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Public subsidies for new enterprises development – example of Bielsko-Biała Labour Office²

Introduction

Problems of entrepreneurship, entrepreneurs and small business have been widely discussed in Poland especially with regards to the problem of high unemployment rate. Unemployment has been inherently related to the labour market. For the last several years considerable fluctuations of this rate has been observed in the global economy. The unemployed workforce could be utilized for the production of goods and services. Since they are not doing so, the economy is losing out on its output. Income tax is an important part of the revenue for the government, but the unemployed are unable to earn and the government loses out on the income tax revenue. The government has to also pay unemployment insurance benefits to the claimants. Because the government loses on both sides in terms of unemployment benefits and loss of tax revenue, one of the most important government functions is unemployment prevention and reduction. Difficulties with finding appropriate job can be also the triggering factor for something new in life of such people. They more often try to start their own businesses especially if they can be supported with public money.

Small and medium enterprises (SMEs) sector has been considered the most important source of entrepreneurship and innovations in almost every modern economy. The mentioned sector of enterprises accounts for over 95% of firms and over 60% of employment and creates a significant share of new jobs in EU economy. The very specific strengths and weaknesses of SMEs require special policy responses. Global environment makes many of the traditional problems facing SMEs, such as lack of financing, difficulties in exploiting technology, constrained managerial capabilities, low productivity, regulatory burdens, more severe. On one hand small firms need to upgrade their management skills, their capacity to gather information and their technology base. On the other hand governments need to improve SMEs access to financing, information infrastructures and international markets. Such strategy can help SMEs meet the challenges of unemployment and slow economic growth.

Role of entrepreneurship in economic development

The phenomenon of entrepreneurship is very difficult to define. Such terms as small business owner and entrepreneur are sometimes used interchangeably. Although some situations encompass both terms, there are important differences in their meanings. Small businesses are businesses that are independently owned and operated, are not dominant in their field, and usually do not engage in many new or innovative practices. Entrepreneurial ventures are those for which the entrepreneur's principal objectives are profitability and growth. As a consequence entrepreneurs may be viewed as having a different perspective from small business owners in the actual development of their firm³.

Entrepreneurs are usually people who take risks, perceive opportunities, develop new goods and services and innovate. The entrepreneurial process, however, remains unexplained. Countless factors: social, cultural and political influence the accessibility of entrepreneurial opportunities. The most important elements discouraging entrepreneurship include the education process which is risk-averse, regulations and institutional barriers which discourage the start-ups or growth of existing activities. A very interesting hypothesis has been proposed by W. J. Baumol. He stated that in every society there exist some people with entrepreneurial potential. But the most important is the proportion in which the existing entrepreneurship is divided between productive, unproductive or even destructive forms⁴. Productive forms

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² Artykuł recenzowany.

³ R. M. Hotgetts, D. F. Kuratko, *Effective small business management*, 7th ed., Forth Worth : Harcourt College, 2001, p. 5-6 .

⁴ W. J. Baumol, *Entrepreneurship: Productive, Unproductive and Destructive*, Journal of Political Economy, vol. 98, no.5 1990, p.893.

are all those types of entrepreneurial behaviour that produce benefits for the entrepreneur itself and the society as a whole. Unproductive or even destructive ones are all the activities located in the shadow economy or taken against the law. The percentage mentioned above depends on something intangible that W.J. Baumol called rules of the game⁵. They include cultural and social factors determining the attitude towards entrepreneurial activity.

Entrepreneurs are necessary to transform innovations into new or improved products and services. This means that the more individuals are willing to become entrepreneurs the more innovations will become reality. The educational system should prepare young people to undertake new ventures and support them on every stage of their activity. New enterprises increase the potential growth of an economy and its competitiveness. In addition, while some people see going into business as more risky than standard employment, other people see it as less risky. Some of them also maintain that being an owner of the company offers far more security than being an employee. Entrepreneurs often acquire wealth much faster and feel financially more secure than conventional employees.

The number of operating entities in Poland according to the REGON register in 2009 was as shown in table 1. It is obvious then, that the micro entities consist a substantial power among all enterprises in Poland.

Table 1. Operating enterprises in 2003–2009 (in thousands)

Year	Total	of which entities with the number of employees			
		0-9	10-49	50-249	>249
2003	1726,5	1666,7	42,8	14,4	2,7
2004	1715,0	1653,9	44,4	14,0	2,75
2005	1676,8	1615,2	44,5	14,3	2,84
2006	1714,9	1653,0	44,2	14,7	2,98
2007	1777,1	1713,2	45,2	15,5	3,25
2008	1788,3	1714,8	54,3	16,1	3,21
2009	1673,5	16904,4	50,2	15,8	3,11

Source: Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce, pod red. A. Brussa, A. Tarnawa, Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2011, p.16

In the period 2007-2013 EU SMEs received a great opportunity to overcome the biggest weakness of these types of enterprises – lack of funds for further existence and development⁶. The most serious problems relate to over-dependence on overdrafts rather than fixed-term loans, the inability to obtain loans at reasonable interest rates, overreliance on debt over equity, and difficulties in obtaining equity at all.

New businesses started on the basis of UE funds within Bielsko-Biała Labour Office projects

People have their particular motives for entering entrepreneurship. They may be pushed into starting businesses out of necessity because they have no other work options and need a source of income. On the other hand, they may be pulled into starting businesses because they recognize opportunities and choose to pursue them⁷. Between 2002 and 2010, net employment in the EU rose substantially, by an average of 1.1 million jobs (or 0.9%) each year and 85% of this growth was registered as employment growth in the SME size class. The favourable employment development in SMEs can be observed in most sectors of industry. A clear exception to this rule is the trade sector, in which employment in SMEs increased by 0.7% annually, while in large enterprises it increased by an average of 2.2% per year. This was the result of

⁵ Ibidem, p. 919.

⁶ *European Union Support Programmes for SMEs*. An overview of the main funding opportunities available to European SMEs, February 2008, www.ec.europa.eu, (25.02.2012).

⁷ D. J. Kelley, S. Singer, M. Herrington, *The Global Entrepreneurship Monitor*, 2011 Global Report, Global Entrepreneurship Research association, 2012, p. 13.

a strong increase in the number of large trade enterprises, in particular in sales, maintenance and repair of motor vehicles. Publicly supported employment protection schemes were available in almost all countries.⁸

An enterprise's decision on whether (and when) to hire or fire employees depends on many different factors. In 2009, bankruptcies in the Euro zone grew by 46 percent and continued to grow another 5 percent in 2010. An estimated 1.7 million jobs were lost due to insolvencies in 2009, which is a 22 percent increase from 2008.⁹

Table 2. Unemployment rate (2005-2010) in Poland, Śląskie Region, Bielsko-Biała District and City of Bielsko-Biała.

Year	Unemployment rate (w %)			
	Poland	Śląskie Region	City of Bielsko-Biała	Bielsko-Biała District*
2005	17,6	15,4	9,3	13,7
2006	14,9	12,8	7,5	11,5
2007	11,4	9,3	5,4	8,1
2008	9,5	6,9	4,8	7,7
2009	11,9	9,2	5,8	9,5
2010	12,3	9,9	6,0	9,8

* Bielsko-Biała District consists of the following: Bestwina, Buczkowice, Czechowice-Dziedzice, Jasienica, Jaworze, Kozy, Szczyrk, Wilkowice, Porąbka, Wilamowice.

Source: Report on Bielsko-Biała Labour Office Activity.

Unemployment structure in the city of Bielsko-Biała has been strongly influenced by the situation on the local labour market. It has resulted from overall economic situation as well as from the specific conditions of local economy. The unemployment rate here has been kept far below the regional and national ones (see table 2). Very important issue concerning the unemployment structure is the age of people registered in Labour Office (see table 3). Considering the duration of unemployment in the period 2008-2010, long-term unemployment amounted to 27,8% of all population registered in Labour Office (LO) in 2008. These were people searching for the jobs longer than 24 months¹⁰.

Table 3. Number of unemployed according to age in the City of Bielsko-Biała and in Bielsko-Biała District (2007-2010)

Age	2007		2008		2009		2010	
	City of Bielsko-Biała	Bielsko-Biała District	City of Bielsko-Biała	Bielsko-Biała District	City of Bielsko-Biała	Bielsko-Biała District	City of Bielsko-Biała	Bielsko-Biała District
18-24	507	928	513	1063	738	1679	763	1677
25-34	1195	2057	1227	2096	1572	2795	1646	2993
35-44	957	1687	816	1509	1002	1873	1121	2005
45-54	1510	2714	1318	2313	1497	2646	1415	2522
55-59	501	848	465	791	546	955	635	1066
60-64	119	190	92	157	111	196	140	256

Source: Sprawozdania z działalności Powiatowego Urzędu Pracy w Bielsku-Białej w latach 2007-2010

⁸ J. de Kok, P. Vroonhof, W. Verhoeven, N. Timmermans, T. Kwaak, J. Snijders, F. Westhof, , *Do SMEs create more and better jobs?*, Zoetermeer, The Netherlands 2011, s. 6-7.

⁹ P. Wymenga, V. Spanikova, J. Derbyshire, A. Barker, *Are EU SMEs recovering from the crisis?*, Annual Report on EU Small and Medium sized Enterprises 2010/2011, Rotterdam, Cambridge, 2011, p. 34.

¹⁰ www.gus.pl

Job offers has been a very important indicator of the current situation on the local labour market. Biggest number of job offers concentrate in the following areas: shop assistants and demonstrators, office service employees, property caretakers, auxiliary workers, cleaners and helps, unskilled industry workers, welders and similar, locksmiths and similar, bricklayers and similar, warehouse employees and similar, security service employees, sales agents (traders), administrative workers, secretaries and related professions, lorry drivers, waiters and related professions.

On the basis of labour market analyses and reports Bielsko-Biała Labour Office prepares programmes aimed at reducing unemployment in the region and is actively involved in several EU programmes supporting the unemployed and job seekers,. It develops and monitors labour market programmes which are financed by national budget, particularly from Labour Fund.

Table 4. Number of job offers in Bielsko-Biała Labour Office in the period 2005-2010

Year	Number of offers
2005	7095
2006	10856
2007	10941
2008	9241
2009	6611
2010	6957

Source: Reports delivered by Bielsko-Biała Labour Office

Bielsko-Biała Labour Office (BBLO) has started the implementation of the project named “Start and work” co-financed by European Social Fund within the Human Capital Operational Programme. The project time framework is 01.05.2008-31.12.2013. Every year it has a different budget and for example in 2011 BBLO received 2.828.396 PLN to finance all the activities undertaken and planned for this particular year within the project. The project is aimed at supporting people unemployed and registered in BBLO, and particularly at the following groups: young unemployed at the age of 18-24, people at the age 50+, handicapped and jobless long-term. Project main goal is the professional activation of the participants through more active approach to job search, adjusting qualifications to market demand, first professional experience and wide range of assistance in starting new businesses. The support provided within the project comprises: internships, individual trainings, work-place equipment costs refunding, public money for start-ups.

Application form should be delivered by the person who wants to receive funding. He should determine the amount of money necessary to open a business, but it cannot exceed the sextuple of last quarter’s average salary. In the application form there has to be included all the costs and the level of funding depends also on planned expenses and the type of activity. Detailed plan for the first year should be prepared together with the schedule of spending. Person applying for funding has to also propose the collaterals, such as warranty, deposit, mortgage and others. Apart from this the financial analysis, SWOT analysis and financial outcomes of the undertaking has to be delivered to the Labour Office. Every application is scored according to following criteria: duration of unemployment, level of self-financing (minimum 3000 PLN), preparation for business activity, financial analysis, collaterals. Application must be scored between 8 and 13 points and if it fulfils all the requirements agreement is signed by the applicant and Labour Office Director.

The receiver of financial means is obliged to follow several important rules: cover all the costs according to the list included in application form, confirm every expenditure with the invoice, operate on the market for at least 12 months, within the first year, representatives of Labour Office have the right to control the business in order to check whether it is operating or not.¹¹

¹¹ www.pup-bielsko.pl (5.04.2012)

From 01.07.2007 to 31.12.2007 for people not older than 25 Bielsko-Biała Labour Office prepared project „Future is your Chance”. In total 169 unemployed participated in it (96 internships and 38 trainings). One of the most interested trainings was called „Small firm”. It was dedicated to small business development and 40 people participated in it. In 2008 the LF financed 42 businesses out of 150 application forms delivered, spending 574,2 thousand PLN. Average amount per application was 13700 PLN. Expenditures of ESF amounted 3722,8 thousand PLN and 184 new firms were opened thanks to this money out of 219 people who applied for EFS means. Average amount per application was 14600 PLN. Most popular types of businesses started by jobless people operated in the area of cosmetic and hairdressing services, renovation and construction services and IT services. Labour Office organized also project named „Start and Work” for 491 people. Within this project 186 people participated in the trainings associated with running a business, such as the procedure of business registering, managing and bookkeeping course.

In 2009 LF spent 5881,16 thousand PLN financing the start of 332 new firms in Bielsko-Biała. There was also continued project “Start and Work”. Within the project 4496,22 thousand PLN was dedicated to various active forms of support for unemployed people and 127 participants received means for opening their own businesses with the average amount of 17800 PLN per application. This time most popular types of businesses operated in the area of financial and insurance advisory services, water and sewer services and retail sales. In total Bielsko-Biała Labour Office received 627 application forms and 456 of them were accepted and financed by public money either out of the means of Labour Fund for European Social Fund. In 2010 LF dedicated 5.930,32 thousand PLN to new businesses foundation and subsidized 400 applications. Average amount per firm reached 18700 PLN. ESF allocated 5999,12 thousand PLN for „Start and Work” project in 2010, including 190 subsidies for people starting new businesses mostly in the area of renovation and construction services, IT services, retail sales, hairdressing and cosmetic services, photo services and advertising services¹².

In 2011 Labour Offices in Poland received only about 30% of LF means comparing to the previous years. In Bielsko-Biała almost 250 unemployed applied for public money in order to receive subsidy for business start-up, but only 40 applications were accepted for financing¹³. The “Start and Work” project was continued having at its disposal 2828396 PLN. This amount allowed to subsidize 87 new business ideas with average 20600 PLN per application. Taking into account such limited financial means, all unemployed applying for them had to fulfil very strict criteria, such as the age (18-24 or over 50), long term unemployment or disability.

Conclusion

Public subsidies for starting new businesses are more and more popular in Poland. Bielsko-Biała Region has always been the area of fast entrepreneurship development. In the period 2007-2009 altogether 1445 new enterprises were started on the basis of public means. It is about 5% of all small and medium firms operating in the region. Of course a lot of them has difficulties with surviving on the market. Average life expectancy of such undertaking is 18 months. Although since 2011 public financing has been significantly reduced, a great number of jobless people has still had the opportunity to try to operate as independent entrepreneurs. Irreclaimable public subsidy on one hand lowers the risk of financial loss right at the start and on the other increases motivation for hard work and success. As from economical and psychological point of view, the unemployment means dependence on others, running the own business means being independent and directing own fate.

Enhancing entrepreneurship is usually viewed in the light of economic growth, job-creation and competitiveness. But very important is also the social relevance entrepreneurship has for society. Fostering entrepreneurship and self-employment also grants the population with a new option of career. Factors encouraging and discouraging entrepreneurship vary not only across countries, but the regions as well. That is why despite their usefulness as a source of ideas, programmes taken from other countries and best practice reports rarely can be adopted one to one. Every region needs then a detailed research in order to carefully recognize those factors and work out the programmes that perfectly match the individual situations.

¹² Reports and analyses of Bielsko-Biała Labour Office activity in the period 2007-2010

¹³ www.wyborcza.biz – 12.04.2011.

Abstract

Entrepreneurship and the small firm have been the subjects of countless discussions in Poland recently. On one hand it is because of the role they play in the economic development. On the other hand because of the barriers the entrepreneurs encounter on all the stages of their businesses development. In the paper there have been considered the problem of entrepreneur's and small and medium enterprises sector's creation. There have been also underlined the factors encouraging and discouraging entrepreneurship. It has been especially important in the light of current crisis and rising unemployment rate. Public subsidies has been discussed on the basis of Bielsko-Biała Labour Office example.

Publiczne dotacje na finansowanie działalności gospodarczej na przykładzie Powiatowego Urzędu Pracy w Bielsku-Białej
Streszczenie

Przedsiębiorczość i mała firma to problematyka szeroko dyskutowana w Polsce. Z jednej strony zainteresowanie tym właśnie sektorem przedsiębiorstw związane jest z rolą jaką pełni on w gospodarce, przyczyniając się do utrzymania tempa wzrostu gospodarczego, będąc głównym źródłem innowacji i zapewniając ogromną liczbę miejsc pracy. Z drugiej strony dyskusja ta dotyczy barier jakie firmy małe i średnie muszą pokonywać na różnych etapach rozwoju. W tekście przedstawiono znaczenie przedsiębiorczości i sektora MSP dla zapobiegania i przeciwdziałania bezrobociu, dzięki możliwościom uruchamiania nowych firm jakie dają środki publiczne, te z Funduszu Pracy oraz Unii Europejskiej na bazie danych Powiatowego Urzędu Pracy w Bielsku-Białej.

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