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All sorts of small enterprises boomed in the countryside, as if a strange army appeared suddenly from nowhere.

Deng Xiaoping

EUROPEAN FUNDS AS A SUPPORT OF ENTREPRENEURSHIP – POLISH EXAMPLE

Introduction

Nowadays, entrepreneurship is regarded as one of key factors influencing the economy development and society's wealth. It gains, however, the particular significance in the countries that had already undergone or have been undergoing economy transformations from the centrally controlled model to the market one. At the beginning, it was a challenge for a public sector based mainly on the state owned companies with the monopoly on the market in many cases. The sector of SME's that was being established at that time, started to discover society's entrepreneurial behaviour that had been hidden before. It soon became the real 'fourth' Marshall production factor in the economies that were undergoing transformations (Kilby, 1993).

The development of entrepreneurship, however, wasn't easy. In the former communist countries, the SMEs sector faced many obstacles, such as (McMillan, Woodruff, 2002):

- problems with enterprises having roots in a previous communist system because they weren't eager to share the market with this sector,
- lack of state support in establishing economy structures that enabled entrepreneurs to undertake new enterprises,
- lack of the proper background such as: banks, financial institutions, business institutions (Chambers of Commerce), etc.

Nevertheless, small and medium-sized enterprises in Poland and other post communist countries managed to deal with mentioned obstacles very well, they were improving impetuously and created their own substitutes for behaviour and institutions in developed market economies (McMillan, Woodruff, 2002). Since the beginning of the transformation (i.e. 15 years) the SMEs have formed the economy structure very similar to the West model and influenced significantly on GDP and employment. But they still have to be supported because of new challenges posed by contemporary world economy. Such a situation takes also place in rich countries such as: Great Britain, France, Belgium, Holland, or the US, where many programmes of state support are implemented in order to stimulate establishment of new business entities (Evans, Leighton, 1989). They are also implemented at the international level, the European Union is the best example.

The aim of this paper is to analyse the needs and restrictions of the entrepreneurship that result from the researches conducted in this sector, after that the possibilities of using the EU funds will be described. Also we will try to answer the question whether the EU funds coincide with businessmen's needs. Poland's accession to the EU increased chances for significant amount of EU financial resources earmarked for the SMEs sector. They are, indeed, available to Polish enterprises, growing interest in them is clearly visible, rising number of enterprises applying for them proves it. The answer to the research problems will be, at the same time, the answer to Polish entrepreneurs' needs.

Entrepreneurship and its restrictions

Entrepreneurship occurs everywhere and is regarded as one of the most important factors influencing development of country's economy. Globalization, pro-competitive activities as well as development of SMEs (i.g. entrepreneurship) are one of the most important objectives of many governments. Also the Lisbon Strategy, which is created to show the direction of the EU development includes the regulations concerning its importance (Włodarczyk-Śpiewak et al, 2004).

What is entrepreneurship? There is no clear and unequivocal answer. Various authors give various answers, e.g. according to J. Schumpeter, it's implementing new products and methods, breaking into new outlet market and new sources of supply, creating more effective organizational forms of business activity (Schumpeter, 1960). It is one of the best known and most frequently cited definitions. For W. Baumol the issue of entrepreneurship is vague and doesn't have any theoretical significance (Baumol, 1968), it is associated with functions of entrepreneurs. For Kwiatkowski, it is a readiness for taking a chance, regardless of the resources we are working on at the moment. According to Bratnicki and Kulikowska, it is a kind of creative chaos, the self-destructing phenomena. New ideas and actions replace the old ones, supplanting or even destroying them in the market process (Bratnicki i Kulikowska, 2000). Fridson believes that entrepreneurship emerges when chances are taken and risk is avoided, then it is examined as the features of human activity (Fridson, 2000). Thus, entrepreneurship, as it was showed above, has many faces. Surely, it is connected with new ideas evolving in human mind can be put into practice even in tough market conditions. The willingness of acting regardless of the environment and the influence on the entrepreneurial person is called entrepreneurship.

Regardless of the definition that is taken to analysis, there are always specific dominants connected with its development. These factors can be and should be regarded also as the barriers limiting entrepreneurship. They are connected with the company's activity and its functioning in the particular environment. They are shaped differently depending on the situation and environment. With reference to the countries establishing market economies, government policy can and should support its development. Such actions can include customs duty, ascertaining prices, allocating resources as well as they are connected with government policy toward state enterprises. Also cultural and social determinants are very important because they influence the entrepreneurial attitudes of members of society (Leff, 1979) in both stable and facing transformation economy. Entrepreneurs' behaviour (their entrepreneurship) is connected with education, professional attitudes, social status, influence of politics, religion, ethics and other economic factors (Kilby, 1983). Thus, the factors having impact on entrepreneurship are numerous and they can be divided into certain criteria, e.g. they can be divided by four classifications (Stopczyński, 2003):

- *type of environment*, following criteria are taken into account: economic conditions of activity, the market, national culture, techniques used in production and availability of resources;
- *type of organization*, it includes such factors as: position on the market, type of products and technology;
- *features of organization*, such as: its size, location, , strategy, structure, style of managing and organizational culture;
- *character traits of participants*: system of values, their attitudes, age, experience and knowledge.

It could be suggests another division of determinants, for three groups, they include: personality, local and macroeconomic factors. To *personality factors* belong: independence, realism, beliefs and strong character. They allow an entrepreneurial person to seek

opportunities and take advantage of them properly. Certain character traits also help to overcome stress connected with daily work and failures. To *local determinants* belong: local politics, location of a company and the scope of its business activity, social mobility, education, etc. *Macroeconomic factors* are connected with actions and a state of the entire economy, they include the government's policy, social conditions, cultural and economic factors. They also influence the economy but entrepreneurs don't have any impact on them.

The division by classical economic analysis can be also made to macro- and microeconomic determinants. Microeconomic factors include all factors directly connected with enterprise and owners or managers' entrepreneurship, in many cases, they can influence the determinants by adjusting them to their needs: e.g. consumers, suppliers, competition, state of the market. Macroeconomic factors are mainly connected with the economy as a whole, that's why, it's very difficult to talk about an impact of a single enterprise on the entire economy. Macroeconomic factors include: the state and economic policy, tax and welfare systems, and socio-cultural factors, etc.

Analyzing the examined determinants of entrepreneurship, it should be noticed that entrepreneurs are vitally interested in those factors they can influence, rest of them should be regarded as external restrictions and entrepreneurs should do their best to adjust to them, therefore the factors limiting the development of entrepreneurship can be divided into two groups: human and capital. To *human factors* belong:

- Objectives of the enterprise activity (whether the entrepreneur knows what he would like to achieve and how to do it),
- Essential time to enterprise management,
- Single people who have too much to do, they are responsible for too many organizational things connected with running an enterprise (e.g. decision making, secretarial work, finance and bookkeeping, etc.),
- Lack of knowledge sufficient to make a decision, it often arises from lack of experience as well as rapid development of environment and difficulties with keeping up with all changes,
- Level of education (particularly connected with actual profession),
- Social and cultural factors such as: opinion of society on the significance of entrepreneurship and entrepreneur as a job).

The second group constitutes *capital factors*. It particularly concerns such determinants as:

- Lack of sufficient financial sources on establishing and then running the business activity,
- Financial responsibility for made decisions, it's mainly connected with legal aspect of running business activity and the risk of losing private property as a result of considerable commitment,
- Lack of institutions supporting business development,
- Lack of institutions supporting financially such as: banks willing to give a loan to SMEs, leasing, factoring or insurance companies.

Human and capital factors mentioned above introduce two major obstacles entrepreneurs can face when they want to start a new business activity or have run for a long time. More attention will be paid to these issues in a further part of the article.

European Funds – support for SMEs sector

After Poland's accession to the European Union, the country subsequently became eligible for the EU assistance, thanks to it, business entities can apply for support from different financing sources. In order to achieve this objective Structural Funds were set up

and they are the instruments of the EU Structural Policy. They aim at supporting of restructuring and modernization across the EU, thus they improve the economic and social cohesion in the European Union. The funds are aimed at those regions and economy sectors that without financial support aren't able to tackle regional disparities. After all, the European Union consists of well-developed regions (e.g. south England, vicinity of Paris and the Netherlands) as well as those that are below the 'EU average' (Greece, Ireland, Portugal, northern Scandinavia, southern Italy and all 10 countries that had joined the EU recently). Poland became also eligible for support from the Structural Funds. The Structural Policy and Funds are to help central and regional authorities of less developed regions to tackle with the most important economic problems. There are four Structural Funds:

- *European Social Fund (ESF)*,
- *European Agricultural Guidance and Guarantee Fund (EAGGF)*,
- *European Regional Development Fund (ERDF)*,
- *Financial Instruments for Fisheries Guidance (FIFG)*.

They are supplemented with the *Cohesion Fund* that is regarded as the structural policy instrument.

The EU policy distinguishes three key objectives of the structural funds such as (Przewodnik..., 2004):

- Objective 1 – promoting the development and structural adjustment of regions whose development is lagging behind,
- Objective 2 – supporting the economic and social conversion of areas facing structural difficulties,
- Objective 3 – supporting the adaptation and modernisation of policies and systems of education, training and employment.

ESF and ERDF belong to the most important funds that support activities of business entities (not only selected social groups or sectors).

European Social Fund was established to support the Community Social Policy. It funds the activities of the Member States in the field of counteracting unemployment and human resources development. The ESF mainly finances vocational training, scholarships, apprenticeships, vocational guidance and job placement, labour market analyses and studies, etc. ESF supports human resources in the EU activities (Rozporządzenie..., 1999). The European Council and Parliament determined the main fields of activities, they are as follows:

- active labour market policy,
- combat and prevention of social exclusion,
- lifelong learning,
- improvement of workforce and developing entrepreneurship,
- equal opportunities for men and women on the labour market.

The European Regional Development Fund (ERDF) was set up in 1975 as the reaction to deepening discrepancies in development of regions caused by the economic crisis and the accession of new states: the United Kingdom and Ireland. Its main objective was reducing discrepancies in regional development of the Member States. ERDF co-finances projects in four operational programmes:

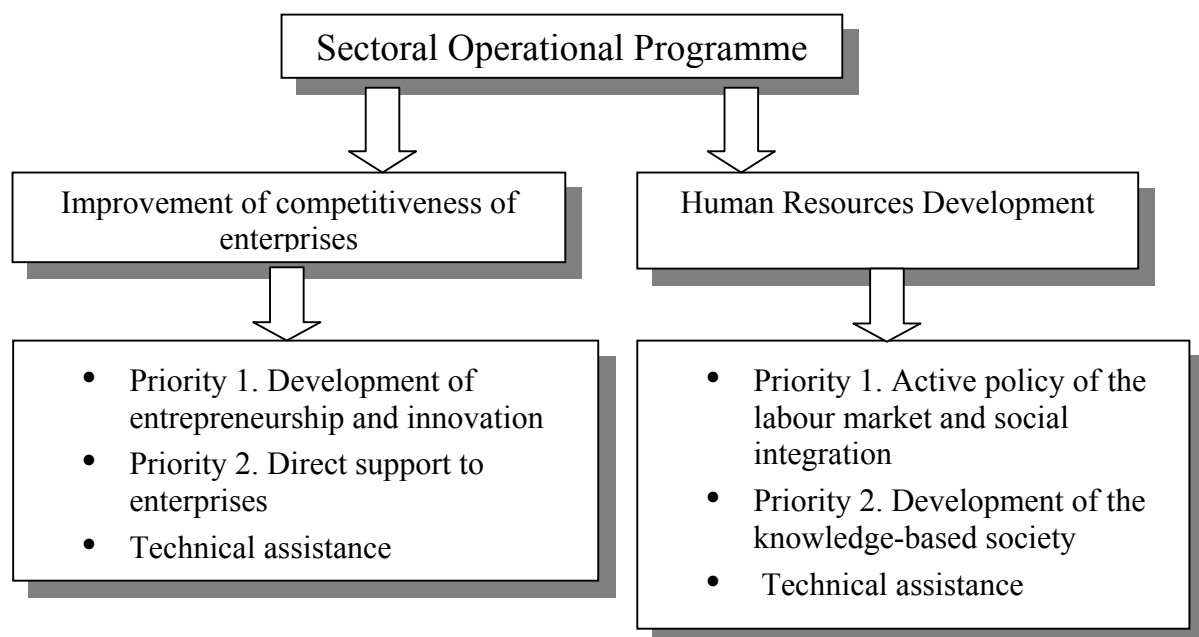
- Integrated Regional Operational Programme (IROP),
- Sectoral Operational Programme- Improvement of the Competitiveness of Enterprises (SOP-ICE),
- Sectoral Operational Programme Transport (SOP Transport),
- Operational Programme Technical Assistance.

IROP and SOP-ICE are closely connected with supporting business entities.

The main goal of the *IROP* is to create conditions for the increase of competitiveness

of the regions and prevention of the marginalization of some areas, in such a way as to enhance the long term economic development of the country, its economic, social and territorial cohesion, as well as integration with the European Union. *The SOP-ICE* objective is improvement of competitiveness of enterprises operating in the European Single Market, it will be achieved by concentration of financial resources apportioned directly between enterprises, R&D sector, and business environment institutions, on the most effective projects and undertakings that will guarantee improvement of production and technology innovation. Sectoral Operational Programmes were set up to allocate financial resources form the EU funds (including ESF), their division are showed in Chart 1.

Chart 1. Operational Programmes within the European Social Fund



Source: own compilation based on the website www.fundusze-strukturalne.gov.pl.

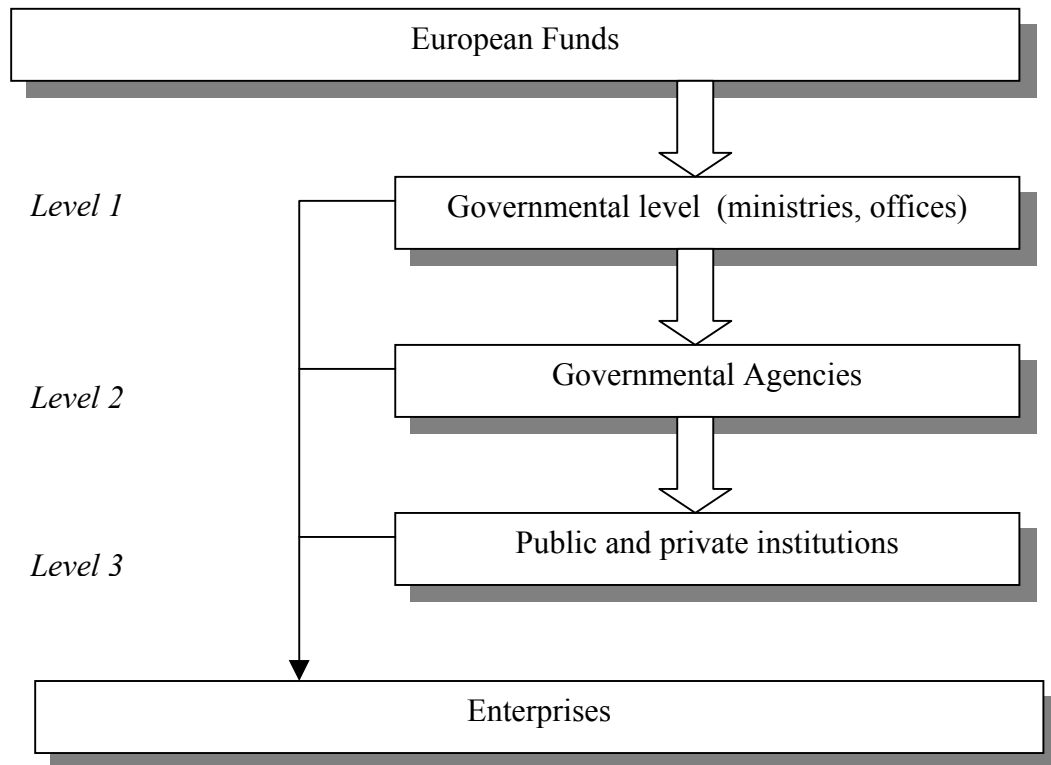
As *Chart 1* shows two main operational programmes were distinguished in order to support business activity of enterprises. Each of them focuses on particular area of the EU policy connected with development of the economy and its entities. Programme of enhancing the competitiveness is targeted mainly at investment activities of enterprises, whereas programme of development of human resources is closely connected with development of human resources. Both of them give enterprises an opportunity to find additional financing sources without any necessity of reimbursement.

Polish system of using EU funds

European funds are apportioned among the Member States by specially appointed institutions, they could be ministries, different governmental agencies, independent enterprises, associations or foundations. Each of them is responsible for definite part of activities connected with funds and allocates grants depending on the programmes it implements. These institutions collect applications, appraise them, and then audit implementation of the projects. They are often responsible for counselling and giving advice on the procedures and terms of obtaining grants under the available SME support instruments.

It is implemented in Poland on three levels, showed in Chart 2.

Chart 2. Flow of the EU financial resources supporting the activity of enterprises



Source: own compilation.

Entrepreneurs can obtain support from three different sources available as it is showed in the Chart 2. *At the top level*, ministries or relevant government offices decide on allocation of financial resources for Sectoral Programmes, e.g. the Ministry of the Economy, Labour and Social Policy and the Ministry of National Education and Sport are responsible for implementing SOP Human Resources Development in almost all activities. Regional Labour Offices manage selected activities within the operational programme. The Ministry of the Economy and Labour and the Ministry of Scientific Research and Information Technology take part in the transfer of funds. The Ministry of the Economy and Labour, Province and Marshal Offices are responsible for allocation of funds for ERDF.

The *second level* is represented by various governmental agencies, the most important are: the Polish Agency for Enterprise Development (PAED), the Industrial Development Agency (IDA) and the Agency for Restructuring and Modernisation of Agriculture. The agencies and the institutions at the level one alike are responsible for implementing EU Operational Programmes, e.g. PAED implements both SOP-ICE (selected activities) financed by the ERDF and SOP Human Resources Development (selected activities) co-financed by the ESF.

The *third level* is represented by few various organizations, however, the best known are the Regional Financing Institutions (RFIs) creating a network of support and they are accredited by the PAED. The network covers 16 institutions (one in each province), e.g. the West Pomerania Regional Development Agency is in the West Pomerania Province. They aim at:

- Giving advice on the procedures and terms of obtaining support,
- Counselling in the choice of accredited service provider,

- Managing and administering the Phare programmes,
- Promotion of the Sectoral Programmes,
- Cooperation with PAED.

Except for the RFIs, there are much more institutions (e.g. from banking sector), that had been chosen as regional partners and implement various activities in order to support business entities with micro-loans funds, guaranteed funds, etc. They supplement the offer of the EU grants aimed at entrepreneurs.

PAED is one of the most important institutions in Poland implementing EU grants. As it was mentioned before, PAED is responsible for collecting grant applications and managing programmes of SOP-ICE AND SOP HRD and PHARE programme.

Needs of the SMEs sector and European funds

The European funds are apportioned according to the procedures by the Member States have an impact on the SMEs development in Poland and other Member States. The opportunities given by the EU funds are parallel with practical and theoretical deliberation on the determinants and restrictions of entrepreneurship which is restricted, as it was mentioned before, by two main groups of factors: human and capital.

First of all, disbursed financial resources can support development of knowledge, qualifications and experience, analysis of both: determinants and restrictions proves it. It concerns both: people entering the labour market (the graduates) and entrepreneurs. Even entrepreneurs who employ one or two workers have to be aware of the importance of human capital, that's why employing someone shouldn't be the last step but the first one, then entrepreneurs have to take care of the employees' development so that they can bring additional wealth to the company. It concerns also big companies. Do EU funds offer such opportunity? The answer is: yes. There are many various activities aimed at entrepreneurs and their employees that will improve their qualifications, e.g. postgraduate studies that have been organized for several years. They are very popular with those who want to improve their qualifications. In Poland, the students pay only 20% of the fee, the rest is covered by financial resources of ESF SOP HRD.

Except for knowledge improvement, practical information and experience are of key importance. As it was mentioned before, there are different restrictions entrepreneurs meet. It concerns both: lack of specialist knowledge and objective obstacles connected with gaining such knowledge, e.g. time or too absorbing management. Such knowledge can be acquired by entrepreneur in a form of trainings, studies or bought in a form of consulting services. The latter one is far better and reliable solution, it, of course, depends on the attitude of entrepreneur to this type of activities as well as financial means. Also in this case, entrepreneurs can count on the EU Funds assistance. Most of the SOP-ICE activities are connected with assistance in purchasing counselling services in such fields as: purchases, restructuring or implementing new technologies, counseling in regard to improvement of competitiveness of enterprises on the market, development of export, etc. The opportunity offered by trainings, retraining, legal and organizational counselling as well as consulting assistance of institutions that have already obtained financial resources, proves that objectives of the EU funds and needs of entrepreneurs and their employees are parallel.

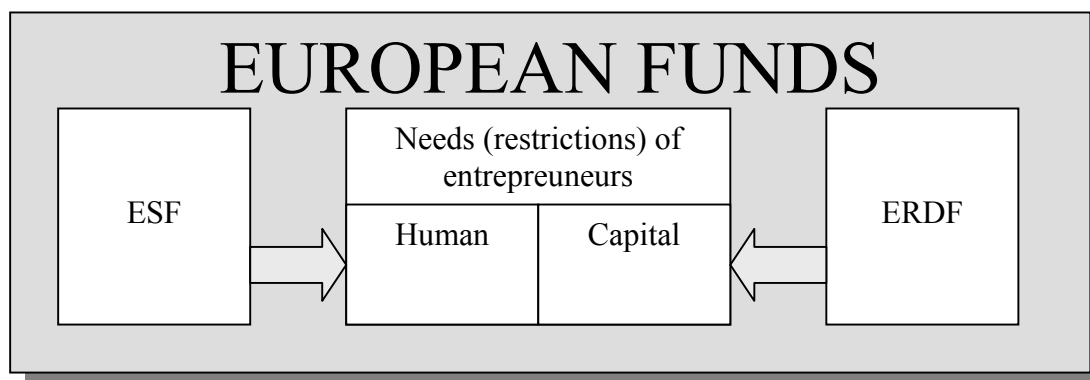
Secondly, the appropriations can be earmarked for financial assistance of entrepreneurs. Two types of activities can be financed by the EU funds. First of all, it includes various activities aimed at the unemployed graduates and the unemployed registered at the Labour Offices, targeted at improvement of competitiveness. Those who want to undertake a new enterprise, can receive grant to do it because it's obvious that the unemployed don't have enough capital. That is why the assistance of the Labour Offices (in Poland) and private

companies will provide beginning entrepreneurs with capital. Banks and quasi-bank institutions are of a particular importance because they also possess their own systems of loans. They are able to establish “Seed Capital” that will finance new initiatives and support the development of SMEs.

In the second place it concerns the entrepreneurs who have already run their own business. If we assume optimistically that the entities established with the assistance of the EU funds will be few years on the market¹, they will need additional assistance for development. Own capital (in many cases family one), except for potential support from external sources (e.g. the EU funds), is of a particular importance for a majority of beginning entrepreneurs. It is commonly known, however, such capitals aren’t sufficient even if we assume reinvestment of profits. Difficult situation of SMEs is caused by limited confidence of banks in the sector. On one hand, entrepreneurs want to invest, on the other, they cant do it without additional capital which they don’t have. Then investment grants obtained from the Union are very helpful and enable to purchase machines, technology lines units or results of research. The EU funds, implemented mainly in the scope of SOP-ICE, enable to carry out the investment plans. In this case, it can be stated that the objectives coincides with the needs of entrepreneurs.

The assistance of funds in regard to the needs and their restrictions are showed in the Chart 3. It presents two main kinds of assistance apportioned among business entities in the European Union.

Chart 3. EU assistance of the needs and restrictions.



Source: own compilation

Conclusion

The EU funds are essential elements of the long-term policy concerning improvement of competitiveness of the EU and Member States economy. As it was showed above, adjusting the opportunities offered by the EU funds with entrepreneurs’ real needs and abilities are of key importance. With regard to support of entrepreneurship, the funds are well adjusted to the basic needs of business entities at every level of their development. It is vital, however, to raise a question: are there any significant factors restricting access to the EU financial sources. The answer is: yes, particularly in Poland.

Two kinds of restrictions can be distinguished. The first one is connected with the funds themselves; the second one directly concerns entrepreneurs. General restrictions connected with the funds are as follow:

¹ As researches show, newly established enterprises usually go bankrupt in the first year. Only 5% of them stay on the market after 3 years.

- According to the basic rule, all entities applying for grants have to comply with definite requirements. In fact, many of them don't meet formal conditions (e.g. paid all taxes or national insurance contributions), if they are willing to apply for a subsidy; they have to pay all back taxes and contributions.
- Grants are apportioned as a result of competition. All enterprises that complied with all formal requirements and were admitted the next stage, have to prove that they are capable to implement the project successfully. The evaluation concerns not only legitimacy but also economic effectiveness, concreteness, impact on the labour market, etc. The formula of competition (regardless of the evaluation measures) aims at choosing the best solutions. Not all projects are possible to implement, it concerns investment grants in particular, they arouse the biggest interest in Poland.
- There are many opportunities offered by the EU funds and information is rather general, that's why it's very difficult for entrepreneurs to obtain information easily and quickly. In this case, however, a significant progress was made. The entrepreneurs gain more valuable information, local and national institution responsible for counselling; provide more and more detailed information.

Restrictions concerning entrepreneurs are also vital. They are as follows:

- Difficulties in correct filling in the grant applications and collecting required documents. It concerns mainly those who apply for investment subsidies. The institutions collecting grant applications are very tough with evaluation. According to PAED, the most frequent mistakes are: lack of annexes (financial, legal), grant application aren't filled according to the requirements (some columns are filled in), they are signed incorrectly (e.g. by not authorized person), lack of originals and copies, documents aren't initialed.
- Lack of practical knowledge on the EU funds and their structure. The entrepreneurs' expectations aren't sometimes parallel with Funds requirements. The applications are often rejected because they aren't in accordance with the objectives or they had been started before the grant agreement was signed.
- One of the most important restrictions is a capital, it means a lack of capital. Own capital is required in many cases and that's the problem. In such case, taking a bank loan is necessary. Some entrepreneurs, however, aren't eligible to apply for a bank loan and no actions can be taken to change the situation.
- As it was showed before, the European Funds are very helpful and interesting tools in supporting the development of entrepreneurship. Of course, one could argue if such help is needed. Maybe enterprises should be left only to the market mechanisms? There isn't, however, the unequivocal answer to this question. Nevertheless, it is important that such funds exist and are available to an average company. Moreover, they can influence its position on the market and, as a result, the state and EU development.

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