

SUPPORT PROGRAMMES FOR THE DEVELOPMENT OF RURAL ENTREPRENEURSHIP IN POLAND

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Abstract: The evolution of rural entrepreneurship is intrinsic to multifunctional rural development. Entrepreneurship is not just a part of economic development - it is the basis of long-term economic development. Accession to the EU brought new opportunities for rural entrepreneurship and financial sources: start-up and investment capital. The study is aimed at outlining the framework of analysis for policy aspects of entrepreneurship development in Poland after accession to the European Union. Analyse shows positive influence of EU co-financed measures on entrepreneurship development in Poland however it is still the state main role to promote development of non-agricultural activities on rural areas is not only support through EU-programmes but also by implementing favourable tax policy as well as improvement of the legislation quality.

Key words: entrepreneurship, rural development, structural funds, Poland

Introduction

Poland's joining the European Union structures resulted in new instruments for promoting rural entrepreneurship, co-financed by the Community budget. At the core, support programmes oriented towards the rural population rely on the activity of people. On the one hand, the state specifies the scope of a structural policy instrument and defines the target group, but on the other hand assistance is only granted to those who strive for available funds. It is another dimension of rural entrepreneurship which can be seen as the ability to use support measures within the framework of national structural policy placing emphasis on taking up and pursuing non-agricultural economic activities.

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The sources of income for rural holdings, including agricultural holdings (in particular the smallest ones) are highly diversified and the diversification is increasing. 3 years after Polish accession to the EU agriculture was the main source of income for 10% of all rural inhabitants and no less than 50% of farmers. It should be noted that every third farmer apart from running the farm took on additional work (on full-time, part-time or casual work). In the majority of the cases the work was not connected with agriculture. Additional work was most often undertaken by farmers with the smallest holdings (up to 3 ha). Moreover, less than 5% of farmers ran their own business activity². However, the percentage of farmers running additional activity (outside of the group of the so-called semi-agricultural activity (close to agriculture)) decreases as the farm size increases. In majority of the cases the activity additional to farming is connected with transport services, wholesale and retail sale, construction and services for agriculture and forestry. The type of activity is also diversified by the size of the holding. The owners of smaller holdings specialise rather in sale and services for the population. The owners of the largest holdings more often engage in transport and storing goods.

Economic growth resulting from the good economic situation in Europe and the membership in the European Union, contributed to the development of entrepreneurship in Poland. It was most beneficial for enterprises in the construction sector due to intensified investments in infrastructure, while the growth in consumption affected the development of services and trade. The growth dynamics of the number of business entities in rural areas has been increasing from the moment of the accession to the EU and in 2006 the number of entities was by 4.3% up on 2004. As a result, in 2006 there were ca. 716 thousand entities operating in rural areas, of which almost 605 thousand were natural persons running business activity (3.4% more than in 2004). It should be stressed that the overall economic growth in rural areas, the improvement of infrastructure as well as the phenomenon of migration of urban population from agglomerations to adjacent rural areas, amount to a more dynamic increase in the number of entities in the rural areas than it can be observed nationwide.

In 2006, from among all natural persons running business activity and registered in the REGON Register, almost one fourth ran their business in rural areas. The vast majority (98%) were natural persons employing up to 9 persons³.

² Chmieliński P., 2007, *The Impact of the Common Agricultural Policy on the Development of Rural Entrepreneurship in Poland*, "Agricultural Science" T. 14. Priedas, Lithuanian Academy of Science, Vilnius.

³ Central Statistical Office, *Charakterystyka obszarów wiejskich w 2005 roku*, Warsaw 2006.

As compared to 2000, in the first years after the accession to the EU, an increase in the number of natural persons running business activity in rural areas was observed nationwide. The highest growth of this rate was noted among natural persons running business activity and employing over 10 persons. Also as calculated per 1000 inhabitants, both nationwide and in rural areas, in 2005 there were more natural persons running business activity in total and in particular groups according to the number of persons employed.

A significant measure reflecting the level of regional diversification as regards the distribution of rural entrepreneurship is the percentage of micro-enterprises per one thousand inhabitants at working age. They constitute a significant majority (98.4%) of the total number of enterprises registered in rural areas. Taking this indicator into account it is easy to delimit the area of western Poland, where the share of persons running business activity calculated per 1000 inhabitants is between 75–100 entities, while in the voivodships of eastern ends of the country the rate is between 60–70 persons.

Multifunctional development of rural areas leads to an increasing significance of non-agricultural professional activity in the rural families' budget. However, it should be taken into account that macroeconomic considerations reflected in the improvement of the labour market situation in some cases cause abandoning self-employment for the sake of hired labour. Some projects of self-organisation of employment resulted mainly from a difficult situation on the labour market and when the opportunity of hired labour occurred, self-employment ceased.

Instruments of supporting rural enterprises co-financed under CAP

The condition for functioning of an enterprise and, in particular, of its further development, is the access to appropriate sources of financing its activity. The availability of funds and the terms on which entrepreneurs may benefit from them significantly affect the costs and the risk of running business activity, and in particular – investment activities. On the other hand, the conditions for receiving such funds (e.g. bank loans) to a high degree rely on the current and forecasted business cycle. In Poland, the most popular source of financing activities, including investments, is still own capital, however the role of external capital systematically increases. Apart from bank loans, using capital market instruments, lease or factoring gains popularity. The accession to the EU enabled entrepreneurs also the access to significant resources from structural funds.

Financial resources from structural funds are an important source of financing business activity, in particular of small and medium-sized enterprises. Apart from the equity for newly created enterprises, within the support offered, the

companies have an opportunity to apply for funds for extension and modernisation of the production and services base, obtaining access to specialist advisory services, implementing innovative solutions, increasing professional qualifications of the staff or adjusting to the EU standards of environmental protection.

In 2004-2006 support for rural entrepreneurship was realised by Measure 2.4. Diversification of agricultural and close to agricultural activity for ensuring diversity of measures or alternative sources of income, realised under the Sectoral Operational Programme “Restructuring and modernisation of food sector and rural development” (SOP AGRI). It offered support for projects connected with realisation of investments in additional business activity for farmers and their household members. By the end of February of 2008 within this measure 7,170 applications were submitted for the total amount of PLN 524.8 million and payments of the total amount of PLN 251.6 million were made⁴.

The majority of finished investments (over 70%) were realised in the holdings with of the economic size class below 4 ESU, i.e. those, where the income from agricultural production is low and should be supplemented from other sources. The majority of investments were realised in the area of services for rural inhabitants (46% of projects) and services for agriculture and forestry (29%). The development of agro-tourism and tourism services was the subject of almost one out of seven projects. It is estimated that under the measure ca. 4.6 thousand new jobs were created directly⁵.

In the present financial perspective, within the framework of Rural Development Programme for 2007–2013 (RDP), there are also measures aimed at the development of rural entrepreneurship under axis III of RDP (mainly in the measures ‘Diversification into non-agricultural activities’ and ‘Establishment and development of micro-enterprises’). Implementation of measure ‘Diversification into non-agricultural activities’ is aimed at creating conditions for sustainable socio-economic development of rural areas and increasing the possibility of employment by granting aid to farmers, their spouses and household members for establishing or developing non-agricultural activities or activities connected with agriculture in the area of production or services. The beneficiaries of the measure are natural persons insured in Agricultural Social Insurance Fund (KRUS) pursuant to the provisions on social insurance of farmers as a farmer, farmer’s spouse or household member. The objective of the measure ‘Establishment and development of micro-enterprises’ is enhancing economic competitiveness in the rural areas, development of entrepreneurship and labour market, and as a consequence –

⁴ Agency for Restructuring and Modernisation of Agriculture data, www.arimr.gov.pl

⁵ Ministry of Agriculture and Rural Development, *Rural Development Programme for 2007–2013*, Warsaw 2007.

increased employment rate in rural areas. Measure's beneficiary may be a natural person or legal person, who carries out (assumes) activity as a micro-enterprise employing less than 10 persons with a turnover not exceeding the PLN equivalent of EUR 2 million. Under the measure eligible costs cover only investment costs and general costs directly relating to the investment implemented by the entrepreneur (while the European Social Fund supports trainings and advisory services for entrepreneurs).

The objective of the measure 'Basic services for the economy and rural population' is support for community (gmina⁶) investments enabling improvement of living and business conditions in rural areas. The aid is granted for implementation of projects in the scope of water and wastewater management, establishing municipal waste collection, segregation and disposal system as well as production of distribution of energy from renewable sources. Improvement of basic services in rural areas, inter alia elements of technical infrastructure which condition social and economic development, which will contribute to improvement of living and business conditions.

Support for entrepreneurship under other operational programmes

Rural entrepreneurship was, by large, supported from funds of structural policy instruments other than the Common Agricultural Policy. Sectoral Operational Programme *Improvement of the Competitiveness of Enterprises* (SOP ICE) was an essential programme addressed to entrepreneurs with the aim of financial support. Moreover, enterprises are beneficiaries of SOP *Human Resources Development* (SOP HRD) and the *Integrated Regional Operational Programme* (IROP).

The aim of SOP ICE is to improve competitiveness of Polish enterprises on single European market. Actions within the framework of SOP ICE offer entrepreneurs both direct support for consultancy and investments, as well as indirect by assuring access to high quality service of business institutions. Entrepreneurs are very much interested in the support offered by the programme. The value of applications submitted nationwide exceeded 3.5 times the allocation assigned for the whole period of programme implementation. However, it does not indicate the value of the funds issued, which is the real indicator of the extent to which the EU funds were used. Total sum of the funds issued, according to data from the end of first quarter of 2007 amounted to PLN 1.59 billion that being

⁶ NUTS V level

32.5% of the EU funds allocation for 2004-2006, whereas the sum of contracted funds by the end of March 2007 amounted to 84% of allocations⁷.

The use of modern capital assets for production and service (next to knowledge) is the key factor for enterprise competitiveness. Many Polish SME face the issue of non-competitive decapitalised assets and low profitability which prevents assets modernization and results in technological backwardness. SME require support in the form of consultancy and easier access to the information. The aim is a more effective implementation of health and safety regulations, as well as implementation of any related investments.

The analysis of SOP ICE implementation conducted in 2007 indicates that over 97% of SME⁸ beneficiaries for investment subsidies within the programme, implement their investment projects within the framework of measure 2.3 "Improvement of competitiveness of SMEs through investments". It may be stated that SOP ICE impact on SME sector within the range of investment instruments is mainly implemented within the framework of the measure. The aim of the measure is to improve competitiveness of SMEs, which conduct their activity in the Republic of Poland, by modernizing their production and technology offers.

Since entrepreneurs are very much interested in the measure, it is worth to compare designed "profile" of beneficiary of the measure with his real "profile". Basing on the programme documents it is possible to form a general, designed "profile" of measure 2.3 beneficiary. It is an innovative, service or production enterprise, which operates in "modern sectors." With the regard of size 2.3 beneficiary should belong to SME sector, while, in case of microenterprises it should be a business operating on the market for more than 3 years or "technology-based" business. The analysis of real profile 2.3 measure beneficiary indicates that, in most cases, it is a medium enterprise (52% of all implemented projects), or production enterprise – from the industrial processing sector (78% of all implemented projects). The percentage of beneficiaries from "modern sectors" (from our point of view – innovative growing sectors) amounts only to 28% of beneficiaries.

While comparing the structure of measure 2.3 beneficiaries with the structure of enterprises in Poland, taking sectors of economy as a criterion, it can be noticed that enterprises belonging to the industrial processing sector are overrepresented. Medium enterprises belonging to the sector were most active and effective (32%) in submitting applications for aid under measure 2.3. Less effective

⁷ Ministry of Regional Development, 2007, Stage of realization of operational programmes co-financed from structural funds of the European Union, Warsaw.

⁸ Functioning both in the rural and urban areas

were the entrepreneurs from transportation and storage sector (14.1%) and construction sector (13.2%). The least effective were medium enterprises from hotel and restaurant sector (4.7%) and trade sector (8.8%). In general, SME size and sector structure - SOP ICE measure 2.3 beneficiaries does not match the potential beneficiary enterprises' size and sector structure. Enterprises from industrial processing sector are overrepresented. Small and micro enterprises are not sufficiently represented.

The analysis of applications submitted under measure 2.3 indicated that the majority of applications was submitted by enterprises from urban communities (including city poviats) – 11 thousand out of which 7.5 was accepted, whereas the lowest number of applications was submitted by urban-rural communities (4.1 thousand) and rural (6.5 thousand). The effectiveness of entrepreneurs from particular types of communities differs inconsiderably (circa 12-14%). It means that an entrepreneur from a small town or village is not less effective (on average) than an entrepreneur from the city. However, significant dispersion occurs in case of enterprises from small communities (lower population) which may be a proof of marginalization of particular areas which results from location of the community in the respect of the metropolitan areas and its access to infrastructure.

In order to provide equal chances the implementing authority will have to put additional effort into promotion and information activities in case of peripheral areas. However there is no certainty as to the effectiveness of such action since the nature of issues faced by entrepreneurs from the peripheral areas is much more serious than a simple matter of the lack of information. Peripheral areas of beneficiaries' activity and effectiveness due to the fact that they are, in many respects, strongly connected with the problem areas (determined while designing development strategy) may require system approach, which means complex structural reforms (peripheral areas are not only characterized by low GDP per capita; the problems include also: low level of investments, high unemployment rate, poor infrastructure, decline of traditional industry sectors, aggravating condition of essential services' sector, geographical conditions which hinder development, lack of initiative for innovation

Experience gathered in the SOP ICE programming period indicate a significant difference between the level of demand for subsidies for investment in enterprises' fixed assets and subsidies for purchase of external enterprises' services. It results from the fact that in their present stage of development Polish enterprises in the first place concentrate on gaining means for investment and expanding. Only after the essential investments are made entrepreneurs decide to use consultancy services for the benefit of businesses' strategic development. In addition, Polish economy displays relatively low level of inventiveness (contrary to tendencies observed in the EU Member States) and the main focus is on

organizational innovation not product or technological innovation. Thus enterprises aim mainly at restructuring activity and reducing costs (price strategies) what may be the reason for greater interest in investment activities among SMEs. Other research confirms that, by large, the development of Polish enterprises is based on wide-scale ventures aimed at modernization of production.

Conclusions

The results achieved by Polish economy in previous years indicate that it is capable of improving on the open, competitive market. What must be particularly emphasized is the dynamic development of Polish enterprises. The result of development processes is strong economic growth achieved and, significantly, in the balanced macroeconomic situation. Development processes in economy, however, would not be possible without entrepreneurs' activity, in particular small entrepreneurs, large number of them operating in rural areas. Macroeconomic data confirm the thesis on favourable condition of Polish entrepreneurship; there are however still institutional and legal limitations (mainly, fiscal burden and complicated procedure for establishing new commercial activity) which prevent the number of new businesses from growing. The present condition of Polish enterprises should be considered bearing that in mind.

The government ought to create favourable environment for enterprises, which should include promoting enterprising attitude and developing enterprising society (introducing system solutions for education on entrepreneurship); developing institutional system of support for rural entrepreneurship or ensuring high quality service for the supporting new economic entities and those already functioning on the market; active policy of reinforcing financial institutions delivering capital to small entrepreneurs from the means of structural funds and state budget.

Based on observations of the functioning of small and medium-sized enterprise environment and of the conditions in which the sector functions in other, more developed market economies, a number of barriers hindering the development of enterprise can be indicated. They are mainly market barriers (change in the structure according to the trends in activities, including the abandonment of trade and production by entrepreneurs), financial barriers (high costs of the loan capital, high interest rate for long-term loans), barriers in the area of labour market and statutory regulation of employment relationships (high taxes and parataxis causing high labour costs), barriers related to production and production factors shaping effectiveness and profitability (poor level of modernity of the small and medium-sized company equipment, insufficient material supply, unsatisfactory condition of machines and devices), organisational barriers in the

area of production and market, infrastructural barriers, restricted access to education, advisory and information. Moreover, it should be remarked that there are also barriers within the entrepreneur circles themselves. There is poor solidarity and great disintegration within the entrepreneurs as well as unwillingness to undertake common initiatives and cooperation. This results in a lack of strong organisations representing their interests. A high business risk resulting from the negligence and disregard for business ethics of some contracting parties or partners also increases the moral burden and financial costs related to trials or execution proceedings. At the same time, taking into account the spatial diversity of the small and medium-sized enterprises, one can see that entities located in rural areas are less technically advanced and they aim rather at meeting the local needs. Furthermore, in rural areas – especially those located at a great distance from large urban areas or main traffic routes – the institutional infrastructure and technological device network is rather poorly developed. The communities from such areas get limited opportunity to finance the technological infrastructure and business circles with their own resources. As a consequence, unless those areas are granted additional support, in the future there will be better conditions for the development of small and medium-sized enterprises near large urban areas and smaller towns.

Literature

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