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Financial flow of Grant-oriented Projects

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Abstract
The present paper presents a survey of the legal stipulations and of the applicant's guide regarding the methodology of the financial flow performance of the grant-financed projects (structural funds) within a newly founded company. The opportunity and the importance of the paper is obvious, due to the fact that the grants represent an important source for the newly founded companies, especially for the coverage of the expenses afferent to the investment of equipments (assets, generally). Furthermore, the paper is very practical, marking out a case study that can constitute an example for the companies that want to access theses types of funds in order to finance certain investments.
Keywords: financial flow, structural funds, project, investments, EFARD, NPRD.

Introduction

Investment activities consist of the purchase and disposal of fixed assets in the long term as well as of other investments not included in cash equivalents. Cash flows of this type of activity show expenses with resources designed to generate future income and cash flows, providing information on how a company ensures its continuity and growth.

In order to be considered financial, a project must be sustainable also from a financial point of view, i.e. there is no danger of running out of cash during the implementation period. The performance of unrealistic financial projections is encountered among the beneficiaries'

mistakes, so the achievement of project cash flow when signing the financing contract represents a very important element.

The method used in developing the financial cost-benefit analysis, the investment projects, is the "net updated cash flow". In this method the non-monetary flows, such as depreciation and provisions are not taken into consideration.

Also, in the opinion of some authors, the unpredicted expenses from the general expenditure estimate will be considered only if they are included in the eligible project costs. They will not be taken into account in the determination of the finance, as long as it is not considered an effective expense, but only a risk loss measure. The financial flow must be designed from the moment of the project conception, but as in Romania the evaluation period is long, and the purchase procedures are very difficult, the financial flows will suffer major change.

For the investment projects in general and agriculture in particular, it is necessary to determine and analyse the effectiveness on two plans: on the investor level (micro) and the national economy level (macro).

The project financial flow means the method in which the cash will be carried out between financer and recipient (entries/inputs), and between financer and suppliers (outputs). As regards inputs, we refer to pre-financing and expenses refunds, and as regards the outputs, we refer to payments made in order to cover the project expenses.

The financial flow (not to be confused with cash flow), the main tool used in achieving the project's financial projection, represents the difference between current receipts and current payments of an entity. We should take into account the following aspects:

- the contractual stipulations regarding the granting of pre-financing and refund of expenses, amount and terms;
- schedule of activities, particularly acquisitions to be performed through the project;
- project budget and the estimated schedule for the submission of expenses refund applications;
- the value of eligible costs and the period in which their payment will be made;
- value of co-financing;
- the lagging each month of payments that will be performed by third parties.

Given the above issues, we can identify the months in which the project runs out of cash and therefore financial resources have to be

identified in order to cover the costs of the project. Also we should take into account the fact that VAT is considered ineligible and therefore these amounts will be paid by the beneficiary as well, applying its refund from the state budget.

In order to cover these expenses, most times the beneficiaries resort to credit plans, commercial banks providing a range of banking products in this respect. In this context, the financial crisis had a negative impact on the absorption of structural funds, the beneficiaries often receding from the allotted funding, due to the lack of cash to cover co-financing, VAT and expenses often eligible until refund.

Financial flow of an investment project – case study

To achieve financial projection of an investment project, we present the methodology used to achieve financial predictions for a project funded by the National Program for Rural Development, Measure 312 Support for the establishment and development of micro-enterprises, submitted by a newly-founded company.

The overall objective was the development of a purchase (an excavator and two backhoes) aimed at developing the business and creating jobs. The total project value was of 1,464,040 lei VAT, the eligible value being of 1,230,286 lei and the value of ineligible expenditure was of 233,754 lei. In projects funded under this measure, in order to assess the reliability of a project, a feasibility study (for projects involving construction-assembly) and an Explanatory Memorandum (for projects not involving construction-assembly) will be prepared.

Implementing an investment project in agriculture using the financial instrument European Fund for Agriculture and Rural Development involves the calculation and analysis of mandatory indicators that are calculated based on revenue and expenditure flows, flows of results, cash flows and cash - flow.

In the case of a project, case study, there will not be performed any construction-assembly, thus an explanatory memorandum will be filled out. Annex no. 3 of the financing application of the project financed from EAFRD (European Agricultural Fund for Rural Development), named explanatory Memorandum, includes, in section 9, financial projections and financial indicators, which will demonstrate the eligibility criteria regarding the viability of the investment.

In this part of the explanatory memorandum, based on the assumptions that led to the decision of the funding application, financial projections will be elaborated with regard to the legal nature of the applicant, i.e. the authorized person, individual enterprises, family

businesses, legal entities. In this case study these projections will be elaborated for a legal person, private entity, respectively.

The assumptions that elaborated the financial projections are the following:

- the total value of the project is of 1.464.040 lei with VAT, the eligible value being of 1.230.286 lei and the value of ineligible expenses being 233.754 lei;
- the period for which the prediction is set is of 5 years after the implementation (2011-2015);
- VAT, an ineligible expense, at the moment the project was performed, will be sustained by the beneficiary, being recovered from the state budget;
- The data regarding the main indicators that will influence the elaborated projections were gathered from the studies performed by the National Commission of Prediction.

Another factor was the temporary character of the excavation works in order to prepare the field for plumbing. Thus we expect a volume of works by quarters, as follows:

- trimester I -20% of the executed works;
- trimester II -25% of the executed works;
- trimester III -40% of the executed works;
- trimester IV -15% of the executed works.

The incomes and expenditure of each quarter will be affected directly, by the share of work presented above. Thus, revenues derive from the basic activity only (execution of works), so for the revenue forecasts we considered the following:

- the ability to execute and contract the works will be of an average of 12/13 contracts/year, which means about a contract each month, the works predicted for the first year will be: first quarter - two works, the second quarter - three works, third quarter - 5 works, fourth quarter - 2 works;
- the incomes will follow the annual trend set by the National Commission of Prognosis;
- the value of a contract for execution works will be on average of 40,000 euros (172,240 lei), the trade margin representing 20%, the rest representing the execution costs;
- the execution ability is strongly influenced by the number of employees. Thus, the company aims to increase the number of employees depending on the expected works so that the use of the execution capacity will be: first quarter - 25%, second quarter - 60%, third quarter - 100%, fourth quarter - 60%;

- contracting will be achieved through participation to auctions tenders and direct contracting.

Below we present cash flow - investment forecasts for the project described above.

Table no.1. Cash flow – predictions
Investment activity, year I

Cash flow – previsions – LEI		
OPERATION/PERIOD		**Year 1**
I.	**INVESTMENT AND FINANCING ACTIVITY**	
A.	**Total cash flow input from: (A1+A2+A3+A4)**	**1.894.640**
	A1. Share of the company capital (loans from shareholders/associates)	
	A2. Assets sales, including VAT	
	A3. Long term loan, from which: (A.3.1. + A.3.2.)	1.033.440
	A.3.1. Loan – project *cofinancing*	1.033.440
	A.3.2. Other medium and long term loans, leasing, other financial debts	
	A4. EFARD grant	861.200
B.	**Total investment cash flow outcome: (B1+B2+B3)**	**1.464.040**
	B1. Acquisition of tangible fixed assets, including VAT	1.464.040
	B2. Acquisitions of intangible fixed assets, including VAT	
	B3. Increase of on-going investments	
C.	**Total financing cash flow input (C1+C2)**	**121.798**
	C1. Medium and long term, leasing, other financial debts from which: (C.1.1. + C.1.2.)	73.817
	C.1.1. Loan rate – *project cofinancing*	73.817
	C.1.2. Other medium and long term credit rate, leasing, other financial debts	
	C2. Interest payments at medium and long term loans, from which: (C.2.1. +C.2.2.)	47.981
	C.2.1. Loan – project *cofinancing*	47.981
	C.2.2. Other medium and long term loans, leasing, other financial debts	
D.	**Cash flow from the investment and financing activity (A-B-C)**	**308.802**

Table no. 2. Cash flow – predictions
Exploitation activity, year I

II.	**EXPLOITATION ACTIVITY**	**Year I**
E.	Cashing from the exploitation activity, including VAT	2.542.001
F.	Cashing from the short term financing activity	
G.	Short term loans	
H.	**Total cash input (E+F+G)**	**2.542.001**
I.	**Payments for the exploitation activities, including VAT (as it is the case), from which:**	**1.924.545**
I1.	Materials	1.249.471
I2.	Other materials	6.248
I3.	Energy and water	38.128
I4.	Merchandise	
I5.	Afferent to the employed staff	184.840
I6.	Insurances and social protection	56.839
I7.	External services	389.019
I8.	Taxes and assimilated payments	
I9.	Other exploitation payments	
J.	**Gross flow before the payments for profit taxes/turnover and adjustment VAT (H-I)**	**617.456**
K.	**Payments/cashing for taxes and contributions (K1-K2+K3)**	**391.833**
	K1. VAT payments	639.600
	K2. VAT refunds	307.280
	K3. Profit tax/ turnover	59.513
L.	Short term loans refunds	
M.	Interest payments for short term loans	
N.	Dividends	
O.	**Total payments, excepted the exploitation ones (K+L+M+N)**	**391.833**
P.	**Cash flow from the exploitation activity (J-O)**	**225.623**
III.	**CASH FLOW (CASH FLOW)**	
Q.	**Net cash flow of the period (D+P)**	**534.425**
R.	**Available cash of the preceding period**	
S.	**Available cash at the end of the period (Q+R)**	**534.425**

Table no. 3. Cash flow – predictions
Investment activity, years subsequent to the investment

Cash flow - predictions - LEI					
	OPERATION/PERIOD	**Year 2**	**Year 3**	**Year 4**	**Year 5**
C.	**Total cash outcome from finance (C1+C2)**	**112.202**	**102.606**	**93.009**	**83.413**
	C1. Medium and long term loans refunds, from which: (C.1.1. + C.1.2.)	73.817	73.817	73.817	73.817
	C.1.1. loan rates- *project cofinancing*	73.817	73.817	73.817	73.817
	C.1.2. rates at other medium and long term loans, leasing, other financial debts				
	C2. Payments of interests at medium and long term loans, from which: (C.2.1+C.2.2.)	38.385	28.789	19.192	9.596
	C.2.1. Loan - *project cofinancing*	38.385	28.789	19.192	9.596
	C.2.2. Other medium and long term loans, leasing, other financial debts				
D.	**Cash flow from the investment and financing activities (A-B-C)**	**-112.202**	**-102.606**	**-93.009**	**-83.413**

Table no. 4. Cash flow – predictions
Exploitation activity, years subsequent to the investment

II.	**EXPLOITATION ACTIVITY**	**Year 2**	**Year3**	**Year 4**	**Year 5**
E.	Cashing from the exploitation activity, including VAT	2.542.001	2.746.966	2.746.966	2.746.966
F.	Cashing from the short term financial activity				
G.	Short term loans				
H.	**Total cash input (E+F+G)**	**2.542.001**	**2.746.966**	**2.746.966**	**2.746.966**
I.	**Payments for the exploitation activity, including VAT (as it is the case), from which:**	**2.039.706**	**2.096.816**	**2.149.237**	**2.198.671**

I1.	Materials	1.294.449	1.330.695	1.363.961	1.395.332
I2.	Other materials	6.470	6.651	6.818	6.975
I3.	Energy and water	39.500	40.605	41.620	42.578
I4.	Merchandise				
I5.	Afferent to the employed staff	191.495	196.856	201.778	206.419
I6.	Insurances and social protection	58.881	60.529	62.043	63.470
I7.	External services	448.911	461.480	473.017	483.897
I8.	Taxes and assimilated payments				
I9.	Other exploitation payments				
J.	**Gross flow before the payments for profit taxes/turnover and adjustment VAT (H-I)**	**502.295**	**650.150**	**597.729**	**548.295**
K.	**Payments/cashing for taxes and contributions (K1-K2+K3)**	**125.762**	**170.341**	**156.052**	**142.665**
	K1. VAT payments	405.866	438.591	438.591	438.591
	K2. VAT refunds	325.667	334.786	343.155	351.048
	K3. Profit tax/ turnover	45.564	66.536	60.616	55.122
L.	Short term loans refunds				
M.	Interest payments for short term loans				
N.	Dividends				
O.	**Total payments, excepted the exploitation ones (K+L+M+N)**	**125.762**	**170.341**	**156.052**	**142.665**
P.	**Cash flow from the exploitation activity (J-O)**	**376.533**	**479.809**	**441.677**	**405.630**
III.	**CASH FLOW (CASH FLOW)**				
Q.	**Net cash flow of the period (D+P)**	**264.331**	**377.203**	**348.668**	**322.217**
R.	**Available cash of the preceding period**	**534.425**	**798.756**	**1.175.958**	**1.524.627**
S.	**Available cash at the end of the period (Q+R)**	**798.756**	**1.175.958**	**1.524.627**	**1.846.844**

Conclusions

Given the results achieved following up the cash flow performed for the investment project, which aims the purchase of the equipment necessary to develop the activity of the newly established company, we can say that the project is viable and should be submitted to funding.

Given the overall objective of the project - the performance of certain acquisitions (an excavator and two backhoes) that aims the development of the company and the creation of new jobs and due the fact that much of the funds necessary for the investment may be reimbursable, we consider this paper an example for those who wish to access such funds.

Starting from the requirements of the financer, we see that the assumptions (revenue and expenditure) underlying the prediction aim:

- the use of the production capacity and how it evolves over time (in our case - 5 years), stating the existing physical output and the expected physical output following up the investment for the existing companies;
- correlation between expenditure, projected sales, respectively, the use of production capacity and closed/to be closed pre-contracts/ contracts of conveyance;
- correlation of information provided in the financial flow and other documents required in financing file;
- any other information which formed the basis of forecasting or influence the cost prediction, the influence being relevant;
- how other expenses and incomes were projected.

In the a cash flow, made in the previous study, our intent was to correlate the predicted flows as inputs and outputs with the other documents from the financing file taking into account any information which formed the basis of prediction or relevantly influences the prediction of the cash flow elements.

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