THE FINANCING OF SMALL AND MEDIUM-SIZED FIRMS FROM THE PUBLIC FUNDS

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Introduction

The small and medium-sized enterprises are essential to the development of the present-day economy. They turned out to be a most dynamic segment of the economy. Their entire endeavour is marked by great flexibility in the adjustment to the changing market conditions. The said enterprises are of particular significance to such issues as the economic development, the competitiveness, and changes in the structure of economy or unemployment size.

The European Union Treaty forbids the state, regional and local authorities to subsidize enterprises, otherwise some companies or branches are granted privileges, which would bring about a breach of competitiveness rules. However, it does not prohibit them from an indirect and soft encouraging entrepreneurship through every improvement of legal, technical and financial measures easing its operation.

Methodology of Investigation

The significance of public funds for small and medium-sized business is very important, because relate to all citizens. But the knowledge about the forms and level of financing is still not enough. The report presents some chosen forms of the public aid granted to a sector of small and medium-sized firms in Poland. It has been worked out on the basis of Polish Agency for Enterprise Development (PARP), Protection Office of Competition and Consumer (UOKiK) data and literature.

Results of Research

The SMB enterprises of private sector make a big difference to the Polish economy. They constitute a main population of companies in the market. In 2004, the REGON system had registered 3,670,915 enterprises, of which 99.03% operated in small business including 94.96% micro-firms. The medium-sized enterprises reached as low as 0.82% of this market, but a growth rate of the sector was of a shifty course within the last dozen or so years (Tokaj-Krzewska, 2006). In 2005, a growth in number of entrepreneurs to 285 thousand had been noticed for the first time. Around 80% of them constituted natural person enterprises. The new-registered companies increased by 12% in number (Rzeczpospolita …, 2006)
The population of small enterprises is unstable. There are still incorporating new ones, but many of them are being winded up, liquidated or taken over by other companies. As many as 210 thousand enterprises including 99.5% of small business were stroked off the registration in 2004.

The small-sized enterprises create the huge majority of workplaces. In 2004, more than 70% of the employed body was busy in the SMB sector, whereas 27.1% thereof was engaged in micro-firms. The average employment volume reached 2 employees in this sector. The share of SMB sector in building up the gross national product totaled up to 47.9%. The own resources made a source of investment financing in 60–70% of the enterprises and 18% ones raised a domestic credit. The budgetary funds were of limited significance (i.e. around 3%) to financing of the investments realized in the SMB sector.

The potential of the SMB sector is diversified regionally. The particular regions offer different conditions for the business activity, which results from various structures of their economy, population earnings, level of development of institutions making a business environment or activity of self-government. The inhabitants of the West-Pomeranian voivodeship turned out to be most enterprising people, because every eight person was a businessman. In turn, 11 firms per 100 inhabitants were registered in the Mazovian voivodeship.

Such voivodesh肥胖 as Podkarpackie, Podlaskie, Lubelskie, Warminsko-Mazurskie and Swietokrzyskie with 7 to 8 business entities per 100 of inhabitants were on the other end of the business activity scale. The low entrepreneurship indices were related to the agricultural nature of those voivodeships. Moreover, the volume of small and medium-sized enterprises was directly related to the number of population and the said regions had the lowest density of population. Therefore, the aid programs financed form the public funds were provided to decrease the wide diversity in a level of the regional development. However, the volume of the public aid realized in the said voivodeships is being kept at the lowest level, i.e. as low as approx. 1.5% of the total public aid value in the Podlaskie, Lubelskie and Warmińsko-Mazurskie voivodeship (Raport…, 2006). Such policy not only strengthened but also increased differences in the economic development still existing between the particular regions of Poland. Among the SMB enterprises the commercial business was the most popular. The real estate, rent servicing and services for firms were well-liked. The firms engaged in the hotel trade and catering services were mainly present in the West-Pomeranian voivodeship and the Pomeranian one because of their outstanding tourist amenities (i.e. 75–60 business entities per 10,000 inhabitants).

The public aid to undertakings

The European Union policy is guided by the general rule of a ban on the state-granted subsidies, e.g. from the budget or other public funds, whenever such subsidies deteriorate a competition or may put its principle at risk by the prioritization of a given enterprise or manufacturing of definite products provided this aid has an effect on the trade among the EU members.
The EU law indirectly specifies the rules of public aid granting by defining two cases of the exemption from the above-mentioned ban as follows: the general exemption (i.e. automatic) and conditional one. The former is defined by the provisions contained in article 87 of the European Union Treaty. The latter is every time made conditional on the European Commission’s permission and usually is bound up with the realization of social and economic targets. Namely, that is to say there is an allowance made for granting a public aid in a case, where the expected effects exceed the losses by adversely affecting the conditions of competition.

Granting a subsidy brings the benefits for those entities, which it is given to. Therefore, it is one of various forms of the state intervention into the sphere of economic and social activities, which employs the instruments and institutions of the public financial system. In Poland, the principles of public aid granting are regulated by the Act of 2002. The Office for Competition and Consumer Protection took on a responsibility for supervising the granted subsidies. The present statutory regulations for granting the subsidies meet the provisions written in the articles 87 and 89 of the European Union Treaty.

The public aid may take on an active form of support that consist in transferring the funds in cash or non-cash form to enterprises or a passive one that allows to reduce the burden of public levies or to waive their collection and to leave the funds under this entitlement at the relevant business entities’ disposal (i.e. the depletion of public funds proceeds to the public finance sector). The latter may be held with the intention of public authorities (e.g. by putting tax allowances and exemptions into effect) or enforced by the circumstances (e.g. remission of given entities’ debt due to the budget or earmarked fund) (Woźniak, 2000).

With the approach to strengthen the SMG sector, the Polish Government developed the general guidelines within the frame of the European Union Directives on supporting a growth of this sector. The Polish Agency for Enterprise Development established in 2001 that is responsible for drawing of financial means from the EU funds among other things became a key instrument of this policy. The subsidies granted through this Agency substantially support the development of the Polish small and medium-sized enterprises.

In 2000÷2005, as much as 51% of medium-sized firms and 26% of small ones received the public funds (graph 1). The small business six time more frequently than medium one had recourse to the aid offered by the Labor Offices (i.e., respectively, 31% and 5%), while the latter twice as often than the former was beneficiary of the Ministry of Economy and Labor’s support (i.e., respectively, in 36% and 16% cases). The small number of public aid beneficiaries, especially those of small business was a result of many difficulties. Mostly, the complicated procedures and difficulties in completing an application form and gathering of appropriate documents were enumerated as barriers in access to the public funds, respectively, in 58 and 45% of respondents. About one-third of them accentuated a lack of financial means to take on any undertaking (Raport…, 2006).
In 2005 the direct aid granted as subsidies (i.e. 77.1%) was substantially higher than the depletion of budgetary receipts by tax relieves and redemptions (i.e. 22.9%). Similarly as in 2004, 7% of the whole aid beneficiaries came from the large enterprises that consumed 59% of the aid volume. Among other beneficiaries were 22.8% of medium-sized enterprises, 13.9% of small-sized ones and 4.6% of micro-firms (Raport…, 2006).

Following the Directives of the European Commission the aid instruments were divided into four categories as follows: A – subsidies and tax allowances, B – capital-investment subsidies (e.g. bringing in the capital to a company and converting the debt to shares and participating interests), C – soft crediting (i.e. soft loans deferred or timing of tax repayments or tax arrears), D – sureties and credit guarantees.

In 2005 the total volume of aid granted to the enterprises including the transport amounted to 4,795.1 million PLN (i.e. 1,191.2 €). It was equal to 0.6% of the gross value added in the economy and to the amount of 649.3 PLN (i.e. 161.3 €) per capita basis. The public aid instruments of the A category (i.e. the subsidies and tax allowances) were most popular ones and reached 94.9%. Their participation in total aid granted is being increased every year, e.g. 75.3% in 2004 and 74.9% in 2003. No capital-investment subsidy was granted in 2005. In 2005 a decrease in the value of granted aid has been noted in category C (i.e. the soft crediting) and D (i.e. the sureties and credit guarantees), respectively, by 60% and 85% (tab.). As far as a legal form of beneficiaries is concerned, the private undertakings were granted most of the support, i.e. 68.8% of the total aid value.

The Act on Admissibility and Supervision of Public Aid for Undertakings provides a use of regional, horizontal and sector aid. The regional aid is aimed at decreasing a disparity in the social and economic development among the individual areas of the country.
### Table. The value and structure of the public aid to undertakings in 2003–2005 years

<table>
<thead>
<tr>
<th>Specification</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>mln PLN</td>
<td>%</td>
<td>mln PLN</td>
</tr>
<tr>
<td>Total value of the public aid*</td>
<td>27469.3</td>
<td>100.0</td>
<td>8809.3</td>
</tr>
<tr>
<td>including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A – subsidies and tax allowances</td>
<td>21342.5</td>
<td>77.7</td>
<td>6602.1</td>
</tr>
<tr>
<td>B – capital investment subsidies</td>
<td>1388.8</td>
<td>5.1</td>
<td>1391.5</td>
</tr>
<tr>
<td>C – soft crediting</td>
<td>3200.7</td>
<td>11.6</td>
<td>304.3</td>
</tr>
<tr>
<td>D – sureties and credit guarantees</td>
<td>1537.3</td>
<td>5.6</td>
<td>511.4</td>
</tr>
</tbody>
</table>

*since 2004 y. data including aid to transport

**Źródło:** Raport o pomocy publicznej w Polsce udzielonej przedsiębiorcom w 2005 r. UOKiK, Warszawa, grudzień 2006

The regional aid has been designed to promote a development of those districts where GDP per capita is no larger than 75% of its mean value estimated in the EU as the whole. It is a prerequisite to apply for an aid within the EU regional funds. In addition, the regional aid can be granted from the domestic resources. In Poland, the Council of Ministers determines such items as areas to be subject to the regional aid, levels of the aid provided for such areas and detailed terms required for granting the aid. One mode of this aid is an establishment of special economic zones. The economic zones made one of regional support forms. They were established to get the following:

- employment generation in the regions distinctive of high structural unemployment;
- breaking of industry monoculture and diversification of production structure in the individual regions;
- mobilization of entrepreneurs in the relation of neighborhood ones running their activity out of the zone and establishment of co-operation connections with the Polish outside suppliers;
- support for local technical infrastructure;
- restraints of growth in expenses on unemployment relief for those who get employment within the zone.

They are founded to speed up an economic development within the marked off and territorially enclosed areas of the country, which require the state support. The undertaking of new business activities is financially attractive for many businessmen starting their business within the economic zones as they offer the tax allowances among other things. Till now as many as 14 such zones has been established in Poland. They had offered around 77,570 new workplaces in the end of 2004. As many as 429 businessmen run their business in these zones and the value of their investments has ended with the amount of 19,927.2 million PLN. The pub-
lic aid granted in the tax allowances amounted to 1,493.4 million PLN, which is equal to about 8% of the investments involved (Specjalne..., 2005).

The entrepreneurs engaged in economic activity within the special economic zones incurred investments more than 35 million PLN up to the end of 2006. The greatest participation in this value was noted in the zones of Katowice and Walbrzych, where the investment capital exceeded 45% of the said total value. On average, 7 million PLN and more than 30 workplaces fell per hectare of developed land.

The entrepreneurs of automotive branch invested most of capital costs (i.e. above 35%). The manufacturers of rubber and plastic goods took the second place, and the producers of electric and optic appliances – the third one. About 70% of capital invested in the economic zones came from the following four countries: Poland, USA, Germany and Japan.

On the whole, the regional aid reached 21.0% of the total one including 664.5 million PLN held for supporting new investments (graph 2).

![Graph 2. The kind of the public funds in 2004-2005 y (%)](image)

*Source: Raport … 2006.*

The horizontal aid was intended to restructure enterprises, grant a temporary assistance (i.e. restructuring aid), undertake research projects, keep an employment level or generate employment, develop small and medium-sized firms, protect an environment and do training for the needs of definite businessmen focused on a development of their enterprises. That of 2005 approached to 49.9% of total aid value, including 1,230.3 millions PLN held for the employment purposes and 304.5 million PLN spent on a development of small and medium-sized enterprises. As many as 31.3 million PLN was provided for the environmental protection targets. This sort of the aid was mainly granted by the environmental protection funds of national or provincial level in subsidies, preferential credits and loans or redemption of loans. The environmental protection activities were also promoted by the local government units through the donation of means from the commune’s environmental funds. This aid was given under 8 support programs accepted by the
European Commission. In 2005 the volume of horizontal aid was lower than that of 2004 by 2,632.8 million PLN, mainly because of quite complete restrictions on aids for restructuring.

It is a goal of the aid for the sectors treated as sensitive ones to support structural transformations essential to proper performance of the economy. In the European Union, the aid for the said sectors is under especially thorough and tough control because of their specificity, i.e. low uses of production capacity, overproduction, and severe competition in the EU market as well as out of it. In 2005 the volume of sector aid reached 1,048.5 million PLN (i.e. 28.8% of total aid value) including 82.4% thereof allocated to the coal mining and the rest granted to the shipbuilding.

The PARP-ordered study on a situation of firms since entering Poland into EU indicated that almost a half of the respondents was unable to estimate an influence of the integration on its company situation, in one-forth of investigated this evaluation was recognized as positive, while the negative assessment was noted in 14% of respondents. The most satisfied entrepreneurs were engaged in hotel and restaurant business.

According to the European Commission report, the members of EU–15 spent around € 53 million, i.e. 0.57% of GDP on the public aid in 2005, at the same time is worth stressing that such countries as Germany, France and Italy charged the greatest expenses. The public aid was mostly spent on the supplementary financing of research and environmental protection (i.e. 79%) with the application of the horizontal programs.

Conclusion

Granting subsidies from the public measures, the state aspires to achieve the tangible economic and social goals. The public aid involves all the benefits from the public sources, which is very profitable for the definite economic entities. Since the state intervention in the economy weakens the competition, the Act on Admissibility and Supervision of Public Aid for Undertakings specifies conditions which allow granting a financial support in Poland. The gathered data has indicated that the public measures granted the businessmen support a development of the SMB sector. However, a structure of its beneficiaries is shaped unfavourably. More than 60% of the total aid value hit the large enterprises, which made use of the support to a considerable degree. Therefore, the support policy is to be modified change the present percentage distribution for the benefit of the small and medium-sized enterprises to make their innovativeness and competitiveness higher in the market. Consequently, this year they should count on the strongest support to invest into research and development. The government project is going to allot about 10 milliards PLN yearly up to 2010 on the public aid.
References

2. Rzeczpospolita nr 94 z dn. 21.04.2006 r.

MAŽŲ IR VIDUTINIO DYDŽIO FIRMŲ FINANSAVIMAS VISUOMENINIŲ FONDŲ LĖŠOMIS

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Santrauka

Straipsnyje aptariamo kai kurios viešosios pagalbos, skirtos SMB sektoriui Lenkijoje, formos. 2005 m. aukščiausia pagalbos vertė (77,1%) buvo suteikta kaip tiesioginės išlaidos. Subsidijos ir mokesčių išmokos buvo dažniausiai vartojamos viešosios pagalbos priemonės. Šios kategorijos pagalbos priemonių dalyvavimas yra didinamas kiekvienais metais. Viena iš pagalbos formų yra ekonominė zona. Ekonominės zonas suteikė galimybę sukurti 77570 naujų darbo vietų, jų investicijų dydis pasiekė 19,9 milijonus zlotų.

Pagalba, išlaidos, ekonominė zona.