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Comparison of investment costs for companies using EU structural funds and investment incentives

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Abstract

The aim of this paper is to compare the various forms of public support for the company, specifically European subsidies from structural funds and investment incentives in the Czech Republic. Both of these public financial instruments are supposed to support company's investment but are these tools able to compensate costs that companies have to spend for them? In the research there are four types of investment costs defined: costs of completing application, investment costs, costs of subsidy management and sustainability costs. All of these costs are explained for each instrument with respect of application process. The presented results show that European subsidies are less expensive for the examined company in spite of fact that application process is a heavy administrative burden. Apart from investment incentives that have easier application process, the investment costs are compensated by minority part of the investment incentives. The great item of investment incentives represents sustainability costs that might be covered by provided amount of tax relief. The investment incentives are certain risk that the invested costs may not be entirely covered by the investment incentives. At the end the paper compares costs of two companies defined as small and medium enterprises. Each company applied for one of the examined financial instruments. The used methods for this paper are search inquiries, expert estimates, comparison and explanation. Theoretical approaches are examined in a case study of two companies that have received EU subsidies and investment incentives in the Czech Republic. The results also rely on previous results of research project.

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1. Introduction

Subsidies from European Structural and Investment Funds (ESIF) and investment incentives are an indispensable form of financial support for small, medium-sized and large companies in the market. Both forms of aid attempt to make it easier for companies to handle the tough competitive environment, to motivate companies to grow and to strengthen the region in which the company operates, or to which investment incentives have been trying to attract companies. The purpose of both forms of support from the provider is to bring about a positive effect on the region and companies. Nonetheless, the use of particular forms of support can also result in related costs for companies. A company's costs may consist mainly of costs for preparation of applications for aid, realisation of investments and costs related to compliance with the provider's set conditions until the aid provision period ends (in the case of incentives) or until the sustainability of the project ends (in the case of EU subsidies). If a company decides to apply for any of the specified types of financial support, the company must first prepare an application, including required accompanying documents. In this respect, the requirements for preparation for both types of support vary, depending on the scope of the application and the complexity of its processing. Differences can also be found in the likelihood of application approval. Based on a specific example, this Article will explain and outline how company's costs for investment incentives and costs for subsidies from ESIF differ.

The first research part defines individual types of financial support for companies and briefly summarises the requirements and conditions that companies must fulfil when submitting applications. It also characterises the Northeast Region, from which the companies selected for the case study originate. The second part will briefly introduce the particular companies and focus on their costs. It will define costs from the point of view of EU subsidies and from the point of view of investment incentives and will compare companies' costs for obtaining and keeping individual financial support using an example of an already realised project. The individual costs are referred to depending on the phase of realisation of the investment project for which the investment incentive or ESIF subsidy is to be obtained. The final part summarises the results determined in the case studies and points out which public support brings the investor higher costs related to the realisation of the supported investments.

2. Methods

The first phase of the research involved a detailed analysis of legislative documents resolving the issues of investment incentives in the Czech Republic and European legal documents related to ESIF and subsidy programmes in the Czech Republic. From those documents, relevant data has been selected along with information to be used for further research. The source of the conclusions used in the introduction comprises the results of previous research within the scope of the entire project. Research of literature and realised projects has been used to define various types of costs related to individual types of financial support. The source of data for the research has been information from market research conducted by expert companies providing advice regarding subsidies. Information about offers of services and prices was used. A comparative method was used to assess both forms of financial support, and a descriptive method was used to formulate conclusions regarding the comparison. In the second phase of the research, the focus was on a specific case of a realised investment incentive, which was compared with a realised project financed from ESIF, from the point of view of incurred expenses for application preparation, the particular investments into material fixed assets, costs for subsidy management and sustainability costs. Within this phase, the method of expert estimation was used, based on market research, in relation to calculation of costs for both cases. The sources of the data were the particular companies' financial statements. In conclusion, both types of financial support are compared from the point of view of their financial costs for the company.

3. Theoretical Approaches

3.1. *Characteristics of the Northeast Region*

For the purposes of this article, case studies were carried out in companies that have received investment incentives and EU subsidies in the Northeast cohesion region. The Northeast cohesion region includes the Liberec, Hradec Kralove and Pardubice regions. This is the third largest cohesion region in the Czech Republic and covers

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