the project is clearly disadvantageous, its IRR is lower than the pre-set DS

The assessed investment project generates profits in case of the IRR value to be higher than O. In case of the IRR value to be less than zero, it is a non-profitable project – in the future it will be necessary to subsidy its operation. The B/C Index of benefits and costs (Benefit/Cost Ratio) represents a quotient of all the receipts emerging from the investment and all the costs (including investment) related to the investment.
It informs on how many units of gross receipts relate to a unit of gross costs.
Interpretation of calculated values:

- B/C >= 0 the project is acceptable
- B/C < 0 the project is not acceptable

The investment project is acceptable in case of the benefit cost ration to higher than zero.

Ad 9) Assessment of risks and uncertainties (supposed influence on results of changes in main parameters)

The final chapter will include an analysis of important risk factors that could affect pre-assumptions in the future and consequently also the conclusions of the analysis performed. Simultaneously, these factors must be commented from the point of view of probability for the described situation to occur.

[39] Internal Rate of Return