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Micro-, small-, and medium-sized enterprises using structural funds

1. Introduction

Micro-, small-, and medium-sized enterprises currently play a substantial role in the development of national economies, including that of Poland. Above all, SMEs create low-cost jobs, as approximately 70% of those employed in our economy work in such companies. In addition, nearly 50% of our Gross National Product is generated by SMEs, while around 45% of total investment expenditure is incurred by micro-, small-, and medium-sized enterprises. SMEs account for 99.5% of businesses in Poland. Due to the importance of SMEs in the economy, any attempt to analyze and evaluate their performance is very important.

As development of SMEs spurs growth of the entire economy, improved access to sources of financing should be a priority among economic policies – not only in Poland, but in the European Union as well. It is these enterprises that determine the EU's economical competitiveness in the international market. Regional policies of the Union are implemented by means of structural funds, strategically intended to enhance social and economic cohesion of the member states. As a member of the European Union, Poland became another subject of EU regional policies and, thus, was enabled to take advantage of structural funds. Membership brought a new external source of financing for the development of Polish enterprises. Since 1 May, 2004, Polish entrepreneurs have been able to apply for subsidies for consulting services or investments, whose overall objective is to increase competitiveness, innovativeness, and prospects of survival and growth in the European market.

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Opportunities for (and the degree of utilization of) structural funds to finance development of small- and medium-sized enterprises has for some time been the subject of many scientific publications, where possible benefits to small- and medium-sized enterprises are emphasized (see: Jankowska *et al.* 2005; *Sektorowy Program...* 2008; Lewandowska (ed.) 2008; Duda 2013; *Stan wdrażania...* 2013). The high formal and substantive requirements for accessing those funds mean that these funds are often skipped, resulting in the fact that they are not available for all enterprises. The objective of this paper is to answer the question of what attributes are typical for micro-, small-, and medium-sized enterprises that enabled them to fulfill all requirements and receive structural fund subsidies. Additionally, this article presents opinions expressed about structural-fund access barriers by entrepreneurs.

2. Structural funds as a source of financing for SMEs in Poland

Despite the substantial effect of micro-, small-, and medium-sized enterprises on the economic growth of Poland, there are a range of barriers to overcome in order to finance their development activities. Difficult access to external sources of financing, combined with their own insufficient resources, is a major obstacle to the development of micro-, small-, and medium-sized enterprises. Given the risk, investors and banks are very reluctant to issue credit to new enterprises or individuals wishing to establish their businesses. If they do lend money to smaller businesses, their terms are commonly far stricter than those offered to larger companies. The smaller an enterprise, the higher the interest on its loans. On average, micro entrepreneurs are forced to pay 4% more than small entrepreneurs and 5% more than medium-sized entrepreneurs (see: *Wytyczne dla wnioskodawców...* 2012). Other restrictions on bank crediting to SMEs include: high margins and commissions (for considering an application, preparatory, currency conversion, earlier/later repayment, credit administration, unused funding commissions), fees for valuation of collateral, contract amendments, assessment of investment progress, currency spread (in the case of currency crediting), or credit insurance (see: Duda, 2013).

As Poland joined the European Union, Polish enterprises gained another source of financing for development projects, namely, structural funds. In the first programming term, 2004–2006, Poland was offered nearly € 13bn of structural funding. The National Development Plan was established for purposes of efficient and reasonable distribution of this funding, an indication of what and

whom this financing is for. Micro-, small-, and medium-sized enterprises were one group of beneficiaries. The resources assigned to these entities were concentrated in the Sectoral Operational Program: Improvement of Competitiveness of Enterprises (SPO-WKP).

In the current programming period (2007–2013), new priorities, areas of utilization and systems of EU fund implementation in Poland are determined by the National Strategy of Cohesion (the official name: National Strategic Framework of Reference). The document says its “strategic goal for Poland is to create conditions for improving competitiveness of the economy based on knowledge and enterprise which provides for growth of employment and improved standards of social, economic and spatial cohesion” (see: *Stan wdrażania...* 2013). The resources committed to the realization of the National Strategy of Cohesion total nearly €85.6 bn. The funding addressed directly to micro-, small-, and medium-sized enterprises consists primarily of resources of the Operational Program: Innovative Economy (implemented nationally) and 16 Regional Operational Programs (to be implemented in each region).

The first period when entrepreneurs had the opportunity to take advantage of structural funding for their own development projects has already ended. It provided an occasion for initial conclusions regarding the significance of structural-fund subsidies as a source of SME financing.

3. Methods

The research whose results are discussed in this paper was conducted among micro-, small-, and medium-sized entrepreneurs based in the Polish region of Malopolska, which fulfilled all requirements and received structural-fund subsidies. Such a sample helped to identify attributes typical for micro-, small-, and medium-sized enterprises that received structural-fund subsidies, and to examine opinions of the entrepreneurs regarding the funds as a source of development financing.

The pool of 336 enterprises surveyed was constructed on the basis of lists of enterprises whose projects were eligible for co-financing with structural funds as part of the Sectoral Operational Program: Improvement of Competitiveness of Enterprises (SPO WKP), regularly published on websites of the Polish Agency for Enterprise Development. The strategic objective of the program was to improve the competitive standing of enterprises operating in Poland in the context of the Common European Market (see: *Sektorowy program operacyjny...* 2008).

Micro-, small-, and medium-sized entrepreneurs were able to apply for direct financing of their development projects under priority 2: “Direct enterprise support” as part of its two actions:

Action 2.1. “Improvement of competitiveness of small- and medium-sized enterprises through consulting” – subsidies of between PLN 2.5 and 250k, up to 50% of eligible costs, (see: *Wytyczne dla wnioskodawców...* 2005) – 170 entrepreneurs surveyed.

Action 2.3. Improvement of competitiveness of small- and medium-sized enterprises through investments – subsidies of between PLN 10k and 1.25m, ranging from 40% to 50% of eligible costs depending on the location of an enterprise; subsidies were below 40% for projects realized in the city of Krakow (see: *Wytyczne dla wnioskodawców...* 2005) – 166 entrepreneurs surveyed.

Out of the entrepreneurs receiving the surveys, 37.8% represented medium-sized, 37.2% small, and 22.6% micro enterprises. An identification of these entities with the Office for Statistics proved that large enterprises were pooled as well (2.4%). Since both actions 2.1 and 2.3 of SPO WKP are solely addressed to micro-, small-, and medium-sized enterprises, one must presume a growth of employment in these enterprises between receipt of this structural funding and the moment of this evaluation. It was decided to include these enterprises in the survey, too. 21.7% of all surveys distributed to SMEs of Malopolska were returned.

4. Characteristics of SMEs utilized structural funds

In respect to the size of enterprises receiving the surveys, 39.1% beneficiaries of consultation services (action 2.1) of Malopolska comprised small, 26.1% medium-sized and 34.6% micro enterprises. On the other hand, subsidies for investments (action 2.3) were primarily received by medium-sized enterprises (49.4%). Small enterprises accounted for 36.1%, and micro-enterprises were a mere 11.4% of beneficiaries of this action. These figures clearly indicate that, in the case of the more extensive and costly investment undertakings, micro-enterprises fail in competition against larger businesses.

Most enterprises in Malopolska that were issued subsidies as part of action 2.1 represented industrial processing (30.6%). They were followed by the sector of commerce and repairs (24.1%). 20,6% enterprises engaged in real estate, business, and science services. The subsidies for investments (action 2.3) were predominantly consumed by industrial-processing companies – they constituted 72.3% of recipients of such subsidies. 13.9% of enterprises represented commerce and repairs. Enterprises involved with real estate, business, and science services accounted for 6.6% of those awarded co-financing of their investments.

Most respondents are experienced entrepreneurs, active in business for 15 years (65.8% of those questioned). Only 12% operate in the local or regional market. Others are active in the national (35.6%) and EU (25%) markets, or outside the European Union (27%). Nearly half of the enterprises examined experienced growth in employment during 2007–2008, with 55% declaring their sales revenues to have risen in the same period. Nearly a half (46.6%) noted higher profits. The market shares of 94% of enterprises remained steady or expanded. More than 65% of those asked engaged in exports; 26% recorded a growing share of exports, and 27.4% maintained a stable share at the time. Approximately 80% of respondents invest in research and development, with more than 30% raising their spending in this field recently. All of the entrepreneurs surveyed stated that they enjoyed financial liquidity. It can be pointed out that more than 38% enterprises declared that they were not in any debt. Every fourth entrepreneur said that their debt levels remained steady.

The nature of the distribution of structural funding results in the fact that beneficiaries of structural funding are chiefly experienced businesses with stable financial foundations who are willing to continue growing. Structural-fund subsidies are non-repayable assistance which is only issued upon completion of a project. An entrepreneur must, therefore, demonstrate that he/she is capable of financing an entire investment with their own funds or with the benefit of crediting or leasing. Added to this, a subsidy may only cover a specified percentage of a project, with entrepreneurs financing the remaining share out of their own pockets or with documented external financing. Enterprises unable to co-finance projects are not the target recipients of the EU funding. Another significant restriction is the possibility of structural financing exclusively for investments that are in full compliance with the goals of the particular EU programs, which are not necessarily in line with investment requirements of enterprises. Therefore, entrepreneurs who elect structural fund subsidies as a source of investment financing must accept very specific, predetermined areas of these investments. Entrepreneurs believe such an imposition of investment areas increases the risk of failure.

Most (86.3%) of the entrepreneurs questioned assess their financial condition as good or decidedly good and improving over the last 3 years (45%). This means that these enterprises have experienced considerable growth recently. Even those entrepreneurs (17.8%) whose financial condition has declined still believe it is fully stable. The improvement of the otherwise-good financial condition of the enterprises queried should be at least partly attributed to their investments, since all of them have pursued development projects co-financed with structural funds, with more than 82% additionally realizing investments funded from other sources at the time.

Due to access barriers to external sources of development financing, the main source of development financing of SMEs in Poland are internal sources. The share of internal funds in financing investments of SMEs in Poland is approximately 70%.

The research conducted among micro-, small-, and medium-sized entrepreneurs of Malopolska suggests the position of businesses taking successful advantage of structural funds is different. A bulk of the enterprises surveyed declared an absence of obstacles to use of external sources of financing, 65% utilized and 60% intended to use crediting, described as “an easy and quick to obtain” source of investment financing. The financial position of the enterprises examined allows for “obtaining credit on good terms”. The same impressions were voiced with regard to leasing. Besides, all the enterprises surveyed took advantage of structural funds. Above 83% of those surveyed found barriers to access to external sources of financing and terms of crediting unimportant or of little importance. The same share of respondents do not experience a deficit of their own funds for purposes of co-financing. Such opinions confirm that access to structural funds is restricted to a specific grouping of entrepreneurs.

5. Opinions of entrepreneurs regarding structural funds

Research by the Polish Agency for Enterprise Development (2008) demonstrated that a prevailing majority of Polish entrepreneurs who have co-financed their projects with structural funds as part of SPO WKP are rather satisfied with the results. 81% of beneficiaries of the consultation services (action 2.1) believe the projects realized had a positive impact on the development of their enterprises. The same belief is shared by nearly all (i.e., as many as 99%) beneficiaries of the investment subsidies (action 2.3). Most entrepreneurs claim implementation of projects co-financed with structural funds has contributed to the overall development of their businesses, improvement of competitiveness and innovativeness, enhanced quality of products and services, and management effectiveness.

The satisfaction of beneficiaries of both consultation and investment projects is also confirmed by the author's results of research. Nearly a half of the entrepreneurs questioned in Malopolska believe the projects they have realized have contributed to their own boosted competitiveness (46.6%). A significant share (above 38%) have noted improved customer service and slightly fewer (35.6%) an improved quality of products. Barely more than 8% of the SMEs have failed to perceive any effects of investments co-financed with structural funds. The same percentage have only experienced rising costs. Over 5% of respondents have noticed escalating staff fears of consequences of changes in their enterprises.

When identifying barriers that SMEs mentioned on their way to obtaining structural fund subsidies, one must not forget that some of these obstacles constitute instruments of adequate distribution. Enterprises of unstable financial standing, forced to concentrate on their operations only, are not the target recipients of this funding. There are some barriers, however, which discourage even the target beneficiaries from applying for the subsidies.

The procedure of applying for structural fund is in itself no incentive and virtually has not improved since 2004. It continues to require substantial commitment, patience, and understanding. Entrepreneurs encounter difficulties as early as at the stage of collecting information, then the filing of documents, ending with investment accounting and receipt of the subsidies.

At present, Polish entrepreneurs regard complicated and unclear procedures of subsidy awarding, difficulties filling complicated, and vague application forms and gathering necessary information as major barriers to obtaining structural funding. Long waiting periods for information of subsidy awards, as well as complicated final procedures of investment accounting and delayed subsidy payments, are cited as well. Entrepreneurs also stress insufficient flexibility of project budgeting, which makes it far more difficult to adapt projects to the ongoing situation (see: *Czarna lista...* 2013).

Questioned about difficulties in applying for structural funding, entrepreneurs of Malopolska commonly pointed to complicated and incomprehensible procedures of awarding structural fund subsidies (56.2% of those surveyed) and incomprehensible instructions for completing applications (53.4%). They are also of the opinion that the application itself is too extensive and, in places, incomprehensible, and that not all of the questions are relevant to investments. In addition, the entrepreneurs queried claimed that some required time declarations relating to project realization are impossible to foresee, and the desire to change them in the course of the project entails the preparation of many additional documents. Respondents also emphasised excessive waiting times for decisions to award subsidies (46.5%) as well as complicated final accounting procedures (48%). A substantial share of entrepreneurs (42.5%) also believe that the criteria of subsidy awarding are insufficiently transparent. It is unclear what the awarding officials are guided by, and it is impossible to find out. Thus, the complicated application forms (53.4%) on the one hand, and insufficient access to free consultation (37%) and costly paid consultation (42.5%) on the other, are principal reasons for potential beneficiaries to abandon trying to apply for co-financing of their investments with structural funds. Some entrepreneurs of Malopolska indicated the still-insufficient information about the possibility of utilizing the EU aid addressed to them as yet another barrier to the access of structural funding. 15% of respondents faced difficulties looking for information regarding where and

what type of assistance they may apply for. 27.4% of respondents considered information concerning the available resources to be incomprehensible. The same portion of those questioned state programs targeted at SMEs are unsuitable for their needs.

Encouragingly, each subsequent year of Poland's membership of the European Union raises entrepreneur awareness of opportunities for financing their projects with structural funds. In 2004, entrepreneurs cited the unavailability of sufficient information as the main barrier to the access of funding. Broadly-defined bureaucracy has currently become the key obstacle to obtaining EU funding. These results may suggest that the overall access to information about financing development with structural funds has improved, with entrepreneurs learning more effective ways of finding this information, on the other hand.

6. Conclusion

Although owner funds remain the most common source of investment financing among micro-, small-, and medium-sized enterprises (70% of SME investment financing in Poland) while crediting (20%) and leasing (8%) are the most frequent sources of external enterprise financing, it should be pointed out that structural fund subsidies become an increasingly popular external source of financing for development undertakings of SMEs. Increasing numbers of entrepreneurs decide to apply for refunds of spending on their investments with structural funds. Access to structural funding is limited to a particular group of entrepreneurs, though. It is the goal of structural funding to support projects of only those enterprises capable of contributing to the economic growth of a region. Thus, enterprises that have taken advantage of structural funding, passed all procedures, and met all awarding requirements are characterized by a stable financial standing to afford investment in growth, because an entrepreneur applying for structural fund aid must demonstrate that they are able to carry out and incur the entire cost of a project to begin with. Subsidies are issued only after such projects have been completed and accounted for. In addition, a subsidy can only cover a specific percentage of a total project. An entrepreneur must finance the balance with their internal sources or documented external financing. Therefore, it is obvious to many SMEs that an absence of internal funding and inaccessibility to external sources of financing greatly reduces the possibility of obtaining subsidies. High formal and material requirements disqualify many SMEs from being awarded aid directly from structural

funds. They may only resort to other, indirect forms of assistance from these funds; for example, training.

Unfortunately, target beneficiaries also encounter considerable obstacles on their way to gaining subsidies, which discourages them from applying for these resources. These are primarily protracted procedures, caused by distended structures of the payment system and extending the road to subsidies.

Given the specific nature of potential beneficiaries of structural funding and barriers to access to these funds named by entrepreneurs, one must conclude that the impact of structural funding on the development of micro-, small-, and medium-sized enterprises in Poland is currently insignificant. The subsidies should not be expected to become principal drivers of SME development, however. Growth of these enterprises should arise from functional conditions, entrepreneurship, and support systems (including not only subsidies, but also loan and pledge funds, venture capital, etc). Structural fund subsidies are tasked with fostering selected types and areas of business; for instance, innovation.

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