



VYSOKÉ UČENÍ TECHNICKÉ V BRNĚ
BRNO UNIVERSITY OF TECHNOLOGY



FAKULTA PODNIKATELSKÁ
ÚSTAV EKONOMIKY

FACULTY OF BUSINESS AND MANAGEMENT
INSTITUT OF ECONOMICS

ROLE EVROPSKÝCH FONDŮ PŘI INVESTICÍCH V MALÝCH A STŘEDNÍCH PODNICÍCH NA MADEIŘE

ROLE OF THE EU FUNDS IN INVESTMENTS IN MADEIRA'S SME

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

AUTOR PRÁCE
AUTHOR

Bc. Martin Hudek

VEDOUCÍ PRÁCE
SUPERVISOR

doc. Ing. Marek ZINECKER, Ph.D.

BRNO 2015

MASTER THESIS ASSIGNMENT

Hudek Martin, Bc.

European Business and Finance (6208T150)

Pursuant to Act. No. 111/1998 Coll., on Higher Education Institutions, and in accordance with the Rules for Studies and Examinations of the Brno University of Technology a Dean's Directive on Realization of Bachelor and Master Degree Programs, the director of the Institute of is submitting you a master's thesis of the following title:

The Role of EU Funds in Investments in Madeira's SME

In Czech language:

Role evropských fondů při investicích v malých a středních podnicích na Madeiře

Instruction for writing:

Introduction
Targets and Methodology
Theoretical Background
Analysis of the Current Statement
Recommendations
Conclusion
References
Appendices

List of literature:

D' OREY, João, Cristina ALMEIDA, Manuel PITA a Natacha PEREIRA. Estratégias para a Qualidade na Região Autónoma da Madeira (2014-2020). Funchal: DRCIE, 2014. ISBN 978-989-96202-1-6.

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The supervisor of master's thesis: doc. Ing. Marek Zinecker, Ph.D.

Deadline for submission master's thesis is given by the Schedule of the Academic Year 2014/2015.

L.S.

doc. Ing. Tomáš Meluzín, Ph.D.
Director of the Institute

doc. Ing. et Ing. Stanislav Škapa, Ph.D.
Dean of Faculty

Brno, 31.3.2015

Abstract

This thesis deals with European funds and their role in narrowing the gap between richer and poorer regions of the EU. The main objective is the financial analysis of the selected company and designing an investment project with emphasis on the requirements for the possibility of drawing subsidies of European funds. The work used data provided by company that are used in the formation of of financial analysis, methods PESTL analysis, Porter's five-factor model and SWOT analysis. The conclusion will recommend or reject the investment project.

Abstrakt

Tato diplomová práce se zabývá Evropskými Fondy a jejich roli při zmenšování rozdílů mezi chudšími a bohatšími regiony EU. Hlavním cílem práce je finanční analýza vybrané společnosti a navržení investičního projektu s důrazem na požadavky kladené na možnost čerpání dotací z evropských fondů. V práci jsou využity data poskytnuté společnosti, které jsou využity při tvorbě finanční analýzy, dále metody PESTL analýzy, Porterův pětifaktorový model, a SWOT analýza. Na závěr bude investiční projekt doporučen či zamítnut.

Key words

European funds, financing, regional policy, grant, project, application, investment project, structural funds, Madeira, Portugal

Klíčová slova

Evropské fondy, financování, regionální politika, grant, projekt, žádost, investiční projekt, strukturální fondy, Madeira, Portugalsko

BIBLIOGRAPHIC CITATION

HUDEK, M. *Role of the EU funds in investments in Madeira's SME*. Brno: Brno University of Technology, Faculty of Business and Management, 2015. 86 p. Master's thesis. Supervisor doc. Ing. Marek Zinecker, Ph.D..

DECLARATION

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Brno, 31st August 2015

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Bc. Martin Hudek

ACKNOWLEDGEMENTS

I would like to thank my supervisor doc. Ing. Marek Zinecker, Ph.D. for his professional guidance that helped me in writing this thesis. Furthermore, I would also like to thank Dr. Sérgio Silva and Dr. Nelson Abreu for his constructive comments and providing needed information. Finally, I would like to express my immense gratitude to my family and my closest friends for their patience and support throughout my studies.

CONTENT

| | |
|--|----|
| Introduction..... | 10 |
| Targets and methodology..... | 11 |
| 1 Theoretical part..... | 13 |
| 1.1 Motive of the European funds..... | 13 |
| 1.2 The European Cohesion Policy..... | 13 |
| 1.2.1 The evaluation of EU Cohesion Policy in historical perspective | 13 |
| 1.2.2 Cohesion Policy of the EU in the period 2014-2020 | 16 |
| 1.2.3 The NUTS classification..... | 17 |
| 1.2.3.1 NUTS in Portugal | 18 |
| 1.3 The European Structural and Investment Funds (ESIF)..... | 19 |
| 1.3.1 European Regional Development Fund (ERDF)..... | 20 |
| 1.3.2 Cohesion Fund (CF)..... | 20 |
| 1.3.3 European Social Fund (ESF) | 20 |
| 1.4 Operational Programmes Portugal..... | 22 |
| 1.5 Portuguese regional policy – Madeira | 23 |
| 1.5.1 Financial information - Madeira | 24 |
| 1.5.2 National authorities..... | 25 |
| 1.5.3 National authority of Portugal | 26 |
| 1.5.4 Instituto de Desenvolvimento Empresarial (IDE, IP-RAM)..... | 27 |
| 1.6 Internationalizar 2020 | 28 |
| 1.7 Eligibility criteria for beneficiaries..... | 29 |
| 1.8 Definition small medium enterprise..... | 30 |
| 2 Current statement analysis | 31 |
| 2.1 Company introduction | 31 |
| 2.2 Choice of the project..... | 32 |
| 2.3 PESTL Analysis..... | 33 |
| 2.3.1 PESTL Analysis Spain..... | 33 |
| 2.3.1.1 Political | 34 |
| 2.3.1.2 Economic | 36 |
| 2.3.1.3 Social..... | 37 |
| 2.3.1.4 Technological..... | 38 |
| 2.3.1.5 Legal | 38 |
| 2.3.2 PESTL Analysis Peru | 39 |
| 2.3.2.1 Political | 40 |
| 2.3.2.2 Economic | 42 |
| 2.3.2.3 Social..... | 43 |
| 2.3.2.4 Technological..... | 44 |
| 2.3.2.5 Legal | 44 |
| 2.3.3 PESTL Analysis Columbia | 45 |
| 2.3.3.1 Political | 45 |
| 2.3.3.2 Economic | 47 |
| 2.3.3.3 Social..... | 48 |
| 2.3.3.4 Technological..... | 48 |
| 2.3.3.5 Legal | 49 |

| | | |
|---------|--|----|
| 2.3.4 | PESTL analysis summary | 49 |
| 2.4 | Porter five forces model..... | 50 |
| 2.4.1 | Bargaining Power Of Suppliers | 50 |
| 2.4.2 | Threat of substitutes..... | 51 |
| 2.4.3 | Rivalry of existing competitors..... | 51 |
| 2.4.4 | Threat of new entrants | 52 |
| 2.4.5 | Bargaining power of buyers..... | 52 |
| 2.5 | Financial analysis..... | 52 |
| 2.5.1 | Horizontal analysis..... | 52 |
| 2.5.2 | Vertical analysis..... | 55 |
| 2.6 | Financial indicators..... | 57 |
| 2.6.1 | profitability ratios..... | 58 |
| 2.6.2 | Liquidity indicators..... | 59 |
| 2.6.3 | Activity indicators..... | 60 |
| 2.6.4 | Summary | 61 |
| 2.7 | SWOT ANALYSIS | 61 |
| 3 | Proposed solution..... | 63 |
| 3.1 | Project characteristic..... | 63 |
| 3.1.1 | Presence in Spain | 64 |
| 3.1.2 | The Business Development Plan | 64 |
| 3.1.2.1 | Content Management System | 65 |
| 3.1.2.2 | Lead management and opportunities | 66 |
| 3.2 | The strategy and goals of project..... | 66 |
| 3.3 | Project outputs | 67 |
| 3.4 | Project risks..... | 68 |
| 3.5 | Financial analysis of project | 68 |
| 3.5.1 | Classification list of project components and schedule | 68 |
| 3.5.2 | Project assumptions | 70 |
| 3.5.3 | Financing sources..... | 70 |
| 3.5.4 | Profit and Loss account..... | 71 |
| 3.5.5 | Cash flow | 73 |
| 3.5.6 | Payback..... | 74 |
| 3.5.7 | IRR..... | 75 |
| 3.5.8 | NPV | 75 |
| | Conclusion | 76 |
| | Resources | 78 |
| | List of Figures | 84 |
| | List of Pictures | 84 |
| | List of Tables | 84 |
| | Appendices..... | 85 |
| | Appendix A..... | 85 |
| | Appendix A1 | 85 |
| | Appendix A2 – Map 1..... | 86 |

Introduction

Portugal joined the European Union in 1st of January 1986. Country entered a period in which can develop projects with funding from the European Union. In the current programming period 2014 - 2020, the Portugal can draw money from European funds and use their tools as well as other countries of the Commonwealth. For the period 2014-2020, € 351.8 billion will be available for Members States to invest in 11 thematic objectives. Its part represents € 25.9 billion for Portugal, and the total budget of the Operational Programme for Madeira is € 403 million, with a financial contribution of EUR 274 million from the ERDF and € 129 million from the ESF [17].

These funds are primarily intended to promote economic growth, improving education and reducing social inequalities among residents. Given that the Portugal ranks among the poorer countries of the European Union, for it is the allocation of European funds in this period relatively high. Projects may be submitted by municipalities, counties, ministries, entrepreneurs, owners of transport infrastructure, non-profit organizations, schools, research centres and others.

This thesis deals with project regarding internationalization of particular small company. This company felt increasing difficulties in keeping customers and especially in attracting new customers. It therefore considered that the best way of overcoming them would be its internationalization, capitalizing on the know-how obtained over these two decades in Madeira, so it began operations in 2013 in Malta, lately, in 2014, in Spain. Financing this kind of business expansion may burden many organizations budgets. Due that reason company will apply for possibility to draw money from the European Union.

Targets and methodology

Aim of this thesis is to assess the current financial situation of chosen enterprise with emphasis on the requirements for the possibility of drawing subsidies from European funds and investment project design. The paper deals with problem of the particular Madeira's company, difficulties to keeping customers and to attract new ones. Due that company considered to set up new investment project with the intention be financed with the help of European Union.

To fulfil the requirements of the aim of the thesis is needed to build up qualified theoretical background. In that theoretical part of the thesis, is discussed history of Cohesion Policy of the European Union and its evolution ensued the current Cohesion Policy in the new period 2014-2020, followed by the regional and structural policy of the European Union together with the subchapter describing the financing of projects from EU funds. Particular attention is paid to the funds in Portugal and concretely Madeira region, where the company is headquartered.

In analytical part the company is briefly described. After that is discussed the project idea and followed by description of the environment of the potential countries expand to, the investment project idea is focused to extend markets, where the company ABC Ltd. operates. An indispensable part of the thesis is financial analysis of the company, to create a comprehensive picture of the company.

The final part of thesis consists the proposed project solution, where the project description is, followed particular parts of project ended with evaluation of effectiveness.

The methods used in the thesis are following:

- PESTL Analysis
- Porter five forces
- Financial Analysis
 - a. Vertical financial analysis
 - b. Horizontal financial analysis
 - c. Analysis by using the common finance ratios
- SWOT analysis
- Evaluation of the effectiveness of the project
 - Net Present Value (NPV)

- Internal rate of return (IRR)
- Payback period of investment

The name of subject organization has been changed to “ABC, Ltd.” for concealment reasons.

1 Theoretical part

1.1 Motive of the European funds

As McGiffen pointed out [34], the original idea of the EU was to create economically strength community, but only with the admission of Ireland was first member state classified not as industrialized, developed and relatively well off accepted. Since this the former EC was growth to 15 member states, included relatively poorly Spain, Portugal and Greece.

By regional analysis over the year 1986-96 was founded the income of the poorest 25 regions was rising by very little (from the 53% of the average EU to 55%).

With the Greece, Spain and Portugal joined the EU in 1981 resp. 1986, the European area (EU9 to EU12) increased by 48%, population increased by 22% whereas its GDP per capita decreased by 6% [9].

The income diversity has obviously widened and its social effects becoming ever more visible. Due possibility of just such developments in the European Union the regional policy was set up by Single European Act.

Although was felt necessary to complete the single market and establish the mechanism allowing to transfer of relatively large amounts of money between different regions despite the fact of possible increasing regional disparities,

McGriffen claims [34], this approach is controversial, due increasing the degree to which taxpayers in the rich member states were asked to subsidise people in poorer areas. Removal of barriers to movement goods, services and capital could lead to greater concentrations of wealth in areas already well-favoured

for such things as transport and financial infrastructure. Single market also requires certain countries, in most cases the poor ones, to invest in expensive improvements to meet such demands.

1.2 The European Cohesion Policy

1.2.1 The evaluation of EU Cohesion Policy in historical perspective

In 1957, when Treaty of Rome was founded, for the six founding members (Belgium, France, Italy, Luxembourg, the Netherlands and West Germany) with the similar level of development, economic and social cohesion was not the cohesion policy a major concern. Nevertheless, the Treaty already set out “the Community shall aim at reducing the disparities between the levels of development of the various regions “. However, successive enlargements of the European Community brought a steady widening of economic and social disparities. The growing importance of regional policy was obvious. Also EC (EU) wants to actively act and prevent the widening of disparities between Member States and regions and to allow benefit every territory from Europe’s economic integration [37].

On the other hand, Manzella and Mendez [36] claim, at 50’s the European Commission (later EU) regional issues more or less ignored. Despite the recognition of existence some of them at the Messina convention in 1955, attention to regional policy in the Treaty of Rome of 1957 was minimal. In the preamble is declared “decreasing the differences between the various regions and the backwardness of the less favoured regions”. There was declared also in the Article 2, the goals of the European Community, “harmonious development of economic activities” and “a continuous and balanced expansion”. However, in the main body of Treaty, the regional issues were addressed indirectly, only the European Investment Bank was created to directly promote regional development and also granting loans “which facilitate the financing of projects for developing less developed regions”.

The inadequacy regarding regional policy became evident soon. The first step was in 1961 to organize a “Conference on Regional Economies”. According that conference, attended by national administrators and experts in the field, was setting up of working groups comparing different experiences and methods, the commissioning of territorial studies, and the promotion of exchanges of experience among national governments. The output of this effort was officially recognized in 1964 in the Community’s First Medium-Term Economic Policy Programme. The document argued for the creation of a comprehensive regional policy as coordination of national initiatives on the basis of regional development programmes. According this document, the Community also sought to increase direct contact with local and regional administrations through a series of meetings and the diffusion of information.

At the beginning of 70's was the regional policy firmly on the EC agenda. In Paris, 1972, the policy initiation stage was launched with the approval of a resolution at the Conference of Heads of State. At that time, Member States declared "give top priority to correcting the structural and regional imbalances in the Community which could hinder the achievement of the Economic and Monetary Union." Commission was invited to prepare a report analysing regional problems and to put forward a proposal for the creation of a Regional Development Fund. The legislative proposals were subsequently submitted by the Commission finally in July of 1973 [17].

In 1975 the European Regional Development Fund (ERDF) was set up. Initially was testing period 3 years. Due limitation of co-financing predetermined projects in the member states, with little European influence, member states had to apply for support at project level on an annual basis [44].

Agreed budget for the period 1975-78 for the Fund was 1.3 billion European Units, which represents 5% of the Community budget [36].

MARZINOTTO argued [37], that agreed regional policy in 1970's and set up European Regional Development Fund (ERDF) in 1975, shifted the focus of attention from countries to regions and aimed at providing compensations or side-payments to "potential losers".

However, the trend over the first half of 1980's was following, from a Member State controlled model, where the Commission's role was effectively restricted, the policy moved to become more grounded on Community objectives, priorities and experimentation, at least for part of the Cohesion policy budget. More importantly, the regulatory reforms, along with the agreement on the IMPs (Integrated Mediterranean Programmes), were to provide lessons, if not a blueprint, for some of the principles which were to underpin the landmark reforms of 1988 [44].

The Cohesion Policy of the EU as we know it came into existence in 1988 shortly after the enlargement of the EC to Spain, Portugal and Greece. It was meant to complement the project for the completion of the Single European Market (1987-92) [37].

The European Council allocated ECU 64 billion to Structural Funds over five years and the Council adopted the first regulation integrating the Structural Funds [36].

In February 1988 that new Cohesion policy were agreed under the Delors-I package, in which the heads of government gave their approval to the key strategic decisions for

implementing the Single European Act. That provided a major cash injection by doubling their budget over 1989-1993 period.

In 1992, the Maastricht Treaty was founded. The Treaty was marked as a new age of European integration by providing for the establishment of Economic and Monetary Union (EMU). To co-finance infrastructure projects in the poorer Member States (Greece, Ireland, Spain and Portugal) was founded the new fund, Cohesion Fund. This fund supports the poorer Member States to fulfil the EMU convergence criteria.

By increased attached to cohesion in the Treaty was reflected in significant financial boost. Due to Delors-II package at European Council in December 1992, doubled the resources allocated to Cohesion policy over the 1994-1999.

Further reform took place in 1999 to cover next programming period 2000-2006. These agreement was reached during the Berlin European Council, allocating € 213 billion to Cohesion policy, € 39.6 billion of which was accounted for by post accession assistance [44].

As MacGiffen [34] pointed out a major aspect of reform of planning document named Agenda 2000 was the reduction in the number of objectives from seven to three (will be describe further). There was also a reduction in the number of Community Initiatives from thirteen to four (INTERREG, EQUAL, LEADER AND URBAN) and a corresponding cut in their budgetary allocation (to 5.35 percent of total resources).

In the April 2006 was set up the budget for the next programming period 2007-2013, which was set at €347 billion, representing 35.7 percent of the EU budget. This regulatory package was approved in July 2006, embodying the most radical reform of the policy since 1988. The main aim was centered on the Lisbon strategy and involving a new planning framework.

New updated EU Cohesion policy replaced previous Objectives 1, 2 and 3 by new three Objectives, named: Convergence, Regional Competitiveness and Employment and Territorial Cooperation. The majority which continued focused on less-developed regions with a GDP per head of less than 75 percent of the EU average [44].

1.2.2 Cohesion Policy of the EU in the period 2014-2020

After two years of negotiation the new legislation governing the European Structural and Investment Funds in 2014-20 was agreed in December 2013.

Financial allocations by geographical eligibility for the new programme were confirmed in February and April 2014. Followed by financial allocations to Member States in Table 1.

Countries are divided into following groups (see Appendix A2):

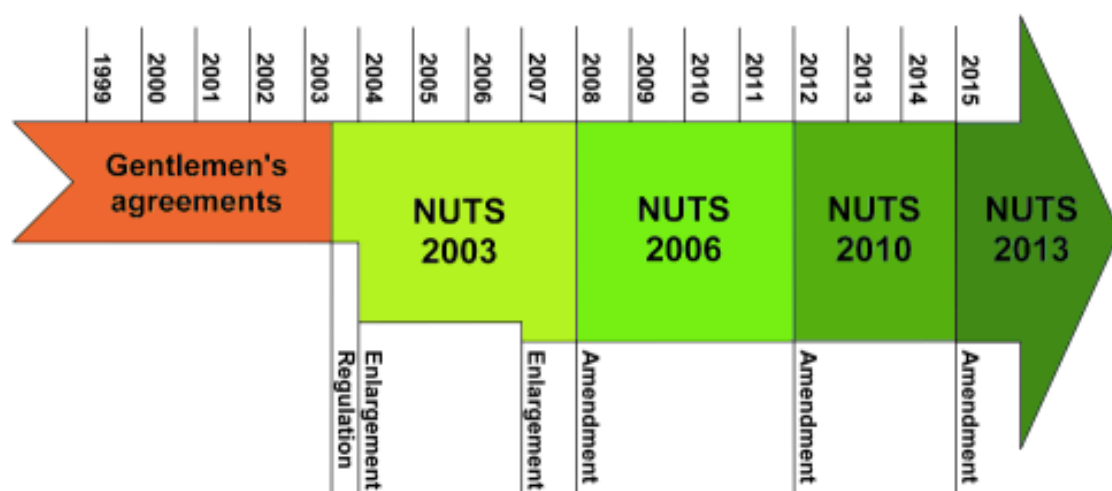
- **Less-developed countries** will cover 25 percent of the EU population, down from 31.7 percent in 2007-13. Germany will cease to have any LDR regions, Spain will see LDR coverage significantly reduced (Extremadura only), while Malta loses Convergence status. The capital cities in Poland, Romania and Slovenia will also lose less-developed region status, while Croatia will have LDR status in its entirety following a reconfiguration of the NUTS 2 regions.
- **Transition regions** coverage will increase from 7.3 percent to 13.5 percent of the EU population, but the eligible regions are heavily concentrated in certain countries, notably Germany, Spain, France and the United Kingdom.
- **More-developed countries** cover the remaining regions as was the case under the former RCE category. Importantly, it includes four regions which had Convergence status in 2007-13 – namely Galicia (ES), the Warsaw region Mazowieckie (PL), Bucharesti-Ilfov (RO) and the Ljubljana region, Zahodna Slovenija (SI).
- **Cohesion fund** eligibility will mainly impact on Cyprus which loses eligibility and Croatia which qualifies for the Cohesion Fund following accession [41].

For the period 2014-2020, € 351.8 billion will be available for MS to invest in 11 thematic objectives, all stemming from the Europe 2020 strategy e.g.: research, ICT, sustainable transport, SMEs, renewable energy and energy efficiency, environment, employment and education [19].

1.2.3 The NUTS classification

According to Eurostat [18], at the beginning of the 1970s, Eurostat set up the NUTS (Nomenclature of Territorial Units for Statistics) classification as a single, coherent system for dividing up the EU's territory in order to produce regional statistics for the Community. For around thirty years, implementation and updating of the NUTS classification was managed under a series of "gentlemen's agreements" between the

Member States and Eurostat. Due *NUTS 2013 Classification* is valid from 1 January 2015 and lists 98 regions at NUTS 1, 276 regions at NUTS 2 and 1342 regions at NUTS 3 level. Cohesion policy is focused on the **NUTS 2** regions which include from 800,000 to 3,000,000 inhabitants.



Picture 1: NUTS Evolution (Source [18])

The NUTS regulation defines minimum and maximum population thresholds for the size of the NUTS regions:

Table 1: NUTS population thresholds (Source: own work based on [18])

| Level | Minimum | Maximum |
|---------------|-----------|-----------|
| NUTS 1 | 3 million | 7 million |
| NUTS 2 | 800,000 | 3 million |
| NUTS 3 | 150,000 | 800,000 |

1.2.3.1 NUTS in Portugal

Table 2: NUTS classification in Portugal (Source: own work based on [18])

| Level | Name | Units |
|---------------|---|-------|
| NUTS 1 | Continente + Regiões autónomas | 3 |
| NUTS 2 | Comissões de Coordenação regional + Regiões autónomas | 7 |
| NUTS 3 | Grupos de Concelhos | 25 |

According to *Decreto-lei no. 46/89*¹ has defined three levels of the Nomenclature of Territorial Units for Statistics (NUTS) for Portuguese territorial units. These levels describe the statistical sub-regions which divides the Portuguese territory, in accordance with Regulation (EC) No 1059/2003 of the European Parliament and of the Council of 26 May 2003². Classification of territorial units corresponding to NUTS 2 had its last amendment to Decree-Law 244/2002³, while the NUTS 3 was being changed from Decree-Law No. 46/89 to the last change performed by Law No. 21/2010⁴.

1.3 The European Structural and Investment Funds (ESIF)

According to the “*Guidance for beneficiaries*” [17], the **ESIF** are jointly managed by European Commission and the Members States. That means the EU will not take any action unless it is more effective than decision taken in the national, regional or local level. There exist various types of criteria, should be fulfil. For instance:

- limited **time period** which operations and expenditures can take place
- **scope** of activities that can be co-financed
- **cost categories**: certain cost categories are excluded
- only certain **geographical locations** are eligible
- **durability of operations**: investments may have to be maintained for a minimum period after the operation is completed
- certain **Types of beneficiaries** are eligible for support

The European Commission and Member States have agreed; priorities are set out by national or regional programmes. In practise, Member States may choose to emphasise different activities in different regions.

Member States and the European Commission decided what can be funded by the ESIF. Priorities are set out within national or regional multi-annual programmes. In practice,

¹ Diário da República Portuguesa (15 Fevereiro 1989). *Decreto-Lei n.º 46/89*. (pp. 590 - 594)

² Jornal Oficial da União Europeia - Parlamento Europeu (26 Maio 2003). *Regulamento (CE) n.º 1059/2003*

³ Diário da República Portuguesa (5 Novembro 2002). *Decreto-Lei n.º 244/2002*. (pp. 7101 - 7103)

⁴ Diário da República Portuguesa (23 Agosto 2010). *Lei n.º 21/2010*. (pp. 3661 - 3662)

Member States may choose to emphasise different activities in different regions of the EU; eligibility therefore depends on the scope of the programme in each region or country.

1.3.1 European Regional Development Fund (ERDF)

ERDF aims to strengthen regional economic and social cohesion by investing in growth-enhancing sectors to improve competitiveness and create jobs. The ERDF also finances cross-border cooperation projects.

The ERDF will contribute to all 11 Thematic Objectives. However, it will devote the majority of its resources to:

1. R&D – € 39.9 billion;
2. SMEs – € 32.8 billion;
3. Low carbon economy – € 30.1 billion;
4. Transport and energy infrastructure – € 25.6 billion

1.3.2 Cohesion Fund (CF)

CF invests in green growth and sustainable development, and improves connectivity in Member States with a GDP below 90% of the EU-27 average⁵. It aims to reduce economic and social disparities and to promote sustainable development.

The CF will support Thematic Objectives 4, 5, 6 and 7 only. Its projected financing structure is:

- Transport and energy network infrastructures – € 33 billion
- Environmental protection – € 17.2 billion
- Low carbon economy – € 7 billion

1.3.3 European Social Fund (ESF)

⁵ Member States eligible for funding from the CF are: Bulgaria, Czech Republic, Estonia, Greece, Croatia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovenia and Slovakia

ESF invests in people, with a focus on improving employment and education opportunities. It also aims to help disadvantaged people at risk of poverty or social exclusion. The ESF will focus on a limited number of priorities in order to make a real impact in addressing Member States' key challenges, which are:

- Employment – EUR 30 billion;
- Education – EUR 26 billion;
- Social inclusion – EUR 21.3 billion;
- Institutional capacity – EUR 3.6 billion.

Together with the EUR 3.2 billion special allocation for the Youth Employment Initiative, this means that more than EUR 86 billion 9 will be invested in Europe's people over the next seven years [17].

In the following Table 3 is sum of changes between periods 2007-13 and 2014-20.

Table 3 : Changes relating to the ERDF and ESF (Source: [15])

| | 2007-2013 | 2014-2020 |
|-------------------------------|--|---|
| Scope | Support for enterprises, urban development, energy efficiency and renewable energies in building sector | Support for all thematic objectives covered under a programme |
| Set-up | Voluntary gap analysis for enterprises and at the level of Holding fund | Compulsory ex-ante assessment |
| Implementation options | Financial instruments at national or regional level – tailor made only | Financial instruments at national, regional level, transnational or cross- border level: Tailor-made OR off- the-shelf OR MA loans/guarantees Contribution to EU level instruments |
| Payments | Possibility to declare to the Commission 100% of the amount paid to fund – not linked to disbursements to final recipients | Phased payments linked to disbursements to final recipients National co- |

| | | |
|--|--|--|
| | | financing which is expected to be paid can be included in the request for the interim payment |
| Management costs and fees, interest, resources returned, legacy | Legal basis set out in successive amendments of the regulations and recommendations/interpretations set out in three COCOF notes | Full provisions set out from outset in basic, delegated and implementing acts |
| Reporting | Compulsory reporting only from 2011 onwards, on a limited range of indicators | Compulsory reporting from the outset, on a range of indicators linked to the financial regulation. |

1.4 Operational Programmes Portugal

Portugal, for the period 2014-2020 negotiated 10 operational programmes. 7 of them is focused regionally and other 3 thematically (Competitiveness, Human capital, Employment).

The following table is an overview of all operational programs in the Portugal for the period 2014-2020 and their partial amount of the allocation of funds [19].

Table 4: Operational Programmes of Portugal (Source: [19]) in thousands €

| <i>Operational Programme</i> | Total EU contribution |
|--|------------------------------|
| Competitiveness and Internationalization | 4,413,930.41 |
| Human Capital (ESF) | 3,095,832.10 |
| Social Inclusion and Employment (ESF) | 2,130,180.73 |
| Regional OP Alentejo | 1,082,944.37 |
| Regional OP Algarve | 318,676.49 |
| Regional OP Azores (Autonomous Region) | 1,139,752.01 |
| Regional OP Centro | 2,155,031.03 |
| Regional OP Lisboa | 833,334.55 |

| | |
|--|--------------|
| Regional OP Madeira (Autonomous Region) | 403,347.73 |
| Regional OP Norte | 3,378,770.73 |

The previous table is obvious the biggest amount of EU support is targeted to operational program **Competitiveness and Internationalization**. This operational programme however doesn't cover Madeira, due high rate of GDP (> 90%).

1.5 Portuguese regional policy – Madeira

Madeira is an autonomous region of Portugal republic (called Região Autónoma da Madeira in Portuguese or RAM). According to NUTS II (Nomenclature of Territorial Units for Statistics) classification, is Madeira considering as one NUTS II region (see chapter 1.2.3.1) “called regioes autónomas”.

The possibility of drawing EU subsidies is due operational programme called “Regional Madeira 2014-2020”. This programme contains two EU funds, the European Regional Development Fund [in Portuguese “*Fundo Europeu de Desenvolvimento Regional (FEDER)*”] and the European Social Fund [in Portuguese “*Fundo Social Europeu (FSE)*”] for the period 2014-2020, which covers the outermost region of Madeira.

The total budget of the Operational Programme amounts to Euro 403 million, with a financial contribution of EUR 274 million from the FEDER and 129 million euros from the FSE.

The aim of programme is to focus on competitiveness in the regional economy and the region's sustainable development and internal cohesion, as well as the region's contribution to the achievement of the key EU 2020 targets:

- More than 21% of the OP will be allocated to promoting education and qualification, helping the country reach its national Europe 2020 target to reduce early school leaving to 10% (from 23.2% in 2011).
- 11% of the OP resources will be allocated to promoting job creation enhancement of endogenous resources, contributing to the attainment of the

national Europe 2020 target of 75% of 20-64 year-olds to be employed (69.1 % in 2011).

- About 10% of the OP resources will be allocated to supporting competitiveness and innovation in enterprises.
- For boost research and technical development (RTD) will be allocated 8% and for innovation as well, helping the country reach its national Europe 2020 target by increasing its GDP spend on RTD from 2.7% to 3.3 % (it was 1.5% in 2011). In particular, the OP contribution is expected to foster RTD and innovation knowledge transfer to enterprises.
- For support the shift towards a low-carbon economy OP will allocate almost 5% of all allocations. This support will be cover energy efficiency investments and sustainable urban mobility in order to ensure the sustainable development of the energy sector; these funds will contribute to Portugal's national Europe 2020 target of 31% of energy deriving from renewable sources (27.3 % in 2011).

The expected outputs for the Madeira's operational programme are following:

- Creation of 120 new SMEs
- Investment in 326 existing SMEs
- Yearly reduction of greenhouse gas emissions by 3,345 CO2 equivalent tons
- Create 1060 jobs
- Increase the number of stays in hotels and other touristic accommodations by some 25% and increase number of tourists visiting natural and cultural attractions by 150.000 [21].

1.5.1 Financial information - Madeira

Table 5: Money allocation (Source: own work inspired by [21]) in thousands €

| Name | €uro |
|---|------------|
| FEDER (<i>Fundo Europeu de Desenvolvimento Regional</i>) | 274,337.73 |
| FSE (<i>Fundo Social Europeu</i>) | 129,010.00 |

| | |
|------------------------------|------------|
| Total OP budget | 474,526.75 |
| Total EU contribution | 403,347.73 |

1.5.2 National authorities

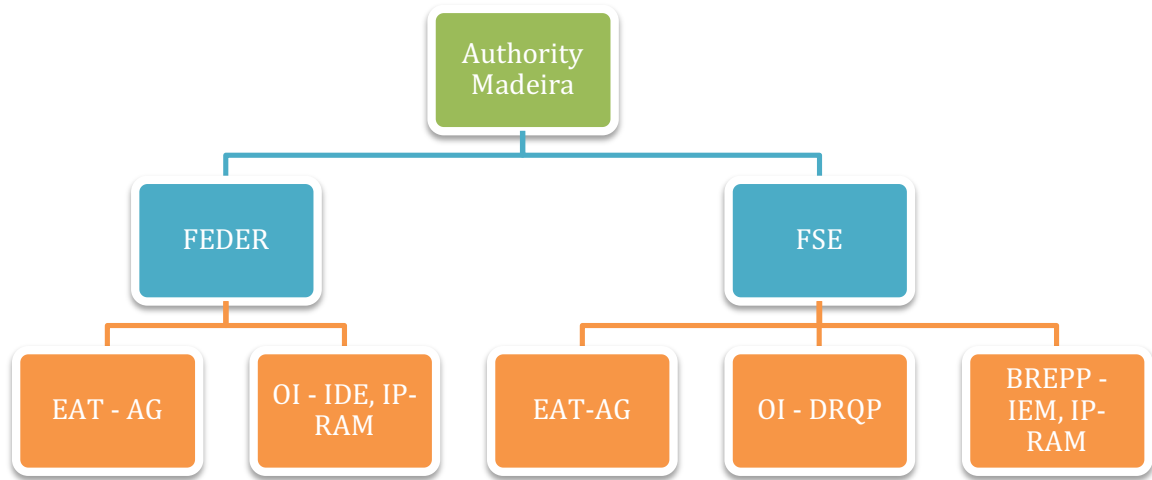
National authorities are responsible for managing the actual programmes. The Member States, their regions and accredited agencies manage the programmes, implement them by selecting individual projects, control and assess them. The Commission is involved in programme monitoring, commits and pays out approved expenditure and verifies the control systems. Together with monitoring committees⁶, they are in charge of:

- drawing up and applying selection procedures and eligibility criteria;
- providing information to potential beneficiaries such as, the minimum or maximum size of the project, the financing plan and time-frame;
- ensuring that projects fall within the scope of the Funds concerned;
- the financial management and control of the programmes.

If applied for funding, the subjects have to submit the applications to the national or regional authority managing the relevant programme. Before applying for a grant, potential beneficiaries should check the investment priorities, eligibility criteria and application procedure of the programmes in their region and country Contact details for all the relevant managing/national authorities [17].

⁶ Monitoring committees are usually made of competent regional and local authorities including competent public authorities, economic and social partners, relevant bodies representing civil society, including environmental partners, NGOs, bodies responsible for promoting social inclusion, gender equality and non-discrimination, in accordance with each Member State's institutional and legal framework.

Figure 1: The Madeira Hierarchy (Source: own work inspired by [35])



AG - Autoridade de Gestão

BREPP - Beneficiário Responsável por Políticas Públicas (nº2 do artigo 39º do DL nº 137/2014, 12nd of September

DRQP - Direção Regional de Qualificação Profissional

EAT - Estrutura de Apoio Técnico

IDE, IP-RAM - Instituto de Desenvolvimento Empresarial, IP-RAM

IEM, IP-RAM - Instituto de Emprego da Madeira, IP-RAM

OI - Organismo Intermédio

PI - Prioridade de Investimento

1.5.3 National authority of Portugal

Instituto de Desenvolvimento Regional (IDR), IP-RAM has been established as the central authority for cohesion policy for 2014-2020 in the Madeira. The main mission of IDR, IP-RAM is in accordance with the *Decreto Legislativo Regional nº 38/2012/M* from 13rd of December 2012 which amending the *Decreto Legislativo Regional nº 18/2007/M* from 12nd of November 2007 to making the establishment of the coordination of planning activities and monitoring of the regional development model as well as the coordination and management of the EU funds intervention in RAM.

The values, which are honoured by IDR, IP-RAM are following:

- accuracy
- transparency
- objectivity
- impartiality

The aim is to display the way IDR, IP-RAM want to be seen and how they see themselves in the future. Their vision is to be an institution in the context of regional government, which is recognized for the quality of service it provides to its customers.

IDR, IP-RAM is the support body for the Regional Secretariat of Planning and Finance and has the task of coordinating the planning activities and monitoring of the regional development model as well as coordination and management of the intervention of Community funds in RAM.

The most important attributions of IDR, IP-RAM:

- Carry out regional interlocutor functions of the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund, before the national authorities and the European Commission, within their competence and within the framework of representation mechanisms together of these bodies.
- To ensure the representation of the region in the framework of the organs of National Strategic Reference Framework (NSRF), where they are given such powers.
- Ensure the functions of technical, administrative and financial support to actions co-financed by ERDF and the Cohesion Fund and the ESF [31].

1.5.4 Instituto de Desenvolvimento Empresarial (IDE, IP-RAM)

Assuming as a coordinating body of all support to secondary and tertiary sectors of our economy, by any other agencies for specialist consultation.

The IDE bet on an integrated management tools to support the business sector, particularly as regards investment, the financing and operation.

Enhancing effective sustained growth shape of our economy, we focus on, among others, the following areas: Entrepreneurship, Business Innovation, Technological Development, Knowledge Society, Information and Communication Technologies,

Quality, Environment and Energy, Internationalisation, Funding investment Structuring, Creation of a financial innovation environment and compensate for additional costs (OR's).

The motto is "Compete, diversify, internationalize".

The mission is to promote the development, competitiveness and modernization of companies in the secondary and tertiary sectors of the Autonomous Region of Madeira, especially for micro, small and medium enterprises, aimed at strengthening innovation, entrepreneurship and in business investment [30].

1.6 Internationalizar 2020

The internationalize 2020 is the programme provided by Instituto de Desenvolvimento Empresarial (IDE, IP-RAM) aims to strengthen the entrepreneurship and strengthen the presence of regional companies on international markets by taking advantage of the economic opportunities and challenges offered by the demanding global market. It also intends to provide an increase in competitiveness and external awareness of products and businesses of Madeira.

Companies of any kind and in any legal form, with bracketed activities of the secondary and tertiary sector to promote projects aimed at producing goods and tradable services and internationalize or contributing to the value chain of the same and do not relate to service general economic interest.

Types of projects

In the form of individual projects, are likely to finance the internationalization promotion projects aimed at:

- Knowledge of foreign markets;
- A web presence through the digital economy, including in particular the launch of virtual catalogues of goods and services;
- The development and promotion of international brands;
- The exploration and presence in international markets;
- The international marketing;
- The introduction of new organizational method in business practices or external relations;

- Specific certifications for foreign markets.

In the form of simplified design (internationalization Valley) - the application takes the form of individual project limited to SMEs which are initiated its internationalization process and aims to support small business initiatives in the acquisition of consulting services to duly accredited entities, with the objective of strengthening corporate training companies, through knowledge of markets and interface with relevant economic agents in foreign markets.

Form, amount and limits of incentive

The support granted to individual projects under that system takes the form of non-refundable incentive, with a limit of € 250,000.

In projects promoted by large companies, the incentives to be granted can not exceed the limit laid down in the de minimum aid scheme.

Internationalization Valley for the support takes the form of non-refundable incentive and is limited to € 15,000 per project.

Financing rates

The incentive to be given to individual projects is calculated by applying to the eligible costs of a base rate of 30%, which may be supplemented by the following increases:

- 10% for projects presented by SMEs;
- 10% for projects that contribute to increasing international awareness of the RAM while tourist region.

For Internationalization Valley, the rate is 75% [30].

1.7 Eligibility criteria for beneficiaries

Beneficiaries must cumulatively fulfill the following eligibility criteria (shortened) [5]:

- a) Be located in the autonomous region of Madeira;
- b) To be legally constituted;
- c) To comply with the necessary conditions for the exercise of activity, if applicable;

- d) Have solved the tax and contribution debts to the tax office and social security payers and incentives, including the situation regularized with regard to reimbursements in projects supported with co-financing of FEEI (EU funds);
- e) Organized financial accounts in accordance with the applicable accounting standards;
- f) Possess or ensure the technical, physical and financial means and human resources needed to develop the project;
- g) Not be a firm in difficulty;
- h) Have a balanced economic and financial situation
- i) Completion of the projects previously approved under this instrument for the same project type;
- j) Do not detain or have owned capital in a percentage higher than 50%;
- k) Declaring that has no wage arrears.

Before starting the project, it is advisable to carry out financial and economic analysis to demonstrate that the benefits of the project outweigh its costs.

1.8 Definition small medium enterprise

The definition of Small Medium Enterprise according the European Commission webpage [22] is defined in the European law *EU recommendation 2003/361*.

The factors, which determining if the company is **micro**, **small** or **medium-sized** are:

- The number of employees
- The amount of turnover or balance sheet total

Table 6: Definition of SMEs (Source: [22])

| Company category | Employees | Turnover | or | Balance sheet total |
|------------------|-----------|----------|----|---------------------|
| Medium-sized | < 250 | ≤ € 50 m | | ≤ € 43 m |
| Small | < 50 | ≤ € 10 m | | ≤ € 10 m |
| Micro | < 10 | ≤ € 2 m | | ≤ € 2 m |

2 Current statement analysis

In this practice-oriented part of the thesis deals with the analysis of the company ABC Ltd. applying for financial grants from EU funds to implement an investment project.

2.1 Company introduction

ABC, Ltd. is a corporate service provider created in Madeira in 1990, which for more than two decades, has supported the incorporation and management of companies in competitive jurisdictions. With wide experience and know-how, which allowed it to successfully support major multi-national companies as well as smaller companies and start-ups, ABC, Ltd. offers clients all the transparent, up-to-date and relevant information they need to optimize their international operations through tax competitive jurisdictions, such as Madeira and Malta.

As a corporate services provider, ABC, Ltd. ensures that its clients receive all the necessary support for effectively establishing their companies in the chosen jurisdiction, namely in terms of:

- Incorporation and registration of companies
- Supplying head-office and related services
- Tax compliance, accounting, legal, financial and tax advice, consulting and assistance in creating investment projects
- Services to facilitate the setting up of companies in the chosen jurisdiction (offices, equipment, human resources...)

The strategic values driving ABC, Ltd. 's business activities are know-how, customer satisfaction, integrity, service excellence and innovation; and our clients acknowledge these in the services we provide. A customer satisfaction survey indicates that 89% of our clients consider that ABC, Ltd. has a wide knowledge of all issues related to its jurisdictions, and 87% acknowledge that ABC, Ltd. offers leading services in its sector of activity. Most significantly, 93% of our clients' state that they are highly committed

to recommending our company to their peers and partners. The majority of our clients highlighted pro-activity, honesty, efficiency and professionalism.

ABC, Ltd. provides assistance and essential services to facilitate the incorporation of any type of business, big or small, in Madeira and Malta. As such, our services comprise not only the incorporation and management of companies, assistance with legal and tax compliance obligations, but also, a wide array of professional services that are necessary for the incorporation of any successful business structure in the selected jurisdiction. Additionally, ABC, Ltd. also provide support in all areas of the integration process of investors and their families in Portugal and Malta.

The company has three shareholders:

1. Frederico Gouveia e Silva (capital share 45%)
2. Paulo Gouveia e Silva (capital share 45%)
3. Jorge Veiga França (capital share 10%)

Number of total employees is 16.

2.2 Choice of the project

According to communication with company and considering all circumstances, the project is based of the internationalization of ABC, Ltd. company. Company will attract new clients in good developed countries with potential growth. These countries have usually high tax rates and are suitable for management of tax efficiency, which can mean a considerable increase in net profit for any investor with an international business, regardless of its size.

Based on that, company has valuable contacts in two Latin American countries, Colombia and Peru. Due that, the work is targeted on the three countries. Spain, where the company recently started operate, Colombia and Peru.

The project is seen by author and company as good opportunities to maintain further growth.

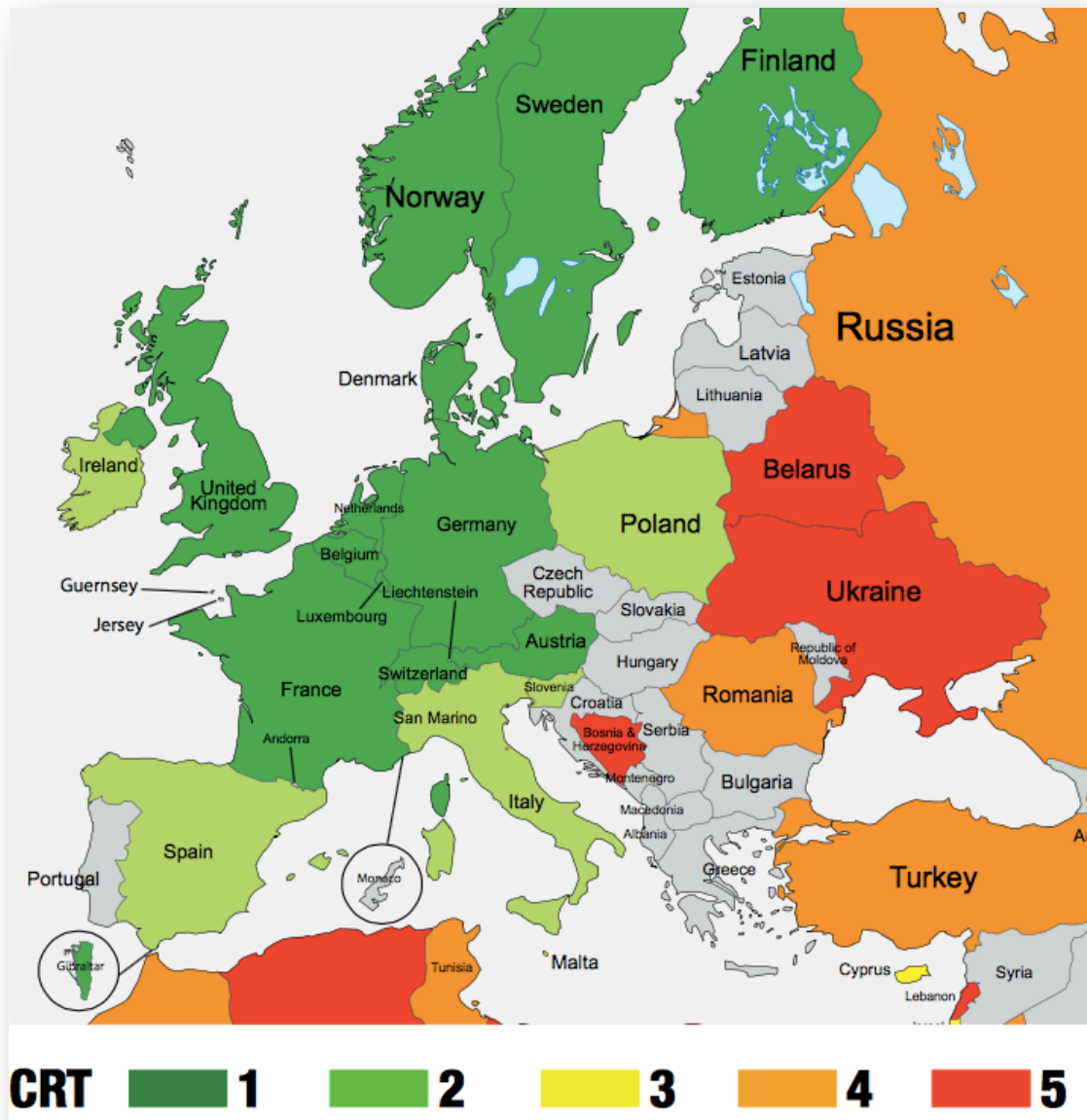
2.3 PESTL Analysis

Based on the result of the previous chapter, the PESTL analysis of Spain, Peru and Colombia is drawn up. PESTL Analysis will be divided into three parts. First part will contain PESTL analysis about Spain, second one will be about Peru and the last one about Colombia. I will consider pros and cons for each analysis and will suggest recommendations. PESTL Analysis is a useful tool for understanding the wide picture of the environment in which a company operates or is willing to operate in other environments.

2.3.1 PESTL Analysis Spain

Due to the AMB Country Risk Report [3] the Country Risk Tier (CRT) of Spain is **low**. Various countries are evaluated by their stability of environment with the particular amount of risk. This scale commences at CRT-1 denoting a stable environment with the least amount of risk. The highest risk level is considered CRT-5. These countries pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength and performance. This measurement takes into account three categories of risk: Economic, Political and Financial. Spain is continuing to struggle with the economical growth, the economy has experienced contraction in recent years due to the unwinding of bad loans from the extended housing boom, further fiscal constraints, high unemployment and a sluggish global economy.

On the following Picture 2 is shown all evaluation of CRT across Europe.



Picture 2: Country Risk Tier - Europe (Source: [3])

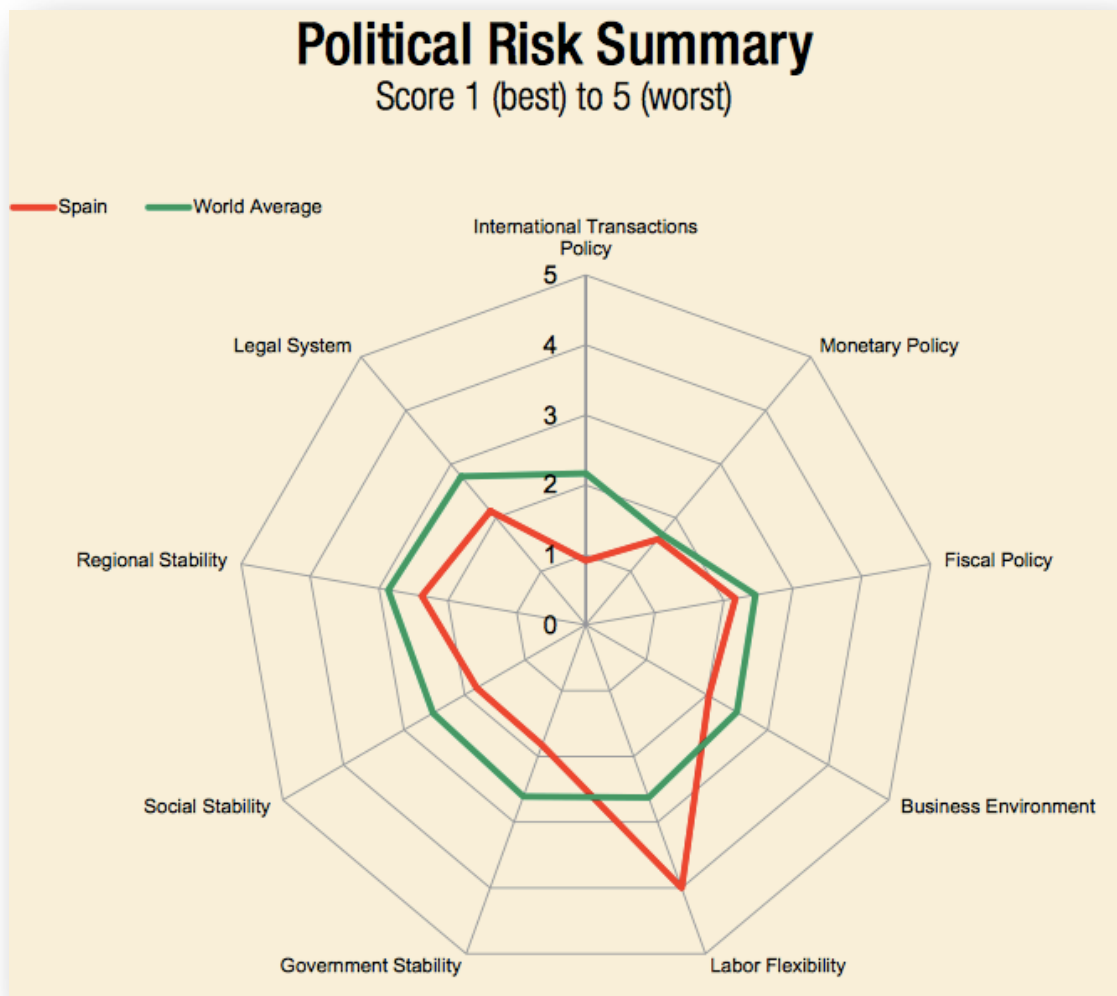
2.3.1.1 Political

Although Spain is considered as stable and advanced country, the labour flexibility is limited due continuing unemployment rate 22.5%. After the Greece are Spaniards the second most unemployment in the EU [20]. Spanish government reversed spending and put in place fiscal austerity measures to counter the large fiscal deficit. Anti-austerity strikes have continued in response to national and regional cost cutting plans. This

disruption could increase as education and health care become affected by the cuts. As well corruption allegations have become a major challenge for the ruling party in the past year [3]. Corruption and nepotism remain problematic. Political risk of Spain is **low**.

Spain is also placed in the 33rd place, in the newest report of Doingbusiness.org [13]. The placement presents the Ease of Doing Business rank (out of 189 economies). Spain made in past year few improvements of business environment. Running own business is easier, by introducing an electronic system linking several public agencies thereby simplifying business registration. The corporate income tax rate was reduced, also by reducing was reformed property transfer tax rate. The process of resolving insolvency was made easier by introducing new rules for out-of-court restructuring, introducing provisions applicable to pre-packaged reorganizations and making insolvency proceedings more public.

In the following picture are shown various aspects of the summary of the political risk in Spain. Obviously the biggest problem of these years for Spain is labour flexibility. In that aspect is the biggest risk. Other fields stay better than the world's average.



Picture 3: Political Risk Summary Spain (Source: [3])

2.3.1.2 Economic

Afterwards when Spain was hit by prolonged global financial crisis as other EU countries that begun 2008, was in 2014 Spain finally marked full year of positive economic growth in past seven years. This growth was mainly due to increased private consumption. In 2009, at the onset of global financial crisis the GDP of Spain dropped by 3.7% and finished 16-year growth trend. Government in 2013 successfully shored up struggling banks - exposed to the collapse of Spain's depressed real estate and construction sectors. As well in January 2014 was successfully completed a drawing of EU-funds - restructuring and recapitalization program. Until 2014 were unemployment rate, fiscal austerity and credit contraction in private sector bounded on domestic

consumption and investment. Between years 2008-2013 the unemployment rate rose from a low about 8% more than three times to more than 26% in 2013. High unemployment strained Spain's public finances, as spending on social benefits increased while tax revenues fell. Spain's budget deficit in 2010 was peaked at 11.4% of GDP, however next years was dropping just under 7% in years 2013-2014. That level was slightly higher than the level 6.5% negotiated between the Spain and EU. On the other hand, the public debt has dramatically increased from 60.1% of GDB in 2010 to more than 97% in 2014. Regarding the exports, were resilient, compared with the rest of economy, the exports helped to bring to the Spain's current account into the surplus in 2013 first time since 1986. In the 2014 situation stayed remained. Labor productivity is rising, also internal devaluation resulting from moderating labor cost and lower inflation helped to improve foreign investments and positive affected FDI⁷ flows. Due upcoming of the national parliamentary elections in November 2015 were the government's efforts to implement labor, pension, health, tax, and education reforms have become overshadowed. Inflation has dropped sharply from the 2013's 1.5% to the nearly flat in 2014. The Spain's budget for 2015 was published September 2014, rolls back some recently imposed taxes and keep the same level of VAT regime. The amount of generate income from the VAT is significantly lower than EU average [8].

Following AMB Country Risk Report [3], the economic risk of Spain is **low**. The GDP's growth severely declined during the global economic crisis, however sovereign funding has been restored through low interest rates and increased investor confidence. While the ECB is committed to providing a backstop to member states, Spain remains susceptible to further disruption in the Eurozone - potentially driving up bond yields and borrowing costs and causing financial market disruption.

2.3.1.3 Social

The population of the Spain is 46.44 million inhabitants. The trend was last measured at -0.24 in 2013, while the trend is decreasing last years. The population is composite of Mediterranean and Nordic types. Spanish language (Castellano) speak 74%, Catalan

⁷ FDI - *Foreign Direct Investment* is known as "Investment from one country into another (normally by companies rather than governments) that involves establishing operations or acquiring tangible assets, including stakes in other businesses." [33]

17%, Galician 7% and Basque 2%. According to the royal decree-law the government initiate major reforms to help the highly rigid labor market to make labor force more competitiveness and flexible. The median age of the population is 41.6 years [8]. As 2014, the GINI coefficient (a measure of income inequity) by Eurostat [16] of household disposable income stood 34.7% , one of the highest in OECD nations. The Gini coefficient score of zero corresponds to complete equality while a score of one corresponds to complete inequality.

2.3.1.4 Technological

The level of Research and Development dropped due to TheLocal.es [43] on the levels 2006. Under Socialist Prime Minister José Luis Rodríguez Zapatero the level of R&D investments was growing until 1.4% of GDP and was targeting to catch up the European Union average. Although austerity policies under Zapatero and then the current Popular Party administration of Mariano Rajoy have seen that investment subside on the 1.24% of the GDP, mentioned above, is the lowest level since 2006. The OECD said Spain that needs to urgently improve quality of human resources on all levels and also needs to help small innovative companies to grow.

According to Macro Economy Meter [40] Spain's Internet users equals to 71.6 per 100 people with a global rank 44 compared to Portugal's Internet users equals to 62.1 per 100 people with a global rank of 63. In Spain the trend of growing was lately followed Portugal's one, although since 2002 significantly boosted in compare with Portugal.

Due to Spain doesn't innovate, the amount of the registered patents is low. The number of patents is 789, compared with the France or Germany, 6691 and 16550 patents respectively [48].

2.3.1.5 Legal

The legal system in Spain is considered as stable and respected although is expected update the system by current political party.

Due to *Index of Economic Freedom* [27], an annual guide published by The Wall Street Journal and The Heritage Foundation, which is the Index, which covers 10 freedoms,

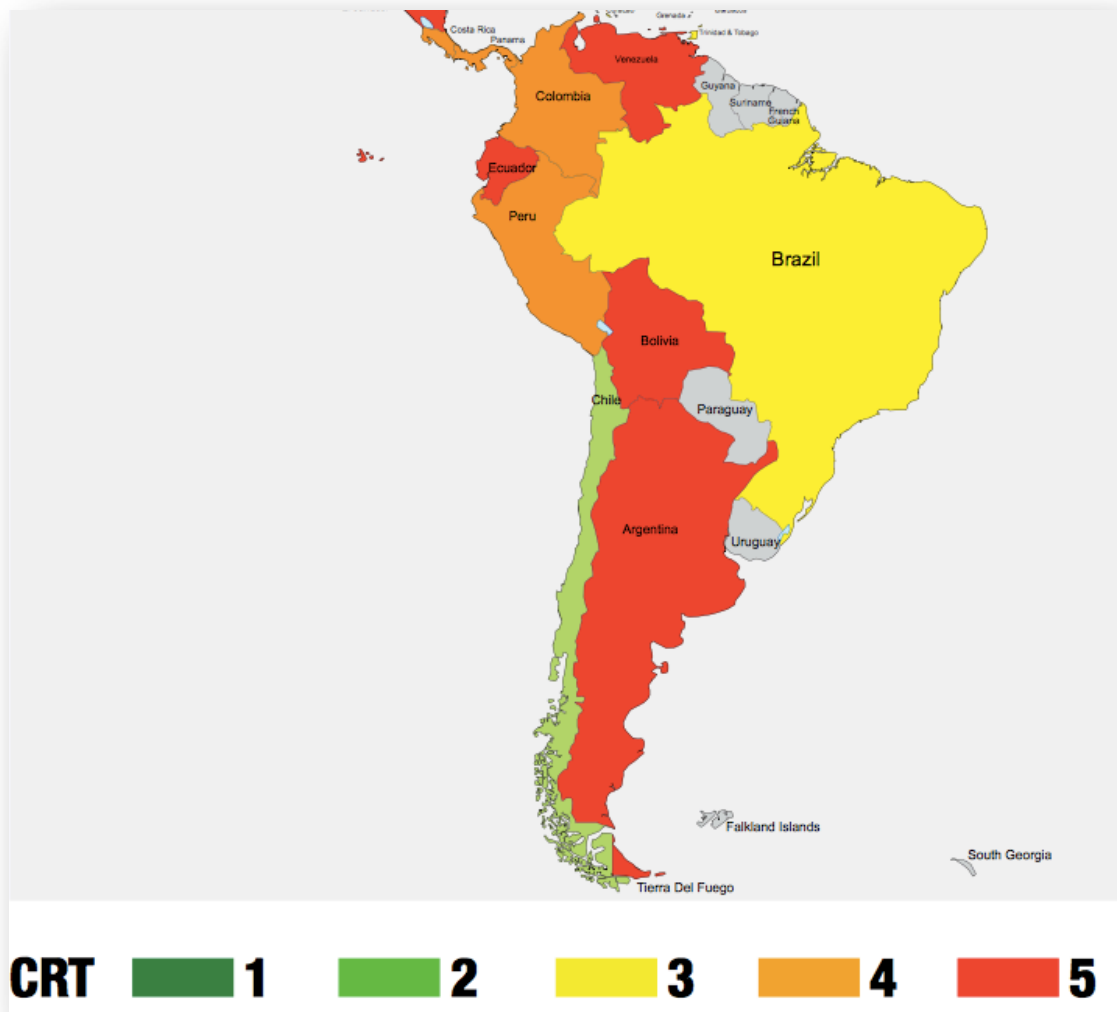
from property rights to entrepreneurship – in 186 countries, Spain has ranked on the 49's place with it's 67.6 points.

Spain was growing about 0.4 point since last year. Is the first growth after 5 years. It reflecting improvement 6 of 10 economic freedoms. Its driven by driven by investment freedom, monetary freedom, and the management of government spending, that outweigh declines in freedom from corruption and fiscal freedom. The Europe region's evaluation of Spain is ranked 21st of 43 countries, means overall score is above the world average. In past 5 years, due to declines in the management of government spending and financial freedom, the economic freedom was dropping about 2.6 point and it has pushed the economy into the “moderately free” category. Nevertheless, the rule of law is respected, and export growth is encouraged by an open trade and investment framework.

According to Corruption Perceptions Index 2014 made by Transparency International [14], Spain ranked with 60 points from 100 in 37th place (right After Taiwan and Israel) of total 174 countries studied. The average country score is 43/100, “indicating a serious corruption problem”. Compared with Portugal, which is placed with 63 points from 100 ranked in 31rd place.

2.3.2 PESTL Analysis Peru

Due to AMB Country List Report [2] is Peru evaluated with Country Risk Tier CRT-4 (**moderate**). As mentioned above, the CRT scale has 5 levels, whereas CRT-1 is the best evaluation, and CRT-5 is the worst one. The Peru's economy after its slowdown in 2009 has recovered and expanding between 6-9% yearly. The growth 5-6% is forecasted if the country will continue in investments and increasing global demand for the country's exports. The CRT evaluation of the whole South America region is followed on the Picture 4.



Picture 4: Country Risk Tier - Latin America (Source: [2])

2.3.2.1 Political

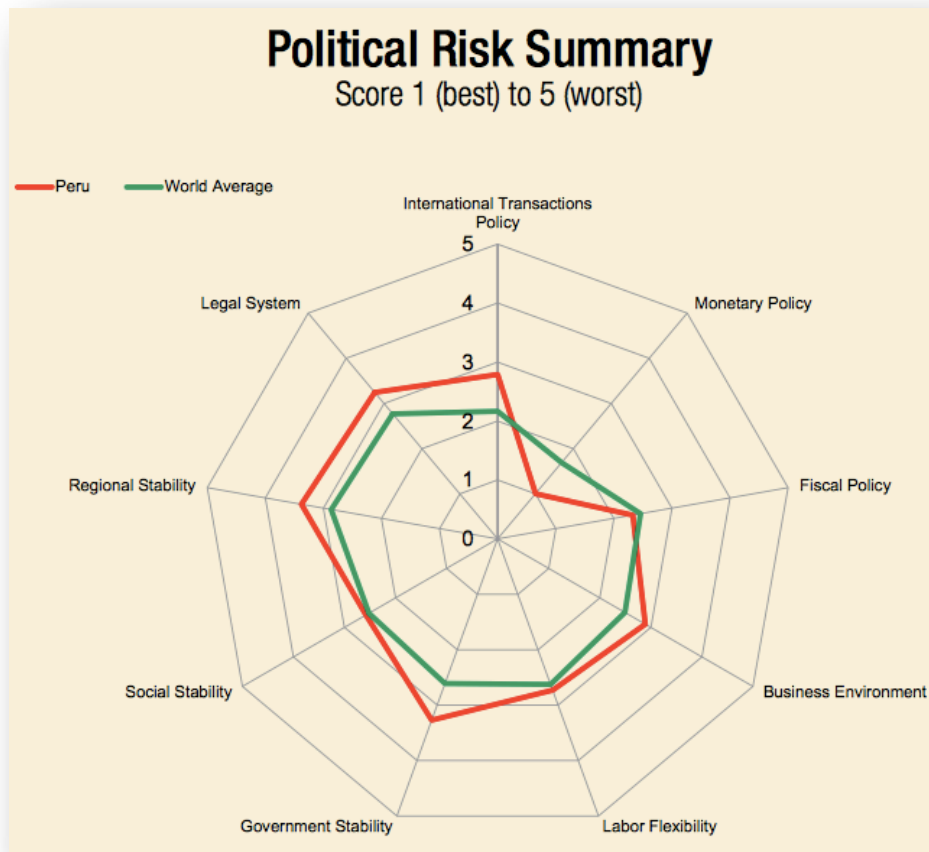
Environmental activism. That's the characteristic which has been raised in past years together with indigenous resistance to development projects. Recently occurred some social opposition to certain market liberalization efforts, especially regarding the extraction of natural resources in the southern region of the country. The aim of the current president Ollanta Humala is to improve security situation as well as issues of

educations, health and inequity in the VRAE⁸ region as well to crack down on drug violence and corruption. Although weak infrastructure and lengthy business procedures continue to present challenges [2]. Political risk of Peru is **moderate**.

Peru is also placed in the 35rd place, in the newest report of Doingbusiness.org [12]. It's just 2 positions worse result than Spain. Compared to last year, Peru offended one place. Peru didn't make any reform compared with Spain, therefore its position is stable. The placement presents the Ease of Doing Business rank (out of 189 economies).

In the following Picture 4 are shown various aspects of the summary of the political risk in Peru. Only monetary policy is obviously better evaluated compared with the world average. The rest of the areas, are usually very close or worse the world average.

⁸ VRAE – known as *Valle del Río Apurímac y Ene*, is a geopolitical area in Peru. That place is known for its criminal alliance between drug gangs with branches abroad and terrorist groups that enslave farmers and kidnap children for indoctrination communities and use them in their criminal actions [4].



Picture 5: Political Risk Summary Peru (Source: [2])

2.3.2.2 Economic

Economy of Peru can benefit from the different topography. From the arid lowland coastal region through the central high sierra of the Andes or dense forest of the Amazon. These benefits represent an excellent range of important mineral resources are found in the mountainous and coastal areas, and Peru's coastal waters provide excellent fishing grounds. Peru is the world's second largest producer of silver and third largest producer of copper. The Peruvian economy grew by an average of 5.6% from 2009-13 with a stable exchange rate and low inflation, which in 2013 was just below the upper limit of the Central Bank target range of 1 to 3%. This growth was due partly to high international prices for Peru's metals and minerals exports, which account for almost 60% of the country's total exports. Growth slipped in 2014, due to weaker world prices for these resources. Although Peru has strong macroeconomic potential, is depended on

the export of mineral and metals and imported foodstuffs makes the economy vulnerable to fluctuations in world prices. Also the bad infrastructure in the Peru's non-coastal areas hinders the spread of growth. Through the rapid expansion coupled with cash transfers and other programs have helped to reduce the national poverty rate by 28 percentage points since 2002. Although the social inequity still persists. That is challenging for the Ollanta Humala administration, which has championed a policy of social inclusion and a more equitable distribution of income. Under the Humala administration Peru's free trade policy continued. Since 2006 country has signed trade deals with the US, Canada, Singapore, China, Korea, Mexico, Japan, the EU, the European Free Trade Association, Chile, Thailand, Costa Rica, Colombia, Panama, Venezuela, concluded negotiations with Guatemala, and begun trade talks with Honduras, El Salvador, India, Indonesia, Turkey and the Trans-Pacific Partnership. Also his cabinet passed several economic stimulation packages in 2014 to economic recovery, including reforms to environmental regulations in order to spur investment in Peru's lucrative mining sector. Country has signed trade pact between Mexico, Chile and Columbia about integration of services, capital, investment and movement of people called Pacific Alliance. Since that, when the pact entered into the force in 2/2009, total trade between Peru and the United States has doubled [7].

Economic risk of Peru is **moderate**. As mentioned Peru's economy was growing past years 5-9% driven growing consumer demand and increasing investments. Although the GDP per capita is low, USD 6,674.00, it continues to growth. Economy has benefited from market liberalization reforms in recent years and the poverty have improved from 48.5% in 2004 to 23.9% in 2013. However extreme income inequity continues. Peru rely on its commodity export such a gold, copper and silver as well as oil and gas and mineral deposits. Foreign direct investment inflows into mining and energy projects are strong [2].

2.3.2.3 Social

Peru is a representative republic divided on 25 regions. The population of Peru is 31.4 million inhabitants. Peru's population growth rate is 0.99% (2014 est.). Country has in 1960 just 9.93 million inhabitants, significant population growing is obvious. The ethnics groups in Peru - 45% of population are Amerindian, 37% are mestizo (mix of

the Amerindian and white), 15% of population is white, black, Japanese, Chinese, and other 3%. The official languages are – Spanish (84.1%), Quechua (13%) and Aymara (1.7%). Median age is, compared with Spain, very young, 27 years. Life expectancy at the birth is 73.48 years. Capital city of Peru is Lima. The greatest success in the social realm was decreasing the national poverty rate from 53% to 31% in the last decade [7]. According the GINNY coefficient of equivalised disposable income of household disposable income stood 45.3% (in 2012), one of the top highest in OECD nations. The Gini coefficient score of zero corresponds to complete equality while a score of one corresponds to complete inequality [10].

2.3.2.4 Technological

With investments to the mining and gas industries underway Peru's infrastructure is growing rapidly although Peru has already an extensive transportation system of highways and ports, railroads and airports to handle increased traffic.

Peru is increasing its telecom capacity rapidly as well. Success started in 1993 when the industry was privatized and now is experiencing growth from internet to radio and TV. According to Macro Economy Meter [39] Peru's Internet users equals to 39.2 per 100 people with a global rank 107 compared to Portugal's Internet users equals to 62.1 per 100 people with a global rank of 63. In Peru is the trend of growing since 2010 slightly decreased in compare with Portugal.

2.3.2.5 Legal

Peru ranked in the *Index of economic freedom* on the 47th freest place with it's 67.7 points, whereas the world average is 60.4. Its overall score is 0.3 points better than last year with improvements in freedom from corruption, labor freedom, and monetary freedom outweighing declines in business freedom, the management of government spending, and fiscal freedom. In the South and Central America/Caribbean region is Peru placed on the 8th place out of 29th position. In Peru economic freedom has declined by 0.9 points since 2011, in case of fiscal freedom, the management of government spending, business freedom, and labor freedom. The judiciary is vulnerable to political interference, and corruption remains pervasive [26].

According to Transparency International [14], compared with the Spain, Peru ranked with 38 points from 100 in 85th place (right After Jamaica and India) of total 174 countries studied. The average country score is 43/100, “indicating a serious corruption problem”. Compared with Portugal, which is placed with 63 points from 100 ranked in 31rd place.

2.3.3 PESTL Analysis Columbia

Due to AMB Country List Report [2] is Colombia evaluated with Country Risk Tier CRT-4 (**moderate**). As mentioned above, the CRT scale has 5 levels, whereas CRT-1 is the best evaluation, and CRT-5 is the worst one. The GDP past years has rebounded since 2009 growing y 4.3% in 2013 with expectation 4.5% in 2014. Estimated rate for the near future is 4-5% growth.

2.3.3.1 Political

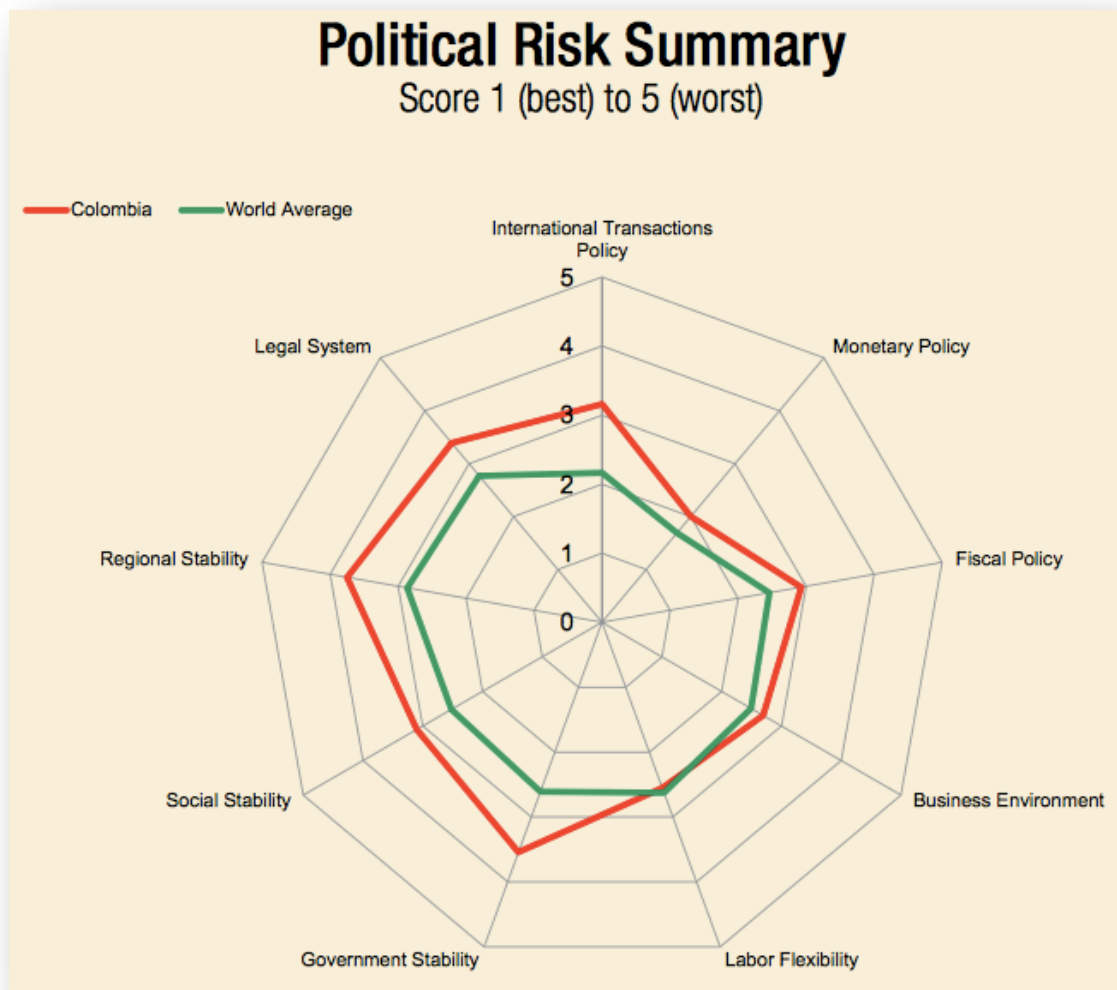
Political risk of Colombia is **high**. The government and president Santos, who win his second four term in 6/2014, has to face high poverty rates (32.7% of the population), extreme poverty rates (10.4% of the population) and lack of adequate housing. Also included unemployment, weak infrastructure and inequity are challenging topics for the government. The security remains a concern. Mainly due insurgent group called FARC⁹. Recent peace negotiations with the FARC rebels have resulted in 3 of 5 points on the agenda and after 50 years of terror the end seems likely. Colombia signed a free trade contract with the United States in 10/2011 which boosted the growth and trade. In 2013, 31.8% of exports and 27.7% of imports came from the United States [1].

Colombia is also placed in the 34th place, in the newest report of Doingbusiness.org [11]. It's just 1 position worse result than Spain. Compared to last year, Colombia did significant reforms of the particular business procedures and improved from the 53rd position to the current 34th. First improvement is elimination of the need for a provisional registration in the case of registering property. The second improvement is

⁹ FARC - *Fuerzas Armadas Revolucionarias de Colombia* is Colombian rebel ultra-left organization, which since the sixties lead a guerrilla war against the local government and paramilitary fronts (AUC). In the 80 years of their activities, joined the drug trade, which finance their activities [42].

to get credit easier. Colombia adopted a new secured transaction law that establishes a functional secured transactions system and a centralized, notice-based collateral registry. On the other hand, Colombia made more complicated paying taxes for companies by introducing a new profit tax (CREE). The placement presents the Ease of Doing Business rank (out of 189 economies).

At the following picture 5 is obvious except the labor flexibility, which is based on the unemployment rate is the rest of criterias worse than the world average.



Picture 6: Political Risk Summary Colombia (Source: [1])

2.3.3.2 Economic

Columbia benefits of consistently sound economic policy and very good and aggressive free trade agreements promotion in recent years. Also the GDP level is growing past four years and means almost decade of strong economic performance. The three major ratings agencies have upgraded Columbia's government debt to investment grade, what represent big opportunity to attract record investments, mostly in the hydrocarbons sector. As mentioned above, Columbia is heavily depended on energy and mining exports, making it vulnerable to a drop in commodity prices. Colombia is the fourth largest coal exporter in Latin America and the fourth largest oil producer. Due security situation, narco-trafficking, poverty, inequity and inadequate infrastructure is stymied economical development. However, the unemployment rate is still one of the highest in Latin America, 9.2% in 2014. Colombia as well as Peru signed Free Trade Agreement about the reducing the trade barriers which is important fact for economy. The US-Colombia FTA went into force on May 2012. In 2012 was Colombia founding member of the Pacific Alliance as mentioned above, their members are Peru, Mexico and Chile. In 2013 Colombia starts to its ascension process to the OECD. In 2014, Columbia made a tax bill reform to offset the lost revenue from the dropping oil prices. The SANTOS administration is also using tax reform to help finance implementation of a peace deal, in the event FARC and the government reach an agreement in 2015. Colombian officials estimate an economic growth by almost 2% [6].

Although the political risk is *high*, the economical risk according to A.M. Best Country Risk Report [1] the economical risk is *moderate*. Columbia's economy is driven by export market, especially petroleum, coffee and cut flowers. The domestic demand has increased recent years, it reduced Columbia's vulnerability to global economic conditions and changes in demand. As mentioned Colombia since economic slowdown in 2009 is experiencing an economic recovery. It grew by 4.3% in 2013 and is expected growing at 4-5%, driven the increased domestic demand and expansion in the oil and mining sectors as global demand recovers. Colombia policy of supporting an open markets and the strong private sector is applied. Also enhancing flows of investment and encouraging entrepreneurship is implemented. Foreign direct investment has been slowly increasing, despite occasional setbacks due to volatile inflows into oil and mining.

2.3.3.3 Social

Colombian population is 47.66 million inhabitants with stable growth over 1% annually. The major ethnic group are mestizo and white 84.2%, Afro-Colombian (includes multatto, Raizal, and Palenquero) 10.4%, Amerindian 3.4%, Roma <.01, unspecified 2.1%. Spoken language is Spanish. As of 2014, 68.14% of the Colombian population belonged to the 15–64 age group and 24.94% to the 0–14 age group. The median age was 28.9 years in 2014, indicating that the country has a demographic advantage in terms of the number of people of working age. Colombian society is highly inequitable, as 1% of the population holds nearly 40% of the country's wealth. Nearly 34% of Colombians live below the poverty line. The main problem of Columbia is facing legal and illegal economic emigration. The beginning is dated in 1960's. Forced displacement remains prevalent because of violence among guerrillas, paramilitary groups, and Colombian security forces. The estimated number of emigrants is 400,000 of whom live primarily in Venezuela and Ecuador. However, the main host countries continue to be Venezuela and the United States. Historically, Colombia also has one of the world's highest levels of forced disappearances. About 30,000 cases have been recorded over the last four decades - although the number is likely to be much higher [6].

2.3.3.4 Technological

According to Macro Economy Meter [38] Colombia's Internet users equals to 51.7 per 100 people with a global rank 82 compared to Portugal's Internet users equals to 62.1 per 100 people with a global rank of 63. In Colombia is the trend of growing last years slightly faster in compare with Portugal.

Research and development expenditure (% of GDP) in Colombia was 0.17 as of 2012. Its highest value over the past 16 years was 0.30 in 1996, while its lowest value was 0.11 in 2000 [32].

Columbian manufacturing innovation survey claims [29], only 9% of the manufacturing companies has Research and Development departure and only 1% of total manufacturing work force is employed in Research and Development related activities.

2.3.3.5 Legal

Due to *Index of Economic Freedom* [25], an annual guide published by The Wall Street Journal and The Heritage Foundation, which is the Index, which covers 10 freedoms, from property rights to entrepreneurship – in 186 countries, Colombia has ranked on the 28's place with it's 71.7 points. Compared with the world average, it's result is 60.4 points. Its overall score is 1.0 point higher than last year, with the improvement in six of the ten economic freedoms. Over the past 5 years the economic freedom has been risen by 3.7 points. The biggest improvement was an 8,0-point improvement in trade freedom. Colombia was evaluated as 2nd freest of 29 countries in South and Central America. Due to conflict with FARC rebels continuing to erode institutions. Corruption occurred on the different levels of public institutions. Although the courts have demonstrated a degree of independence from the executive, but the justice system remains compromised by corruption and extortion.

According to Transparency International [14] and compared with the Spain and Peru, Columbia ranked with 37 points from 100 in 94th place (right with Armenia and Egypt) of total 174 countries studied. The average country score is 43/100, "indicating a serious corruption problem". Compared with Portugal, which is placed with 63 points from 100 ranked in 31rd place.

2.3.4 PESTL analysis summary

The most obvious is the level of comparism of political risk in South America. Peru and Colmbia are not very stable countries nevertheless with time passing situation getting better. Still Columbia is having problems with FARC (see above), drug cartel who is controlling the country, kidnapp, kill people and affect state institutions and executive power. On the other hand, Peru political risk is only moderate, Peru struggling with problems in VRAE (see above) region, where are lot of problems with drug violence and corruption. Spain is except conflicts with Catalan region politically stable. Spain straggle with issue of unemployment, which is one of the highest in European Union. On the other hand, Spain made significant changes to run business easier and placed in 33rd place in the report of Doingbusiness.org [13]. That sight possibility to the future more potential customers, due more business units in Spain. Latin countries, Colombia

and Peru experience almost permanent economic growth past half of decade, also caused free trade zone established between other countries Latin America (see the list above). Even though according doingbusiness.org [11][12] Peru and Colombia have potential as Spain set up businesses (as placed on 35th respectively 34th place of 189, which is one place after Spain). Especially Colombia improved by particular business reforms. According legal environment, Spain was evaluated as **moderately free** economy. As placed 49th of 186 countries, thanks to monetary freedom, investment freedom and government spending, the result was growing first time after five years. Spain as South American is struggling with corruption. Peru and Colombia are placed 47th respectively on 28th place. Columbia improved a lot in trade freedom and also Columbia was placed on 2nd place in whole South and Central America. Although the courts have demonstrated a degree of independence from the executive, the justice system remains compromised by corruption and extortion. GDP is growing rapidly in the case of South American Peru and Colombia (approx. 5% yearly), Spain's economy after the 2009 drop is struggling however in 2014 finally marked full year of positive economic growth in past seven years. Regarding all particular information, author consider that except South American political uncertainty can be evaluated as interesting, possible growing market with investment possibilities. On the other hand, Spain was politically and economically struggling past years, however Portuguese and Spanish environment has certain similarities and could be predicted similar behaviour of the local customers as in Portugal.

2.4 Porter five forces model

In this five forces model is analysed the microeconomic environment of the company. Analysis would be reflected in this report in order to provide a view which value is created and divided among existing and potential industry participants.

2.4.1 Bargaining Power Of Suppliers

In the case of ABC Ltd., due company is providing services and consultancy according establishment of companies in jurisdictions where company operate, the company is depended on the getting the license from license provider, in this case is it SDM

Madeira (**Sociedade de Desenvolvimento da Madeira, S.A.**) [28]. As a part of responsibility, the SDM receiving and issues, in cooperation with the Regional Government of Madeira, the licences for companies to operate within Madeira's IBC. In addition, it collects the registration and annual licence fees that are due to the Autonomous Region of Madeira by companies licensed and by ships registered. Although the company scope is wider than just establish and manage new companies, the bargaining threat could be assume as **high**.

2.4.2 Threat of substitutes

As substitute of establish a company in Madeira, could be considered to establish a company in any tax heaven jurisdiction. The advantage of tax heaven jurisdictions is minimal tax burden compare with the tax policy in the most countries. Although these jurisdictions are usually discriminated by other “common” tax countries. With this point of view is establish a company in Madeira 100% legal and agreed with the European Union. It would be responsibly to say there is **low** threat of substitutes.

2.4.3 Rivalry of existing competitors

The level of rivalry threat is assumed as **moderate**. On the Madeira’s market operate over twenty management companies. The ABC Ltd., is considered as one of the “big three”. The oldest one, Dixcart is providing international business support services for over forty years (approximately twenty years on Madeira). Company operate in other ten jurisdictions with headquarters in UK. Madeira Management is one of the oldest companies in Madeira set up in 1989 and is considered to be a leader on the market. ABC Ltd. has stable client basement, thanks a clients satisfaction with services provides¹⁰ (see chapter 2.1). No one of these companies is not attracting the clients in South America yet. For ABC Ltd. could means a competitive advantage.

¹⁰ Internal research of the company

2.4.4 Threat of new entrants

As written above, in the market operates over twenty companies which means the market is relatively saturated. These companies have a tradition and very good knowledge of market and contacts. Company doesn't have any information about oncoming entry of any other big competitor on the Madeira's market. Consider all circumstances, threat level of new entrants is **moderately low**.

2.4.5 Bargaining power of buyers

Bargaining power of buyers is considered **high**. Due existing possibilities to change a supplier easily (in accordance written above, enough competitors on the market). Customer has many possibilities while choosing the right company for its needs. Also there are low or non-existing switching costs. Company ABC Ltd. basically offer the similar services as its competitors (the main objective is to manage companies established in Madeira), means customers have more bargaining power because of weak differentiation.

2.5 Financial analysis

The basis for the financial analysis I used the company's profit and loss accounts together with the budget for weight loss in the period between 2013 and 2014. The financial analysis is to reveal strengths and weaknesses, along with an analysis of company performance and financial evaluation of the current situation.

2.5.1 Horizontal analysis

In horizontal analysis we measure both in absolute and relative level of an item is changed the financial statement. Given that compare the data in each row, we are a horizontal comparison.

Table 7: Horizontal analysis of assets (Source: own source) in thousands €

| | 2013 | 2014 | Difference | Difference [%] |
|---------------------------|-----------------|-----------------|-------------------|---------------------------|
| TOTAL ASSETS | 1,837.89 | 1,824.79 | -13.10 | - 0,71% |
| Non-current assets | 735.97 | 709.73 | -26.24 | -3,57% |
| Fixed assets | 539.90 | 538.26 | -1.64 | -0,30% |
| Intangible assets | 50.37 | 28.98 | -21.39 | -42,47% |
| Investment Properties | 145.70 | 142.49 | -3.21 | -2,20% |
| Current assets | 1,101.92 | 1,115.06 | 13.15 | 1,19% |
| Accounts receivable | 687.71 | 674.68 | -13.03 | -1,89% |
| Cash and bank deposits | 387.06 | 404.82 | 17.76 | 4,59% |
| Accruals | 27.15 | 35.56 | 8.42 | 31,01% |

Significant change is obvious in the level of Intangible assets, which declined about 42.47% compared in 2013. Due that is possible, because of depreciation, a value of greater amount of property as a result of time declined. Also an item “Accruals” is significantly changed, increased about 31%, which will be affected the next accounting period and taxes. More invoices associated with a given year probably may not have been delivered in the financial statements on time. Cash and bank deposits increased, which has a positive affect to quick ratio measurement. In the following figure are identify Assets at the 2013 and 2014.

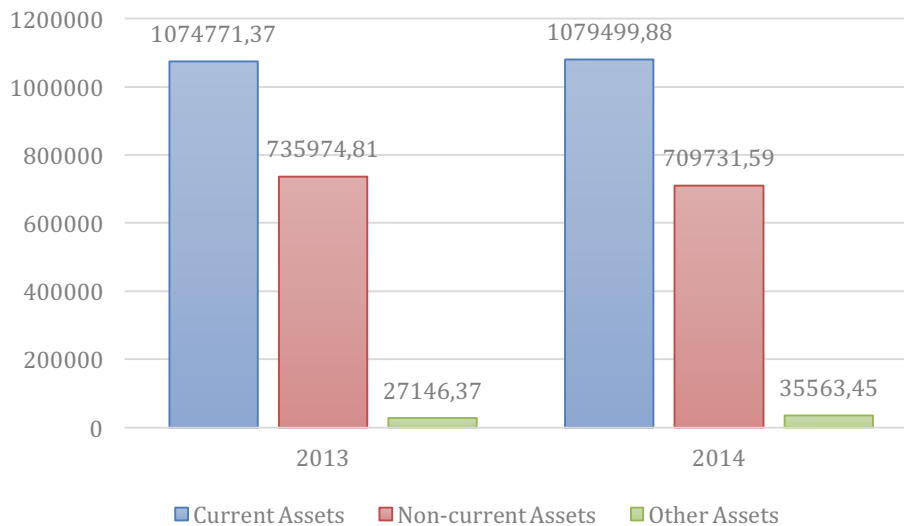


Figure 2: Structure of assets in particular years (Source: own work) in €

In the following table is shown the horizontal analysis of liabilities.

Table 8: Horizontal analysis of liabilities (Source: own source) in thousands €

| | 2013 | 2014 | Difference | Difference [%] |
|---------------------------------|-----------------|-----------------|----------------|----------------|
| TOTAL LIABILITIES | 1,837.89 | 1,824.79 | -13,10 | - 0,71% |
| Current liabilities | 411.95 | 310.29 | -101.66 | -24,68% |
| Accounts payable | 251.50 | 242.06 | -9.44 | -3,75% |
| Taxes payable | 56.15 | 18.65 | -37.49 | -66,77% |
| Deferred revenue | 98.60 | 46.23 | -52.37 | -53,11% |
| Short-time debt | 5.70 | 3.35 | -2.35 | -41,27% |
| Non- Current liabilities | 7.23 | 7.23 | 0,00 | 0,00% |
| Reserves | 7.23 | 7.23 | 0,00 | 0,00% |
| Stockholder's Equity | 1,418.31 | 1,507.27 | 88.96 | 6,27% |
| Capital | 55.00 | 55.00 | 0,00 | 0,00% |
| Reserves | 606.87 | 606.87 | 0,00 | 0,00% |
| Retained earnings | 0 | 253.82 | 253.82 | -- |
| Other changes in equity | 0 | 16.81 | 16.81 | -- |
| Current period profit | 756.45 | 574.32 | -18.21 | -24,07% |

At the table 8 is clear that the liabilities are decreasing. On the other hand, the Stockholder's Equity is slightly increasing.

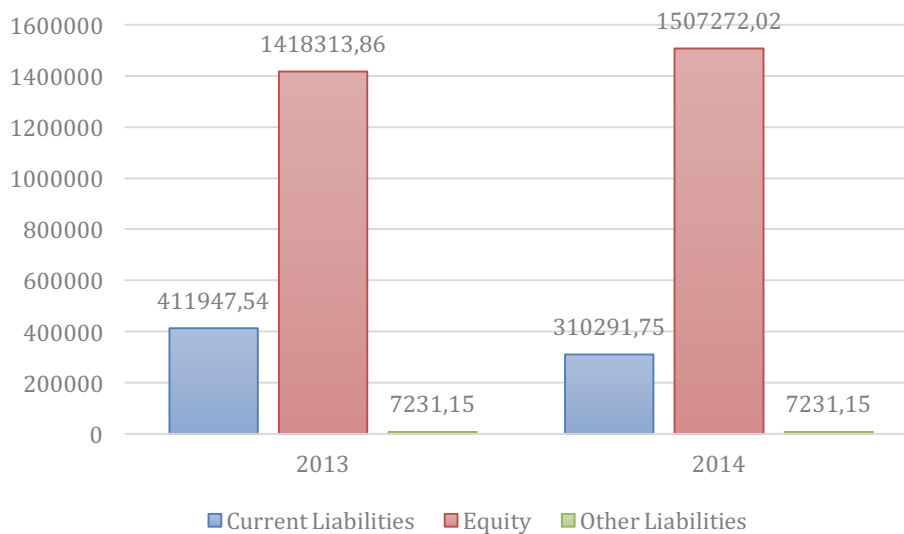


Figure 3: Structure of liabilities in particular years (Source: own work) in €

2.5.2 Vertical analysis

Vertical analysis focuses mainly on the contrary, the share of individual items of the balance sheet total (ie. eg. the proportion of fixed assets to total assets, liabilities in total liabilities, etc.). Precisely because it is an analysis technique processed in each year from top to bottom, not across years, we call this type of analysis, vertical analysis.

Table 9: Vertical analysis of assets (Source: own source) in thousands €

| Item | 2013 | 2014 | Share | | Structure changing [%] |
|--------------------|----------|----------|---------|---------|------------------------|
| | | | 2013 | 2014 | |
| Total Assets | 1,837.89 | 1,824.79 | 100,00% | 100,00% | 0,00% |
| Non-current assets | 735.97 | 709.73 | 40,04% | 38,89% | -1,15% |
| Fixed assets | 539.90 | 538.26 | 29,38% | 29,50% | 0,12% |
| Intangible assets | 50.37 | 28.98 | 2,74% | 1,59% | -1,15% |

| | | | | | |
|------------------------|-----------------|-----------------|---------------|----------------|--------------|
| Investment Properties | 145.70 | 142.49 | 7,93% | 7,81% | -0,12% |
| Current assets | 1,101.92 | 1,115.06 | 58,48% | 59,151% | 1,15% |
| Accounts receivable | 687.71 | 674.68 | 37,42% | 36,97% | -0,45% |
| Cash and bank deposits | 387.06 | 404.82 | 21,06% | 22,18% | 1,12% |
| Accruals | 27.15 | 35.56 | 1,48% | 1,95 | 0,47% |

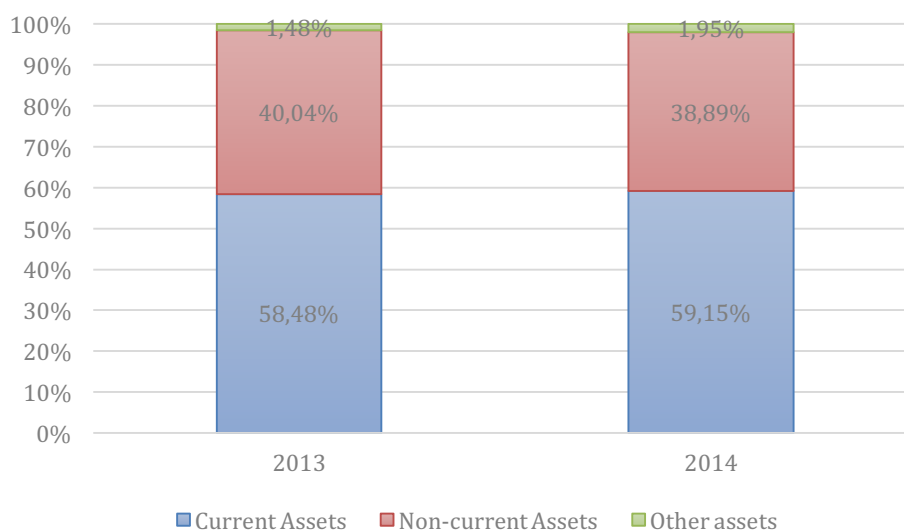


Figure 4: Structure of assets in particular years (Source: own work)

In the following Table 11 is shown vertical analysis of liabilities.

Table 10: Vertical analysis of liabilities (Source: own source) in thousands €

| | 2013 | 2014 | Share | | Structure changing [%] |
|----------------------------|-----------------|-----------------|---------------|---------------|------------------------|
| | | | 2013 | 2014 | |
| TOTAL LIABILITIES | 1,837.89 | 1,824.79 | 100,00% | 100,00% | 0,00% |
| Current liabilities | 411.95 | 310.29 | 22,41% | 17,00% | -5,41% |
| Accounts payable | 251.50 | 242.06 | 13,68% | 13,26% | -0,42% |
| Taxes payable | 56.15 | 18.65 | 3,05% | 1,02% | -2,03% |

| | | | | | |
|---------------------------------|-----------------|-----------------|---------------|---------------|--------------|
| Deferred revenue | 98.60 | 46.23 | 5,37% | 2,53% | -2,83% |
| Short-time debt | 5.70 | 3.35 | 0,31% | 0,18% | -0,13% |
| Non- Current liabilities | 7.23 | 7.23 | 0,39% | 0,40% | 0,00% |
| Reserves | 7.23 | 7.23 | 0,39% | 0,40% | 0,00% |
| Stockholder's Equity | 1,418.31 | 1,507.27 | 77,17% | 82,60% | 5,43% |
| Capital | 55.00 | 55.00 | 2,99% | 3,01% | 0,02% |
| Reserves | 606.87 | 606.87 | 33,02% | 33,26% | 0,24% |
| Retained earnings | 0 | 253.82 | 0,00% | 13,91% | 13,91% |
| Other changes in equity | 0 | 16.81 | 0,00% | 0,92% | 0,92% |
| Profit for the current period | 756.45 | 574.32 | 41,16% | 31,48% | -9,68% |

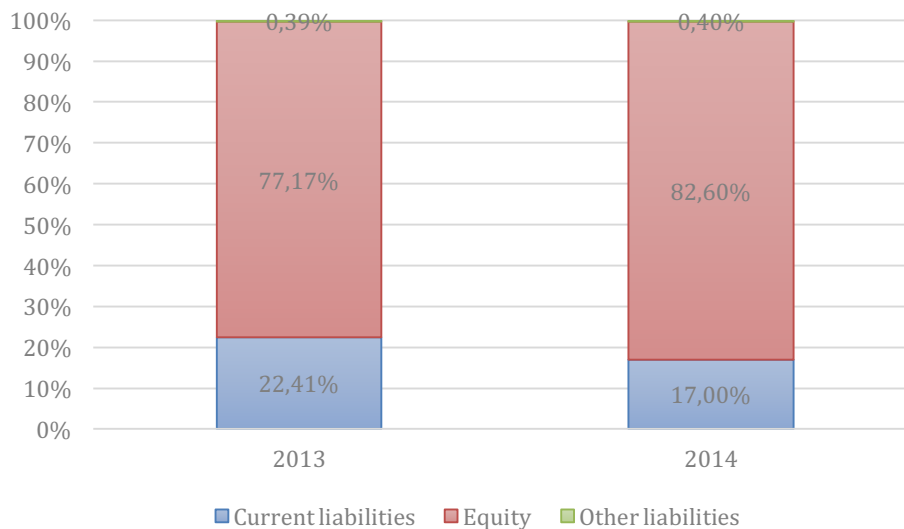


Figure 5: Structure of liabilities in particular years (Source: own work)

2.6 Financial indicators

Financial analysis works with a number of financial indicators. This thesis is concerned with the most telling of them, which are presented in subsequent chapters.

2.6.1 profitability ratios

Profitability ratios belongs to a series of so-called. "Ratios. They are able to assess the effective operation of the company, both in terms of ownership, as well as potential investors.

Table 11: Profitability ratios (Source: own work)

| Ratio | 2013 | 2014 |
|------------------------------------|-------|-------|
| <i>ROA – Return of Assets</i> | 0.435 | 0.333 |
| <i>ROI – Return of Investments</i> | 0.412 | 0.315 |
| <i>ROE – Return of Equity</i> | 0.533 | 0.381 |
| <i>ROS – Return on Sales</i> | 0.426 | 0.335 |

ROI (Return On Investment) indicates potential investors evaluate their investments. The recommended value of the indicator of profitability of investment is 12% to 15%. In the last reporting year, the ROI of 31.5%. This means that one feels embedded EUR 31.5 cents of profit. It is calculated as the sum of earnings before taxes and interest expense divided by total capital.

ROA (Return on Assets) is an indicator that gives a ratio of profit and total assets. This indicator is a key measure of profitability, respectively. the profitability of the entire company. Expressed as a percentage, and the higher the value, the more profitable enterprise. It shows how efficiently the company create a profit regardless of the sources that we make a profit (if it is a source of self or foreign).

ABC Company, Ltd. exhibits in the period achieves excellent positive 33,3%. ROA level should be at least 8%.

ROE (Return On Equity) inform the assessment of its own liabilities. It gives a ratio of net income and equity. It is recommended that ROE at least 10%. The company also has a value in each year is higher than the value of ROA, which means that effectively uses its own resources. The company again achieved above-average appreciation of the value of its own liabilities 38.1% in 2014.

ROS (Return on Sales) indicates the proportion of profit margins, or if the margins on total revenues. This indicator varies by industry. It is true that industries with large

turnovers eg. Supermarkets have a relatively low ROS, while highly capital-intensive industry such. Manufacture of machinery for earthworks have a share of profits on higher sales.

This indicator is highly dependent on the industry, ranging from 2% to 50%. The desired value should be above 10%. The company has again very good and similar values, 33.5%.

2.6.2 Liquidity indicators

Liquidity indicators also belongs to the group of ratios. Indicators of liquidity while focusing on the company's ability to meet its short term obligations in the event of unexpected problems. Liquidity ratios are presented in the following table.

Table 12: Liquidity indicators (Source: own work)

| <i>Indicator</i> | 2013 | 2014 |
|---------------------------------|-------------|-------------|
| <i>Current Ratio</i> | 2.675 | 3.594 |
| <i>Quick Ratio¹¹</i> | 2.675 | 3.594 |
| <i>Cash Ratio</i> | 0.940 | 1.305 |

Current liquidity indicator shows the number of times the company is able to satisfy the claims of creditors in the case where transform all of its current assets to cash. In 2014, he reached a high value 3.59. This indicator is above the recommended values (recommended values range from 1.5 to 2.5).

Quick ratio reduces current assets on the stock. Recommended values are in the range from 1 to 1.5. The resulting values were again above recommended. In cash in addition to financial assets included extra short-term receivables.

Cash ratio expresses the immediate ability of the company to pay its current liabilities. The recommended value is between 0.2 to 0.5. The resulting values were again above recommended. This can be deduced that the company has no problems with the ability of their short-term funds to pay immediate obligations. This is the strictest level of liquidity. Company had a double level value.

¹¹ Quick ratio has the same value as Current ratio because the company doesn't have any inventories.

2.6.3 Activity indicators

They describe how effectively a company manages its assets. The outcome is important information for company owners and management. The following table uses the following indicators of asset management:

Table 13: Activity indicators (Source: own work)

| <i>Indicator</i> | 2013 | 2014 |
|----------------------------------|-------------|-------------|
| <i>Total Assets Turnover</i> | 0.97 | 0.94 |
| <i>Turnover of fixed assets</i> | 3.29 | 3.18 |
| <i>Average Collection Period</i> | 141 | 144 |

Total asset turnover, also referred to as the productivity of capital employed measures the efficiency of utilization of all the assets in the company. It shows how to add value to our assets in production activities regardless of their source of coverage. Turnover of total assets indicates how many crowns of sales accounted for one crown assets. The recommended value is at least 1. In the last year the turnover of total assets fell below the recommended value but only just. In my recommendations to the company should examine the possibilities for an effective reduction of its total assets.

Turnover of fixed assets is an indicator of the efficiency of utilization of buildings, machinery, equipment, vehicles and other fixed HIM. Any unfavourable value indicates its low usage and alerts the production to increase utilization of its production capacity. It is also an indication for the managers to limit corporate investment. The amount of the company is huge, normally recommended value is at least 1.

Average Collection Period, or the maturity of the debt tells us, for how long (on average) the customer pays us; Thus, how long have these receivables tied our finances. Turnaround time commitment establishes that (on average) elapses between the purchase of supplies and external operations and their payment; Thus, what is the morale of our payment to our creditors. The period of turnover is huge. In practice, a value of about 14 days considered a great value and over 70 days for not very satisfactory. The company should use some factoring companies for the purchase of

foreign short-term debt, thereby ensuring a quick turnaround funds for its other investments.

2.6.4 Summary

Financial analysis proves a basic company's analysis, to make a better frame about the financial situation of the company. At the most measurements company has a very good results, as sign financially healthy company with a potential to make an investment. In the next part will be done SWOT analysis of the project.

2.7 SWOT ANALYSIS

The SWOT analysis is a summary of previous outcomes previously recognized and based on conducted analysis gained of analyse external and internal environment. External analyse identified opportunities of the company on the other hand as well the possible threats. Whereas internal analyse has shown the company strengths and weaknesses.

Table 14: ABC Ltd. SWOT analysis (Source: own work)

| STRENGTHS | WEAKNESSES |
|--|---|
| <ul style="list-style-type: none"> ▣ Financial situation ▣ Part of "big three" ▣ Experiences ▣ Client satisfaction | <ul style="list-style-type: none"> ▣ Ceased to be exclusive connection to Madeira's jurisdiction ▣ Low or non-existing switching costs ▣ Dependence on SDM |
| OPPORTUNITIES | THREATS |
| <ul style="list-style-type: none"> ▣ Internationalization ▣ Increase competitiveness ▣ Possibility of financing project by EU | <ul style="list-style-type: none"> ▣ Political risks ▣ Changes in legislative terms ▣ Entry of foreign competitors on the market |

Based on this standard method, used for the presentation of analytical tools can be identified Strengths, Weaknesses, Opportunities and Threats of the ABC, Ltd. Company. The mutual evaluation of factors strengths and weaknesses on one side with respect to the opportunities and dangers on the other hand, we get a new qualitative information that characterize and evaluate the level of their mutual conflict.

SWOT analysis of the above can be seen that the company has the potential to expand its operations to other countries and cause of ceased to be exclusive connection to Madeira's jurisdiction company need to take steps to prevent stagnation or decline of orders. Company has long experience in the market and once foreign markets penetrated. Financial situation is stable and company has own equity to realize project without necessity of foreign capital. Company has to pay attention on political risks in South America and possible changes in legislative terms. And because of company is ceased to be exclusive connection to Madeira's jurisdiction, as a potential seems internationalization with the support of EU subsidies. By expansion company will eliminate risks of concentration of operations on single market.

3 Proposed solution

In this part of my thesis is processed own designs project plan. I focused on a detailed description of the project (design cycle and the actual output of the project) and to the financial aspects of the project.

3.1 Project characteristic

The ABC, Ltd. is a management company established over 20 years ago to provide services to customers of the International Business Centre of Madeira (IBC). Throughout these two decades, the company has gained much experience and credibility in the management of companies in the IBC, currently being one of the three largest management companies in the region.

Due to progressive obstacles and conditionalities that the IBC has been subject in recent years (which have been reducing the competitiveness of jurisdiction), the ABC, Ltd. felt increasing difficulties in keeping customers and especially in attracting new customers. It therefore considered that the best way of overcoming them would be its internationalization, capitalizing on the know-how obtained over these two decades in Madeira, so it began operations in 2013 in Malta, another low-tax jurisdiction.

The first phase of the ABC, Ltd. internationalization strategy had as main objective the company gained notoriety and market share in a new jurisdiction, while adjusting to a new product, new communication tools and a more global dimension. To this end, the company created a global brand has adopted an innovative and aggressive marketing strategy, more customer-focused, based on a strong brand, sophisticated systems and modern communication tools, such as webinars, online meetings, promotional videos (demos) and social networks.

However, with the experience gained during this first phase, the ABC, Ltd. understood that international markets were so competitive and sophisticated, that way of success depended not only a strong brand and modern communication tools. In these markets, there are not only many more competitors, as customers are demanding and are well

prepared to analyse the supply of available services, constantly being addressed with alternative proposals from different service providers. Therefore, to succeed internationally, it is necessary to ensure ABC, Ltd. to your target customers a close, not only in terms of physical availability as understanding of their needs, to provide timely and relevant information, ongoing monitoring of opportunities for ensure its implementation, and further support to ensure satisfaction with the services purchased and maximize the recommendation of probabilities and use more services. This closeness is possible only through a continuous presence in select international markets, in this case Spain and Latin American markets, and the adoption of very sophisticated tools to identify and manage new business opportunities.

3.1.1 Presence in Spain

In February 2014, the ABC, Ltd. started offering all available information on the site and the blog in a third language, Spanish. However, the mere provision of information in one language is not enough to arouse interest among our target customers, let alone to generate real business opportunities. Similarly, the timely organization of promotional activities in this market, although providing a personal contact highly valued by potential customers, it has proven insufficient to achieve these objectives.

In this sense, ABC, Ltd. plan to hire in Spain the services of a specialist consultant, who has a deep knowledge of the market and target customer needs, so being able to identify potential customers and respective needs, define appropriate solutions, produce timely information and relevant, generating a consistent flow of new business opportunities and follow up different opportunities in order to enhance its implementation.

In parallel, ABC, Ltd. will implement an aggressive *Business Development Plan* directed to this market, to maximize the generation of new business opportunities, complementing and enhancing the work of the consultant in Spain.

3.1.2 The Business Development Plan

To achieve its goals, the international *business development plan* of ABC, Ltd. is divided into two areas, taking place simultaneously and in an integrated manner: a

content management plan and a *lead* generation plan and opportunity management business.

3.1.2.1 Content Management System

Through its content management plan, ABC, Ltd. will involve all its contacts, current and potential, in a conversation that takes place throughout the year through the different communication channels (blog, website, social networks). By creating quality content, ABC, Ltd. will attract potential clients, educating them to the different opportunities offered by the jurisdictions in which it operates and stimulating personal contacts that result later on real business opportunities.

This Content Management System is rooted in a "marketing automation" tool, Pardot, which allows us to identify the best quality leads from your online activity, creating customized and targeted emails, based on the behavior of leads, accelerate the pipeline sales and better identify the ROI of our online marketing actions. The Pardot interconnects with Customer Relationship Management system used by ABC, Ltd., the Salesforce.com, which mainly supports the management of business opportunities, in this platform is that register all interactions with leads already prone to conversion.

The ABC, Ltd. content management plan involves the preparation of articles, alerts, relevant news, relevant and timely transmitted as well as the production of promotional materials (digital brochures, webinars, demos, infographics) adapted to international markets and designed taking into account the new tools and digital platforms.

On the other hand, once created, the content has to be encouraged in appropriate platforms, and its disclosure should be maximized through Search Engine Optimization and Search Engine Advertising tools as well as positioned in thematic areas and discussion groups related to subjects in order to precisely reach the intended targets. To this extent, the promotional campaigns professional social networks, such as the LinkedIn, should be target of additional investment in view of its higher efficacy.

3.1.2.2 Lead management and opportunities

Effective management of the international business development plan implies a good impression of management capability on the part of "sales" Team ABC, Ltd., management that becomes more difficult and complex when the team is physically distant headquarters as the case. To this extent, and to better coordinate and evaluate the work of the expert consultant in Spain, it is essential that ABC, Ltd. refer to new technologies designed specifically to optimize the management of such activities, and it is therefore essential enlargement of users and tasks within of Salesforce.com, as well as the adoption of a new analysis tool and reporting, the Insightsquared, which integrates with Salesforce and allows a reliable and quality reporting, both in historical terms as prospective.

3.2 The strategy and goals of project

As written above, the ABC, Ltd. already entered in Spanish market in 2014, but understood thereafter, that just provide information in the local language is not enough to attract new clients. It is necessary to ensure ABC, Ltd. will be closer to the target customers. Understanding their needs is crucial, to provide quality and relevant information, ongoing monitoring of opportunities for ensure its implementation, to ensure the future satisfaction with the services provided for their clients and maximize the recommendation of probabilities and use more services. This closeness is possible only through a continuous presence in select international markets, in this case Spain and Latin American markets. Thanks highly motivated experts will be company closer and define appropriate solutions, produce timely information and relevant, generating a consistent flow of new business opportunities and follow up different opportunities in order to enhance its implementation. Company will also start marketing campaign mainly focused on social networks such as the LinkedIn, which should be additional target in view of its higher efficacy.

Goals of project:

- ▣ Growth of competitiveness.
- ▣ Improving market position.
- ▣ Attract new clients.
- ▣ Increase in sales.
- ▣ Gain notoriety and market share in a new Jurisdiction

3.3 Project outputs

From the output of the project will be met key strategic objectives and sub-specific objectives set out in section 3.2 Partial results of the project:

The promoter of the company intends to operate in the following markets:

- Spain
- Colombia
- Peru

It estimates that in the first year the unbilled amounts are:

- 50,000.00 (Spain)
- 25,000.00 (Columbia)
- 25,000.00 (Peru)

In the second year the values will increase with the forecast as follows:

- 100,000.00 (Spain)
- 50,000.00 (Columbia)
- 50,000.00 (Peru)

In the third year forecast as follows:

- 150,000.00 (Spain)
- 75,000.00 (Columbia)
- 75,000.00 (Peru)

The company will also increase assets and create new jobs for two new employees in the current office in Madeira. These employees will care about the new clients and provide them professional consultancy service and do an administrative work. Their salary will be € 1.500,00/month.

3.4 Project risks

Each project is also to be reckoned with negative influences that may threaten the viability of the project plan. It is necessary to identify these effects in advance and to ensure appropriate measures to eliminate them. The following points are intended to identify individual risks:

- hiring under-qualified workforce
- The impact of competitive companies in the region
- rejection of the subsidy requested from the EU funds
- lack of interest in the services offered
- risk activities associated with the timing of the project
- legislative changes
- political stability
- cost increasing

3.5 Financial analysis of project

It is an essential part of every project. There are basic economic indicators of the project plan, including investment costs for the project, and at the end of subchapter is given calculation of operating costs and project revenues.

3.5.1 Classification list of project components and schedule

The table below shows a summary of the investment costs for the acquisition every single items necessary for the operation of the project.

Table 15: Project components and schedule (Source: own work)

| <i>ID</i> | <i>Description of Good / service</i> | <i>Place</i> | <i>Initiate date</i> | <i>Completion date</i> | <i>Total (€)</i> | <i>Description</i> |
|--------------|--|--------------|----------------------|------------------------|--------------------|--|
| #1 | Consulting services and implementation of Upgrade | Funchal | 20.07.2015 | 21.09.2015 | 14.500,00 | Software related to the development of the project |
| #2 | Hardware HP prodesk + memory + Hp Monitor | Funchal | 20.07.2015 | 21.09.2015 | 3.296,50 | Equipment, as they are used in the project |
| #3 | Strategy, Planning and Communication | Funchal | 20.07.2015 | 21.09.2015 | 54.000,00 | Marketing campaigns in foreign markets |
| #4 | Digital production | Funchal | 22.09.2015 | 22.12.2015 | 18.000,00 | Marketing campaigns in foreign markets |
| #5 | Online promotion | Funchal | 22.09.2015 | 22.12.2015 | 87.075,00 | Marketing campaigns in foreign markets |
| #6 | Software and customer management tools - CRM | Funchal | 22.09.2015 | 22.12.2015 | 79.289,00 | Marketing campaigns in foreign markets |
| #7 | Macbook PRO | Funchal | 20.07.2015 | 21.10.2015 | 2.885,37 | Equipment, as they are used in the project |
| #8 | iPhone 6 Plus | Funchal | 20.07.2015 | 21.10.2015 | 812,20 | Equipment, as they are used in the project |
| #9 | iPad Air | Funchal | 20.07.2015 | 21.10.2015 | 673,98 | Equipment, as they are used in the project |
| #10 | Primavera - Logistica e Financeira | Funchal | 20.07.2015 | 21.10.2015 | 14.239,32 | Software related to the development of the project |
| #11 | 6 HDD 300 GB | Funchal | 20.07.2015 | 21.10.2015 | 3.174,24 | Equipment, as they are used in the project |
| #12 | 3 HDD 16 GB for server | Funchal | 20.07.2015 | 21.10.2015 | 621,74 | Equipment, as they are used in the project |
| #13 | GSM ISDN / VoIP equipment | Funchal | 20.07.2015 | 21.10.2015 | 616,00 | Equipment, as they are used in the project |
| #14 | Multifunction Konica | Funchal | 20.07.2015 | 21.10.2015 | 9.394,00 | Equipment, as they are used in the project |
| #15 | Strategic management and production of contents for websites | Funchal | 20.07.2015 | 22.05.2016 | 90.000,00 | Studies, diagnosis and audits to the knowledge of the target markets and the internationalization strategy |
| #16 | Translations | Funchal | 20.07.2015 | 22.05.2016 | 8.797,50 | Studies, diagnosis and audits to the knowledge of the target markets and the internationalization strategy |
| #17 | Advisory and consulting in information technology | Funchal | 20.07.2015 | 22.05.2016 | 3.600,00 | Costs of project design, development and engineering of products, services and processes |
| #18 | Database Development | Funchal | 20.07.2015 | 22.05.2016 | 42.000,00 | Costs of project design, development and engineering of products, services and processes |
| #19 | New markets consultancy | Funchal | 20.07.2015 | 22.05.2016 | 178.806,00 | Promotion carried out in foreign markets |
| #20 | Drawing up an application (EU) | Funchal | 20.07.2015 | 21.10.2015 | 3.000,00 | Costs of the proposal writing and business plans directly related to the design |
| #21 | Preparing the final payment claim | Funchal | 19.07.2016 | 19.08.2016 | 4.000,00 | Cost of intervention Technical Officials Accountant |
| Total | | | | | €618.780,84 | |

Among the ineligible costs (ineligible expenditure) are expenditures that can not be paid from grant funds EU. In this case, it is ineligible value added tax on the purchase price of the individual items loaded 22%. After the sum of all of the eligible and ineligible costs we get the total cost of the project, which amounts to mil € 618.78.

3.5.2 Project assumptions

In the following table is taken in account the inflation rate in the future 10 years and also is set up average estimated expected paying of invoices by suppliers and clients. The amounts are set up to favouring the company, and due financial results from the chapter before, will be followed tougher payment terms for the clients.

Table 16: Estimated inflation rate and and set up supplier - customer relationship (Source: own work)

| | 2015 | 2016 | 2017 | 2018 | 2019 | ... | 2024 |
|---------------------------|----------|----------|----------|----------|----------|-----|----------|
| INFLATION RATE | 1.00% | 1.80% | 1.80% | 1.90% | 2.00% | | 2.00% |
| SUPPLIERS (GOODS) | 180 days | 150 days | 150 days | 150 days | 150 days | ... | 150 days |
| SUPPLIERS (OTHERS) | 180 days | 210 days | 210 days | 210 days | 210 days | ... | 210 days |
| CLIENTS | 15 days | 15 days | 15 days | 15 days | 15 days | ... | 15 days |

3.5.3 Financing sources

Table 17: Financial resources of the company (Source: own work) in thousands €

| SOURCES OF FINANCING | 2015 | 2016 | 2017 | TOTAL | % INVESTMENTS |
|------------------------------|-------|--------|------|--------|---------------|
| EQUITY | | | | | |
| SUPPLEMENTARY PAYMENT | 0.00 | 95.00 | 0.00 | 95.00 | 15% |
| SUB-TOTAL 1 | 0.00 | 95.00 | 0.00 | 95.00 | 15% |
| SELF-FINANCING | 31.93 | 244.34 | 0,00 | 276.27 | 45% |

| | | | | | |
|---------------------------------|-------|--------|------|--------|------|
| BORROWED CAPITAL | 0.00 | 0.00 | 0.00 | 0.00 | 0% |
| SUB-TOTAL 2 | 31.93 | 244.34 | 0.00 | 276.27 | 45% |
| INCENTIVE NON REFUNDABLE | 21.29 | 226.23 | 0.00 | 247.51 | 40% |
| REFUNDABLE INCENTIVE | 0.00 | 0,00 | 0.00 | 0,00 | 0% |
| SUB-TOTAL 3 | 21.29 | 226.28 | 0.00 | 247.51 | 40% |
| TOTAL INVESTMENT | 53.21 | 565.57 | 0.00 | 618.78 | 100% |

As seen above, company has enough capital to invest in the project and there is no necessity to apply for any bank loan. Company is economically strong. From the total investment will be (if the project recognized subsidies EU) 45% of total amount [5].

Among the ineligible costs (ineligible expenditure) are expenditures that can not be paid from grant funds EU. In this case, it is part of the incentives 40%. After the sum of all eligible and ineligible costs we get the total cost of the project, which amounts to thousands € 618.78.

3.5.4 Profit and Loss account

The tables below show an overview of the anticipated costs, revenues and cash flow in the operational phase of the project. Operational phase (or project life) will be 10 years. The project is already taking into account inflation (see. Table 16). The estimated sales (of services) are as written above (see chapter 3.3), for the first three years of running project, since 2019 is estimated 5% growth of sales. The whole profit and loss account table was divided on two parts due maintaining clarity. Due to investment financing from EU funds is necessary to realize that the depreciated purchase price of fixed assets reduced by the amount of the subsidy.

Table 18: Profit and Loss account Part 1 (Source: own work) in thousands €

| DESCRIPTION / YEARS | 2015 | 2016 | 2017 | 2018 | 2019 |
|----------------------------|-------------|-------------|-------------|-------------|-------------|
|----------------------------|-------------|-------------|-------------|-------------|-------------|

| | | | | | |
|---|--------|---------|--------|--------|--------|
| SERVICES | 0.00 | 100.00 | 200.00 | 300.00 | 315.00 |
| SUPPLIES AND EXTERNAL SERVICES | -38.99 | 0.00 | | | |
| PERSONNEL COSTS | 0.00 | 0.00 | | | |
| OTHER INCOME AND GAINS | 2.57 | -377.04 | 47.94 | 138.19 | 150.48 |
| DEPRECIATION | 6.43 | 6.43 | 6.43 | 6.43 | 4.08 |
| EARNINGS BEFORE TAX | -42.85 | -377.04 | 50.46 | 145.47 | 158.40 |
| TAX (5%) | 0.00 | 0.00 | -2.52 | -7.27 | -7.92 |
| NET PROFIT | -42.85 | -377.04 | 47.94 | 138.19 | 150.48 |

Table 19: Profit and Loss account Part 2 (Source: own work) in thousands €

| DESCRIPTION / | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|-------------|-------------|-------------|-------------|-------------|
| YEARS | | | | | |
| SERVICES | 324.45 | 330.94 | 337.56 | 344.31 | 351.20 |
| SUPPLIES AND EXTERNAL SERVICES | -93.50 | -95.22 | -96.98 | -98.77 | -100.15 |
| PERSONNEL COSTS | -64.22 | -66.07 | -67.95 | -69.88 | -71.87 |
| OTHER INCOME AND GAINS | 1.63 | 1.63 | 1.63 | 1.63 | 1.63 |
| DEPRECIATION | 4.08 | 4.08 | 4.08 | 4.08 | 4.08 |
| EARNINGS BEFORE TAX | 164.28 | 167.19 | 170.18 | 173.21 | 176.74 |
| TAX (5%) | -8.21 | -8.36 | -8.51 | -8.66 | -8.84 |
| NET PROFIT | 156.07 | 158.83 | 161.67 | 164.55 | 167.90 |

3.5.5 Cash flow

Table 20: Operating cash flow of the project Part 1 (Source: own work) in thousands €

| DESCRIPTION / YEARS | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------------------|--------|---------|---------|---------|---------|
| TANGIBLE FIXED ASSETS | 50.21 | 0.00 | | | |
| INTANGIBLE FIXED ASSETS | 0.00 | 0.00 | | | |
| CASH OUT FLOW | 50.21 | 0,00 | | | |
| NET INCOME | -42.85 | -377.04 | 47.94 | 138.19 | 150.48 |
| DEPRECIATION | 6.43 | 6.43 | 6.43 | 6.43 | 4.08 |
| CASH IN FLOW | -36.42 | -370.61 | 54.37 | 144.62 | 154.56 |
| CASH FLOW | -86.63 | -370.61 | 54.37 | 144.62 | 154.56 |
| UPDATED CF | -86.63 | -340.01 | 45.76 | 111.68 | 109.49 |
| ACCUMULATED CASH FLOW | -86.63 | -426.63 | -380.87 | -269.20 | -159.71 |

Table 21: Operating cash flow of the project Part 2 (Source: own work) in thousands €

| DESCRIPTION / YEARS | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------|--------|--------|--------|--------|--------|
| TANGIBLE FIXED ASSETS | | | | | |
| INTANGIBLE FIXED ASSETS | | | | | |
| CASH OUT FLOW | | | | | |
| NET INCOME | 156.07 | 158.83 | 161.67 | 164.55 | 167.90 |
| DEPRECIATION | 4.08 | 4.08 | 4.08 | 4.08 | 4.08 |
| CASH IN FLOW | 160.15 | 162.91 | 165.75 | 168.63 | 171.98 |
| CASH FLOW | 160.15 | 162.91 | 165.75 | 168.63 | 171.98 |
| UPDATED CF | 79.62 | 82.54 | 74.98 | 68.11 | 62.02 |

| | | | | | |
|----------------------------------|--------|------|-------|--------|--------|
| ACCUMULATED CASH FLOW | -80.08 | 2.45 | 77.43 | 145.54 | 207.56 |
|----------------------------------|--------|------|-------|--------|--------|

Discount rate is used for years 2016-2019 – 9% and for the rest years is calculated with 12%.

3.5.6 Payback

Payback is one of the traditional financial methods for evaluating the effectiveness of investment and determination of period over which the flow of annual net income will be equal to capital expenditure on the investment project. The disadvantages of this method are disregard the factor of time, and no consideration of the cash flows arising after the time of return.

Table 22: Payback (Source: own work) in thousands €

| YEAR | CASH FLOW | ACCUMULATED CASH FLOW |
|-------------|------------------|----------------------------------|
| 0 | -86.63 | -86.63 |
| 1 | -370.61 | -426.63 |
| 2 | 54.37 | -380.87 |
| 3 | 144.62 | -269.20 |
| 4 | 154.58 | -159.71 |
| 5 | 160.15 | -80.08 |
| 6 | 162.91 | 2.45 |

$$\text{Payback Period} = A + \frac{B}{C}$$

In the above formula,

A is the last period with a negative cumulative cash flow;

B is the absolute value of cumulative cash flow at the end of the period A;

C is the total cash flow during the period after A

$$\text{Payback Period} = 5 + (|-\text{€}80.08| / \text{€ } 162.91)$$

Payback Period = 5 + (€80.08 / € 162.91)

Payback Period = 5 + 0,49

Payback Period = 5 years 179 days

3.5.7 IRR

IRR (English Internal Rate of Return - IRR) in the US sometimes also known as Economic Rate of Return (English Economical Rate of Return - ERR) is telling us, what percentage of the evaluated project is earned, if is considered the time value of money.

$$0 = \sum_{t=0}^{10} \frac{CF_t}{(1+IRR)^t} - 50213,34 = \underline{\underline{22.62 \%}}$$

The result of IRR is almost $\frac{1}{4}$ of the project is earned, which is very good evaluation. Generally, especially in times of crisis IRR needs to be positive and the to be higher than the interest on savings accounts in banks which is fulfilled.

3.5.8 NPV

To determine the acceptability of the project for the company I used the net present value (NPV). Indicator belongs to methods based on cash flow evaluation of investment efficiency. Calculation of net present value (NPV) of the project is as follows:

$$NPV = \sum_{t=0}^{10} \frac{CF_t}{(1+r)^t} = \underline{\underline{207.556,97 \text{ Eur}}}$$

Result $NPV > 0$, for the company's investment in new production facilities acceptable and increasing the market value of the company for an amount thousand € 207.56.

Based on the results, the project is considered to be profitable and author recommend its realization.

Conclusion

The purpose of this thesis is to analyse the issue of subsidies from European Union funds, specifically on the Portuguese and island of Madeira. The aim of this thesis was with the help of knowledge from the theoretical part of the drafting of a possible project financed from EU funds in the current programming period 2014 - 2020. The thesis proposed project plan along with financing options for the processing needs of the company ABC Ltd. Furthermore, the financial analysis of the company is made and surveys the current state and financially evaluates the project and its return.

In the first part of the thesis, the theoretical part, are theoretical basis used, as well as critical analysis of the problems of drawing EU subsidies since the establishment of funds until to the current programming period 2014-2020. The paper describes the theoretical basis of operational program firstly in general and than specifically aiming to Portugal and Madeira.

In the second, analytical part, the author deals with the introduction of the company, based in Madeira, as well as a PESTL analysis of the company. On the basis of this draft is created PESTL analysis of selected countries where the company is going to operate and present itself. These countries were selected on the purpose based on communication with ABC, Ltd. Spain, Peru and Colombia. These countries, especially Peru and Colombia, experienced nearly constant economic growth and represent potential markets for the company. The realization of this investment project falls into consideration the opportunity to use subsidies from EU funds, which builds on the last part. Porter five forces analysis is also realized to make a framework of microenvironment of the company. Thanks SWOT analysis and evaluation of the various aspects of communication with the company author concludes the possibility of stagnation clientele company, the company should consider entry into other markets. Furthermore, it is followed by section, where is presented an outline of the project. At the end of the chapter are calculated financial analysis of the company, to provide a full framework of the company.

In the last part, the recommendation part, the work contains its own draft project plan. After a financial analysis it became clear that the company has a solid capital and is ready to meet all the requirements to meet specific operational program ERDF (European Regional Development Fund), namely the program

INTERNACIONALIZAR 2020, when this program is exactly what the company aims to increase competitiveness and increase sales and attract more clients. Chapter also contains a description of the project through concrete investment proposals, the time period and anal for financing through the use of subsidies. There are also quantifying the objective indicators of project eligibility on the basis of methods based on the criteria of profit and cash flow. Project funding of achievements are positive for the company, and therefore recommend the project for its implementation.

Resources

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List of Figures

| | |
|---|----|
| Figure 1: The Madeira Hierarchy (Source: own work inspired by [35])..... | 26 |
| Figure 2: Structure of assets in particular years (Source: own work) in €..... | 54 |
| Figure 3: Structure of liabilities in particular years (Source: own work) in €..... | 55 |
| Figure 4: Structure of assets in particular years (Source: own work)..... | 56 |
| Figure 5: Structure of liabilities in particular years (Source: own work)..... | 57 |

List of Pictures

| | |
|--|----|
| Picture 1: NUTS Evolution (Source [18]) | 18 |
| Picture 2: Country Risk Tier - Europe (Source: [3])..... | 34 |
| Picture 3: Political Risk Summary Spain (Source: [3]) | 36 |
| Picture 4: Country Risk Tier - Latin America (Source: [2])..... | 40 |
| Picture 5: Political Risk Summary Peru (Source: [2])..... | 42 |
| Picture 6: Political Risk Summary Colombia (Source: [1])..... | 46 |
| Picture 7: NUTS map of Portugal (Source: [24]) | 85 |
| Picture 8: Map 1 - Structural Funds (ERDF and ESF) (Source: [19])..... | 86 |

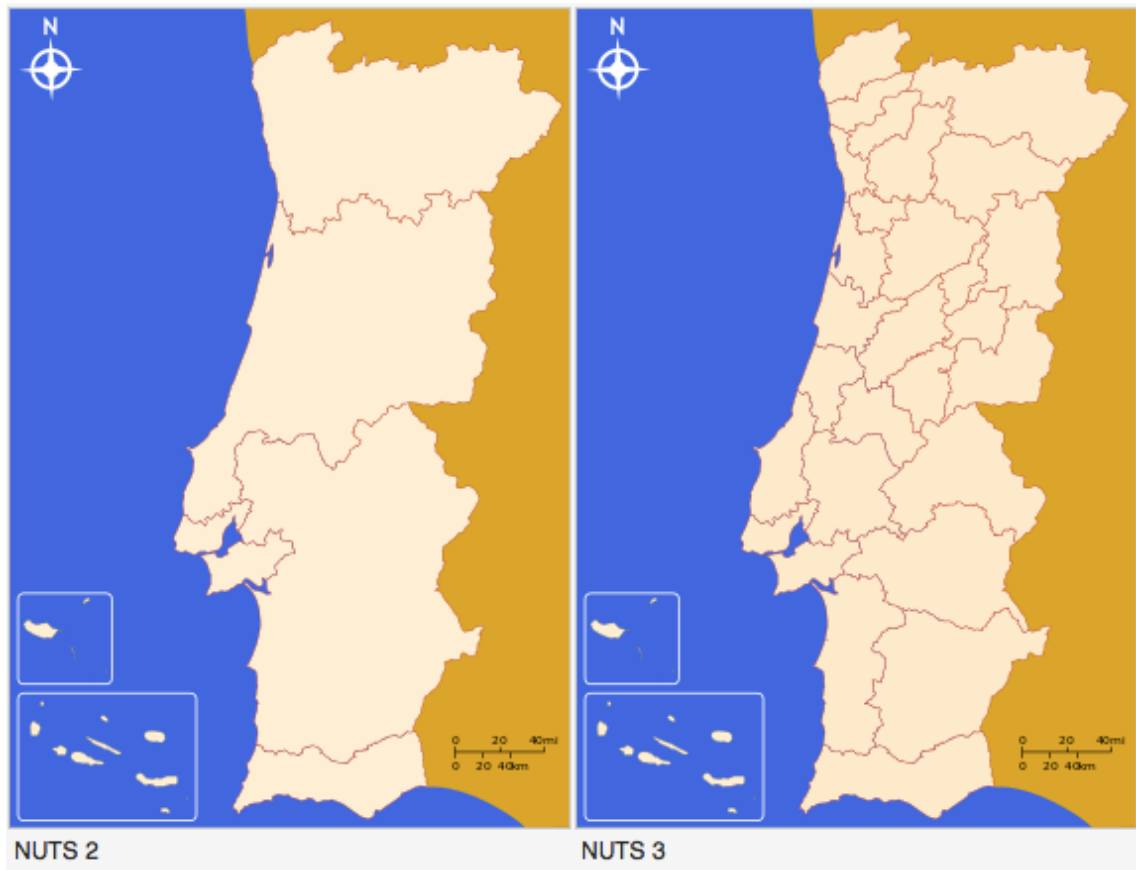
List of Tables

| | |
|---|----|
| Table 1: NUTS population thresholds (Source: own work based on [18])..... | 18 |
| Table 2: NUTS classification in Portugal (Source: own work based on [18]) | 18 |
| Table 3 : Changes relating to the ERDF and ESF (Source: [15])..... | 21 |
| Table 4: Operational Programmes of Portugal (Source: [19]) in thousands €..... | 22 |
| Table 5: Money allocation (Source: own work inspired by [21]) in thousands €..... | 24 |
| Table 6: Definition of SMEs (Source: [22]) | 30 |
| Table 7: Horizontal analysis of assets (Source: own source) in thousands € | 53 |
| Table 8: Horizontal analysis of liabilities (Source: own source) in thousands €..... | 54 |
| Table 9: Vertical analysis of assets (Source: own source) in thousands €..... | 55 |
| Table 10: Vertical analysis of liabilities (Source: own source) in thousands € | 56 |
| Table 11: Profitability ratios (Source: own work) | 58 |
| Table 12: Liquidity indicators (Source: own work)..... | 59 |
| Table 13: Activity indicators (Source: own work) | 60 |
| Table 14: ABC Ltd. SWOT analysis (Source: own work) | 61 |
| Table 15: Project components and schedule (Source: own work)..... | 68 |
| Table 16: Estimated inflation rate and and set up supplier - customer relationship (Source: own work)..... | 70 |
| Table 17: Financial resources of the company (Source: own work) in thousands € | 70 |
| Table 18: Profit and Loss account Part 1 (Source: own work) in thousands €..... | 71 |
| Table 19: Profit and Loss account Part 2 (Source: own work) in thousands €..... | 72 |
| Table 20: Operating cash flow of the project Part 1 (Source: own work) in thousands € | 73 |
| Table 21: Operating cash flow of the project Part 2 (Source: own work) in thousands € | 73 |
| Table 22: Payback (Source: own work) in thousands €..... | 74 |

Appendices

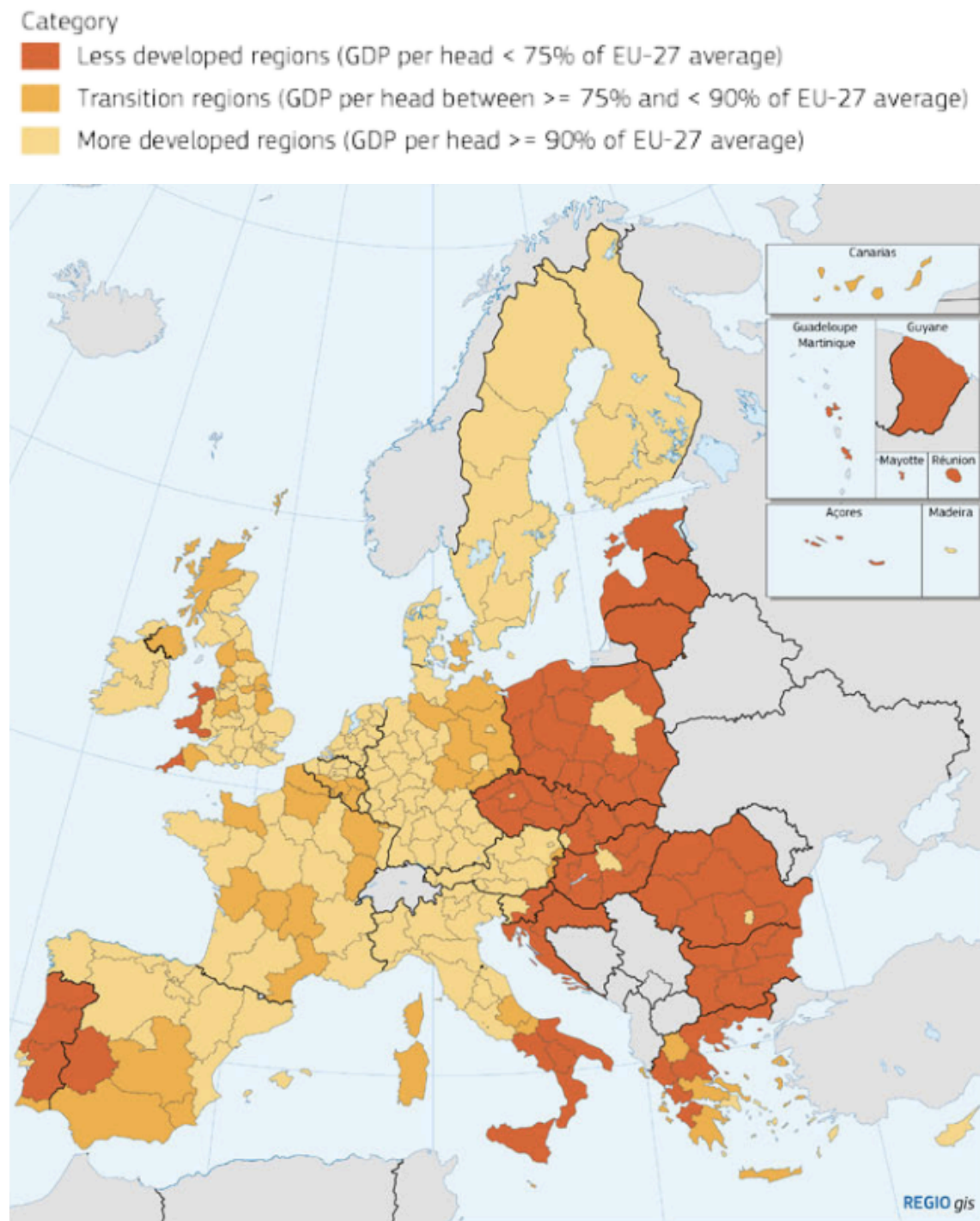
Appendix A

Appendix A1



Picture 7: NUTS map of Portugal (Source: [24])

Appendix A2 – Map 1



Picture 8: Map 1 - Structural Funds (ERDF and ESF) (Source: [19])