

Mechanisms of EU funds distribution and SMEs activity in structural funds absorption in region of Łódź

Introduction

Due to their specificity, small and medium sized enterprises (SMEs) suffer from numerous barriers when they wish to improve their competitiveness and innovation. These barriers put SMEs at a disadvantage vis-a-vis large businesses. Considering the social and economic role played by the SMEs and based on the Treaty derogations, the European Union enables the use of various legal and financial tools which support the sector. Taking account of unquestionable importance of the SMEs for economic growth and the availability of resources to co-finance investment projects aimed at increased competitiveness of these businesses, it seems interesting to study and fine-tune the mechanisms of transferring resources to the SME sector. The task would consist in developing clear and simple procedures understandable to all stakeholders and requirements relating to the application for subsidies from Structural Funds as well as the award procedure.

Already in the pre-accession period Polish SMEs actively took advantage of the opportunities offered by Community politics. After May 1st, 2004 the offer considerably expanded. Available financial instruments available at both national and regional levels have become an important source of financial resources to SMEs with a view to improve their competitiveness and innovation. Compared against the rest of the country, SMEs in the Lodz Region are relatively active in applying for EU subsidies. However, there are many factors decisive for the phenomenon, some relating to the programme structure of available instruments (priorities and targets) some to numerous external and internal barriers to the access to resources.

The paper shall focus on instruments which support SMEs in the Lodz Region and on barriers which complicate the use of available assistance.

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According to the Main Statistical Office (GUS) in 2005 there were 281,186 SMEs registered in the Lodz Region, out of which 5.25% (14,775) did not employ any workers except the owner, 89.86% (252,745) were micro-companies employing up to 9 people, 4.09% (11,506) were small businesses of the employment ranging between 10 to 49 people and 0.77% (2,160) were medium sized companies employing between 50-249 people².

Sector structure of SMEs in the Lodz Region did not diverge significantly from the trend observed for the country. *Trade and repair works* (39%) dominated followed by *Industrial processing* (14.5%), *Real estate and business services* (12%) and *Construction* (9%). The only sectors with SMEs participation higher than the national average were *Mining* and *Industrial processing* (by 27% and 36% higher than the national average).

The efficiency of SMEs sector in the Lodz Region places it below the national average. In 2005 SMEs income in the region was lower than the national average by 25% and 36% for small and medium sized companies respectively. Also the productivity and, consistently, salaries and wages were below the national average. In 2005 remuneration in SMEs in the Lodz Region was lower than the national average and ranged between PLN 1.31K (micro-companies) and PLN 2.0 K gross (medium sized companies)³.

Despite relatively low efficiency of the SMEs in the Lodz Region compared to the rest of the country, businesses in Lodz made rather high investment outlays in the period covered by the study. In 2005 total investment outlays in the Lodz Region reached PLN 6.2 bn, out of which ca. 15.4% was spent by micro-companies, 7.4% by small and 20.6% by medium sized companies. Investment expenditure calculated per company and per worker was higher than the national average and accounted for 137.21 and 132.47 respectively (national average = 100).

² Pyciński, S., Żołnierski, A. (ed), *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2005 – 2006*, Polish Agency for Enterprise Development, Warsaw 2007

³ Ibidem.

2. SMEs from Lodz Province participation in Sectoral Operational Programme Improvement of the Competitiveness of Enterprises 2004-2006

Sectoral Operational Programme Improvement of the Competitiveness of Enterprises was the first „accession” instrument to support SMEs in Poland. It included three measures directly addressed to small and medium sized entities: Measure 2.1 „Improvement of SME competitiveness through advisory assistance”, Measure 2.3 „Improvement of SME competitiveness through investment” and Sub-measure 2.2.1 „Support to enterprises implementing new investment projects”. The overall objective of SOP – ICE was to improve the competitiveness of enterprises operating in Poland within the framework of the European Single Market. The strategy of implementing the main objective set out two priorities which identified the areas of financial support within the SOP-ICE: enterprise development and increased innovation through the strengthening of business environment institutions and direct support to enterprises (subsidising investment projects).

SMEs were the most interested to gain support for their planned investment projects. Final allocations of resources (Table 1) within subsequent measures responded to entrepreneurs' expectations.

Table 1 Allocationa within measures 2.1, 2.3 and 2.2.1 SOP-ICE

Support instrument	Measure	Amount before re-allocation (PLN)	Amount after re-allocation (PLN)	Increased /reduced allocation
Subsidies for the purchase of services	2.1	125 913 980	72 657 980	58%
Subsidies to investment projects	2.3	1 380 790 741	1 638 418 360	119%
	2.2.1	1 256 600 111	1 301 867 711	104%

Source: *Poziom absorpcji przez MSP środków w ramach SPO WKP*, IMC Consulting, PSDB, Warsaw 2007

SMEs from the Lodz Region were relatively highly active compared against the rest of the country in applying for SOP-ICE resources. For measures 2.1 and 2.3 in total in the Lodz Region 379 co-financing funding agreements were signed, the total amount of PLN 141 200 942 zł (Table 2). An average subsidy to a company in the region for Measure 2.1 was PLN 34 K and almost half a million PLN for Measure 2.3.

Table 2 SOP-ICE Measures 2.1 and 2.3 – results for the Lodz Province

	SOP-ICE 2.1	SOP-ICE 2.3	Total
No. of calls for applications	13	4	17
No. of filed projects	181	1660	1841
Amount requested in projects	7 246 218	711 400 841	718 647 059
No. of projects qualified to substantive assessment	142	1037	1179
No. of signed agreements	97	282	379
Granted subsidies by agreements (PLN)	3 306 514	137 894 428	141 200 942
Average subsidy (PLN) in signed agreements	34 088	488 987	

Source: Lodz Regional Development Agency, 2008

For Measure 2.2.1 SMEs from the Lodz Province ranked 6 among provinces when it comes to the number of filed applications and they were in the middle of the list (8) when it comes to the average amount of requested subsidy⁴.

The 200 projects submitted in the Lodz Province were within Measure 2.1 and the total requested subsidy amounted to PLN 483.8 m. Average amount of eligible costs was ca. PLN 3.7 m while average amount of requested subsidy reached PLN 2.5 m. Ca. 60% projects were given more than 51 points in substantive assessment which meant they qualified to receive the subsidy. Due to limited resources, subsidies were granted only to projects which exceeded a given point ceiling. That was why only 15 projects from the Lodz Province received the total subsidy of PLN 57 m⁵.

Efforts made by SMEs in the Lodz Region to receive subsidies from SOP-ICE differed in Lodz and in the region which was reflected in the number of submitted applications. Businesses based in Lodz dominated with respect to both the number of applications and signed agreements. Companies from Lodz and its close neighbourhood were also the most active in trying to win co-funding from SOP-ICE. More than 55% of all applications submitted in the region to Measure 2.1 came from SMEs based in Lodz. Similar disproportions among counties were recorded for Measures 2.3 and 2.2.1. Considering both the number of applications for investment projects and the number of signed agreements, SMEs were more active than businesses based outside of Lodz (their share was 58% and 63% respectively). The divergences confirm advantages relating to the location as it is easier in an agglomeration to have access to advisory services and information necessary to fill out the application form correctly.

⁴ *Raport końcowy Poziom absorpcji przez MSP środków w ramach SPO WKP*, IMC Consulting, PSDB, Warsaw, 2007

⁵ Data from the Lodz Regional Development Agency, Lodz 2008

In counties outside of the Lodz Agglomeration most applications for subsidies came from businesses in counties: tomaszowski, radomszczański, zduńskowolski, town - county Piotrków Trybunalski, sieradzki and bełchatowski.

SMEs support instruments within Regional Operational Programme of the Lodz Province in 2007-2013

Regional Operational Programme of the Lodz Province (ROP LP) is one among programmes which, together with national level programmes, implement the assumptions of National Strategic Reference Framework (NSRF) which identify priorities that will receive the main portion of European funds in the new programming period. Regional Operational Programme for the Lodz Province drafted by the Province for the years 2007-2013 (ROP LP) is an operational document which specifies the main development directions for the province aimed at improved economic competitiveness of the province, promoting sustainable regional development and ensuring higher social, economic and spatial cohesion of the region. In the forthcoming 8 years the Board of the Lodz Province will be the Managing Authority fully responsible for the use of ERDF resources in the region. For years 2007 – 2013 the Lodz Province has got subsidy from European Regional Development Fund (ERDF) the total amount of EUR 1 006 380 910⁶.

Within ROP LP there is priority axis III: Economy, Innovation, Enterprise addressed mainly to SMEs. Support within priority axis III includes investment and research projects in companies, support to R&D units, projects contributing to the development of business environment, tourist sector and leisure and sport infrastructure.

Projects implemented in the axis involve: purchase and manufacturing of scientific and research equipment, purchase of fixed assets necessary to conduct R&D in companies, direct investment in SMEs with preferences for innovative projects, establishing or development of industrial, technology parks, enterprise incubators and new pro-innovation centres, construction and modernisation of tourist infrastructure. In accordance with ROP LP assumptions the implementation of projects subsidised from axis III should contribute to increased R&D potential in the region, improved innovation and competitiveness of

⁶ Regionalny Program Operacyjny Województwa Łódzkiego (RPO WŁ) na lata 2007-2013, Gazeta Wyborcza, http://gospodarka.gazeta.pl/firma/1.31560.5723658.Regionalny_Program_Operacyjny_Wojewodztwa_Lodzkiego.html [access on 12.02.2009]

companies and the economy of the region and also to its higher leisure and tourist attractiveness⁷.

Priority axis III: Economy, innovation, enterprise is composed of five measures:

III.1 Support to R&D units

III.2 Improved innovation and competitiveness of companies

III.3 R&D development in companies

III.4 Development of business environment

III.5 Tourist and leisure infrastructure

Measure III.2 enjoys special interest of the business community as it allows to get co-financing for direct investment in companies. Its objective is to support modernisation and development investment projects in companies. The measure supports investment projects resulting in increased competitiveness in the market and improved SMEs position in the Lodz Province.

The measure provides subsidies to projects involving direct investment in companies connected with the introduction of new, additional products or major alterations to present production process, e.g.:

- application of new technological solutions in production and services (purchase of necessary fixed assets and intangibles directly linked to the purchase and use of fixed assets) also those leading to the limitation of adverse effects to the environment (including e.g. reduction of energy-, material- and water consumption for products and services, life cycle assessment at each stage of developing technological processes),
- implementation of new organisational solutions leading to improved productivity and efficiency (e.g. in marketing, logistics, distribution, IT systems and management);
- purchase of necessary fixed assets, intangibles connected with organisational changes,
- certificates for manufactured products and rendered services (in relation with investment subject of a given project),
- investment in multimodal transport,
- support to SMEs environmental management systems,
- implementation of best available techniques (BAT),
- promotion of entrepreneurs in target markets including drafting, printing and publishing of promotion materials, participation in fairs and business missions abroad,

⁷ Szczegółowy Opis Osi Priorytetowych Regionalnego Programu Operacyjnego Województwa Łódzkiego na lata 2007-2013, Załącznik do Uchwały Nr 79/09 Zarządu Województwa Łódzkiego z dnia 28 stycznia 2009 r., Board of the Lodz Province, Lodz, 28 January 2009, p.78

- marketing and promotion of regional products and „brands”⁸.

So far there has been only one call for applications (09-10.2008) for investment projects. There were 234 projects filed the total amount of PLN 607 240 091.53 PLN, where total requested subsidy from the European Regional Development Fund accounts for PLN 325 261 822.32 PLN⁹. Up-to-date (mid February 2009) the stage of formal assessment of submitted applications has not been concluded and thus the deadline for the completion of substantive assessment cannot even be predicted. The delays will result in serious divergences from time limits specified for investment stages as provided for in material and financial timetables attached to the applications. Although by the end of 2008 the applicants were sent letters from the Service Centre for Entrepreneurs¹⁰ informing them that they may launch the investments in question at their own risk (if the project is eligible for co-financing funding) only very few, especially in the case of costly projects, can take such risk not being sure they will be granted the subsidy. Serious delays do not bode well smooth absorption of resources allocated for SMEs in ROP LP.

In the assessment of the Ministry of Regional Development conducted in mid January 2009 Lodz Province managed particularly poorly as compared to other provinces when it comes to the advancement of the implementation of Regional Operational Programme. Considering the number of lodged applications, the Lodz Province is the last in the country (Table 43). As at 14 January 2009 there were 7679 applications registered for all 16 ROPs (after formal assessment) and only 53 were from the Lodz Province¹¹. This especially unfavourable implementation progress for ROP LP is due to both administrative and organisational as well as, to a lesser extent, political and legal factors. The major barrier, however, in the use of European funds in the Lodz Province, particularly those earmarked for SMEs, is poor organisation of receiving and assessing applications. The Service Centre for Entrepreneurs was established too late, its staff was recruited and trained at the very last moment.

⁸ As above

⁹ <http://www.cop.lodzkie.pl/index.php?start=15> [access on 12.02.2009]

¹⁰ A unit in the structure of the Marshall Office in Lodz entrusted with the task to assist, among the others, measure III.2 of ROP Lodz Province (Author's comment)

¹¹ *Wdrażanie Regionalnych Programów Operacyjnych*, Department of Coordination and Regional Programme Implementation, Ministry of Regional Development [access on-line on 12.02.2009] <http://www.mrr.gov.pl/Szukaj/Strony/Results.aspx?k=ocena%20wdra%C5%BCania%20RPO>

Consistently, they are not well prepared to service potential applicants, in particular when it comes to providing information. Delays in drafting application documents posed another problem. E.g. bidding documents for measure III.2 were published as late as on the day when the call for applications started for the period 1st September – 3rd October 2008. For applicants it meant less time to draft an application.

Table 3 ROP implementation – No. of submitted applications

ROP (as at 14.01.09r. – source National	No. of	Total value
ROP Dolnoslaskie Province (Lower Silesia)	123	591 885 972
ROP Kujawsko-Pomorskie Province	105	674 332 578
ROP Lubelskie Province	436	1 423 490 838
ROP Lubuskie Province	776	3 197 959 298
ROP Lodzkie Province	53	445 897 950
ROP Malopolskie Province	401	2 198 108 311
ROP Mazowieckie Province	944	4 270 654 229
ROP Opolskie Province	469	1 447 648 738
ROP Podkarpackie Province	438	2 195 879 782
ROP Podlaskie Province	413	1 657 047 214
ROP Pomorskie Province	690	2 401 100 033
ROP Slaskie Province (Silesia)	1357	3 383 321 981
ROP Swietokrzyskie Province	296	525 835 991
ROP Warminsko-Mazurskie Province	514	1 068 423 890
ROP Wielkopolskie Province	472	750 167 789
ROP Zachodniopomorskie Province	192	304 529 521
16 ROP in total	7 679	26 536 284 115

Source: Wdrażanie Regionalnych Programów Operacyjnych, Department of Coordination and Regional Programme Implementation, Ministry of Regional Development [access on-line on 12.02.2009]
<http://www.mrr.gov.pl/Szukaj/Strony/Results.aspx?k=ocena%20wdra%C5%BCania%20RPO>

The advancement of Lodz Province Regional Operational Programme implementation should be assessed as worrying. The Board of the Province which as the ROP Lodz Province Managing Authority is the main body responsible for correct implementation of the programme is to be blamed for the situation. It seems that the conclusions from the so-far implementation of the programme, also those relating to resources for SMEs, should make

competent authorities undertake action to improve the distribution of assistance resources. The task should become the priority of the Board of the Lodz Province.

3. Barierrrs to absorption of resources for SMEs

The assessment of the first years of implementing Structural Funds earmarked for SMEs cannot be complete without the opinion of immediate stakeholders – the beneficiaries of assistance funds. There were studies carried out by the Implementing Authority (Polish Agency for Enterprise Development), as well as by the media and organisations representing business community. The survey commissioned by *Gazeta Wyborcza* in April 2005 shows that entrepreneurs negatively assess the distribution of structural resources. Highly complicated application procedures were highlighted and they were referred to as “poorly tailored”, too formal and distributed in an non-transparent way. Also the need to pre-finance an investment, complex reporting procedures and too long time spent on reviewing applications were complained about. Entrepreneurs listed also imprecise requirements, information chaos and errors in documents. Another aspect mentioned by respondents was a specific attitude of consulting companies which in their promotion campaigns wanted to foster the opinion that no-one can draft an application correctly without their assistance¹².

The above is also confirmed by studies conducted by the Polish Agency for Enterprise Development among beneficiaries. The studies show that ca. 80% of companies which received subsidies hired external entities to draft applications. More than 27% respondents had problems with understanding the documentation which was additionally complicated by frequent changes in information provided by the Agency on its website. Most of beneficiaries had problems with making settlements for the project. Over 62% respondents pointed out to unclear instructions and complex formalities. A majority of entrepreneurs negatively assessed long reviewing procedures, in the opinion of 76% respondents, the time was too long¹³.

In summary, it seems that difficulties accompanying the distribution of resources from assistance funds earmarked to support SMEs can be divided into three categories. The first includes administrative barriers, e.g. complex application procedure, the content and scope of applications, long time needed to assess an application, relatively restrictive rules of auditing project implementation and institutional barriers: the system of funds implementation at

¹² SMG/KRC commissioned by *Gazeta Wyborcza*, April 2005

¹³ *Badanie ocen i opinii wnioskodawców Działania 2.1 SPO WKP*, PARP (Polish Agency for Enterprise Development), May 2006

national and regional levels, insufficient skills of employees and high staff fluctuations. The second group could be referred to as „market barriers” relating to a still rather low competition among companies which offer services in drafting application documentation which, in turn, results in high prices, including the rate of „success fee”, a percentage rate calculated on the amount of granted subsidy. The last, third category comprises the so called internal barriers resulting from low propensity of entrepreneurs to cooperate in collective investment projects which could improve their chances to win a subsidy and to reduce the costs of project implementation for an individual company.

Often the lack of vision of strategic development on the part of entrepreneurs is an internal barrier. Resources applied for by SMEs often cannot be perceived as a part of any broader development strategy that has logically led to the filing of an application.

While changes concerning the market of a given service (competition among consulting companies) and changes to entrepreneurs’ attitude closely connected with cultural and social context are hard to achieve, we definitely can and should implement solutions to reduce administrative barriers. The Board of the Lodz Province faces a particularly difficult task as the province ranks the last in absorbing resources allocated within ROP Lodz Province. Without corrections and improvement of the distribution of assistance funds the Lodz Province will suffer from serious problems in achieving priority targets identified in the Regional Operational Programme and thus will not be able to fully benefit from development opportunities connected with Poland’s membership to the European Union.

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Summary

Small and medium-sized enterprises faces a number of obstacles in their technological development, innovativeness and competitiveness growth – the ones that place them less favorable market position as compared to big enterprises. Because of the socio-economic role played by SME's sector the European Union – on the basis on treaty derogations – creates legal and financial instruments supporting small and medium-sized firms. Polish SMEs already in the pre-accession period were actively using various support instruments offered by community policies. After 1st of May 2004 these possibilities has been greatly extended. Small and medium-sized enterprises in Lodz Region demonstrate relatively high level of activity in the absorption of EU funds vis à vis other regions' statistics. This activity is however conditioned by numerous factors. Some of them is linked to the very structure of accessible programmes (priorities and objectives), while some of them belong to external and internal barriers to funds accessibility. The article concentrates on the analysis of both instruments supporting SMEs' development In the Łódz Region and the obstacles hindering utilisation of existing forms of support.