

THE ROLE OF PUBLIC AID IN THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES

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Abstract

This article presents the problems of supporting small and medium-sized enterprises. Small and medium enterprises meet a lot of useful functions in each market economy. Dynamic development of this sector has a considerable influence on the growth of the whole economy. Enabling this growth requires applying efficient instruments in economic policy as well as in certain regions policies. Nevertheless public aid directed to the small and medium-sized enterprises has to meet the law requirements and should characterize the suitable level of efficiency. So apart from showing the scale and level of support also the efficiency of support were shown.

Keywords:

Small and medium-sized enterprises, public aid

Introduction

Peculiarities of small and medium-sized enterprises (SMEs) cause that (independently from the economic system), there are facing a lot of barriers which slow its development, often unknown to the bigger companies. These barriers include a lot of different areas. In economic discussions and articles about SMEs, barriers are divided in different ways (for examples very often are conspicuous: market and social barriers, financial, law, information, connected with infrastructure and economic policy and so on).

On the other hand, small and medium-sized enterprises sector plays a significant role in any market economy. Therefore, business promotion policy has to consider this kind of enterprises. Promotion strategies have to be developed based on the weaknesses and strengths of Polish SMEs. A concept of business promotion by central government, voivodships, counties, towns must adapt to the economic conditions of the SMEs (OLIŃSKI 2003, p. 69).

It should be emphasized that every developed country runs active economic policy towards small and medium enterprises from many years. In Poland the authority to grant the public aid has almost 3 thousand different kind of institution. Most of them are community institutions. It is important to mention that the development programme should guarantee the aid, not care. Besides, building the effective system of support it should be characterized by simplicity and concreteness (lack of inordinate enlargement of structure and doubling the tasks).

The main objective of the article is the attempt to describe the role of public aid in the process of supporting the small and medium-sized enterprises. In the article the scale of public aid were shown and also the estimates of support.

The main task has to be solved in this article is how to estimate the profitability of using the public aid – what is the main problem of central and local governments.

The Public aid in the process of supporting the development of small and medium enterprises

In the specific meaning the public aid contains only the domestic funds. According to this rule it doesn't contain the structural funds, though it could be consider as a form of public support. Besides the domestic aid and structural funds added together decides about intensity of public support for the enterprises (Misiąg 2005, p. 9). Besides as it mentioned above the law of public aid granted in Poland is very strictly connected with European Law, since the Polish accession to European Union it has to apply the European Law. The criteria of qualifying the specific means to the public aid contain the 87 article in the Treaty of European Union. According to this article the support for the enterprises falls within the regulations of public aid, however few conditions must be fulfilled:

- it is distributed from the public funds or from the State;
- it has the selective character (the privilege of specific trade articles or specific enterprises);

- threatens the competition or influence the trade between European Union countries (TREATY OF EUROPEAN UNION - Dz. Urz. WE L 83 z 27.03.1999 r., str. 1-9).

In the present moment, there are a lot of discussions about the specific conditions of public aid system going on the high level of authorities. The public aid should be aimed towards increase of competitiveness, particularly in the group of small and medium-sized enterprises. The public aid directed towards big companies is ineffective and will be diminished. The chairman confirms this direction publicly "Our country will gradually diminish the amount of public aid towards big-sized companies and aim them towards small and medium-sized enterprises. These activities are considered to be the way of increasing the competitiveness and innovation of this kind of enterprises" (KAMIŃSKI, POGAŃSKI 2004, p.3).

In the area of economic policy of European Union, the most often division of public aid is division on three basic categories:

- sector aid,
- regional aid,
- horizontal aid.

The sectoral aid is connected with restructurization the specific branches of economy such as mining, steelworks, shipbuilding industry etc. and also single companies. It concerns the mitigation of social effects of the restructurization. This aid is often surveyed with great attention and it is allowed only if it is possibility of diminishing the production abilities.

The regional aid is connected with diminishing the regional differences in development. In the European Union the delayed region is region with gross domestic product less than 75% of European average. The basic condition of this kind of aid is submission by beneficiary the application form before conducting the labor under specific project.

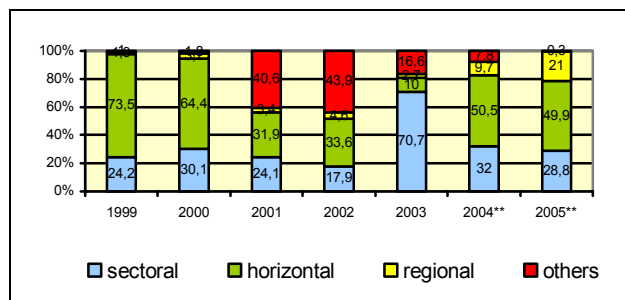
The horizontal aid is connected with realization of specific goals. Differently from the regional aid the area doesn't matter. Also differently from the sectoral aid the branches doesn't matter. The most important ways of support in the sphere of horizontal aid are trade subsidies, the aid in supporting the creation of new places of work, the innovation work, the development of research and development sphere, and also the support of small and medium-sized enterprises.

The directions from European Union countries are based on the conviction that public aid should be realized horizontally or regional because this kind of aid will allow better stability of development (SURDEJ 2000, p. 23). The small and medium-sized enterprises are considered to be the main factor

influencing the long term development and that's why their support is taken as a horizontal aid.

The scope and intensity of support of small and medium-sized enterprises in Poland

As it mentioned above one of the most common division of public aid is division into three spheres: sectoral, horizontal and regional. The structure of aid changes throughout the years very rapidly (picture1).



* for example public aid supporting export development, social aid, ** transport aid excluded

Picture 1. Appropriation of public aid

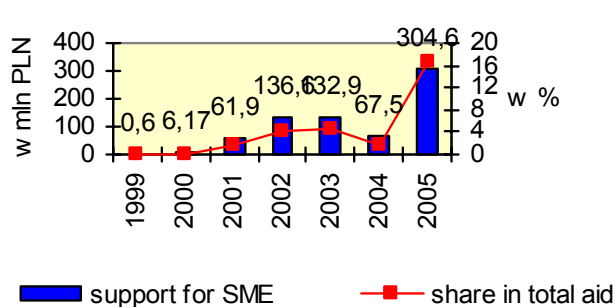
Source: Own study based on Reports on State Aid in Poland Granted to Entrepreneurs in 1999, 2000, 2001, 2002, 2003, 2004, 2005, Office for Competition and Consumer Protection (UOKiK), Warsaw.

Initially in the years 1999-2000 the biggest support was granted in the sphere of horizontal aid. So it was allocated in protection of environment, the maintenance of employment, research and development, support of small and medium-sized enterprises, restructurization. In the year 2003 the biggest amount of resources was directed towards sectoral aid, which totally achieved the level of 71%. In the next years 2004 and 2005 the biggest support was again mostly directed towards horizontal aid.

The value of horizontal aid in the year 2005 was lower by about 2 632, 8 mln PLN than aid distributed in the year before. Mainly because of almost complete lack of aid directed on restructurization. The value of the aid given in the year 2005 total 1 048,5 mln PLN (28,8% of general value of the aid), 82,4% of that was distributed into restructurization of mining industry (863,8 mln PLN). In the year 2005 there wasn't any aid directed towards steelworks industries and also for the motor companies.

The regional aid represents 21,0% of total aid, most of that exactly 664,5 mln PLN was conducted for the support of new investments.

The value of the aid, which wasn't qualified to any group total 12,4 mln PLN and mainly it was aid about social characteristics directed towards individual consumers – 9,2 mln PLN was divided into subject subvention to the school and university books.



Picture 2. SMEs support -in million PLN- and share in total aid in 1999-2004

Source: Own study based on Reports on State Aid in Poland Granted to Entrepreneurs in 1999, 2000, 2001, 2002, 2003, 2004, 2005, Office for Competition and Consumer Protection (UOKiK), Warsaw.

Also the support of small and medium-sized enterprises changes throughout the last few years. Since 1999 until 2002 the value of the aid has grown very fast and in the year 2003 has stopped and achieved the level of the year before, and in the year 2004 has fallen down to 50% of its initial value. The support of small and medium-sized enterprises in the year 2004 total 67,5 mln PLN and it was much smaller than in the years before (146,6 mln PLN in the year 2003, 136,6 mln PLN in the year 2002 and 304,6 mln PLN in the year 2005). In the year 1999 didn't take any part in the horizontal aid, in the year 2000 total 4% of horizontal aid, and in 2005 almost 17%. So the progress was impressive.

In the year 2005 similar to 2004 about 59% of total aid was directed into big companies. The high level of support for these kind of enterprises is the result of high individual support for those who benefited the public aid. If we analyze the amount of beneficent according to its size, only 7% of this amount represents the big-sized companies. The other beneficiary small and medium-sized enterprises represent the rest of the enterprises.

In the area of support of small and medium-sized enterprises it is worth mention the impressive growth of value in the year 2005 – 304,1 mln PLN comparing to the 67,5 mln PLN in the year 2004. It is result of much bigger aid from the Polish Agency for Enterprise Development (PARP) – 260,1 mln PLN (table 1). The aid was given mainly from the support programme called the support of investments in small and medium-sized enterprises which has the residence on the Polish ground. The total amount of the funds was 237,5 mln PLN. Programme was the part of sectoral Programme – The Growth of Enterprise Competitiveness. The Programme of support of small and medium-sized enterprises also is realized by the regional marshals. In the Integrated Operational Programme of Regional Development for the years 2004-2006, the Programme for the support of

investments in small and medium-sized enterprises was prepared. In the year 2005 total amount of 22,1 mln PLN was shared into enterprises.

The table 1 shows that most important form of the public aid directed into small and medium-sized enterprises are subsidies.

The most important bodies which decide about destiny of the funds are the chairman of Polish Agency for Enterprise Development, marshals of the regions and also the regional financial institutions. These institutions respond for 96% of aid given to the sector of small and medium-sized enterprises. Its role in the area of the distribution the funds and the amount of the aid are very important. These institutions are strictly connected. The regional financial institutions are part of National Service System, which was established by Polish Agency for Enterprise Development in the year 1995 due to the realization of Programme PHARE 1995 –STEP I.

Table 1. Public aid appropriating on development small and medium-sized enterprises in Poland in 2005

Supporting institution	Worth of aid (mln PLN)	Dominated category of support
Chairman of PARP	260,1	subsidies
Marshals	22,1	subsidies
Financial Regional Institutions	12,1	subsidies
Minister of the Treasury	6,2	selling of public property
City presidents, Towns Lords, Chiefs officer of a group of villages	3,2	remission of tax arrears
fiscal offices and customs	0,8	remission of tax arrears
Chairman of National Fund for Environment Protection and Water System	0,1	preferential loans
Suma	304,6	

Source: Report on State Aid in Poland Granted to Entrepreneurs in 2005, Office for Competition and Consumer Protection (UOKiK), Warsaw 2006, p. 24–25.

The Polish Agency for Enterprise Development coordinates The National Service System and also support them in the sphere of organization the participants of network.

The estimation of profitability of using the public funds in the small and medium-sized enterprises

The effectiveness and profitability of using the public funds in the small and medium-sized

enterprises often base on the opinion of interested enterprises. The opinions of entrepreneurs could be considered as a valuable source, because they know very well their own businesses and can monitor them all the time. So they can check the influence of support they get. The opinions are very valuable and worth further analysis. Of course they have the dose of subjectiveness. The opinions show the small effect of support caused by the complicated procedures and also show the problem of the proper clearance from the given aid. From the other hand the positive evaluation of the given aid could not be connected with its effectiveness of the profitability of the enterprise. There are many factors which could influence the effectiveness of the enterprise such as prosperity in the specific branches, which leads to better profitability of the enterprise. So the public aid is only one of the factors which influences the profitability of the company.

That's why a very important role plays different activities aimed to objectiveness the effect of public aid given to the small and medium-sized enterprises. The example of such activities could be an enforcement of describing the product indicators (direct effect of the public aid measured by the specific indicators for example the number of services given to the enterprises) or by the result indicators (direct influence of the investments given to the social and economical surrounding after the realization of the project, for example the number of the enterprises which benefited from the services; measured every year or after the realization of the project. If we take into consideration the cautiousness in the evaluation of the effect of public aid one of the better ways is evaluation of the profitability of using the public funds. Besides in many cases the public aid could be considered as a quasi-investment. For example we could check if the public aid effects in growth of enterprises income and so the companies give more money to the National budget due to the higher taxation.

If we analyze the effectiveness of the public aid we can use the financial indicators often used in the economical analysis (for example in the indicator analysis we could use the financial indicator such as quick test, the profitability indicators and so on). So the ways of measuring the effectiveness of the public aid can be numerous. It is worth mentioning that local and regional authorities could force the beneficiary to show the data and information about the enterprise (when the enterprise doesn't fulfill its duty the authorities could force them to giving back the aid or put financial penalty), so the evaluation of effectiveness could be conducted very easily due to the lack of information barriers.

Conclusions

Nowadays the significant part of well developed economies could be described as "mixed economies". It means that even if the private companies are dominant, some kinds of activities are run by public subjects. Apart from the private and public structure, also an important role plays the State by law agreement, the describing the directions of politics, the institutional solutions, and the support instrument which influence the behavior of small and medium-sized enterprises etc. One of the kind of instruments which directly influence the functioning of the private enterprises is public aid. As it mentioned above, there are no direct connection between the role of the small and medium-sized enterprises and its share in the public aid. The common opinion which emphasizes the limited aid influence on the enterprises profitability doesn't mean that it should be used with better effect. The most often description of the public aid is defined as an activity caused advantages in the enterprises and also liability in the State budget. But we have to look into public aid more commercially. It is just attitude in the area of giving aid to the small and medium enterprises. So the advantages and disadvantages should take place only in short terms of time. In the long term of time the advantages should be mutual, and public aid should be considered as long term investments benefit both sides enterprise and State. The public aid is definitely an economic category and it should not be considered without separation from market reality.

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