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EVALUATING THE FINANCIAL AND ECONOMIC PERFORMANCE OF PROJECTS

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Abstract

The importance of assessing financial performance lies in highlighting all financial and economic criteria needed to assess the project's success or failure in achieving its objectives. The scientific goals of this paper are the scientific description and classification of liquidity problems and their impact on the financial performance of economic service entities, especially the discovery of financial and economic factors of service projects and their scientific explanation. This paper aims to evaluate the company that deals with the financing of the producers. It also reviews the financing results and, finally, gives appropriate recommendations for the control of their work. The financial performance of companies is assessed using recognized valuation tools and techniques in the field of investments, especially cash investments. Two main results were obtained in the conducted scientific research: (1) Libya has benefited significantly from the evaluation of the financial performance of projects dealing with liquidity problems and their impact on the financial performance of enterprises. (2) The percentage of total expenditures exceeded the percentage of total revenues in the years in which companies began to implement their projects, which led to losses of Libyan companies because of excessive spending and reduced revenues.

Keywords: *producer financing companies, financial performance, performance assessment, economic service entities, service projects, project evaluation.*

1 INTRODUCTION

There are many sophisticated and intertwined companies in Libyan society. A company's investment activity is significant for the individual investor, commercial institutions, and the state level. Investing in its holistic sense means sacrificing income in the present to expect more income in the future. It is necessary to provide adequate financing for investment because financing decisions are closely related to investment decisions. Financing decisions refer to the amount and type of funds that investment needs or current spending are to be financed. It is not possible to start evaluating an investment project without knowing the cost of the funds needed to invest. Since the financial structure consists of the elements of assets and their use, the assessment of the financial structures' impact means an evaluation and control of the resources and their purposes significant to the project.

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“Completing the work on any project to make it perform highly efficient and effective requires both effective organization and proper planning, with real monitoring of activities and continuous evaluation of the whole.” (Mohsen, 2018, p. 17) Thus, performance assessment is a subsequent decision-making process aimed at examining the financial and economic position of the organization at a given time. The decision-maker uses methods of financial and economic analysis in the evaluation.

The service sector plays a significant role in every country. Combined with several other sectors it can be considered an alternative to oil production to support the national economy. Tourism is one of those sectors. It mainly depends on the service sector and, also, on highways and advanced telecommunications networks, hotels, restaurants, and other ancillary services.

There are several objective criteria used in the financial and economic evaluation of the project. Based on the project's performance assessment, profitability is set as the most significant criterion to see the scope of investment opportunities and return on investment. Performance assessment can be influenced by several factors that management cannot control and influence. So, one can say that the project was unsuccessful because it created losses. But can loss be considered the only measure of failure and profitability the only measure of success, or are there other criteria by which one can determine the success or failure of a project?

The research problem, studied in this paper, arose from the author's observation that most performance evaluation studies rely on financial indicators and different financial analysis methods to determine the effectiveness of performance in economic units. At the same time, such researchers paid no attention to the economic and social aspects. That makes these studies insufficient to evaluate projects initiated to achieve specific societal goals. Such projects can sacrifice short-term profitability criteria to achieve long-term goals.

The research problem in this study focused on the importance of evaluating industrial projects from a comprehensive perspective to know the extent to which they achieve the objectives for which they were established. This study reached the following results:

1. The complex achieved a profitability rate commensurate with the volume of investment in the complex.
2. The complex achieved high productivity rates that positively contributed to the national income.
3. The complex has contributed to the recruitment of national manpower.

This study also aims to identify the status of an investment company in financing producers by focusing on assessments of the financial and economic performance of service projects. The authors conducted an evaluation study for one producers' money investment company. They drew conclusions, made appropriate recommendations, and identified the challenges that could lead the company to a decline in its performance.

Table 2. Chart of the company's organizational structure

General Committee of the company		
Audit office	Chairman of the General Committee ↓	Studies and Services Office
Monitoring service		Legal office
People's Office		

↓

Financial Affairs Administration	Technical Affairs Department	Department of Administrative Affairs and Services	Planning and Investment Department
Revenue and warehouse department	Project Execution Department	Department of Administrative Affairs and Services	Research and Planning Department
Accounts and Budget Department	Design department	Producers Affairs Department	Investment Department
		Archives	

Source: The company's competent authorities (the manufacturer's money investment company)

The company is headquartered in Tripoli and has offices in Benghazi, Sebha, Misurata, and Derna.

The company began to exercise its competencies to achieve its goals after approving the minutes of the Producer Fund Evaluation Committee. With the decision on the establishment, all assets and liabilities of the Producers Services Fund were transferred to the company because all contributions of the fund to public companies, Real Estate Savings Banks, and the National Real Estate Investment Council are considered part capital of the enterprise.

For this paper, the author asked the company's official bodies for a statement on the level of education in 2019. Tables 3 and 4 show the results of the aggregated employees' data.

Table 3. A statement of the educational level of employees in the company to invest the producers for the year 2019.

Number	Educational level	Number of Employees
1	Ph.D.	does not have
2	Master's	does not have
3	Bachelor's degree	29
4	Bachelor's	4
5	Higher Diploma	10
6	High school certificate	43
7	Below average diploma	155
	In total	241

Source: Official data obtained through a statement from the company's competent authorities (The World Bank, 2019)

Table 4. A statement of the educational level of the company's management for the year 2019

No.	Job	Qualification or educational level
1	General Manager of the company	Bachelor's degree Economics and Commerce
2	Director of Administration Department	Bachelor of Social Engineering
3	Head of Producers Affairs Department	Diploma of Management Institute
4	Head of Administration Department	Intermediate Diploma in Atmospheric Sciences
5	Director of Finance Department	Intermediate Commerce Diploma
6	Head of the accounts department	Bachelor of Accounting
7	Head of the revenue department	Higher Diploma in Accounting
8	Head of the warehouse department	Intermediate Commerce Diploma
9	Director of Planning and Investment Dept	General Diploma in Teachers
10	Head of the investment department	Bachelor of Geography
11	Head of the planning department	Bachelor of Engineering
12	Director of Technical Affairs Dept	Bachelor of Engineering
13	Head of the design department	Bachelor of Engineering
14	Head of Project Execution Department	Bachelor of Engineering
15	Head of the audit office	Bachelor of Accounting
16	Head of the follow-up office	Bachelor of History

Source: Author based on data prepared by the company's competent authorities

2 INVESTMENT PROJECTS AND COMPANY INVESTMENTS

All previous contributions to the Producers Services Fund and the Public Entities Fund have been transferred to the company. The company also contributed capital to some other companies. The following table shows the company's contribution to the capital of national companies as mentioned in the 2021 annual report.

Table 5. Statement of the company's contribution to the capital of national companies

No.	Statement	Place	The value in Libyan dinars	Contri-bution date	Notes
1	Libyan Arab Furniture Company	Gharyan	70,000	2016	still working
2	Al-Amal Garments Trading and Manufacturing Company	Sabha	60,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
3	The Arab Company for the supply and manufacture of clothing	Tripoli	170,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
4	National Garment Trade and Manufacturing Company	Tripoli	170,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
5	Modern fashion company	Benghazi	170,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
6	National Company for Trade and Manufacturing of Clothes	Tripoli	170,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
7	National Textile and Apparel Marketing Company	Tripoli	175,000	2017	All these companies were merged into the General Company for Textiles and Clothing / Tripoli
8	General Company for Textiles and Clothing	Tripoli	175,000	2017	still working
9	Libyan Electrical Equipment Company	Benghazi	150,000	2017	Participate in the General Electron Company
10	Contribution to tile and burnt factories with the investment company in Sebha city	Sabha	600,645	2017	still working
11	The National Company for Soap and Cleaning Supplies	Tripoli	70,000	2018	still working
12	Medical Bandages Company	Tripoli	100,000	2018	still working
13	Contribution with the National Council in the Building Maintenance Company	Tripoli	80,000	2018	The investment company of the product fund returned part of the contribution amount
14	General Electron Company	Tripoli	250,000	2019	still working
15	General Company for the manufacture of spare parts	Tripoli	1,550,000	2019	still working
16	Contribution to the residential farms' project	Tripoli	3,500,000	2020	Then refund the contribution
17	A contribution to the capital of the Furwa Tourism Company	Tripoli	70,000	2021	still working
	Total		7,530,645		

Source: Authors based on data from the archives of the company's competent authorities (2021)

3 DEFINITION OF FINANCIAL ANALYSIS

Matar (2019, p. 3) defined financial analysis as "a process through which a set of quantitative and qualitative indicators about the economic activity of the project is explored or derived, which contributes to determining the importance and progress of the operational and financial activities of the project, through information extracted from the financial statements and other sources, for these indicators to be used in evaluating the project's performance and taking decisions".

Similarly, Gartner (2021) defines financial analysis as "evaluating historical financial information to determine patterns that help identify the root cause of the success or failure of a specific product, business unit or geography."

Thakur (2022) declares that "financial analysis refers to an analysis of finance-related projects/activities or company's financial statements which includes a balance sheet, income statement, and notes to accounts or financial ratios to evaluate company's results, performance and its trend which will be useful for taking significant decisions like investment and planning projects and financing activities."

4 FINANCIAL ANALYSIS PURPOSES

The financial analysis aims to assess the project's performance from multiple angles, and it serves the objective information users who have interests in the project by identifying the strengths and weaknesses and then benefiting from the information provided by the analysis to them in rationalizing their financial decisions related to the project.

The purposes of financial analysis can be limited to the following aspects:
1. Evaluation of the financial position of the project.
2. Evaluate the profitability of the project.
3. Assessment of the project's membership status.
4. Assessing the efficiency of financing policies.
5. Assessment of the efficiency of asset and liability management.
6. Assessing the extent of the project's ability to continue (financial failure).
7. Evaluation of the competitive position of the project.
8. Devise some indicators that provide management with planning, control, and performance evaluation tools.

5 DETERMINANTS OF FINANCIAL ANALYSIS

Financial analysis tools are considered one of the most valuable tools used in evaluating the project performance according to the achieved business results. Using the tools allows management to make decisions and policies that enable better performance in the future.

But there are several criticisms related to these tools and the financial statements that depend on them when calculating and configuring these tools, which limits their effectiveness when doing financial analysis. The determinants of financial analysis can be summarized in the following points (Khashim, 2019):

1. The financial analyst focuses in his study on a part and not on the other financial position of the company because the short-term borrower is looking at how to provide liquidity for him, while the investor focuses on the amount of profit achieved from the investment process.
2. The magnitude and type of available data that can be obtained from the project, as well as the type of analysis in terms of whether it is partial or comprehensive, depends on the nature of the case to be studied.
3. Identifying the extent to which the project follows the recognized principles, methods, and accounting methods, to reach a more objective decision, because any change in principles and methods results in a change in the results, and thus the project's financial statements become not comparable with other projects belonging to one industry.
4. The overlapping of some provisions and rules in the preparation of financial statements, such as those related to the calculation of depreciation, the assessment of inventory, or how the provision for doubtful debts is formed, thus affects the results of the analysis that are reached. It also requires that the rates be subject to change periodically to keep pace with progress and development in the performance of production or service units in

various economic sectors to guide them on the performance of projects or establishments.

5. Limiting the financial statements to totals without clarifying their source reduces the potential in reaching accurate results.
6. The differences between companies' size and modern technology used, as well as the levels of expertise that companies use over the other in the implementation of its projects, inevitably affects, sometimes indirectly, the comparison, which makes a discrepancy in the results even though they belong to the same industry.

6 CONCLUSIONS

This paper shows objectively and systematically that Libya has benefited from assessing the financial success of the projects.

The pieces of evidence presented in the tables presented are realistic indicators of how much the company will benefit from the investment. In addition to Libya's need to earn a strong currency and establish strong relationships with producers to improve its economic system.

Also, from the analysis of the company financial statements prepared by the company, it was found that these statements were not in line with the requirements of accounting principles and that they have been modified to suit the needs of the Libyan society.

These results have been achieved through the application of financial and economic indicators. Most of these indicators have been affected by the current rate of stagnant contributions, as these contributions represent between 40% and 60% of the total assets, and most of these contributions do not return to investment, while the company is also facing difficulties. The company also suffers from significant troubles in collecting its obligations towards the community-owned companies and institutions that previously contributed to its capital, knowing that most companies do not have a legal personality because of the successive merger and liquidation decisions.

The balance of debtors during the analyzed years reached a rate ranging from 4% to 14% of the total assets The repayment of some of these loans was weak and the stagnation of others led to debt inflation and the lack of liquidity necessary for the spending on investment projects.

The percentage of total expenses exceeded the percentage of total revenues in the years the company started implementing its investment projects.

7 RECOMMENDATIONS

The company should study the conditions of the contributions and decide what to do in their regard. Also, the company should use financial reports and field visits to identify the exact reasons for not achieving an appropriate result. The proposed solutions should include the possibility of collecting their receivables legally to obtain the funds needed to finance the investment projects. That is better than resorting to external financing. Due to possible risks, the company must obtain certificates of its shares in the companies where it participates. It must re-evaluate these contributions considering each company's financial conditions and provide provisions to cover deficits from low contributions of at least 25% of the value of the present contributions with raising the percentage in the coming years reaching the reserve at 100% if there is no positive development.

The inefficient collection policy has inflated the debtors' balances. Therefore, the company's management must take measures to collect debts to preserve the financial resources and ensure the financial liquidity necessary to facilitate its activities without resorting to external financing.

There is a need to monitor investment projects in a good way. To do this, a specialized in-house performance assessment office can monitor projects, assess their effectiveness, liquidate unprofitable projects, and focus efforts on projects that achieve adequate returns. That is better than keeping the company on a few projects that do not yield but negatively impact other projects. Successful management needs to increase revenues and tighten control over expenditures to generate higher revenues with money invested in these projects.

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