Introduction

One of the key tasks that Poland was facing as a result of the new social and economic situation in connection with its joining the European Union was the necessity to adjust the methods of supporting regional development to those applied in the EU.

Creating the instruments of the regional policy compatible with the EU solutions and rules introduced in Poland before the accession and the fact that today they can be used successfully is the result of treating the task of the EU instruments absorption as the priority at the national, regional and local levels. Forming the regional development policy requires special approach to the problem of support for the sector of small and medium-sized businesses, that is the dominating form of economic activity.

The last 13 years can be described as a period of turbulent changes in the sphere of enterprises. Small and medium-sized enterprises, similarly to the countries of the developed market economy, represent a great potential measured in terms of the people employed, the number of enterprises in general or the generated GDP. Currently, this sector includes more than 3 mln economic subjects (without agriculture, forestry, fishing, and public administration) registered in the REGON system (National Register of Businesses) and its share in the GDP generation exceeds 50%. The share of active SMEs in the total number of companies is 99.8%. More than 10.78 million people are employed in this sector (66.9% of all the employed in the economy), including 31.9% employed in micro-units (0-9 employees), 15.1% - small businesses (10-49 employees) and 19.9% in medium-sized businesses (50-249 employees).¹

The share of SMEs in the above macroeconomic indicators testifies to the role they play in the Polish economy and their impact on living conditions of local communities. They offer thousands of jobs, also to those who are looking for them, suffer from unemployment and, what is most important, to graduates of schools of different levels. Employment in Polish small and medium-sized businesses reveals their potential in creating new jobs in this sector, their growing role in counter-acting unemployment and enhancing economic development.2

Small and medium-sized enterprises are generally of local character unlike big companies operating in many markets. This sector is a part of general social and economic infrastructure of each region. Market economy rules, growing and changing social needs, increasing demand for services, a number of conditions related to civilisational changes in the life of societies and transformations in consumers’ attitudes resulting from them make up a set of factors affecting changes in the number and structure of SMEs.3

The local character of small and medium-sized enterprises causes that there is a close relationship between SME development and regional development. Entrepreneurs, while investing their own capital, they invest it prevailingly in the places of their residence. They use local resources, especially human resources, and the local market is the main market of their activities. The scope and intensity of this process depend on regional development. One can speak also about the reciprocal relationship. The development of this sector can make up for regional disparities, contributes to the improvement of the living standards of local communities, creates new jobs and, in general, contributes to the improvement in regional economy. Consequently a thesis can be formulated that SME development depends on the regional social and economic development and, on the other hand, SMEs influence this development. Thus, we deal here with typical reciprocity of the examined phenomena.

It is obvious that majority of state instruments supporting regional development are aiming at creating conditions for the dynamic growth of the SME sector.

**Instruments of regional development policy**

In the European Union, instruments of regional development policy are divided into three basic groups of applied instruments. They are:4

- financial instruments,
- technical infrastructure development,

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• non-material ways of support for economic development.

Financial instruments, through the public sector, support the location and development of new economic subjects in the problematic regions; first of all, they accomplish it via capital grants, credits with below the market rate interest, tax relieves, accelerated depreciation of fixed assets and subsidies related to the creation of new jobs. Also region-orientated indirect financing instruments are sometimes mentioned as belonging to this group of instruments.

Technical infrastructure development and non-material instruments improve the quality of business environment in problematic regions. Thus, support does not concern any specific economic subjects but all businesses located in a given region. The term „technical infrastructure development” should be understood broadly and refers to trans-European infrastructural networks as well as local infrastructure.

The third group of instruments are those which support information, consultancy, advisory, educational, training and research activities and technological development.

A characteristics trend in the EU policy is giving priority to the technical infrastructure development in the countries of lower development, whereas in the most developed countries, various financial instruments have a leading role. An important phenomenon, which has been noted in the last few years, is a more significant role of non-material instruments which help to develop a more favourable business environment, which sometimes is referred to as a favourable or unfavourable industrial climate.

**Financial instruments supporting regional development**

Capital grants have become the basic financial instrument used in the EU countries. The most important stimulus for economic subjects are subsidies related to investment realisation or creation of jobs. Usually, they enable to cover a part costs of the assisted investment ventures, enforcing the use of the so-called financial assembling. In the European Union context their advantage is their flexibility as more and more often their use is discretionary rather than automatic. This means that the degree of support is matched to the specific conditions in which investment is carried out and it is avoided to support ventures which would be carried out anyway. An important feature of capital grants is their transparency with reference to both the extent of support in the context of the total cost of the venture as well as mechanisms and criteria of co-financing. They are particularly attractive for public administration because they may be extremely discretionary, conditional or

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5 J. Bachlter, *op.cit.*
discriminating depending on the size, location, branch or other criteria. They also give useful clues to the companies about priorities of the state’s policy; they can be easily evaluated and monitored. Capital grants are equally attractive for economic subjects because they are characterised by high flexibility and can readily improve the company’s cash flow. The two main groups which capital grants are aimed at are the endogenic sector of small and medium-sized enterprises and mobile ventures on the international scale. The problems include difficulties pertaining to regional dumping in the international context and an infrequent syndrome of creating the climate in which the endogenic sector of economy depends on the systematic support by grants.6

The second relevant type of financial instruments in the EU countries, are the so-called soft credits granted for the realisation of investment ventures. Credits can become „soft” due to a number of actions. Most often, the interest rate is set below the market interest rate. Another method is a delayed repayment of capital instalments. The third, though the least frequent method, is applying a waiting period for the interest repayment. The loans granted can be used (in different proportions) for the capital costs of the project. Generally, concessions refer to the whole period of loan repayment. Consequently, soft credits can be as discretionary and discriminating as capital grants. However, what must be drawn attention to are the drawbacks of this instrument. Firstly, it is less attractive for the applicants (benefits are more difficult to assess). Secondly, higher amounts of public resources are at risk than in the case of capital grants. Thirdly, administering this instrument is more complex and must function for a longer period of time. At the moment, this instrument is used in six EU countries but the aid allocated by this method is as big as that allocated thorough capital grants.

Fiscal instruments rely, first of all, on tax concessions or accelerated depreciation of fixed assets. Tax concessions are most often in the form of relieves on tax on profit awarded for a fixed period of time. Practically speaking, they cannot be discretionary or discriminating. Additionally, it is very difficult to assess them in the ex ante system. It is difficult to regionalise the regulations of national tax authorities and they do not stimulate creation of local networks or links. Also, they are less favourable for businesses as their effects (tax relieves) are delayed in relation to the period of spending. These reasons cause that in the last few years concessions have been rejected as an instrument of regional policy.

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From the point of view of regional policy, a very important form of tax concessions are tax relieves and other concessions connected with investments in the regions threatened by structural unemployment and in the special economic zones. They can direct investors’ attention to specific locations, preferential ones within the framework of the State’s regional policy. However, creating special economic zones raises quite a few doubts because of strong discrimination of investment initiatives undertaken outside special economic zones. At the same time, in compliance with the WTO agreement and regulations (Poland signed the agreement in 1996), special economic zones can be treated as support for regions developing in more difficult conditions but according to general principles of regional development. These requirements are possible to be satisfied by unambiguous defining of regions and specifying objective criteria which would allow to decide that the difficulties are exclusively of temporary character.

Another fiscal instrument - accelerated depreciation of fixed assets allows companies located in problematic regions to depreciate them for tax reasons more quickly than it is possible in other parts of the country. The most important feature of this instrument results from the fact that it is an integral part of the tax system binding in a given country. As it is managed by the country’s tax authorities, it must be very simple and clear in the regional dimension, which means, that it cannot be of discretionary or discriminating nature (it must be automatic). Its impact is very difficult to quantify. Therefore, it is not willingly accepted by the European Commission General Directorate IV for Competition. Companies very often encounter problems with the assessment of the effects of using this instrument (it refers, in particular, to foreign investors). This instrument is also unfavourable for investors as it influences the prices of manufactured products.

Another financial instrument are subsidies connected with the creation of new jobs. In the last few years their significance has decreased systematically which is accounted for by increasing difficulties with creating jobs. At the same time the increasing role of region competitiveness undermined the purposefulness of using this type of instrument. Rejection of subsidies was also connected with the growing pressure from the European Commission General Directorate IV for Competition. Even if this instrument is still used somewhere, it is limited to the sector of services and small enterprises.

Region-orientated indirect financing includes such measures as: warranties and guarantees, and share capital. Classical guarantee and warranty funds guarantee credit repayment for the subjects applying for such a credit. The main advantage of this type of instrument is reduced risk for both debtors and creditors. Local funds of mutual guarantees with the participation of economic subjects and financial institutions operating in a given area are of particular importance for facilitating regional development.

Share capital is an interesting formula of economic development promotion. This instrument means support for economic subjects looking for the capital for further development or suffering from difficulties due to over-investment. In the countries of market economy it is the private sector that provides the basic part of capital funds. Such funds are created by public institutions only in the regions posing a problem where there is a high deficiency of institutions providing capital for the private sector, which, in turn, creates a barrier for regional development.\(^8\)

The experiences of several years of transformation and the analysis of the macroeconomic situation in Poland let us state that in the next few years capital grants for investment will gain the crucial role among the financial instruments of the regional development policy. They have a number of advantages, such as: their management is relatively easy, they foster development of financial assembling of means coming from different sources as well as public and private partnership and regional concentration of investment outlays on most important objectives. Perfect opportunities are offered here by pilot projects carried out by the Polish Agency for Regional Development and Foundation of Assistance Programmes for Agriculture. The high rate of inflation and fully stabilised macroeconomic situation of the country practically make it impossible to use soft credits as an instrument of regional policy. The earlier described difficulties in using fiscal instruments as an element of regional policy and macroeconomic conditions of Poland’s development in the period of transformation as well as European Commission’s reluctance towards these instruments restrict effective use of tax concessions and accelerated depreciation of fixed assets. Finally, the job creation-related subsidies which played an important role in previous decades, have clearly lost their importance due to the technological revolution which has taken place in the countries of well-developed market economy in the last few decades. It turned out that they are completely ineffective instruments of regional policy because the jobs which were created as result of those subsidies in the last few years have been wound up on a

large scale. Probably, the same threat appears in Poland. This type of instruments may have some significance in the underdeveloped regions in the case of creating jobs in the sector of services or that of small enterprises.⁹

In Poland, regionally orientated indirect financing instruments of public character are of some significance now due to the general deficiency of this type of institutions in the private sector. Public institutions also fulfil the functions of venture capital, which in the countries of developed market economy is the domain of the private sector. These instruments proved their greatest usefulness in the regions requiring restructuring. It seems that in the coming years they may play a role only in the problematic regions where there is no supply of this type of capital by private institutions.¹⁰

**Development of technical infrastructure**

A traditional instrument of stimulating regional development in Western Europe was financing of technical infrastructure. Among the priorities concerning the sphere, two basic trends of operations are distinguished:

- support for local infrastructure development (water supply, sewage system, natural environment protection, transport and communications facilities determining accessibility, and creating industrial buildings and estates);
- development of strategic technical infrastructure in the national and European dimension (trans-European infrastructure networks).

In the most developed countries, mainly in Northern Europe, the first trend is dominating at the moment, whereas in Southern Europe the second trend is the leading one and is still having the main position in the regional policy budgets. In particular countries of the European Union and in the whole organisation, the outlays are mainly concentrated in different types of peripheral areas and in problematic areas (old industrial regions, underdeveloped regions and agricultural areas) as basic investments have already been accomplished.

Support for technical infrastructure is of particular importance in the countries which are underdeveloped socially and economically and in the countries situated peripherally in relation to the crucial economic centres of the world and Europe. Poland, unfortunately,

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meets both conditions which is the result of the political division after the 2nd World War into two military and economic groups and the effect of more than 40 years of the centrally planned economy. For these reasons, Poland is characterised by a relatively low level of technical infrastructure development and the situation is particularly bad in the most modern sectors such as, among others: telecommunications, motorways and air transport.

After 1989 Poland started activities which were aimed at diminishing the infrastructural gap between our country and the well developed countries of Europe. It is natural for the infrastructure system development in the situation of transformations and changed geopolitical environment that the situation changes first in big urban areas and in the western part of the country. Relative deterioration has been noticed in the situation of eastern, next to the border, regions and in the areas deprived of bigger cities.\textsuperscript{11}

At the present stage of civilisation it is impossible to accept the fact that there are whole areas and even regions where the elementary infrastructure-related needs concerning telecommunications or physical availability of services are not satisfied. It is characteristic that some of the facilities, owing to the features of this sector of economy (indivisible, not portable, capital intensive), allow only for the development of the biggest and best located cities. Motorways, fast trains or airports contribute to the improvement of the situation in some selected places which, anyway, are best provided with technical infrastructure and are privileged as far as their accessibility and development are concerned.

In the Polish context, the development of technical infrastructure will remain the most important item in the budget of regional policy for many years to come. The way of its financing must foster efficient realisation of both the ventures concerning strategic infrastructure being a part of the national and European system, and local infrastructure. As the most modern sectors of technical infrastructure are characterised by high effectiveness, investment ventures supporting its development can be carried out by the private sector on the basis of granted concessions. Nevertheless, in the case of the strategic national and European infrastructure, every time an analysis is necessary which would reveal whether the sum of private investments results in a spatially cohesive system. In case of spatial gaps in the infrastructural network, supplementary investments, like public investments, can turn out

indispensable. In Poland, there is a lack of activities in this sphere, which may lead to a permanent underdevelopment of the eastern part of the country.12

In connection with the EU priority for the development of trans-European infrastructure networks and local infrastructure it is necessary to define an efficient mechanism of co-financing these ventures by the Polish party.

**Non-material instruments facilitating regional development**

A new component of the regional policy is to influence business environment quality by means of non-material instruments. The forms of it are different and include, among others, giving access to information and consultancy, training and education as well as support for scientific research and technology.

Activities in this area are of particular importance in the countries undergoing transformation of the economic system. As a result of the centrally planned economy, there is lack of many basic institutions which determine effective functioning of the market economy, e.g. economic societies and chambers, agencies of regional development, stock exchanges, bodies supporting local initiatives, advisory and training institutions in the fields of business, law, marketing, accountancy and management, schools of management and business, and bodies supporting the sector of small enterprises. This environment is also created by banks and regional savings institutions and institutions offering venture capital. Existence of a rich network of institutions of this type is a basic prerequisite to attract foreign investors and to use effectively the endogenic potential of the region.13

In Poland the activities helping development of the business environment concern the whole area of the country, that is, all regions. It is the result of the significance of this sphere for the country’s social and economic development and a need to eliminate the underdevelopment of the country in this respect. However, a characteristic regularity of the first years of transformations is strong diversification in the development of this sector depending on the region. In the most advanced regions in respect of the system-related and economic transformations, we observe quicker and somehow spontaneous development of these institutions. In the underdeveloped areas this process is very slow and it must be inspired and supported by the state.

In the European Union the first group of non-material instruments supporting regional development consists of information, consultancy and stimulation of the network of economic

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clusters. Owing to the growing role of information, knowledge distribution and the network of clusters, all the EU countries run a very active policy in this respect. Three forms of activities deserve a mention here. Firstly, regional policy promotes access to consultations by supporting the use of information and consultancy made available by the private sector. A particularly low level of demand for consultation services has been noted in the problematic regions. Within different programmes of regional assistance and from the public resources the State covers mainly a part of costs related to rendering this type of services.

Another form is giving information and rendering consultation services directly by the organisations of the public and para-public sectors. Most often these activities are undertaken by the organisations of entrepreneurs, business support centres, agencies of regional development or directly by public institutions. The third category of assistance deals with creating co-operation networks of economic subjects, which usually means stimulation of partnerships between economic subjects in the field of co-operation, support for creating economic clusters consisting of companies which serve common promotional or marketing initiatives etc. and also stimulation of intensive interactions between the production and academic sectors. A model effect of this type of activities is emergence of production clusters.

Training and education are in the second group of this type of instruments. It is a result of the growing significance of the human factor in the social and economic development (also in the regional dimension). It is also the effect of quality changes in economy which lead to the occurrence of high structural unemployment as a phenomenon immanently connected with the current phase of the market economy. At the same time, owing to accelerated structural changes in economy, a need for systematic activities appears, activities that would enable employees to acquire new qualifications or upgrade those already possessed. In the last few years unemployment has been strongly diversified not only between particular countries but first of all among regions. The need for completing or changing vocational qualifications has become a universal one due to the size of the EU territory, i.e. it is true for the whole EU territory. In the EU countries, the basic part of activities in the fields of education and training is carried out horizontally. Owing to the growing significance of the human factor for the socio-economic development, regional conditions and consequences of these activities, regional policy remains active also in this sphere.¹⁴

Usually three groups of region-orientated instruments are mentioned. The first one deals with financial aid which can be obtained in the situation when training is related to
investment ventures, although sometimes it may deal with all the „sensitive” areas of economy in the region. Another instrument consists of training services for enterprises, first of all for small and medium-sized enterprises, which are rendered by specialised public institutions and most often they offer training combined with information and consultancy for new firms. The third group are individual services which are to support the unemployed or those threatened by unemployment and they are meant for regions of particularly severe structural unemployment.

In Poland, due to the fact that unemployment rate is diversified from place to place, so far the main attention has been focused on instruments counteracting this phenomenon in the areas endangered by the so called high structural unemployment and the priority of the applied instruments has been to create new jobs. Owing to the significance of the human factor for the regional development and the fact that the effects in this sphere depend on time and the number of activities, it is indispensable to expand the set of the instruments in this group as quickly as possible.\(^{15}\)

Another group of ventures aimed at improving the quality of business environment in the European Union deals with scientific research and technological development. They are targeted at supporting innovative potential in the problematic areas, which, in turn, encourages increased competitiveness. Difficulties in absorbing the innovations available in the market are quite common. Therefore, activities also in this sphere of regional policy are considered justified. It usually means incorporating elements of financial aid for ventures related to the spheres of scientific research and technology into regional programmes promoting investment. Practical realisation involves co-financing of the costs of: technical studies, purchase of technologies, patents and licences, implementation of new technologies, improvement of prototypes, products and new technological processes within the framework of investment ventures. An important trend in this sphere is creation of regional networks of technology transfer centres. Most often they are created within one country although a clear tendency appears to prefer problematic regions (in the sense of their location and available instruments). Finally, in many countries there is a clear tendency to combine state activities supporting scientific research and technological progress with regional policy. In recent years,


also the European Commission has initiated a number of activities which take into account regional dimension in the policy supporting scientific research and technological progress.

In Poland support for scientific research and technological progress remains a universal problem of the macroeconomic policy and facilitating socio-economic development. Therefore, in the coming years it will be one of the priorities of horizontal activities of the state. This problem is the main object of studies of one of the working teams of the Task Group for Structural Policy. The regional aspect of this problem is particularly important because in many areas of Poland innovations are not only not created but there is a problem with the absorption of innovations created somewhere else. Therefore, incorporating support for scientific research and technological progress into regional aid programmes and creation of the regional network of the technology transfer centres must be considered a must.

As it was stated earlier, as a result of economic transformations in Poland we observe a very diversified pace of development of the business environment institutions. Problematic regions which are socially and economically underdeveloped, pose a special problem here. Lack of indispensable, non-material instruments which stimulate the development of these areas can lead to their marginalisation, and consequently, negative economic, social, political and cultural effects.16

In Poland activities in each of the above described spheres are of special significance. Agencies of regional development are very important in the fields of information, consultancy or stimulation the network of clusters. Promoting territorially-oriented networks of clusters should become in Poland one of the more effective ways of stimulating regional development. This can refer, among others, to: organisational networks in the field of purchases, marketing, research and exports (industrial clusters); public services, technologies; selection and training of local managers and qualified workforce and availability of capital. Activities concerning human resources should serve the purpose of promoting entrepreneurship, which, naturally, must also be supported by other instruments of regional policy so as to help potential entrepreneurs to overcome different barriers in starting up an economic activity. Training initiated in a region, if other instruments of the state policy are not used, very often leads to migration of the labour force which was organised with much effort.

In the group of non-material instruments of support for regional development, growing significance can be assigned to the creation of the positive image of the region. Different promotion techniques serve this end. In Poland the significance of this instrument has been underestimated. Its broader application requires acquisition of skills and techniques of regional lobbying, which is particularly difficult in the socio-economically underdeveloped regions.

There is no doubt that good information concerning the level and advancement of socio-economic development and presented by regions is also of growing significance. Regional statistics taking into account all basic economic and social categories, as for example the GDP, are of vital importance here. Full adjustment of the regional statistics system in Poland to the requirements of the European Union was identified by the Central Statistical Office as one of its priorities.

**Summary**

The development of small enterprises, including micro enterprises, is one of the more important factors in the regional development. Regional diversification of small and medium-sized enterprises clearly points to the relationship between the level of social and economic development and resources of these enterprises in regions. The development of this sector has become phenomenal in the process of transformations in Polish economy.

The local character of SMEs causes that there is a close mutual relationship between the development of this sector of enterprises and local and regional development. A higher level of the social and economic development improves competitiveness of the local system and becomes a factor of broader economic activities. On the other hand, expansion of these activities brings about more jobs, contributes to higher local budgets, satisfies existential needs of inhabitants, decides about competitiveness of the region and determines standards of living in the region.

In order to enhance development of small and medium-sized enterprises, it is indispensable to carry out such regional policy which would form a favourable environment for the creation and full utilisation of the human potential aspiring to develop the spirit of enterprise.

The policy of government institutions towards SMEs must be based on activities of horizontal character, i.e. they must be addressed to all SMEs, no matter what legal form or business they represent. The activities undertaken must aim at giving equal opportunities and popularising entrepreneurship among young people, graduates, the unemployed, women and
the disabled. The local undertakings must be planned in such a way so that they will match the social and economic structure of particular provinces and the development policy implemented by them.

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