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FINANCIAL MANAGEMENT OF THE EUROPEAN UNION

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CONTENT

INTRODUCTION

Financial Management is an essential part of the economic and non economic activitieswhich leads to decide the efficient procurement and utilization of finance with profitablemanner.

Financial Management alsodeveloped as corporate finance, business finance, financial economics, financial mathematicsand financial engineering. Understanding the basic concept about the financial managementbecomes an essential part for the students of economics, commerce and management.

he economic policy of the European Union, otherwise known as the economic one, is a set of actions aimed at stimulating economic processes and objectives of all the countries that form the European Union. It is primarily focused on continuous economic growth, maintaining an appropriate (stable) price level (preventing inflation or maintaining it at a low level) and striving to maintain production with the full use of production factors (mainly workforce), as well as creating more and more jobs on the labour market.

EU Institutions face new and specific challenges in financial management and operational efficiency More balanced governance, improved financial management, efficiency and accountability are the key challenges that EU Institutions will face in the coming yearsFinancial Management is open to submission from any author, any location, at any point in his/her career, without implicit or explicit bias. The Editorial Board focuses on work that is more risky and innovative than work that might survive the review process at other journals while recognizing interest and enthusiasm for work generated across the globe.

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Fiscal policy is also referred to as budgetary policy. It defines all the activities of the countries that concern the state budget and public finances. Fiscal policy influences the policy of forming taxes, finances of the government, local government and social security system, shaping the expenditure side of the budget.

The Western European political crisis is a consequence of the political and economic crisis of the Eurozone. When not only the USA and Poland definitely left the economic crisis behind - which in 2007-14 achieved the best economic results of all the Western countries - but also the United Kingdom left it behind too, the Eurozone is still plunged into stagnation and deflation.

CHAPTER 1
BUDGET OF THE EUROPEAN UNION.

1.1. What is the European Union budget.

The European Union budget is an extremely important financial instrument for the implementation of many (complex) EU policies. The EU budget makes it possible to finance many complex activities which the member states - belonging to the Community - cannot cover from their own resources or can do so in a more economical way by combining their own resources with EU money, e.g. in the case of infrastructure investments from the Rural Development Programme amounting to 63.63%, these are funds from the EU, while the rest is their own contribution. It should be noted that the European Union budget does not finance expenditure on defense-related activities, but refers to investment costs[1].

The budget of the European Union is the plan of revenues and expenditures of the Community. The European Union (EU) is the only international organization with such a large budget. The EU budget is prepared each calendar year. Since 1988, the EU's annual budgets have been determined by taking into account the financial perspective, which sets annual spending limits over the next few years. It should

[1] http://ec.europa.eu/budget/mycountry/PL/index_pl.cfm#cinfo dostęp na dzień 22.11.2015r.

be noted that the yearly budget of the Community cannot exceed 1.25% of the GNI of the EU member states. In fact, it fluctuates around 1%[2].

The procedure for the approval of the annual EU budget takes about a year. It involves close cooperation between the Commission, the Council and the European Parliament. The procedure for establishing and approving the budget is set out in detail in Article 203 of the Treaty of Rome. In practice, however, the provisions of that article are only general assumptions, since they have been formulated under the influence of various circumstances. The work of the European Commission on the preliminary draft budget is the first stage of the procedure, which is carried out at the beginning of the year (January-April) before the start of the legal execution of the budget each year (detailed budgeting process, the progress of the budget procedure is discussed in the following chapters)[3].

It has happened several times in the history of the EU that the EU budget was not approved for various reasons in time for its entry into force on 1 January of the following year. In this case, there is a strict rule that, from the new year onwards, until the budget is unquestionably approved, monthly expenditures may be incurred only up to a maximum of 1/12 of the previous year's budget[4].

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[2] http://www.de.gov.pl/, dostęp: 10.05.2016 r.

[3] J. Soboń, *Budżet Unii Europejskiej,* Oficyna Wydawnicza ASPRA-JR, Warszawa 2008, s. 18-20

[4] J. Soboń, Budżet Unii Europejskiej, Oficyna Wydawnicza ASPRA-JR, Warszawa 2008, s. 104

The general budget was created in 1967 as a result of the formation of single institutions for the Communities by merging the budgets of the above authorities, i.e. the EEC, Euratom and the ECSC. The so-called Traditional Own Resources (TOR) system was introduced in 1970, which consisted of customs duties and agricultural levies[5]. Another component was introduced to Traditional Own Resources in 1979, which was based on a negligible proportion of VAT. The next stage of building the FU's budget was the introduction in 1984 of the exemption of England (Great Britain) from a part of high contributions to the common fund, in other words the so-called British rebate was introduced[4]. In the following year of 1988 a major budget reform was implemented as part of the Delors package - this meant the introduction of a limit on own resources, multiannual financial plans with spending limits in particular categories or the introduction of further instruments constituting national contributions based on a specified percentage of Gross National Income (GNI)[6].

The financial perspective (financial agenda) e.g. for 2007-2013 or the current period 2014-2020 is a document that largely forms the general budget of the EU. It is important that for each time period of the individual financial perspectives, pre-determined and binding expenditure limits are set for all authorities in the adoption of the budget. Such a budget cannot be considered as a multiannual one, as the

[5] Oręziak L., *Finanse Unii Europejskiej,* Wydawnictwo Naukowe PWN, Warszawa 2009, s. 109-110

[6] http://www.cie.gov.pl/, dostęp: 10.05.2016 r.

annual approval of the general budget is important for the current development of all budget revenues and expenditures for a given year. This concerns specific ceilings for important expenditures groups of the budget. This means that institutions participating in the entire procedure for the adoption of the general budget are fully free to determine the percentage of expenditures within each revenue group[7].

The general classification of the structure of expenditure groups means that they are the same as in the financial perspective in the given years. Analysis of the compatibility of this budget with the political priorities of the EU itself and of the member states, which will benefit from the financial resources of the perspective. The existence of the financial perspective calls to order the entire decision-making process, which is closely linked to the formation of the budget and makes the system of financing the European Community transparent and easier to evaluate and control. It should be noted that the expenditure limits set in the perspective are limiting to a certain extent the spread of financing to new areas of member states' activity[8].

The budget of the European Union is a characteristic report of planned revenues and expenditures which differ significantly from the budget of the member state. Decisions on revenues and expenditures are not taken by each state individually, but by the

[7] *Oręziak L., Finanse Unii Europejskiej. Wydawnictwo Naukowe PWN, Warszawa 2009, s. 135*

[8] Oręziak L., Finanse Unii Europejskiej. Wydawnictwo Naukowe PWN, Warszawa 2009, s. 137

European Community as a whole. At the same time, the lack of pan-European taxes makes a significant difference between separate budgets.

1.2. Budgetary principles and procedure for establishing the budget of the European Union

The EU budget is subject to the general principles that derive from the Treaty and the Financial Regulation. The budgetary law of the Union shall be based on principles similar to those of national budget law. They shall inviolably set out the basis for the establishment of the general budget. The four main principles are: uniformity, consistency, universality, specification. The additional rules of the general budget are also: budget accuracy, balance, reliability of the accounting unit, rational finance management, transparency of the budget.

Council Regulation No 1605/2002 of 25 June 2002 laid down in detail the principles governing the establishment of the general budget[9]:

1) the principles of unity and budget accuracy dictate that all revenues and expenditures of the European Union must be included in the general budget of the EU.
2) the principle of universality implies that no revenues are assigned to specific items of expenditures,

[9] Rozporządzenie Rady (WE, EURATOM) nr 1605/2002 z dnia 25 czerwca 2002 r. w sprawie rozporządzenia finansowego mającego zastosowanie do budżetu ogólnego Wspólnot Europejskich (Dz.U. L 248 z 16.9.2002, str. 1).

3) the principle of specification determines the breakdown of budget expenditure according to a specific methodology by title, chapter, article and item. The institutions within their departments may transfer appropriations without restriction between chapters and articles and up to 10 % of the appropriations between titles.
4) the principle of equilibrium shows that revenues and expenditures must be equal for the financial year concerned. The general budget may not have a deficit. It is not possible to take out a credit to cover the EU's deficit. However, surpluses shall be carried forward to the following year or the amended budget is approved. All budget modifications shall be made in accordance with the standard budgetary procedure.
5) the principle of accounting unit represents the euro as the currency unit in which the budget is prepared and settled.
6) the principle of rational financial management is that EU funds should be used in accordance with the principles of economy, efficiency and effectiveness. The principle of economy requires that resources made available in good time, in appropriate quantity, quality and at the best price by each institution be used. The principle of effectiveness indicates the pursuit of the best possible relationship between the resources involved and the results achieved. The principle of efficiency is concerned with achieving the intended results and objectives. Budgeting should be based on specific, measurable, achievable, relevant and specified objectives.

The control of budget implementation is linked to the monitoring of the achievement of the planned objectives.

7) the principle of transparency shall cover the process of establishing as well as implementing the budget. The entire budget is published by the President of the European Parliament. In addition, the annual accounts and the reports drawn up on the budgetary and financial management by the institutions shall also be published[10].

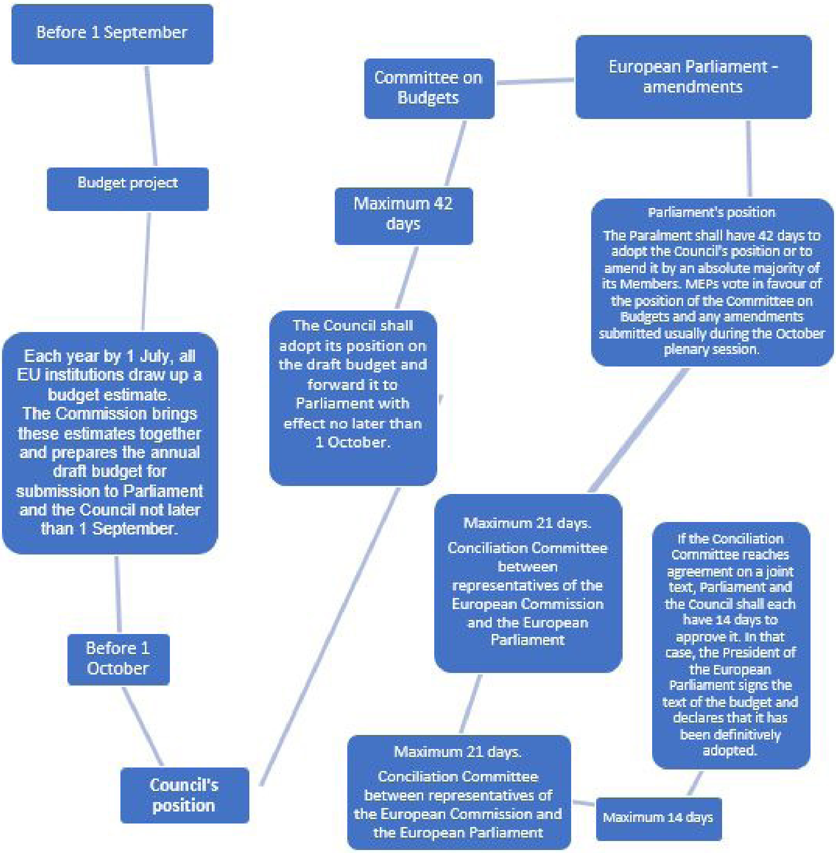
It is noted that the determination of the size of budgets for a limited period of time does not release Community institutions from agreeing on annual budgets[11].

The European Commission, the Council and the European Parliament are important authorities in the process of establishing the European Community budget. However, only EU institutions such as the Council and Parliament have the power to establish the general budget. The European Commisssion responsible for implementing the general budget of the EU. The European Council and the European Parliament examine the European Commission's report on the implementation of the budget for the year concerned - Figure 1.

[10] L. Skiba, *Budżet Unii Europejskiej,* http://www.ugiw.umcs.lublin.pl/V.pdf, dostęp: 11.05.2016 r.

[11] http://europa.edu.pl/portal/index/strony?mainSP=articles&mainSRV=europa&methid=78801222&page=attachement&aid=378&latch=0. 22.02.2016.

Figure 1 The procedure for establishing the EU budget



Source: Own elaboration.

Article 314 TFEU sets out in detail the stages and time limits for the establishment of the budget, which are presented below:

1) first stage - means the preparation of the draft EU budget by the European Commission, the Europe-

an Parliament and the European Council, by issuing appropriate guidelines on budgetary priorities. The Commission prepares the corresponding draft budget and submits it to other EU authorities before the end of October. The Commission makes a budget adjustment at a later stage of its work.

2) the second step relates to the adoption by the European Council of its position on the draft future EU budget. At this stage, the Council shall take position on the draft budget or forward it to the European Parliament no later than 1 October. This means that the Council must inform the European Parliament in detail of the reasons for adopting a particular position.
3) The next stage is reading in Parliament, which means that the European Parliament has more than a month, or 42 days, to refer to the draft budget. In the meantime, Parliament may either approve the Council's position or refuse to take a decision, in which case the amended draft budget shall be referred back to the Council and the Commission. The President of the European Parliament in compromise with the Council must immediately convene the Conciliation Committee.
4) the last fourth stage, which is related to the Conciliation Committee meeting and the adoption of the budget, means that since the Conciliation Committee was convened it has only 21 days to consolidate the combined text. Important decisions are made by a qualified majority of Council members or their representatives, as well as by a majority of members of parliament.

However, if within 21 days the Conciliation Committee does not reach a joint text of agreement, the Commission shall draw up a new draft general budget. The Conciliation Committee works on the new budget within 21 days. On the other hand, the EU authorities (Parliament and Council) have only 14 days to approve it. The different scenarios for the budget work are presented in Table 1.

Table 1. Conciliation procedure for the general budget.

	Parliament	The Council	Result
Position on the joint text admitted declined no decision	fixed	fixed	Joint text approved
		Not accepted	Possible return to Parliament's position
		impasse	Joint text approved
	impasse	fixed	Joint text approved
		not accepted	The European Commission prepares a new draft budget
		impasse	Joint text approved
	not accepted	fixed	The European Commission prepares a new draft budget
		not accepted	The European Commission prepares a new draft budget
		impasse	The European Commission prepares a new draft budget

Source: Own elaboration based on http://www.europarl.europa.eu

In case of unforeseen circumstances, the European Commission may present one or more proposals for a draft amending budget. It should be noted that the budgetary principles of the general budget apply equally.

The European Commission is responsible for implementing the adopted EU budget, while the other institutions are responsible for the administrative budget. As an elected institution, it represents the taxpayers of the Community. The European Parliament exercises budgetary control to ensure the proper management of European financial facilities (resources) by the Commission and the other institutions.

On a recommendation from the Council of the European Union, the Parliament decides on the final approval of the implementation of the budget for the current year. The European Parliament takes this decision after the European Commission has scrutinised the Commission's financial accounts and the report on its activities for the current year. It also takes into account the annual report of the Court of Auditors and the Commission's replies to specific questions from Members of Parliament. Parliament has the right to make recommendations to the Commission concerning the implementation of the budget.

As a consequence, the procedure for adopting the budget ends with granting or postponing the excerpt or with a refusal to grant excerpt. The same procedure is used by the Parliament when approving the accounts of other authorities as well as its own administrative budget.

1.3. Revenues and sources of expenditures of the general budget of the European Union.

The revenues of the general budget of the Community derive from a number of sources and they are divided into own and other resources:[12]

- Ordinary own proceeds,
- Value added tax,
- gross national income,
- other income,
- Correction mechanisms.

Own resources include trade duties as well as agricultural taxes levied on products originating in third countries[13]. The EU budget receives more than 70% of the total revenues from this source, as the second part of the revenues is retained by EU countries.[14]

The group of prospective resources derived from the value added tax (VAT) depends on the determined uniform tax rate and its base, which is valid in the EU. The procedure related to determining the amount of contributions in this respect is complicated. The rates valid in individual EU member states are many problem zones, as well as temporary derogations from the general EU rules, which generally

[12] http://www.uwm.edu.pl/wne/katedry/kmakro/files/e7_p19.pdf

[13] Czerniewska-Rutkowska M., *Budżet ogólny Unii Europejskiej - stan obecny i perspektywy.* Centrum Doradztwa i Informacji Difin Sp. z o.o., Warszawa 2007, s. 22

[14] Kaczyńska A., *Źródła dochodów budżetu Unii Europejskiej - stan obecny, słabości i proponowane rozwiązania*, vol. 2, no. 6. Uniwersytet Ekonomiczny w Poznaniu, Poznań 2014, s. 80

do not take into account state contributions to the EU budget[15].

The next source of revenues for the general budget of the EU is constituted by the imposition of a uniform percentage of gross national income for each EU country. The scale of these contributions to the budget shall be determined each financial year[16].

The rest of the revenues is the last category of sources of income of the EU budget. These include interest on arrears and fines, remuneration tax and social security contributions for staff serving in the Community institutions, and revenues from Community loan operations. This category of revenues represents around 1% of total budget income. They are not considered as own resources for the rest of the revenues side of the general budget of the EU.

Consequently, it corrects the budgetary imbalances that have arisen as a result of the differences in many of the contributions that are paid by EU countries and only form part of own resources.

The so-called „UK rebate" is currently being applied, which means - in short - the reduced amounts of VAT revenue collection in 2014-2020 for Germany, the Netherlands and Sweden as well as gross reductions in annual GNI-based contributions in 2014-2020

[15] Kawecka-Wyrzykowska E., *VAT jako nowe źródło dochodu budżetu Unii Europejskiej*. W: Kawecka-Wyrzykowska E. (red.). *Budżet dla Unii Europejskiej po 2013 roku: implikacje dla Polski,* Katedra Integracji Europejskiej im. J. Monneta, Kolegium Gospodarki Światowej, Warszawa 2008, s. 45

[16] Małuszyńska E., Sapała M., *Wieloletnie ramy finansowe Unii Europejskiej na lata 2014-2020*. Studia BAS, nr 3(31). 2012, s. 112

for Denmark, the Netherlands and Sweden and in February 2014-2016 for Austria. However, as regards collection costs in the case of traditional own resources, member states may reduce the amount by reference to traditional own resources from more than 25 % to 20 % of the sums collected. The current adjustment in the resource system refers to the modification of the implementing decision in order to allow member states to make available, by 1 September of the following year, large amounts resulting from VAT-based own resources and gross national income (GNI) adjustments.

An insignificant part of the expenditures from the Community budget is allocated to supporting economic growth and employment. Agriculture and rural development are a significant category of expenditures.

It should be noted that the European Union has obligations towards countries outside the European Community. The EU plays a significant role in the world by acting to promote social and economic development. Support from the EU budget is divided into the following categories:

– the first category refers to developing countries with which EU countries cooperate on a permanent basis;
– the second category consists of the countries of Eastern Europe, North Africa and the Middle East which are neighbours of the Community;
– the next category consists of the future member states of the Union, i.e. candidate and potential candidate countries.

The individual activities of the European Union are financed from the budget in approximately 95%. Other activities (5% of the budget) refer to recurrent costs or expenses related to official EU services[17].

The current system reserves an uninterrupted allocation of funds from the general budget within the overall budget. However, the EU still does not have a financial system through which it can decide on the sources and amount of its revenues in an independent way.

Starting from 2007, more and more expenditures from the budget are also directed to the economic growth of EU member states, research and development.

Each annual budget is based on a financial perspective for specific years, which sets annual limits that can be committed to different policy areas over a period of seven years. This is not the EU budget, but is a political priority and a tool for budgetary planning.

The EU budget is divided into several sections, one for each EU authority. It should be noted that the section of the European Commission includes the so-called operational expenditures, which are intended to cover all official costs in their implementation.

It should be pointed out that agricultural policy is one that receives a large proportion of the budget, and another that has a similar level of funding is regional policy.

In addition to the planned expenditures, specific financial resources are reserved for the financing

[17] *Skiba L.* Budżet Unii Europejskiej. *W: Kowalewski P., Tchorek G., G**ó**rski J.*, Mechanizmy funkcjonowania strefy euro. *Narodowy Bank Polski, Warszawa 2014, s. 125*

of EU policies through multi-annual budgetary programmes to respond to unexpected crises and unforeseen situations. These important instruments are typically used in the event of economic crises, natural disasters, humanitarian emergencies or other unexpected needs in the Community. In the form of capital injections, financial risk sharing guarantees, it has been incorporated into a number of Community programmes, the so-called EU leverage.

The 2018 budget included EUR 160.1 billion in commitment appropriations. This is an increase of 0.2% compared to the previous year. As part of the financial perspective for 2014-2020, a margin of about EUR 2 billion was allocated to enable the Community to respond to various threats. During this period, total payment appropriations amounted to approximately EUR 148 billion.

In the period 2014-2020, great importance was attached to investing in competitiveness and employment. Several programmes under sub-heading 1a were thus reinforced and the „Horizon 2020" gained EUR 11.2 billion, representing an increase of around 8.5% in comparison to the previous year.

One of the priorities in the financial perspective for 2014-2020 is to support the youth. The Erasmus+ programme appropriations increased by EUR 2.3 billion. The Youth Employment Initiative received EUR 350 million to improve young people's chances of finding a good job.

EU authorities have always underlined the need to accelerate the implementation of this initiative.

Agencies that deal with security will receive around EUR 940 million in order to deal with security concerns.

More money has also been provided for environmental actions under the LIFE Programme: it will receive EUR 523 million.

Due to the level of democracy, the rule of law and human rights and, of course, freedom of the press in Turkey, Turkey's pre-accession funds have been reduced by more than EUR 104 million. The remaining EUR 70 million will keep in reserve until the country makes good progress in these areas.

The budget also decided to reinforce the strategic communication of the European External Action Service. This institution will receive EUR 0.8 million to step up the fight against misinformation.

Table 2. EU Budget 2018

Divisions	**EU Budget 2018 in EUR billion**	
	Commitments	**Payment**
1. Intelligent economic growth which is conducive to social inclusion	77,533	66,624
1a. Competitiveness for growth and employment	22,001	20,097
1b. Economic, social and territorial cohesion	55,532	46,527
2. Sustainable economic growth: natural resources	59,285	56,084
3. Security and citizenship	3,493	2,981
4. Global Europe	9,569	8,906
5. Administration	9,666	9,666
Special instruments	567	420
TOTAL	**160,114**	**144,681**

Source: Own calculations based on EU Budget 2018.

In December 2018, the European Council endorsed an agreement with the European Parliament on the adoption of the EU budget for 2019.

Commitments in the 2019 general budget amounted to approximately EUR 166 billion, which represents an increase of approximately 3.4% on the previous year's budget.

For the subheading 1a „Competitiveness for growth and jobs" has been allocated to commitments of approximately EUR 23 billion - or about EUR 6 billion. The support for "Horizon 2020" has increased significantly in 2020 and will consequently receive EUR 12.3 billion for research and innovation (around 10% more than in 2018). The „Connecting Europe" Facility was also reinforced and received around EUR 4 billion to finance infrastructure projects across Europe (+37% compared to 2018), while EUR 368 million (+3.8%) were allocated to COSME to support small and medium-sized enterprises[18].

It should also be noted that in 2019, a huge amount of money was allocated to the Erasmus+ programme, with around EUR 3 billion earmarked for youth exchanges - about 20% less in 2018.

On the other hand, in the area of migration and security, the Asylum, Migration and Integration Fund has been allocated large sums of around EUR 1.1 billion (an increase of around 56% compared to 2018). More than EUR 530 million has been allocated to the so-called Internal Security Fund.

[18] https://www.consilium.europa.eu/pl/press/press-releases/2018/12/11/council-endorses-agreement-on-eu-budget-for-2019/

Table 3. EU Budget 2019

Divisions	EU Budget 2019 in EUR billion	
	Commitments	**Payment**
1. Intelligent economic growth conducive to social inclusion	80,527	67,557
1a. Competitiveness for growth and employment	23,335	20,522
1b. Economic, social and territorial cohesion	57,192	47,035
2. Sustainable economic growth: natural resources	59,642	57,400
3. Security and citizenship	3,787	3,527
4. Global Europe	11,319	9,358
5. Administration	9,943	9,943
Special instruments	0,577	0,412
TOTAL	**165,796**	**148,199**

Source: Own elaboration based on EU budget 2019.

In order to help the Community achieve its climate objectives, the 2019 budget has been reinforced by the LIFE Programme by more than EUR 550 million, an increase of around 8% compared to the previous year 2018.

An additional EUR 1,0 million was allocated to the European External Action Service to recruit staff for strategic communication and the fight against disinformation.

CHAPTER 2
FINANCIAL MANAGEMENT OF THE EUROPEAN UNION.

2.1. Economic policy of the European Union.

The economic policy of the European Union, otherwise known as the economic one, is a set of actions aimed at stimulating economic processes and objectives of all the countries that form the European Union. It is primarily focused on continuous economic growth, maintaining an appropriate (stable) price level (preventing inflation or maintaining it at a low level) and striving to maintain production with the full use of production factors (mainly workforce), as well as creating more and more jobs on the labour market. This policy aims to abolish various restrictions on the movement of goods, services, etc. within the territory of the EU and to abolish customs duties. Economic policy is treated as the main and priority policy in relation to other policies, i.e.: trade, transport, customs, budget, etc.

Economic policy is oriented towards areas of life (e.g. industry, trade) or a particular problem. It is intended to work with the various religions in both the short and long term.

Economic policy measures are taken and implemented on a national, but first of all on the European level. With the adoption of the single currency (the

Euro) by some EU member states, these countries have become more integrated. By monitoring the economic situation of countries and supervising it through various reports, there is coordination of economic policy and verification of its operation and application in the member states of the European Union.

Through economic policy, we are supposed to see the benefits of linking the economies of different countries, with access to more different services and goods, lower costs and/or better quality.

Economic and Monetary Union (EMU) - its members are all 28 countries belonging to the European Union. It is one of the elements of cooperation between countries within the EU.

EMU is about the economic integration of countries, it includes:

– coordination of economic policies between EU member states;
– coordination of fiscal policy;
– the monetary policy that is conducted by the ECB;
– the creation of a single market;
– the Eurozone and the single currency.

The Economic and Monetary Union was created by the European Council in 1991 on the basis of the Maastricht Treaty. The elements of this policy include:

– monetary policy;
– fiscal policy.

2.2. Fiscal policy of the European Union

EU monetary policy is about setting and achieving monetary objectives in macroeconomic terms by stabilising the demands and supply of money through appropriate instruments.

Since 1999, the European Central Bank (ECB) and the central banks of the EU member states are the main players in monetary policy that have adopted the euro. These two formations are called the Eurosystem, the „Euroländern" or the Eurozone.

The primary goal of monetary policy is to maintain stable price levels and thus low inflation. Price stability, i.e. the annual harmonised index of consumer prices in the Eurozone. Other monetary policy objectives also include interest rate stability, stability of foreign exchange and financial markets, economic growth and high employment. In order to achieve this objective, the ECB uses various instruments, such as:

– open market operations,
– deposit and loan operations,
– minimum reserves,
– non-standard monetary policy measures and crisis response measures.

The principles under which the EU's monetary policy operates are the following:

a) ndependence of the ECB: this principle is enshrined in the Treaty on the Functioning of the European Union. It can be expressed in different ways:
   – functional;
   – institutional;

  - subsidization;
  - personnel.

b) accountability and transparency of the ECB - consists in the obligation for the ECB to report and give evidence containing price forecasts and economic analysis to the European Parliament. This is to ensure the credibility of the European Central Bank.

c) voting rules of the Governing Council: this rule shall mean that when the Governing Council votes, one person has only one vote. Monetary policy decisions are usually taken by a majority of votes, while in balanced situations the President of the European Central Bank has the casting vote.

The Governing Council consists of six members of the Management Board and the Governors of the Eurozone central banks. The Governing Council should be guided primarily by the interests of the Eurozone and not by national interests.

The European Central Bank is managed by three main authorities:

- The Management Board shall be composed of the Governors, the Vice-Presidents of the ECB and four additional members. Its task is to implement the monetary policy as determined by the Governing Council and to manage the functioning of the ECB.
- Governing Council - this is the main authority of the ECB. The Governing Council is composed of the members of the Bank's Management and the presidents of the national central banks. Its task is to conduct EU monetary policy, define its strategy, set interest rates, approve the volume of euro currency

emission, overcomes the distribution of cash, income and financial result among national central banks. It also sets the budget for the institutions, the Bank's regulations and financial statements, as well as the annual report.

– The General Council is the authority that links the ECB with the national central banks of countries that are not part of the Eurozone. It consists of the President, the Vice-President of the ECB and the Governors of national central banks of the member states of the European Union. Among others, the Council performs advisory functions. It helps to determine the exchange rates of national currencies of countries. It also collects static information.

Fiscal policy is also referred to as budgetary policy. It defines all the activities of the countries that concern the state budget and public finances. Fiscal policy influences the policy of forming taxes, finances of the government, local government and social security system, shaping the expenditure side of the budget.

Monetary policy together with fiscal policy have an impact on macroeconomic balance. This policy shapes the principles responsible for the functioning of the central banks of the countries. It is also subject to sovereign decisions taken by the authorities of European Union member states, whose effects have significant consequences for macroeconomic events in other member states.

The fiscal policy strategy is based on the implementation of objectives such as the free movement of capital, economic growth, employment, competitiveness, elimination of tax competition between EU countries.

Budgetary policy primarily affects the public finance sector, including the government, local government and social security sectors. The policy covers income as well as budget expenditures, covering all levels of public authority, including the social security system. It is the main factor influencing social decisions concerning: professional activity, conducting, investing and saving in economic activity.

The most significant legal and institutional basis for fiscal policy is the Stability and Growth Pact. The Pact was established by the representatives of the EU member states in Amsterdam in 1997.[10] It is an agreement of the EU member states. The pact aims at ensuring that budgetary discipline is maintained in order to avoid excessive financial deficits in the public sector. This leads to monetary stability. It includes:

a) the preventive mechanism - Multilateral Surveillance Procedure - member states are required to treat their national economic policies from the point of view of common interest. Budgetary targets with medium-term prospects are important here and EU countries should strive to achieve them.
b) corrective - the Economic and Financial Committee and the Council of the EU receive from the EU Commission an analysis of the financial situation in order to verify the budgets of the member states. As a result, the Council of the Community decided to initiate the excessive deficit procedure.

The purpose of the Mutual Surveillance Procedure is to prevent excessive deficits and the Excessive

Deficit Procedure to bring the deficit to an acceptable level.[11]

The economic crisis contributed to a rapid increase in the public sector debt of the member states and to the recession. This has put the credibility and stability of the euro into question. The crisis has affected the members of the European Union with regard to the need to establish a common mechanism related to financial supervision, as well as to increase the degree of control over the fiscal policy of EU countries.

2.3. Evaluation of the effectiveness of spending the EU budget

With adequate and rational spending of funds from the EU budget in the 2007-2013 programme period, more attention was given to absorption and formal compliance than to good results. For the period 2014-2020, the Court of Auditors has set itself the objective of addressing specific tasks. The Union points out that new solutions are needed in connection with the budgetary reserve, and that the revenues from the budget will be used as a side effect, because during this period no sanctions have been provided for as a result of failure to meet the Community's objectives.

In the Court's view, the guiding principle for the shared management of the budget is that EU member states which co-finance EU projects in a pre-defined percentage manage Community funds with the same care and attention as for own resources of the budget. Based on the audit of the ECA, it can be concluded that the selection of the right project focused on the compulsion to spend the available EU funds, followed by compliance with EU and national rules and consequently the achievement of the desired results. The ECA considers that expenditures should be legal and regular.

The direct impact on the effectiveness of individual Structural Fund measures is their concrete monitoring and control. Monitoring indicators allow for measures to be taken which should be achieved in relation to individual operational programmes[19]. In accordance with Community law, there is always an annual assessment of the effectiveness and efficiency of the use of EU funds.

The fundamental obstacles to the use of structural funds are generally included (after previous evaluations):

- procedural difficulties (too complicated procedures for Final Beneficiaries, Implementing Authorities and Managing Authorities),
- functioning of the administration focused on the administration process itself (such process or processes have a negative impact on the disbursement of aid funds)
- Polish legal regulations (often over-interpreted, e.g. ARMA and other institutions in Poland, which in consequence lead to a negligible use of aid funds).

[19] Rozporządzenie Rady Unii Europejskiej (WE) m 1260/1999 z dnia 21 czerwca 1999 r. ustanawiające przepisy ogólne w sprawie funduszy strukturalnych (Dz.U.L 161/1 z 26.06.1999 r., s. 3).

Barriers to the use of structural funds are also divided into the following types [20]:

- financial barriers,
- procedural barriers,
- market barriers,
- legal barriers, problems related to institutional capacity of units participating in the implementation system,
- problems related to the beneficiaries,
- other barriers.

Both the European Commission and EU member states are responsible for ensuring that EU funds are spent wisely and in a manner consistent with their intended use. Through the Multiannual Financial Framework applicable from 2014 and the related implementing rules and Financial Regulation, the Commission aims to make the EU budget more result-oriented, thereby streamlining and simplifying budget management.

Under the 2014-2020 financial framework, the management mechanism was mainly expenditure-driven and only then result-oriented. The European Commission should focus on treating expenditures from the budget for activities that are related to EU added value, such as cross-border activities, with the help of the European Council and the European Parliament.

The objectives of the EU budget should be formulated in a clear and understandable way, in line

[20] http://www.eca.europa.eu/Lists/ECADocuments/AR13/AR13_PL.pdf, dostęp: 12.05.2016, Identyfikacja i ocena barier w wykorzystaniu środków strukturalnych, PSDB, Warszawa 2007, s. 3.

with reliable indicators and targets, paying attention to systematic evaluation and monitoring in order to measure the progress of actions. To achieve this goal it is necessary to:

- the rationale for action (impact assessment);
- establishing a clear view (i.e. what EU policies should achieve); impact and outcome assessment procedures. It is important that the roles and responsibilities of all subjects involved in the implementation of the budget are divided up.
- establishing a „strong" performance management and reporting system to be applied by all relevant subjects, e.g. the European Commission. This would enable results to be compared and aggregated across member states.
- carrying out timely evaluations.

The threat that may occur in the spending of funds from the EU budget is the following:

1) External threats:
   a) political, e.g.:
      - conflicting interests of individual member states;
      - imposing unwanted obligations on organisations, administrations.
   b) legal and regulatory acts:
      - the legal basis is uncertain/ may change.
2) financial threats:
   a) the budgetary authority:
      - insufficient financial resources or resources to carry out the desired actions or lack of cash to make payments;

- member states cannot participate in the co -financing because of their own budgetary constraints;
- erroneous payments.

b) fraud, irregularities and corruption:
   - loss of assets;
   - difficulties in identifying the final beneficiary;
   - large cash-flow operations.

c) public procurement contracts:
   - the use of unsuitable tendering procedures;
   - complicated public procurement rules and contract conditions.[14]

There are also risks associated with strategy, organisational structure, operational objective setting, financial control system, added value, management, staff, etc.

2.4. New methods of financial management in the EU

European Court of Auditors

The ECA checks EU finances during its audit work. The Court's role is to improve the financial management of the Community and to report on the proper use of public funds. As the Community's independent external auditor, the ECA focused on improving the Community's financial management, for a number of clearing activities as well as for EU financial transparency[21]. ECA conducts an audit of the European Union budget to verify compliance with the principles

[21] http://publications.europa.eu/webpub/eca/annual-activity-report-2016/pl/

of universal law and rational financial management of EU funds in the allocation of resources.

The term of office of all members of the ECA shall be 6 years and may be extended. Members are under an absolute obligation to be fully independent and always act in the general interest of the Community[22].

The College of the ECA is formed by 28 members, one from each EU member state. The members of the Court are always appointed by the EU Council after consultation with the European Parliament and after nomination by the member state concerned[23].

Members of the ECA are assigned to one of several chambers, which have the task of adopting quarterly or annual reports, conclusions and other cross-sectoral publications.

The members of the ECA shall elect a President from among their number for a term of three years, which may be extended.

The Court of Auditors is also empowered to audit any person or organisation who has EU funds at its disposal. The Court very often performs on-the-spot checks of different types and to different extents. The Court's findings are always the primary subject of reports directly to the European Commission[24]. The ECA does not have its own enforcement powers. However, if during their inspection activities the controllers

[22] http://publications.europa.eu/webpub/eca/annual-activity-report-2017/pl/

[23] http://www.europedirect-zielonagora.lubuskie.uw.gov.pl/instytucje_ue/instytucje_ue_spis.html

[24] http://www.europedirect-zielonagora.lubuskie.uw.gov.pl/instytucje_ue/instytucje_ue_spis.html

discover irregularities, they shall inform the European Anti-Fraud Office (hereinafter referred to as OLAF).

The ECA's strategic task is to report to the EU on the previous financial year of the Community. EU authorities examine the Court's report in detail before taking any decision to approve the implementation of the budget. The ECA also gives its opinion on EU law provisions and on monetary matters in support of Community activities linked to the fight against financial dishonesty[25]. The Court's specialisation concerns money for which the Commission is responsible. The Court of Auditors is fully independent from the other institutions in all matters.

The ECA publishes annually after budgetary analysis the following[26]:

– special reports - it publishes the results of selected audits in specific policy areas;
– special annual reports, published separately for EU agencies, decentralised authorities and joint ventures;
– opinions on new or amended legislative acts with a significant impact on financial management, drawn up either on the Court's own initiative or at the request of other institutions.

The European Court of Auditors as the EU's external audit institution strives for a positive relationship[27].

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[25] http://www.europedirect-zielonagora.lubuskie.uw.gov.pl/instytucje_ue/instytucje_ue_spis.html

[26] http://publications.europa.eu/webpub/eca/annual-activity-report-2017/pl/

[27] https://www.eca.europa.eu/pl/Pages/InternationalOverview.aspx

The ECA is responsible for auditing Community funds managed by member states' authorities. The national audit authorities of the Community member states provide practical support to the ECA during on-the-spot audits.

The Court applies public sector audit standards and international cooperation enables it to exchange valuable views and experience on audit activities.

The most important platforms for cooperation between the Court and other SAIs are:

– SAI Contact Committee of EU member states and the Court;
– SAI network of EU candidate and potential candidate countries;
– international organisations representing public audit authorities, in particular the International Organisation of Supreme Audit Institutions (INTOSAI) and its European regional group EUROSAI.

Since its creation, the Court has cooperated with the Supreme Audit Institutions (SAIs) of EU member states in auditing aid funds through the participation in the Contact Committee of EU SAIs' Presidents.

Supreme Audit Institutions of EU member states.

The ECA's strategy covers the period from 2018 to 2020 inclusive and its main, priority objective is to promote confidence in the European Community of its citizens. It must be achieved by independent audits and by demonstrating which arrangements for EU spending and activities financed by the EU work and which are ineffective and unnecessary in principle.

The main strategic objectives of the Court for the above mentioned years are the following:

– provide greater added value to the Statement of Assurance in the area of ongoing and systematic financial management of EU funds;
– the importance of placing greater emphasis on aspects directly and indirectly related to the performance of tasks within the context of EU action;
– to provide clear information on the results of the Court's (ECA's) work to different audiences;
– strict orientation of the labor organization towards the final product.

Contact Committee

The Committee is a platform for cooperation and exchange of information and knowledge as well as professional experience in the field of control of Community assistance funds and other EU-related questions. Current contacts shall be maintained through liaison staff members designated by each institution or authority.

The ECA is working with the SAIs of EU candidate countries and potential candidates to improve the exchange of information and develop audit methodology, promote vocational training.

An important cooperation position is the network of Supreme Audit Institutions of the new candidate countries of the EU and of the future candidate countries, which operates on a similar basis as the Contact Committee. It shall include six-monthly or periodic meetings of the Heads of State, as well as working groups, seminars and workshops. The main objective is to promote the use of control techniques in line with international standards and EU best practices.

European Anti-Fraud Office

OLAF was created to protect the financial and economic interests of the European Union and to fight fraud, corruption and other illegal activities which have a negative impact on EU finances28. OLAF also protects the image of the European Union by detecting misconduct by its members and staff that could lead to criminal proceedings.

OLAF conducts independent internal investigations, which are performed through administrative procedures in authorities financed from the EU general budget, as well as external investigations in all EU member states. OLAF may also open an investigation on the basis of information received from member states' representatives or private individuals (via a notification form on OLAF's website) having access to information on fraud, after a preliminary verification of these allegations[29]. It should be recalled that the general budget of the Community finances both programmes and projects whose primary objective is to improve the standard of living of EU voters.

OLAF's tasks are the following:

– the protection of the EU's financial interests through the investigation of fraud and corruption or other illegal activities,

[28] https://ec.europa.eu/anti-fraud/about-us_en

[29] http://uniaeuropejska.org/olaf/

- detecting and investigating serious misconduct on the part of staff of the EU institutions and authorities in the performance of their duties, which usually leads to disciplinary or even criminal proceedings,
- supporting the European Commission in formulating and implementing anti-fraud legislation and policies.

OLAF performs the tasks assigned to it in the most efficient way and supports the efforts of Community authorities and institutions to ensure the best possible use of taxpayers' money.

Accordingly, OLAF is entitled to conduct its investigations in complete independence:

- internal investigations in all European institutions or authorities financed by the general budget of the EU,
- external investigations occurring at national level when resources from the general budget of the EU are involved. In carrying out these activities, OLAF may conduct on-the-spot checks or in close co-operation with the authorities of EU member states and (other) third countries.

OLAF often receives information from a variety of sources about suspected fraud and irregularities. In many cases, this information is the result of a number of audits carried out by the authorities responsible for managing EU funds either within the Union institutions or in the member states of the European Union. All suspected offences or infringements of EU or national legislation are brought to OLAF's attention and are the subject to a preliminary assessment to determine whether the prosecution qualifies for

OLAF's examination and whether it meets the criteria for opening an investigation.

However, once the prosecution has been initiated it is classified into categories:

– official investigations are carried out by the Presidents of the European Union authorities in order to detect corruption and fraud affecting the financial interests of the European Union,
– administrative investigations are conducted outside the member states' and the European Union's authorities and are aimed at detecting fraud committed by individuals and legal persons.

In order to monitor the performance of its tasks, a Supervisory Committee has been set up within OLAF and is composed of independent experts. The European Anti-Fraud Office communicates to the Supervisory Committee information on its investigative function and the results of its investigations.

The European Anti-Fraud Office conducts its investigations after receiving alarming data from EU countries or citizens about an alleged threat to the EU budget. Investigations by the European Anti-Fraud Office are normally conducted in several successive phases. The first phase includes an overall assessment of the case, consisting of a description of the situation that has arisen, a verification of the allegations and a review that decides to initiate a further phase in the event of sufficiently serious suspicions. The next step (phase) is the investigation, which lasts 12 months. OLAF collects the necessary evidence for the case in order to forward it to the DGO in the form of a detailed report. On the basis of this report, the Director General of the Office decides whether to refer the case to the Court, as it should be noted that the Office does not have the competence to conduct its own disciplinary proceedings in EU authorities. The final (last) step in the procedure is OLAF's monitoring of the ongoing investigations after they have been opened.

OLAF cooperates with the European Police Office, the European Judicial Network and the European Judicial Cooperation Group in order to increase its effectiveness and efficiency.

CHAPTER 3
EUROPEAN SEMESTER OF THE EUROPEAN UNION

3.1. EU strategic objectives

In line with the EU strategy, the overarching objective is to create much more workplaces and social inclusion. These are the most important objectives of the „Europe 2020" strategy. The main task of aid programmes is to support the implementation of the Europe 2020 strategy.

Over the next few years or decades, the Union is going to create an undivided political authority whose task it is to implement a common foreign policy in the member states. The aim of this action is to increase the security of the member states and to prevent many war conflicts and controversies between them.

Europe 2020 is to promote progress in both the social and economic spheres. The Union as a whole will then work more closely with the member states to remove current barriers.

The aim is also to unify the structure of the EU member states and to balance the level of development of the member states. It is also linked to the objective of developing a sense of justice and equality for all the countries of the Community by introducing a unified system of legal norms.

The objectives of the Europe 2020 strategy include:

1) Approximately 75 % of people between 25 and 64 years of age should be employed;
2) Research and development investment should account for around 4% of the Union's GDP.
3) Climate change and energy:
   – reduce greenhouse gas emissions by around 21% compared to 1990,
   – 22% of renewable sources of energy,
   – energy efficiency should increase by 21%.
4) Education should be aimed at:
   – reduction of early school leavers to less than 9 %,
   – around 40 % of people between 30 and 34 years old should have a university degree,
5) Poverty and social exclusion should not be higher than 19 million people living in or exposed to such conditions.

It is clear what the state of the European Union in 2020 will be like in terms of the most important of these parameters compared to previous years, where these objectives do not mean financial burden-sharing, which will be achieved through a series of actions in the EU.

They are closely interlinked and complementary:

– improving the situation in the field of education will help to reduce unemployment and poverty,
– a stronger focus on research and development as well as innovation, combined with a more efficient use of energy, will increase the competitiveness of the EU and consequently increase employment,

– investing in cleaner green technologies that will facilitate the fight against climate change and, at the same time, create new development opportunities for businesses and workers.

The European Commission has established the „European Semester", also known as the annual cycle of economic policy coordination. Each year, the European Commission makes a thorough analysis of each member state's budgetary reform programmes and gives them country-specific recommendations for the next 18 months.

The European Semester of the EU is the procedure that coordinates economic and budgetary policies in the EU. The most important part of the procedure falls within the first six months, hence the name "semester".

During the European Semester, the countries of the Community adapt their budgets to the rules agreed at EU level. The activities of the semester are coordinated by the economic policy departments:

– structural reforms that promote growth and employment,
– fiscal policy, which consists in ensuring the sustainability of the public finances of EU countries,
– prevention of so-called excessive macroeconomic and microeconomic imbalances.

The Stability Pact is a set of legal provisions consisting of the policies of the EU member states. The plan shall ensure stable public finances as well as sustainable economic growth.

The Stability Pact also has functions such as:

– preventive measures, the aim of which is to ensure a sustainable budgetary policy,
– correction, which means that if the national budget deficit exceeds 3% of GDP, the member states will take appropriate corrective action.

The medium-term budgetary objective refers to a structural budget balance aimed at ensuring the long-term sustainability of member states' public finances and protecting against breaching the 3% of GDP threshold.

An analysis is being made of the increase in expenditures that are fully covered by the revenues of the EU budget. It should be noted that the way is reflected in its permanent convergence programme under the Semester in which a country follows its adjustment path under the European Semester.

The European Semester integrated the coordination of member states' budgetary policies into a single procedure, which assesses the comprehensive annual budgetary position of the member states in terms of expenditures, as well as allowing for the opening of an excessive deficit procedure when the budget deficit exceeds 60% of GDP.

In the European Semester, the European Commission sets out the parliamentary priorities that the member states of the Community must take into account when planning their economic policies for the coming budget year.

The annual growth survey is based on:

– improve the implementation of the employment, education and social inclusion strategies,

– a macroeconomic report giving an overview of the economic situation in the Community,
– the annual report on the state of integration of the single market.

The risk assessment of imbalances combines indicator readings with additional information on the individual situation of EU countries.

The main signal of possible macroeconomic imbalances is that they are beyond the agreed scope of work. On the basis of these signals, the EC specifies whether a detailed assessment is needed.

The in-depth review shall identify the potential nature and scale of potential macroeconomic imbalances in member states where the risk of imbalances is high.

When the European Commission actually identifies distortions, it asks the Council to implement recommendations to deal with them. The Council of the EU adopts recommendations requiring the member state to correct the identified imbalances.

3.2. Stages in the analysis of the EU economic situation.

EU Commission publishes next year's growth survey and expert review of the mutual warning mechanism[30].

The annual growth survey also sets out the policy priorities that the EU should determine for the certain year. EU member states should take them into

[30] https://www.consilium.europa.eu/pl/policies/european-semester/how-european-semester-works/

account when formulating their economic policies for a certain year.

The evaluation carried out by the European Commission allows to determine their nature and scope. The EC makes appropriate policy recommendations to the member state concerned.

The resulting project of recommendations for the economic policies in the Eurozone of EU member states encourages the implementation of policies for the members of the Eurozone and aims to better integrate national aspects of EU economic management.

The EU Council is also discussing the need for changes and endorses the proposed recommendation on economic policy in the Eurozone.

The European Parliament also discusses the annual growth survey and issues initiatives or may publish the resulting report. At the same time, the authority issues a conclusion on the employment guidelines for EU citizens.

The European Parliament must ask the European Commission and, if necessary, the President of the European Council or the Euro Group to discuss the questions raised during the European Semester.

During the national semester, EU countries prepare their budget for the next financial year, taking into account the recommendations received.

The cycle starts again at the end of each year if the Commission in its analysis of economic growth for the following year undertakes a detailed review of the economic situation. The EC is starting to check how individual countries are implementing the recommendations.

The European Semester 2019 is illustrated below.

At the end of November, the European Commission issues the „autumn package" - in other words, the document called the European Semester 2019. It refers to its autumn economic forecasts for 2018 as well as to the priorities identified by the President of the Commission in the plan of status of the Union[31].

The analysis presented above concludes that many countries in the current EU are not benefiting equally from this growth. The analysis also shows that, at the same time, threats are growing, as well as new external challenges, which require a stronger Community response and a more determined response.

In its draft report, the European Commission used a set of several social and economic indicators to assess the performance of EU member states as a consequence.

The EC underlines that in the context of improving labour markets and decreasing poverty, 12 out of 13 indicators on average turned out to be improved compared to the previous year. However, not all countries benefit equally from the significant economic recovery.

According to the EC analysis, unemployment has returned to the pre-crisis level, while in several EU member states it remains high. In the second quarter of 2018, the unemployment rate was equal to 7.5% and it is the lowest level in almost 10 years. However, the unemployment rate in the second quarter of 2018

[31] https://www.consilium.europa.eu/pl/policies/european-semester/2019/

was around 9% in countries with their own currency as the euro, which is higher than the lowest level registered in 2008.

The alert mechanism report shall always start the annual identification procedure for macro- and micro-economic imbalances. The purpose of this procedure is also to identify and correct distortions that may hinder the normal functioning of the EU economy and its member states.

The European Commission intends to carry out a detailed assessment of the situation of Bulgaria, Croatia, Cyprus, France, Greece, Italy, the Netherlands, Ireland, Portugal, Romania, Spain and Sweden.

The draft recommendation of the EC in 2019 consists of the following sections:

– improve the business environment and implement reforms to make service markets more steady,
– restoring the fiscal buffer in the Eurozone with very high public debt - the structure of public finances,
– strengthening the education (teaching) system and the social protection systems of the countries,
– making rapid progress towards further progress in the construction of full economic and monetary union.

On 22 January, the Council issues conclusions on macroeconomic guidelines and on the warning mechanism report.

At its meeting on 12 March, the European Commission presented a review of the national reports as well as detailed assessments of the situation under the macroeconomic imbalances procedure.

CHAPTER 4
CRISIS - THE RESULT OF MISMANAGEMENT OF EU FINANCES

4.1. Causes of the financial crisis in the European Union.

The global economic crisis began with the bursting of the "speculative bubble[32]" in the real estate market in 2007 in the United States, which is estimated to be the greatest economic downturn of the late 1920s and early 1930s.

The causes of disturbances in global financial markets include macro- and microeconomic phenomena. The most important events include problems related to the long-term persistence of real interest rates at very low levels of economic imbalances.

The phenomenon of global economic, market and social imbalances has been observed for at least several decades. Looking for these reasons, it is pointed out that underdeveloped financial intermediation systems hinder their effective investment, while, on the other hand, it means low saving rates in developed countries.

Successes in good inflation control have led to a prolonged period in which real interest rates have

[32] https://www.nbp.pl/publikacje/polska_wobec_swiatowego_kryzysu_gospodarczego_2009/polska_wobec_swiatowego_kryzysu_gospodarczego_2009.pdf

remained very low in many developed countries around the world. This contributed to a rapid credit growth in these countries with a similarly strong increase in capital assets.

The changes in the housing market and the active search for high rates of return have led to serious imbalances and macroeconomic and even structural imbalances in many countries.

The problem at the outset related to American investment banks. The breakthrough moment of the crisis was the entry of Goldman Sachs bank into the New York Stock Exchange. Goldman Sachs strived to increase profits quickly and effectively. Individual banks started to carry out different operations with an exorbitant degree of capital risk.

After the price bubble collapsed in 2001, the stock of these banks started to fall dramatically, which led to economic growth. The Fed decided to significantly reduce interest rates, which reached the level of about 2%. As a result, the money was invested in a real estate property and its prices started to rise. This led to low interest rates positively motivating people to take out mortgages.

The new US President in 1998 expanded the capabilities of mortgage borrowers who did not have adequate monetary collateral. In order to stimulate the economy and the financial market, by introducing new loans, the law introduced the so-called protection against immoderate risk of banks and insurance companies. As a result of the introduction of the new law, banks started to grant loans to people with very low incomes.

In fact, this has led to a rise in household debt from 35% of GDP to more than 99% of GDP in just a few years, due to the purchase of real estate for use as a kind of security for their future.

After less than two years of such a monetary policy, the Federal Reserve System started to raise interest rates from June 2004, which it systematically raised until 2006.

The Federal Reserve System has been regularly raising interest rates from 1% to more than 5% since 2004 in order to „sober up” the market. The economic crisis began to appear in 2006 in the form of a decline in real estate prices, and in the middle of 2007 subprime bonds were on the verge of bankruptcy of two hedge funds of Bear Stearns Bank. The capital reserves of foreign currency savings in many countries have been activated. In exchange for receiving additional capital from the above-mentioned reserves, each of the banks received many billions of dollars of collateral.

Lehman Brothers Bank announces bankruptcy without assistance from the Fed. Previously, the Federal Reserve took control of Fanny May and Freddie Mac. The collapse of these two companies would result in a huge financial crisis worldwide.

In the face of the growing financial crisis a rescue programme was introduced, through the transfer of billions of state subsidies to pull the remaining banks out of financial difficulties. The cost of purchasing this debt is estimated at nearly 1 billion dollars*. The Federal Reserve expected the gloomiest result to be achieved by preventing the country's economic* *collapse and a significant increase in inflation, including the depreciation of the dollar against the euro.*

There has been a crisis of confidence in the interbank market in the following weeks after the bankruptcy of Lehman Brothers and the threat of bankruptcy of more US and European banks. Banks stopped lending money to each other because of fears of insolvency.

The US mortgage crisis has spread rapidly to Europe as a result of the involvement of European banks in the securitization process. The market for structured credit instruments has collapsed. Financial institutions were unable to sell their assets due to a decline in demand for securitized stocks. As a result, investors started to withdraw funds from hedge funds, which resulted in a sharp increase in the availability of CDS, CDOs and other complex financial instruments. Investment funds lost their solvency due to their involvement in securities secured by cheap real estate.

Stopped lending activity by banks also led to a collapse in car sales, which were mainly financed by loans. This has led to large layoffs of employees in major automotive companies. The banks also announced a reduction in employment. On the other hand, the colossal debt of Americans and rising unemployment led to a significant drop in consumption. As a result of such a crisis process, banks in Poland have reduced their lending activities. However, this has led to a rapid decline in shares on all stock exchanges.

This also resulted in investments in raw materials, which resulted in a large increase in their prices.

Forecasts of a decline in GDP growth on the international scene have led to a reduction in the demand for raw materials, which has led to significant decreases in the prices of raw materials. The biggest drop in oil prices since 2003 occurred in 2008, when a barrel of oil cost just under USD 42 per barrel. Copper prices dropped from over 8.9 thousand to around 3 thousand.

4.2. The impact of the crisis on the European Union economy

Europe is less unstable than it has been since the fall of communism. It seems that the entire political order of the continent is shaken by different economic and social turmoil. Obviously, this is happening not only in the East, but also in Western Europe.

The Western and Eastern crises are threatening the cohesion of the EU and the rule of law on our continent. What's more, these two crises are getting worse. However, political differences and the weakness of the Community were caused by the Western crisis.

Every EU citizen should be particularly concerned about the development of the Western crisis, as it will inevitably hit us with a ricochet in the East.

The Western European political crisis is a consequence of the political and economic crisis of the Eurozone. When not only the USA and Poland definitely left the economic crisis behind - which in 2007-14 achieved the best economic results of all the Western countries - but also the United Kingdom left it behind too, the Eurozone is still plunged into stagnation and deflation. Until now, it has not reached its 2007 GDP level, when in Poland it is already 28% higher. There is no reason to assume that Europe will overcome this stagnation in the next five or even ten years.

The crisis in the Eurozone has not only an economic but also a political context. Economic policy in the Eurozone in recent years is seen as being imposed on other countries by Germany. The countries of southern Europe, haunted by crises, have not only become much poorer, but also feel politically humiliated by Germany. Therefore, it is not surprising that some countries see in such a situation the problems associated with the lack of European solidarity on the part of their rich partners, whose invaluable support is linked to stabilization.

The last important link in the western crisis is the United Kingdom and the ever closer threat of it withdrawing from the membership of the European Union and the associated consequences. In this context, the impact of the Eurozone crisis is rather indirect, but it certainly does exist. The increase in popularity of the anti-European party UKIP is a result of the influx of immigrants from Eastern Europe, as well as from Spain, Portugal, Italy and Greece, not only unrelated to the euro crisis. Moreover, the UK's economic recovery would have been much earlier if it had not been for the Eurozone crisis. However, the UK's exit from the EU will pose a major threat to Poland, both to Western cohesion in the face of Russian aggression and to the balance of power between the main EU member states.

In this context, the flame of hope is the European Central Bank's programme to combat deflation through the massive purchase of sovereign bonds, amounting to around one trillion euros. Poland has been calling for a long time for greater activity of the ECB in rescuing the Eurozone, especially during our presidency of the EU. The new policy of the ECB is finally giving Europe the chance to emerge from stagnation, that was so violently attacked in the German media.

Even more important than the economic impact is its potential political impact. The fact that the President of the ECB, Mario Draghi, has dared to stand up to German pressure means that over the next few months we can witness a particular kind of nervousness in Berlin, which may even become a new link in instability in Europe. However, if Germany understands its own national interests and accepts the ECB's policy, Europe will have the chance to regain its political cohesion.

European solidarity must work both ways: the countries of the north-east of our continent, including Germany and Poland, can only expect support from the South against Russian aggression if the North also shows solidarity in a matter which is the most important for the South, namely getting out of the economic crisis. The fact that this would benefit the economy of the whole of Europe, including the North, is obviously an additional bonus.

In addition to a large number of complex fiscal policy mistakes in the Eurozone and the persistence of a significant budget deficit, which was caused by the most serious financial crisis of 2008.

Of course, the most important element of the global capital crisis was the malfunctioning of many banks in the US, which have made huge profits. However, the continued indebtedness of the United States has increased competition in the stock market between American bonds and Eurozone members, significantly increasing the interest rates on European bonds.

Another cause of the European crisis was the structural imbalances in the international economy, where countries had a positive balance of payments and other EU countries had a significantly negative balance of payments account, as a result of which they were indebted. The rapid export growth of Chinese technology has led to the accumulation of huge reserves in the EU countries of more than 700 billion dollars, including bonds estimated at around 300 billion dollars. Imbalances also occurred in EU countries, where each country recorded significant losses in current account.

The main drivers of the financial crisis in the Community were the large structural imbalances in the EU member states, which made it difficult for the European Central Bank to pursue uniform macroeconomic policies.

The resulting economic differences between the individual economies of the EU members resulted in multiple effects of the state's financial policy, which caused considerable economic difficulties known as asymmetric shocks.

One more type of asymmetric shock was the impact of the anti-inflationary policy pursued in the Eurozone in the Community member states. The EU countries at that time were facing serious economic problems. Countries with a lower level of economic development initially benefited from the policy pursued by the European Central Bank, as interest rates were relatively lower than macroeconomic parameters. On the other hand, the weak synchronisation of economic cycles in the Community monetary union led to a reduction in inflation expectations in EU countries.

Lower interest rates in the Community have led to economic growth. This resulted in an increase in labour costs and inflation in relation to other Eurozone countries, which was associated with an improvement in the real effective exchange rate. Excessive euro quotations have hit exports of many members of the Currency Union in non-EU markets. It is very difficult to achieve balance of payments in the least competitive countries, without reducing the value of the euro to a much lower level. On the other hand, the sustained increase in expenditures in relation to budget revenues has translated into the economic crisis of the Eurozone in the Treaty on European Union and consequently brings closer the vision of the bankruptcy of the state.

4.3. Anti-crisis measures

The G8 countries included the so-called 3 trillion dollar rescue package in 2009. The G20 also agreed in 2009 that capital markets cannot exist without proper supervision and regulation.

Meanwhile, states were called upon to regulate hedge funds rigorously.

The consequence of pumping money out of the raw materials market was a significant increase in the cost of feedstock. The increased amount of dollars introduced by the *Federal* Reserve System caused over-liquidity on the international capital markets, and new financial capital was used to implement large-scale speculation, which led to a significant increase in the price of raw materials.

In Poland, public debt and a very high share of imports into production from third countries were seen as a threat to the Polish crisis. The factors that caused the international crisis spread to Poland in the form of bank lending restrictions, speculative attacks on the Polish currency and significant depreciation of the Polish zloty, as well as financial problems of some companies with currency options.

At that time, the Monetary Policy Council lowered the deposit interest rate from about 5% to 1.5%. However, the effects of the economic crisis have been felt to a much lesser extent in Poland than in other countries of the region. The GDP of the country was 0.5% in 2009, which is 1.5% higher than in the first quarter of 2009. GDP growth was associated with increased net exports, while a large drop in accumulation had a negative impact.

Faced with difficulties, EU authorities took policy decisions aimed at halting the crisis itself and preserving the integrity of the monetary union and avoiding even worse consequences. The Community has focused on:

– the regulation of the financial sector of states,
– the improvement of economic management,

– the reinforcement of the new institutional and legal framework,
– the establishment of a financial backstop for the Eurozone in the coming years,
– support to countries experiencing economic difficulties;
– combating youth unemployment;
– the improvement of ways of dealing with possible future crises and preventing them.

The EU faced difficult negotiations with the UK on brexite in 2018, a trade dispute with the US and tensions in relations with Poland, Hungary and Romania against the backdrop of the shortcomings of the rule of law in these countries.

CHAPTER 5
ANALYSIS OF THE AGENDA FOR 2007-2013 AND 2014-2020

5.1. Joint responsibility of the European Union for implementation of the perspectives for 2007-2013 and 2014-2020.

Council Regulation (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund was the legal basis for the Financial Perspectives 2007-2013[33]. On the other hand, the legal regulations concerning the next perspective are: Council Regulation No. 1311/2013 of 2 December 2013 specifying the multiannual financial framework for 2014-2020 and the Interinstitutional Agreement between the European Parliament, the Council of the EU and the European Commission on budgetary discipline, cooperation in budgetary issues and rational financial management.

The costs planned for the next year's budgets must be covered by EU own resources. This means that EU contributions are adjusted to the specific budgetary requirements detailed in the report. However, it is not uncommon for this set of elements to fail, and there are many strained budgetary relations between the EU's priority authorities and

[33] http://www.uwm.edu.pl/wne/katedry/kmakro/files/e7_p19.pdf

European institutions. The individual distribution of expenditures in the financial perspective is grouped according to the political priorities which were taken into account in the process of preparing each financial perspective.

It should be remembered that budget expenditures must be equal to revenues. I have mentioned the distribution of revenues and expenditures of the general budget of the EU in previous chapters.

The main objective of EU programmes is the strong economic growth of EU member states, which has a huge impact on improving the quality of life of its citizens. The largest share of the resources coming from the general budget of the EU is allocated mainly to reducing economic disparities between the various regions of the Community. In the financial perspectives for 2007-2013 and 2014-2020, a huge amount of funds are allocated to agriculture, rural development, the environment and fisheries. The rest of the appropriations are devoted to the fight against organised crime and illegal migration.

In the period 2007-2013 and 2014-2020, the structure of expenditures was divided into sections concerning different areas of the European Community's activities.

This means that the budget lines are financed under the relevant sections. The following table 4 shows the breakdown of expenditures, which is closely linked to the political preferences of the Community. The financial structure of these perspectives is very similar. Each successive area of EU action in the current perspective is relevant to the previous one.

Table 4. Categories of expenditures 2007-2013 and 2014-2020

Financial perspective 2007-2013	Financial perspective 2014-2020
1. Sustainable development Ia. Competitiveness for growth and employment Ib. Cohesion for growth and employment	1. The intelligent and Inclusive Growth Ia. Competitiveness for growth and employment Ib. Economic, social and territorial cohesion
2. The protection and management of natural resources	2. Sustainable growth: Natural resources
3. Citizenship, freedom, security and justice 3a. Freedom, security and justice 3b. Citizenship	3. Security and citizenship
4. The EU as a global partner	4. Global Europe's dimension
5. Administration	5. Administration
6. Compensation	6. Compensation

Source: Own elaboration based on http://www.europarl.europa.eu

Administrative expenditures are constantly being paid from the EU budget. These are normally costs linked to the implementation of the Treaty on European Union by the institutions concerned:
– cooperation on EU home affairs,
– EU justice system,
– the Community's foreign and security policy,
– operational expenditures.

The administrative expenditures threshold is set at around 62 billion euro for the perspective 2014-2020. This is 3 billion euros less than in 2007-2013. This means that the EU is striving for a significant consolidation of public finances. Financial resources for foreign policy are an important constant direction of spending.

5.2. Differences in the financial perspectives for 2007-2013 and 2014-2020.

Like in the years 2007-2013, the amount of financial resources allocated to the 2014-2020 perspective is based on 16 Regional Operational Programmes (ROPs). The National Operational Programmes in the years 2014-2020 are a continuation of the previous directions of support. It may be noted that the Innovative Economy Operational Programme (2007-2013 perspective) is continued by the Intelligent Development Operational Programme (2014-2020). As well as IE-OP, the new programme is also targeted at entrepreneurs. The situation in the Infrastructure and Environment Operational Programme is similar. Financial resources from this area continue to support waste management and the construction of water, sewage and transport infrastructure. However, the detailed allocation of resources has changed significantly.

Table 5 shows the differences between the financial perspectives 2007-2013 and 2014-2020.

Table 5. THE CARDINAL DIFFERENCES BETWEEN THE PERIODS 2007-2013 AND 2014-2020

2007-2013	2014-2020
The Lisbon Strategy In determining the share of cohesion policy funds earmarked for Lisbon-related investments, cohesion policy has been linked to the Lisbon Strategy.	**„The Europe 2020" strategy** All interventions by the European Structural and Investment Fund must contribute to the implementation of the „Europe 2020" strategy.
The indirect link between cohesion policy and the Lisbon Strategy through the national reform programmes concerns only the programming phase.	Direct and clear links between country-specific recommendations and partnership agreements and programmes during programming and implementation.
Separate strategic reports on cohesion policy, EAFRD and the European Fisheries Fund (EFF) loosely linked to the Lisbon reporting.	The 2017 and 2019 progress reports will cover all funds and will be integrated into the European Semester.
Each fund has its own thematic scope defined by in a set of priorities.	A common set of thematic objectives has been introduced for the five European Structural and Investment Funds.

Source: Own elaboration based on http://www.europarl.europa.eu

It should also be mentioned that the national strategic plan for the EAFRD and the EFF was also replaced by a partnership agreement in the National Strategic Reference Framework (NSRF) for 2007-2013 for the Cohesion Policy Funds. Partnership agreements act as general strategic documents describing the ways of using the European structural and investment funds in individual member states in the perspective of 2014-2020 - Table 6.

Table 6. Different NSRF between 2007-2013 and 2014-2020

2007-2013	2014-2020
Community strategic guidelines for cohesion policy. Community strategic guidelines for rural development	Common strategic framework covering five European structural and investment funds.
The National Strategic Reference Framework covers mainly three cohesion policy funds and only some parts of it have been formally approved by the Commission.	The partnership agreement, covering all five European structural and investment funds and most of its elements, requires the formal approval of the Commission also in the event of modifications.
Different content of cohesion policy programmes, EAFRD and EFF.	A common basic set of elements for all European structural and investment funds programmes.
Separate programmes for ERDF and ESF.	Authorised ESF-ERDF multi-fund programmes.

Source: own calculations based on NSRF

It should be noted that the current Agenda is aimed at creating sustainable growth and employment in the Community. This applies to the challenges of public finance and competitiveness in EU member states and long-term macroeconomic imbalances that are directly linked to the current globalization processes. It means that the increase in the number of member states of the Community as well as the increasing scope of EU action have a negative impact on disputes about the future direction of EU policies.

The budget of the European Community for the period 2014-2020 is based on several main objectives[34]:

[34] http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_pl.htm. 29.04.2016.

- 75% of people aged 20-64 should have a stable job;
- research and development should receive 3% of the Community's GDP;
- an increase in the share of energy from RES, sustainable use of energy and reduction of greenhouse gas emissions;
- an increase in the population aged 30-34 with higher education and a decrease in the share of early school leavers;
- combating poverty and social exclusion by reducing the number of people at risk of poverty by 20 million.

The EU spending limit for 2014-2020 in commitment appropriations is around 958.0 billion euro, or 1% of EU GNI. The ceiling for payment appropriations is around 908 billion euro, or around 0.97% of EU GNI. Compared to the 2007-2013 perspective, in which spending amounted to around 994 billion euros, the budget for this perspective has been reduced by almost 34 billion euros. The amount of funds for the Common Agricultural Policy has been reduced to around 373 billion euros and for the Cohesion Policy to around 325 billion euros. Expenditures were targeted at stimulating growth and employment. Funding for research and innovation has been increased to almost 127 billion euros. A new initiative has been launched, targeting youth employment with around 3 billion euros. Expenditures on EU external action have also increased to 59 billion euro and administrative expenditures to 62 billion euro.

The Polish budget in the years 2014-2020 amounted to about 106 billion euro, compared to the previous year by about 4 billion euro more. These funds were invested in improving the competitiveness of the Polish economy, increasing the territorial and social cohesion of the country and improving the efficiency and effectiveness of the administration.

Significant reduction of financial resources for rural development and cohesion policy did not affect the value of funds preallocated for Poland. The Community allocated 102 billion euros for the period 2007-2013, and for the years 2014-2020 - these funds were increased by as much as 4 billion euros - 106 billion euros.

However, the resources allocated to the CAP did not represent the greatest value in the 2007-2013 period, as a much larger sum was allocated to support competitiveness and economic cohesion. Poland has received about 2 billion euro more for the CAP than in the previous period, and Poland is the fifth beneficiary of funds mainly for agricultural programmes.

Despite the fact that the Community budget has been reduced to a large extent, our country has received significantly more funds under the cohesion policy for 2014-2020. The sum of these funds amounted to almost 70 billion euros in 2007-2013. In the current period 2014-2020, the financial resources from this section currently amount to approximately 74 billion euros.

Another important recipient of funds from farmers is companies. The resources for supporting cohesion and competitiveness have increased significantly in the financial perspective 2007-2013.

It should be stressed that the most important objective of cohesion policy is to reduce economic disparities between the regions and citizens of the European Union. Appropriate allocation of Community funds should help regions which are in a very difficult economic situation. Such division of funds is made with the use of the Gross Domestic Product measure. However, the level of welfare of the population is one of the criteria determining the financing of a particular region[11].

The current Community budget prioritises significant economic growth, competitiveness and employment. Compared to the previous financial perspective 2007-2013, more resources have been allocated to this objective as shown in Table 7 below.

Table 7. Comparison of programmes and budgets in the financial perspectives of the European Union for 2007-2013 and 2014-2020

Perspective 2007-2013		**Perspective 2014-2020**	
Programme	**Allocation of EU funds (billion euro)**	**Programme**	**Allocation of EU funds (billion euro)**
OP Innovative Economy	8,7	OP Intelligent Development	8,6
		OP Digital Poland	2,2
OP Infrastructure and Environment	28,3	OP Infrastructure and Environment	27,4
OP Development of Eastern Poland	2,4	OP Eastern Poland	2,0
OP Human Capital	10	OP Knowledge Education Development	4,7
OP Technical Assistance	0,5	OP Technical Assistance	0,7
16 Regional Programmes Operacyjnych	17,3	16 Regional Programmes Operacyjnych	31,3

Source: Own elaboration based on http://www.europarl.europa.eu

There were changes in the scope of public assistance in the years 2014-2020. Changes have been made to the rules governing the possibility of receiving support from entrepreneurship. Co-financing for new investments of enterprises was characterized by worse conditions for obtaining funds in comparison to the years 2007-2013.

Different rules for the use of simplified cost options have been applied from both financial perspectives. For example, it can be noted that for ESF, EFF and EAFRD funds in 2007-2013 a simplified version of the cost is used for grants, while for the programme development period 2014-2020 financial assistance from public funds cannot exceed 50,000 euros, if it is mandatory or impossible. In particular, the remaining differences are shown in Table 8.

Table 8. ***Comparison Of The Rules For The Use Of Simplified Cost Options For 2007-2013 And 2014-2020***

	2007-2013	2014-2020
Funds benefiting from simplified cost options	ESF, ERDF and EAFRD	5 European Structural and Investment Funds
Form of the grant	none	grants
Option	Uses the simplified cost option for grants	Optional, except for small ESF operations where public assistance does not exceed 50 000 euro, where this is mandatory or impossible.

Calculation methods	The ex-ante calculation shall be based on a fair, equitable and verifiable method.	The ex-ante calculations on the basis of a fair, equitable and verifiable method. Additional calculation methods have been introduced: applying existing EU schemes to similar types of operations and beneficiaries, applying existing own national schemes to similar types of operations and beneficiaries, the application of rates and specific methods laid down in a regulation or delegated act. for the ESF: application of the working budget.
Flat rate of financing	The flat financing rate is used to calculate only indirect costs.	A flat financing rate can be used to calculate costs of any category. For the ESF: a flat rate of up to 40 % of eligible direct personnel costs for the calculation of all other project costs. For ETC: a flat rate of up to 20 % of direct costs other than employees for the calculation of direct costs of employees.
Flat rate financing of indirect costs	Maximum flat rate for the financing of indirect costs = 20% of direct costs.	Maximum flat rate to be financed with calculation requirements = 25 % of direct costs or 15 % of direct costs for employees.
Threshold for flat rate amounts	Maximum 50 000 euro	A maximum of EUR 100 000 of public contribution.
Unit costs	-	For employee costs, a specific standard scale of unit cost calculation method is defined: hourly employee costs = last documented gross employment costs/1 720 hours.

Standard scales of unit costs	-	The additional option set out in Article 14(1) of the ESF regulation allows the Commission to reimburse expenditures incurred by member states on the basis of a standard scale of unit costs or flat rates defined by the Commission in a delegated act.

Source: http://ec.europa.eu/esf/BlobServlet?docId=458&langId=pl

Local self-government units are more responsible for the distribution of EU resources due to the increase of the fund by approximately 14.5% of the total pool size. As a consequence, the self-government units are more independent in achieving their own development objectives.

The innovation in the current financial perspective is the „dual-fund” nature of regional programmes. This means that they will be financed from the European Regional Development Fund and the European Social Fund - Table 9.

Table 9. Comparison of shares of thematic objectives in the allocation for Poland in the context of Objective 1 Cohesion policies: „Investments for economic growth and employment" in general for 2007-2013 and 2014-2020

Financial priority	Thematic objectives identified in the EU legislative package	2007 2013 (%)	2014 2020 (%)
Business-friendly environment and innovation	Support for research, technological development and innovation	21,8	25,0
	Increase in the use of information and communication technologies		
	Improvement the competitiveness of SMEs, the agricultural sector and the fisheries and aquaculture sector		
	Improvement of institutional abilities of public authorities and efficiency of public administration		
professional activity	Promotion of sustainable and quality employment and support for labour mobility	21,2	20,0
	Promotion of social inclusion and combating poverty and all forms of discrimination		
	Investment in education		
Network infrastructure for growth and employment	Increase the use and quality of information and communication technologies	42,2	35,0
	Support the transition to a low-carbon economy in all sectors		
	Promotion of environmentally friendly transport		

Environment and resource management	Support the transition to a low-carbon economy in all sectors	14,8	20
	Promote adaptation to climate changes and risk management		
	Preserve and protect the environment and promote resource efficiency		

Source: Own elaboration based on data from the Ministry of Economy. Ministry of Economy, Department of Strategy and Analysis. Warsaw 2014

The current perspective of 2014-2020 is adapted to the present challenges of the Community. This is particularly evident in the many actions relating to the three fundamental priorities of the „Europe 2020" strategy, which include:
– intelligent development,
– sustainable development,
– in favor of social inclusion.

The new financial perspective is also focused on support, smart specialisation concepts and Integrated Territorial Investments. Smart specialisation mainly relates to thematic areas that should be supported. Investments related to smart specialisation shall be determined at regional and national level in the EU member states so that they are matched to the development capacity of the region concerned. This means that in order to maximise the chance of receiving support for a specific project, it should fit into the area of smart specialisation.

Four regions of eastern Poland were granted the highest assistance limit in the new period. However in other voivodships the co-financing decreased from 50% to 25%. In the previous programming period 2007-2013 the perspective was 30% of the limit, while in the current period the limit was increased to 35%.

Between 2014 and 2020, the significance of horizontal assistance for environmental protection and energy has increased. This is due to the fact that the energy sector has been excluded from the regional assistance rules. The consequence of this situation is the reduction of effective support for this region, because the rules for calculating co-financing in the scope of horizontal assistance are not so advantageous. In such a case, the entire investment is not subsidized, but only „additional" costs that are necessary to achieve the environmental effect.

5.3. New financial perspectives for the period 2021-2027

In the new programme period 2021-2027, a significant increase in funding is proposed in areas where the Community can contribute to the posed priority tasks. This objective can be achieved by modernising the existing programmes with documented results and creating new programmes adjusted to the needs in the areas of[35]:

– investment in new technology and the digital economy,

[35] https://ec.europa.eu/commission/sites/beta-political/files/euco-budget-booklet-june2018_pl.pdf

– the creation of new educational and employment opportunities for young people is intended to strengthen the Erasmus+ programme,
– further work on the related comprehensive approach to migration and border management to ensure a safer area related to the free movement of persons and goods within the Union,
– EU security and defence capacity building serves to protect EU citizens against security threats such as terrorist attacks, new types of organised crime and cybercrime. The significantly strengthened European Defence Fund aims to promote the competitiveness and innovation of the EU defence industry.
– the reinforcement of the Community's external action through the comprehensive Neighbourhood, International Cooperation and Development Instrument,
– In the context of climate action, it was decided to devote as much as 25% of EU spending to climate priorities.

The European Commission has proposed new instruments to strengthen economic union within the Community, supporting the so-called reform programme and the European Investment Stabilisation Instrument.

The changes introduced will result in a modern long-term budget, 1/3 of which will be allocated to new priority areas.

With regard to the CAP in the 2021-2027 perspective, the Commission proposes a new model for the implementation of EU policies that is more modern and serves in particular to ensure a secure, high-quality food supply and to support the transition to sustainable agriculture and a prosperous rural economy. EU countries will have more freedom to decide how to allocate funding to meet the needs of farmers and rural communities[36].

Cohesion policy will contribute to reducing economic, social and territorial disparities within member states and between the countries of Europe. This will be accompanied by major reforms linked to priorities within the context of the European Semester and also to new priorities. The allocations to regions and to member states with high economic performance will be gradually reduced mainly due to cohesion policy.

The European Commission has proposed a significant reduction in the number of programmes from 58 to 37. In the new period, optimized programmes will be developed in key strategic areas such as external action and the single market, making EU action more visible and better targeted.

The Commission has proposed a significant simplification of the rules for Community funding by reducing bureaucracy and simplifying the procedure for applications for EU funding. A uniform and improved set of rules is intended to reduce the administrative burden for the beneficiaries themselves (except for Poland itself) and to facilitate cooperation between different programmes.

[36] https://ec.europa.eu/commission/sites/beta-political/files/euco-budget-booklet-june2018_pl.pdf

The Commission also proposes to use existing flexibility and crisis management instruments to better respond to rapidly changing global events. The new financial perspective for 2021-2027 is currently divided into[37]:

I. THE SINGLE MARKET, INNOVATION AND THE DIGITAL ECONOMY:
   1. Research & Innovation
      – „Horizon Europe”
      – Euratom Research & Training Programme
      – International Thermonuclear Experimental Reactor (ITER)
   2. European Strategic Investments
      – InvestEU Fund
      – Connecting Europe Facility
      – Digital Europe Programme
   3. The Single Market
      – Single Market Programme (including Competitiveness and Small and Medium-Sized Enterprises - COSME, Food Safety, Statistics, Competition and Administrative Cooperation)
      – EU Anti-Fraud Programme
      – Cooperation in the Field of Taxation (FISCALIS)
      – Cooperation in the Field of Customs (CUSTOMS)
   4. Space
      – European Space Programme

[37] Nowa perspektywa finansowa na okres 2021-2027

II. COHESION & VALUES:
  5. Regional Development & Cohesion
    – European Regional Development Fund
    – Cohesion Fund
    – Support to the Turkish-Cypriot Community
  6. Economic & Monetary Union
    – Reform Support Programme including the Reform Delivery Tool and the Convergence Facility
    – Protection of the Euro Against Counterfeiting
  7. Investing in People, Social Cohesion & Values
    – European Social Fund + (including Integration of Migrants and Health)
    – Erasmus +
    – European Solidarity Corps
    – „Justice, Rights & Values”
    – „Creative Europe” (including MEDIA)

III. NATURAL RESOURCES & ENVIRONMENT:
  8. Agriculture & Maritime Policy
    – European Agricultural Guarantee Fund
    – European Agricultural Fund for Rural Development
    – European Maritime & Fisheries Fund
  9. Environment & Climate Action
    – Programme for Environment & Climate Action (LIFE)

IV. MIGRATION & BORDER MANAGEMENT:
  10 Migration
    – Asylum & Migration Fund
  11. Border Management
    – Integrated Border Management Fund

V. SECURITY & DEFENCE
   12. Security
      – Internal Security Fund
      – Nuclear Decommissioning (Lithuania)
      – Nuclear Safety and Decommissioning (including for Bulgaria and Slovakia)
   13. Defense
      – European Defence Fund
      – Connecting Europe Facility – Military Mobility
   14. Crisis Response
      – Union Civil Protection Mechanism (rescEU)
VI. NEIGHBOURHOOD &THE WORLD
   15. External Actions
      – Neighbourhood, Development and International Cooperation Instrument (including external aspects of migration)
      – Humanitarian Aid
      – Common Foreign & Security Policy
      – Overseas Countries & Territories (including Greenland)
   16. Pre-Accession Assistance
      – Pre-Accession Assistance
VII. EUROPEAN PUBLIC ADMINISTRATION
   17. European Public Administration
      – Administrative Expenditure, Pensions and European Schools
VII. INSTRUMENTS OUTSIDE THE MFF CEILINGS
   – Emergency Aid Reserve
   – EU Solidarity Fund
   – European Globalisation Adjustment Fund
   – Flexibility Instrument

– European Investment Stabilisation Function
– The European Peace Facility is an off-budget fund outside the Financial Framework.

The Union's budget will make a relatively small contribution to the European economy and to total public expenditures. National contributions must be increased in order for the Union budget to deliver the expected results in the priority areas and to address the financial implications of the withdrawal of the United Kingdom from the Union. This increase will result mainly (about 3/4) from the economic growth and inflation in this period. Like national budgets, the Union budget will have to grow over time to enable action in areas where resources are combined at European level.

CHAPTER 6
THE CONCEPT OF SMALL AND MEDIUM-SIZED ENTERPRISES in the European Union and Poland

6.1. The concept of small and medium-sized enterprises in the European Union and Poland

An enterprise within the meaning of the Act shall be understood as a natural person, a legal person, as well as a commercial company without the status of a legal entity, which undertakes and performs economic activity on a professional basis in its own name and at its own risk. The status of an entrepreneur may also be held by partners in a civil partnership within the scope of their business activity[38]. An enterprise is an organisation created on the basis of a personal or financial factor, or both of them. In the strict formal and legal sense a company is an organised group of tangible and intangible components intended for conducting business activity[39]. A company is an economic entity, i.e. an entity permitted by law to conduct business activity, it may have different character: construction, manufacturing, service,

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[38] Ustawa z 19 listopada 1999 r. Prawo działalności gospodarczej (zastąpiła ustawę z 23 grudnia 1988 o działalności gospodarczej)

[39] Stabryła A., *Doskonalenie struktur organizacyjnych przedsiębiorstw w gospodarce opartej na wiedzy*, Wydawnictwo CH Beck, Warszawa 2009, s. 133

trade. The enterprise is conducted for the purpose of earning a profit on its own account. As an economic entity, an enterprise has an economic separation, which means that it is financially independent. It also has legal personality, i.e. the right to act as a legal entity, which occurs at the moment of entry into the register[40].

An enterprise can be characterised from the economic point of view as a basic organisational unit of the national economy, that serves to satisfy social needs and created in order to achieve economic effects through the production of goods, services or other activities. A company is primarily an independent and self-financing economic unit with a legal personality[41]. In this case, the economic separation is understood to be the definition of assets that cover expenses from their own revenues and the maintenance of a separate settlement account in the bank. The expression of economic separateness is also given by the legal personality of the enterprise, i.e. the possibility of concluding contracts, entering into civil-law relations with other entities.

The definition of small and medium-sized enterprises was introduced on 1 January 2005 by European Commission Regulation No. 70/2001 as amended by Regulation No. 364/2004 (OJ EU L 63 from 28.02.2004). The Commission Regulation No. 800/2008 was issued on 6 August 2008, which

[40] Samuelson P., William D., Nordhaus E., *Ekonomia*, Wydawnictwo PWN, Warszawa 1995, s. 187

[41] Panasiuk A., *Ekonomika Turystyki*, Wydawnictwo PWN, Warszawa 2006, s. 200

declared certain types of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (OJ EU L 214 from 9.08.2008, p. 3), which applies to the granting of public aid to SMEs. The definition of SMEs covers all activities carried out by the European Commission in relation to small and medium-sized enterprises.

On the basis of Article 1 of Annex I to Commission Regulation No 800/2008 of 6 August 2008 declaring certain categories of aid compatible with the common market in application of Articles 87 and 88 of the Treaty (General Block Exemption Regulation) (OJ EU L 214 from 9.08.2008, p. 3), the following categories of enterprises are distinguished:

Medium-sized enterprise:

- less than 250 employees;
- the annual turnover of the enterprise does not exceed EUR 50 million or the annual balance sheet total does not exceed EUR 43 million.

Small enterprise:

- less than 50 employees;
- the annual turnover of the enterprise does not exceed EUR 10 million or the annual balance sheet amount does not exceed EUR 10 million[42].

The definition of SME was also specified in the Act on Freedom of Economic Activity of 2 July 2004, which was introduced for the purpose of applying the provisions of Chapter 5 of the Act on Control of Business Activity of an Entrepreneur. The provisions of the Act defining the classification of SMEs

[42] www.mg.gov.pl/Wspieranie+przedsiebiorczosci/Polityki+przedsiebiorczosci+i+innowacyjnosci

are quantitative criteria, and on the basis of its provisions, an entrepreneur is considered a small enterprise if in at least one of the last two financial years he has employed on average less than 50 workers annually and achieved an annual sales turnover not exceeding EUR 10 million or the total assets of his balance sheet at the end of one of these years did not exceed EUR 10 million.

A medium-sized enterprise is an entrepreneur who at least in one of the last two financial years has employed on average less than 250 workers annually and has achieved an annual net turnover from the sale of goods, products, services and financial operations which has not exceeded the PLN equivalent of EUR 50 million or the total assets of its balance sheet made at the end of one of these years have not exceeded the PLN equivalent of EUR 43 million[43].

The definition of the SME segment within the meaning of the Act is based on the employment thresholds described above, as well as on the volume of turnover or total assets of the balance sheet prepared at the end of the year. In 2004, when drafting the Act on Freedom of Economic Activity, the above criteria were defined in accordance with the definitions of SMEs that had been previously established for the purpose of granting public aid in Annex I to Regulation No 70/2001/EC of 12 January 2001 on the implementation of Articles 87 and 88 of the European Community Treaty in the field of State aid

[43] Dz.U. 2004 Nr 173 poz. 1807, Ustawa z dn. 2 lipca 2004 o swobodzie działalności gospodarczej, art. 104-110

to small and medium-sized enterprises (OJ EU L 10 from 13.01.2001, with later amendments).

The definitions used in the Freedom of Economic Activity Act are narrow in relation to those set out in the Regulations, but at the same time they are adapted to the need for the verifying authority to simply determine which category the enterprise should be classified, which leads to an appropriate and legitimate determination of the duration of the inspection. The definitions of SMEs contained in the Act on Freedom of Economic Activity are not applicable for the purpose of granting state aid, as a regulation of the European Community is obligatory in this respect. The ways of qualifying an entrepreneur in the appropriate category are covered by logical operations. The basic precondition for defining the category of enterprise is the average annual employment, and in the case of the threshold for the annual turnover and/or total annual balance sheet of an SME, one of these may be chosen.

It seems that cooperation is a familiar concept to all people, which is directly associated with making joint decisions in order to achieve mutual success. Cooperation is very important but its success depends on the ability of the company's managers and their involvement[44].

The term „cooperation" is often associated with the term „collaboration". Cooperation can be understood in two meanings. The first one is the general

[44] A. Wasiluk, *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 87.

aspect, which shows cooperation as working together with someone, contributing to the achievement of a specific goal, helping to achieve something. The second approach is the understanding of cooperation from the economic and organisational point of view. This refers to any relationship between two or more economic entities that jointly pursue a business objective or avoid undesirable situations that adversely affect the development of the enterprise[45].

The cooperation of enterprises is more and more often discussed among specialists in management and economic sciences. Apparently, cooperation is a commonly understood term, but it should be looked at more closely to learn about inter-organisational relations[46].

In the works devoted to the subject of inter-organisational relations one can find many definitions of this phenomenon, among others: „organisational network", „network organisation", „network structure" or simply „network". The most popular name used in literature is „inter-organisational network", which best reflects the phenomenon of such a relationship. It can be seen as a specific form of cooperation between public and private companies aimed at achieving a common goal in their activities[47].

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[45] A. Wasiluk, *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 87, s. 89.

[46] A. Wasiluk, *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 87, s. 90.

[47] A. Wasiluk, *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 87, s. 91.

In order to maximise profits and maintain its competitive position, a market entity must determine the form and manner of action that best and most quickly brings it closer to success. It is possible to act independently or to look for suitable forms of inter-organisational cooperation. Forms that avoid cooperation with others may be devoid of many of the benefits of such partnerships. Entities deciding to enter into cooperation directly refer to the search for development opportunities[48].

Network relations are relationships that connect business entities with other enterprises, i.e. so-called business networks. Such an approach is a concept of cooperation which dates back to the 1970s and was forced by increased competitiveness and changes in technologies. The business network develops relations and emphasises the importance of contacts between companies and the environment[49].

The fact that a given relationship can be called a business relation or an inter-organisational relation is evidenced by 3 basic features suggested by the researchers of the subject of cooperation between economic entities[50].

The increase in sales of services after the Second World War (known as The Service Revolution) surprised all marketing theorists. There was no precise

[48] I A. Wasiluk, *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 92.

[49] Ciesielski M. (red.), *Sieci w gospodarce*. Wyd. PWE, Warszawa 2013, s. 114.

[50] Ciesielski M. (red.), *Sieci w gospodarce*. Wyd. PWE, Warszawa 2013, s. 120.

definition of services at the time. Then there were postulates aimed at departing from the less scrupulous definition of services, which said that a service is everything that is not in a liquid or solid state.[51]

The needs of society are constantly growing, according to the rule that existing needs give rise to numerous new needs, the satisfaction of which requires an increasing amount of goods and services. Their original forms resulted primarily from the biological needs of human beings. First of all, it was a desire to quench thirst and the need for warmth. The change in the scope of human needs has changed since entering the so-called higher social structures. Over time, this kind of need has been talked about as something that belongs to the so-called higher-order culture.

Nowadays, i.e. in our times people's needs are becoming increasingly high. This is due to many factors, such as the production capacity of many companies or the history of human potential development itself. It is also worth mentioning that human needs can be divided into two groups. The first consists of disposable needs, the second group is made up of reusable needs. The first of them relates to disposable activities, such as experience acquisition, professional development, housing construction, etc. On the other hand, reusable needs are referred to as repeatable[52]. The service sector is playing an in-

[51] Judd R.C., *The case for redefining services*, Journal. of Marketing. Janvary 2010, s. 58-59

[52] Judd R.C., *The case for redefining services*, Journal. of Marketing. Janvary 2010, s. 27.

creasingly important role in the current economy. The demand for services is growing year by year both for companies and for customers. In particular, the role of services is to contribute to dynamic economic growth, resulting in an impact on the level of gross domestic product. In addition, services support the development of production, meet consumer needs and make life easier. Services improve the standard of living, influencing the scientific and technical progress, which is realised primarily through the services of managers, creators, innovators. Services also contribute to the development of a market economy, in particular because part of them are traded on the services market and each market operates only through the provision of certain services. It is worth mentioning that the development of various types of services is connected in particular with the economic development and also with the increase in the welfare of the country's population[53].

The choice of investment location is also influenced by the infrastructure. As a result, many investors had concerns about investing their capital in Eastern Poland (weaker road network, connections and railway). For investment projects that do not exceed EUR 50 million, the aid threshold may be increased by 20 % for small enterprises and by 10 % for medium-sized ones. On the other hand, the company's activities in the transport sector and as a small or medium-sized business provides an

[53] Godziszewski B., Haffer M., Stankiewicz M.J. (red.), *Przedsiębiorstwo na przełomie wieków*, Uniwersytetu Mikołaja Kopernika, Toruń 2011, s. 239.

opportunity to increase aid by 15%. Expenses constituting costs related to investments, less input VAT and excise duty incurred within the territory of the SE zone. More new companies have high-tech lots and their employees must necessarily represent a high level of technical expertise and education. Newer and newer technologies are being developed there, and people working there have the opportunity to gain unique experience in the country and in the world[54]. A very important benefit for the country in terms of decreasing unemployment is the increase in income taxes paid. Taking all things together, new jobs reduce unemployment in a specific region, affecting its economic growth and having a fairly high social impact.

Analysing the factors of regional development, it can be said that the satisfaction of costs connected with the construction and operation of a new industrial facility stimulates the development of all areas of economic life in this area. Employment in construction companies is increasing, as well as the provision of living, transport, educational, financial and cultural services and more and more new jobs are being created. Enterprises operating in a particular zone have a positive influence on the economy of the region, stimulating the development of particular sectors of the economy. SEZ increases the competitiveness of regions located in the close proximity of the zone itself or its enterprises. On the other hand,

[54] Matusiak K.B., *Zasoby i kierunki rozwoju infrastruktury przedsiębiorczości i transferu technologii*, Wyd. PWE, Rzeszów 2012, s. 252-254.

the economic advantage of the regions results rather from the historical background of the economic and traditional industrial districts of the country in which the individual zones are located[55].

The economy consists of many entities, which generate a significant part of the national income. The prosperity of the entire society depends on their functioning. These entities can be single or multiple. Some of them have local coverage, while others may cover many countries.

In order to effectively explain what economic activity is, it is necessary to go back to the times before the industrial revolution. Creation of enterprises is connected with development of commodity-money relations. In the past, the economy was based on a feudal system, but with the development of trade, industry and banking there was a development of industrial enterprises, which together with the technical revolution gave rise to the development of the capitalist economy, mass production and increased productivity.

According to J. Lisak, the beginnings of the establishment of enterprises should be sought much earlier. „Economic activity was created from a medieval, barely tolerated stall, warehouse or shop"[56]. At the turn of the 15th and 16th centuries, the first trade enterprises were established, some of which were later transformed into large trade companies. Therefore,

[55] Matusiak K.B., *Zasoby i kierunki rozwoju infrastruktury przedsiębiorczości i transferu technologii*, Wyd. PWE, Rzeszów 2012, s. 256-259.

[56] Lisak J., *Ekonomia jednostkowa. Nauka o przedsiębiorstwie*, WSNSG, Katowice 1946, s. 31.

we can also talk about the merchant origins of many enterprises[57].

Economic activity is a profitable production, construction, trade, services, exploration, search and extraction of minerals in the fields, as well as professional activities carried out in an organised and continuous manner[58].

There were many different types of enterprises created during the further development of the capitalist economy. Precise definition of the concept of enterprise is not easy due to the existence of many externalities influencing it. They include:

– social and economic relations;
– legal conditions;
– level of technical development;
– social expectations;
– environmental impact.

Because of these factors, there are many theoretical concepts trying to describe what economic activity is[59].

The above models do not represent the essence of the enterprise in a way that corresponds to the needs of business science. The priority objective of the enterprise is to conduct business activity, i.e. to provide

[57] Sudoł S., *Geneza przedsiębiorstwa*, [w:] *Działalność gospodarcza. Teoria i praktyka zarządzania*, B. Godziszewski, M. Haffer, M.J. Stankiewicz, S. Sudoł. Polskie Wydawnictwo Ekonomiczne S.A., Warszawa 2011, s. 16

[58] Ustawa z dnia 2 lipca 2004 r. o swobodzie działalności gospodarczej Dz.U. 2004 Nr 173 poz. 1807.

[59] *Podstawy nauki o przedsiębiorstwie*, red. J. Lichtarski, Wydawnictwo Akademii Ekonomicznej im. Oskara Langego we Wrocławiu, Wrocław 1995, s. 57.

services or to produce tangible and intangible benefits in an organised way. These measures are intended to bring certain economic advantages[60]. Business requires capital which may be owned by the company or other entity (rent, leasing, credit, etc.).

In order to be effective, the policy of supporting the SME sector must be preceded by a detailed analysis of the strengths and weaknesses of SMEs, as this is the only way in which it can respond to its needs.

Weaknesses

Identification of SME sector weaknesses is crucial for SME policy development.

Low level of investment expenditures of enterprises is one of the main weaknesses of Polish SME. Enterprises do not invest sufficiently in new technologies and do not increase the innovativeness of their products or services, which worsens their competitiveness in relation to enterprises from other EU countries. Also the PARP report indicates this weakness: 70% of the surveyed entities did not make any investments in new technologies in 2003, only 15% of the surveyed entities in this sector declared to have their own patents, while 6% declared to have purchased foreign patents[61].

Another significant weakness of Polish SME is the high degree of dependence of these entities on

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[60] *Podstawy nauki o przedsiębiorstwie*, red. J. Lichtarski, Wydawnictwo Akademii Ekonomicznej im. Oskara Langego we Wrocławiu, Wrocław 1995, s. 58.

[61] W. Aftyka, A. Chmielewski, Małe i średnie przedsiębiorstwa w Unii Europejskiej, M.M., Warszawa 2005, s. 52

local markets and customers and their lack of interest in expanding sales markets. This leads to the fact that fluctuations in market demand or loss of counterparties-recipients may lead to the loss of liquidity of enterprises in the sector or even to their bankruptcy.

Low level of cooperative relations is another weakness of the SME sector. The effects of the aforementioned market fluctuations could have been avoided if it had not been for the low level of cooperation between these companies, as agreements with other organisations ensure continuity of sales and steady revenue while reducing operating costs, such as company advertising costs.

The use of outdated manufacturing technologies, i.e. the lack of modern technological lines and insufficient investment, leads to a deterioration in the competitiveness of these enterprises in relation to companies from other EU countries.

The competition is gaining better market positions, taking advantage of lower production costs while increasing production volumes and improving the quality of products and services[62].

Low export activity of Polish small and medium enterprises is another weakness of Polish SME, which proves the underdevelopment of economic contacts, which are of key importance for export activity. The exchange is sporadic but not regular in nature[63].

There is excessive attachment to price competition. The competitiveness of Polish SME is based

[62] W. Aftyka, A. Chmielewski..., op. cit., s. 255-256.

[63] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 66.

mainly on lower-level advantages, which are traditional and easily imitated, such as low labour costs or low prices of products or services. This indicates financial barriers to development and another weakness of SME, i.e. weakness of management, especially in areas such as sales and marketing, which are perceived as unnecessary costs rather than important functions in the enterprise[64].

The impermanence of lower-order advantages causes that Polish SME have limited adaptability and they are very sensitive to various fluctuations in the economy, e.g. changes in exchange rates, customs duty or VAT, which may lead to the loss of the market. SME advantages resulting from flexibility of operations, e.g. uniqueness of the product, special type of relations with customers, are used to an insufficient degree[65].

Another factor is the small size of the company, which has a negative impact on export activities. The research conducted in Poland shows that there is a positive correlation between export activity and the size of the company.

Strengths

Flexibility of action, which means the ability to quickly „switch", to change the direction of action, so that the company immediately adapts to changes occurring in the market. This is often the result of the involvement of employees in the core business of the company, who observe and find new solutions, such

[64] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 118-121

[65] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 123-124.

as different types of problems and implement these solutions.

Innovation and creativity, which refers to the ability to quickly and effectively create and implement new ideas and plans, which is possible thanks to the dynamism of individuals or groups.

Fast decision making process and information flow in the company. Simplified management methods, due to the underdeveloped organisational structure of the company, lead to the fact that the path of information from the lowest to the highest level of organisational hierarchy is very short, which also reduces the time of decision-making[66].

Small and medium-sized enterprises are able to establish direct contact with the customer, so they can create a unique product or service in a very short time, unlike large companies. In this way, small and medium-sized enterprises gain very satisfied and loyal customers.

The strength of SMEs is also their location, which makes it easier for them to identify their customers' needs accurately and quickly, and satisfy them fully than for large companies[67].

An important strength is also the fact that small and medium-sized enterprises have the possibility to satisfy specific needs, a relatively small group of recipients, e.g. market niches, which large

[66] S. Skowroński, Mały biznes, czyli przedsiębiorczość na własną rękę, INFOR, Warszawa 1998, s. 19-

[67] Zarządzanie małym i średnim przedsiębiorstwem. Uwarunkowania europejskie, pr. zbior. pod red. M. Strużyckiego, Centrum Doradztwa i Informacji DIFIN, Warszawa 2002, str. 21-22.

companies that use economies of scale are not interested in[68].

The process of transformation of Poland's political system caused huge changes in various areas of social and economic reality. Changes in the law, improvement of the economic situation and developing markets opened the possibility of free running one's own business. The changes in the Polish economy, which began in the early 1980s, caused a rapid growth of private initiative, which led to a very dynamic development of the private sector, especially small and medium-sized enterprises. This sector plays a very important role in influencing both the economic and social spheres. Taking into account the projects implemented so far by small and medium-sized enterprises, as well as the prospects for further development, this is the only chance to increase the employment, export and competitiveness of the Polish economy in the European and world markets. However, small and medium-sized enterprises face serious problems which constitute significant barriers to the development of their business. According to Eurostat, the share of the business sector in Poland's GDP (48.5% in 2017) is slightly lower than the European Union average (50.9%), which is an unsatisfactory result in terms of the level of development of the Polish economy, its needs and development opportunities. The enterprise sector is the main factor in the development of the economy. Meanwhile, the level of added value created by the

[68] Strużyckiego, Centrum Doradztwa i Informacji DIFIN, Warszawa 2002, str. 21-22.

average company remains one of the lowest in the EU. However, the share of gross surplus income in the added value of enterprises in Poland is the highest among the 27 European countries analysed.[69]

There are significant differences between voivodships in the number of registered entities per 1000 inhabitants - most of them are located in the West Pomeranian (122) and Maso-vian (Mazowieckie) (116) Voivodships, while the least in the Subcarpathian (Podkarpackie) (66) and Lublin (Lubelskie) (68) Voivodships. A positive development in 2017 was the disruption of the downward trend in the number of newly registered legal entities[70]. There has been an increase (by 12%) for the first time since 1997. In 2017 these companies constituted about 7% of all registered enterprises. At the same time, the number of companies excluded from the REGON16 register has been growing steadily since 2008. The largest increase in the number of newly registered enterprises was recorded in the following sections: mining (increase by 42%) and construction (increase by 40%). The decrease in the number of newly registered companies occurred in the field of financial intermediation[71].

The highest dynamics of newly registered entities in territorial terms took place in Pomeranian (Pomorskie)

[69] *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2016-2017,* Polska Agencja Rozwoju Przedsiębiorczości, Warszawa 2018, s. 15

[70] *Zarządzanie małym i średnim przedsiębiorstwem*. Uwarunkowania europejskie, pr. zbior. pod red. M. Strużyckiego, Centrum Doradztwa i Informacji DIFIN, Warszawa 2002, s. 29.

[71] Janiuk I., *Strategiczne dostosowanie polskich małych i średnich… op. cit.*, s. 17-18.

and Podlaskie Voivodships (increase by 24.8% and 24.5% respectively), while the lowest dynamics was observed in Lubusz (Lubuskie) (4.7% increase), Silesian (Śląskie) (5.1%) and Opole (Opolskie) Voivodships (7.8%). In 2018, per thousand inhabitants the newest economic entities were registered in the following voivodships of Western Poland: West Pomeranian (Zachodniopomorskie), Pomeranian (pomorskie) and Lower Silesian (Dolnośląskie), and the smallest in South-Eastern Poland: Subcarpathian (Podkarpackie), Lublin (Lubelskie) and Holy Cross Province (Świętokrzyskie)[72].

Small and medium-sized enterprises located in the voivodships of Western Poland have a much higher share of export sales in total sales - the highest one is in Lubusz (Lubuskie) and Lower Silesian (Dolnośląskie) (30% and 27% respectively), and the lowest one in Mazovian (Mazowieckie) (10%), Podlasie (Podlaskie) and Holy Cross Province (Świętokrzyskie) (11% of each). As in previous years, in 2018 the vast majority of exports (90% of sales value) were carried out by industrial enterprises[73].

The economy consists of many entities that generate a significant portion of national income. The prosperity of the entire society depends on their functioning. These entities can be single or multi-person. Some of them have local coverage, while others may cover many countries.

[72] *Przedsiębiorczość w Polsce*, Ministerstwo Gospodarki i Pracy, Warszawa 218, s. 29.

[73] *Raport "Przedsiębiorczość w Polsce 2018*", Ministerstwo Gospodarki i Pracy, Warszawa 2019, s. 42.

In order to effectively explain what economic activity is, it is necessary to go back to the times before the industrial revolution. Creation of enterprises is connected with development of commodity-money relations.

In the past, the economy was based on a feudal system, but with the development of trade, industry and banking there was a development of industrial enterprises, which together with the technical revolution gave rise to the development of the capitalist economy, mass production and increased productivity.

The dynamic development of small and medium-sized enterprises observed in the 20th century - especially in the last two decades - is a phenomenon of world economy development that attracts the attention of many researchers and scientific centres. According to the prophecies of 19th century theoreticians, small-scale production should have gradually disappeared. Ludwik Krzywicki wrote in the 1880s that „a small industry must perish because it will not survive the competition from the large industry, and small industrialists must downgrade themselves to the rank of hired workers in this dispute".

He expressed a similar opinion about the craftsmanship of artisans - he said that „masters must fail in the competition against factory owners. Craftsmen are afraid and working to maintain their independence, but they cannot defend themselves. They will go bankrupt over time and become ordinary workers"[74].

[74] Krzywicki L., *Artykuły i rozprawy*. Warszawa 1958, s. 137

Until the end of the 1960s, the economic development of most highly developed countries was based on the activities of major and large companies. Production in these organisations was considered a synonym for modernity, while market structures dominated by large and medium-sized enterprises were associated with underdevelopment. They seemed to be a relic marginalised by economic institutions, which meant that they received less and less attention[75].

The failure of the economic policy of stimulating demand and consumer demand for non-standard goods and services and rebelling against the uniformity of life contributed to the revival of the small and medium-sized enterprise sector.

Large companies made people redundant and were increasingly blamed for rising unemployment. Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States supported a liberal approach to the economy and its deregulation on the political market, while in economic theory Keynesianism eroded and the interest in monetarism and supply economics grew.

From a passive recipient of technical innovations, they became their creators in the most modern fields - in computer science (software and hardware development), biotechnology and telecommunications,

[75] Poznańska K., *Uwarunkowania wzrostu innowacyjności małychi średnich przedsiębiorstw*, [w:] Źródla sukcesów i porażek przedsiębiorstw. *Aspekt strategiczny*. Prace Naukowe nr 870, red. B. Olszewska. Akademia Ekonomiczna im. Oskara Langego we Wrocławiu, Wrocław 2000, s. 459-467

being a driving force for the development of the economy, a source of change and specialisation, and at the same time being the most flexible group of economic entities on the market. All these tendencies caused shifts in the business structure, changing the relationship between small, medium-sized and large enterprises in favour of the first ones. Nowadays, it is considered that each category of enterprises has its own specific nature and tasks. There are areas of the economy where small and medium-sized enterprises cannot be replaced by large ones, and areas that due to economies of scale should be based on large firms, although many small and medium-sized companies work with large ones as subcontractors[76].

It seems that the criticism of the discussed concept is correct in many points, but it should be noted that a certain minimum character is necessary, without which it is very difficult to acquire managerial skills to a satisfactory degree. The minimum is intelligence, mental resilience and a specific moral level, as well as a certain set of predispositions called managerial talent or organisational sense. More generally, it can be argued that effective leadership is not a gift („manager by birth") associated with innate traits, but rather a skill acquired through learning and practice. The preference for education type is similarly debatable. For example, should the hospital director be a doctor and the head of communications be a communications engineer or just a specialist

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[76] Dominiak P., *Przyszłość sektora MŚP*, [w:] *Gospodarka Polski w okresie transformacji*, red. P. Dominiak, Politechnika Gdańska, Gdańsk 2000, s. 21

in the management of organised teams of people? Shouldn't we be talking about the profession of manager or director? Management knowledge is becoming more and more extensive, covering both physical and personal aspects of management. Against the background of these phenomena, there is a clear professionalisation of the position of a manager (director), in accordance with the general correctness of the creation of professions, a set of activities based on knowledge and skills, systematically performed, with an economic basis and giving a specific social position[77].

The most important group representing as much as 99.83% of all economic entities are small and medium-sized enterprises, according to the division of companies based on their size.[78] We use various quantitative criteria to define small and medium-sized enterprises:

– the size of employment;
– the annual turnover;
– the balance sheet total;
– the value of fixed assets.

In addition to quantitative criteria, qualitative criteria should be taken into account, as there are certain characteristics that only small and medium-sized enterprises possess. Large companies are managed in a different way. They have different internal and environmental relationships. The small and medium-sized enterprise sector is one of the main factors

[77] Drucker F.E., *Praktyka… op.cit.*, s. 382-389.

[78] *Trendy i tendencje w zarządzaniu MŚP*, red. W. Potwora, Wydawnictwo Instytut Śląski, Opole 2006.

in the competitiveness of regions and their economic growth rate, as it is the most dynamically developing sector of each country's economy. It is important to include the SME sector as a development priority when planning structural policy measures. Regional development strategies are an important element of the planning procedure aimed at the formulation of objectives and tasks of regional development. They are general in nature and their preparation becomes the basis for the development of plans that detail the costs of specific tasks and expected results[79].

Interdependence: there are virtually no entities in a market economy that can be described as fully self-sufficient. This interdependence was divided into 3 groups[80]:
- resources;
- entities;
- activity.

The most important attribute of a business relationship is trust. It is a basic component of long-term relations and a necessary one for many economic activities. Unfortunately, it is very difficult to develop, despite the fact that it is the basis.

Trust, loyalty and devotion are important social factors that underlie the sustainability of all relationships and the same applies to the business world. The above mentioned features are the basis for all transactions. A subject who trusts another one must

[79] Piasecki B. (red.), *Ekonomika i zarządzanie małą firmą*, Wydawnictwo Naukowe PWN, Warszawa-Łódź 2009, s. 63-65.

[80] Piasecki B. (red.), *Ekonomika i zarządzanie małą firmą*, Wydawnictwo Naukowe PWN, Warszawa-Łódź 2009, s. 121.

be sure that this is the right choice, that it is capable of performing the tasks assigned to itself, that it has sufficient competence and resources to complete the outsourced activity. In addition, a credible entity must have a legal set of values - repeatability and stability above all[81].

The essence of business relationships is that entities undertaking cooperation must move in one direction towards each other. The risks associated with such cooperation should be related to the mutual obligations of organisations to maintain constant interaction. A lack of trust may result in additional costs to verify the reliability of information about a shareholder or a partner. The motive for the relationship should be clearly stated from the outset and should determine the mutual benefits that both sides can derive from such cooperation[82].

Taking Z. Pierścionka views, one can distinguish three appropriate attitudes that characterise inter-organisational relations, such as[83]:

– confrontation attitude;
– indifferent attitude;
– synergy attitude.

[81] Czakon W., *Sieci w zarządzaniu strategicznym*. Oficyna Wolters Kluwer, Warszawa 2012, s. 75.

[82] Czakon W., *Sieci w zarządzaniu strategicznym*. Oficyna Wolters Kluwer, Warszawa 2012, s. 76.

[83] Pierścionek Z., *Strategia konkurencji i rozwoju przedsiębiorstwa*. PWN, Warszawa 2007, s. 428.

6.2. Cooperation of small and medium-sized enterprises

The relationship between enterprises may include mutual support and, above all, the creation of obstacles to entrepreneurship. Nowadays, there are two types of connections between organisations - positive cooperation (partnership, collaboration) and negative cooperation (fight, competition)[84].

The most important feature of the previously defined relationships is primarily the partnership, which aims at taking concerted and complementary actions. It should be emphasised that in such a case the parties involved may have a sufficiently positive impact on the pre-determined goal of the company. On the other hand, the second interrelation is the aspiration to complete weakening of positions or exclusion of competitive units from the market, as well as the result of both competition and rivalry activities[85].

Companies can cooperate in specific areas, as well as in economic spheres that relate to communication with the environment, or the creation of a group of pressure on the authorities, while conducting a competitive struggle in a completely different field of market activity (pricing policy, marketing policy). These are the kinds of relationships between companies that can benefit both parties in the long

[84] Nowodziński P., Tomski P., *Więzi międzyorganizacyjne w strategii konkurencji i rozwoju przedsiębiorstw*. Wydawnictwo Wydziału Zarządzania Politechniki Częstochowskiej, Częstochowa 2010, s. 15.

[85] Kaczmarek B., *Współdziałanie przedsiębiorstw w gospodarce rynkowej*. Wyd. Uniwersytetu Łódzkiego, Łódź 2000, s. 26.

term, as described in the literature on the subject. It should be noted that the cooperation between enterprises is a very important feature of the market economy. Author W. Czakon notes that imperfections of certain activities can be overcome independently or as a result of long-term perspective through cooperation that leads to the achievement of strategic objectives together with other entities[86].

In a practical approach, cooperation is first of all identified with social relations, which consist in joint actions, as well as in assistance in achieving a specific goal. The contemporary understanding of collaborative relationships can be described as a common aspiration to achieve the previously expected result of harmonious working together in a spirit of cohesion. In an attempt to further analyse this very concept, it can be assumed that this cooperation also applies to very different patterns of behaviour, which in turn consist of the aspiration of individuals to achieve their own goals. Such conduct may take the form of competition or rivalry, and may also occur unintentionally and unconsciously. In such a case, the activity which is carried out within the framework of coexistence is simultaneously a fight for the achievement of a given goal, or it takes place in the complete sense of lack of awareness of the existence of bonds between entities[87].

The broadest definition of the term „cooperation" can refer to any relationship that occurs between

[86] Czakon W., *Sieci w zarządzaniu… op. cit.*, s. 19.

[87] Czakon W., *Sieci w zarządzaniu strategicznym*. Oficyna Wolters Kluwer, Warszawa 2012, s. 22.

the subjects in the presumed environment. In the aforementioned literature on management sciences, the notion of „cooperation" is considered in various ways, taking into account its economic and cost-efficient character. The defined scope of cooperation is primarily fixed in the very essence of the activity, which consists in continuous and permanent gainful activity, which requires monetary and commodity relations with completely different market players[88].

In general, this term can be defined as „contributing to something" as well as „working with someone". From an organisational and economic point of view, cooperation is defined as a completely different relationship that exists between certain entities, which at the same time are aimed at achieving the same goal or at preventing each other from achieving different goals. At the same time, it should be emphasised that, when cooperating, the exact presence of negative linkages can be a manifestation of competition between companies. The consideration and representation of cooperation refers to the contacts and relationships that occur as a result of the actions of a competitive enterprises[89].

First of all, the various authors of this topic interpret the cooperation of companies as all sorts of

[88] Czakon W., *Sieci w zarządzaniu strategicznym*. Oficyna Wolters Kluwer, Warszawa 2012, s. 24.

[89] Witkowski J., *Wnioskowanie dedukcyjne i empiryzm w badaniu organizacji sieciowych*, [w:] J. Lichtarski, H. Jagoda (red.): *Nowe kierunki w zarządzaniu przedsiębiorstwem. Między teorią a praktyką*. Prace Naukowe Akademii Ekonomicznej we Wrocławiu, nr 1014, Wrocław 2004, s. 163.

linkages between them, which are used to coordinate economic activities[90].

6.3. Support policy for small and medium-sized enterprises

The role and dynamics of SME development in the European Community were already noticeable in the 1970s. On the other hand, the 1980s and 1990s were a period of the establishment and intensive activity of institutions and individual Member States of the European Union in order to improve the conditions for the operation of small and medium-sized enterprises[91]. The breakthrough moment was the commencement of the creation of the Internal Market[92], outlined by the Single European Act of 1987, and when attention was drawn to the importance of SME for economic growth and reduction of unemployment[93]. This is due to the fact that SMEs constitute 99.8% of the total number of companies operating in the European Union and employ 66% of the total number of employees, which makes them an

[90] Witkowski J., *Wnioskowanie dedukcyjne i empiryzm w badaniu organizacji sieciowych*, [w:] J. Lichtarski, H. Jagoda (red.): *Nowe kierunki w zarządzaniu przedsiębiorstwem. Między teorią a praktyką*. Prace Naukowe Akademii Ekonomicznej we Wrocławiu, nr 1014, Wrocław 2004, s. 165.

[91] W. Aftyka, A. Chmielewski..., op. cit., s. 172.

[92] Terminy: Jednolity Rynek, Rynek Wewnętrzny i Wspólny Rynek są używane zamiennie. Źródło: W. Aftyka, A. Chmielewski, Małe i średnie przedsiębiorstwa w Unii Europejskiej, M.M., Warszawa 2005, s. 27.

[93] C. Leśniak, Polityka Unii Europejskiej wobec małych i średnich przedsiębiorstw, Wyższa Szkoła

important element that affects the efficient functioning of the EU market. Furthermore, SMEs are the key to responding quickly to market changes and reducing production costs, thus improving the competitiveness of EU economies. SMEs are also an important indicator of entrepreneurial activity, i.e. improving the standard of living of citizens and reducing the differences in regional and local development in the EU. The creation of the Single Market has prompted the European Union to develop a Community strategy for SMEs, which does not mean a single or common EU policy on SMEs, but it is implemented by Member States.

The Internal Market requires the removal of all barriers to the movement of goods, services, people and capital through skilful coordination of economic policies: competition, transport, industry, environment, regional and socioeconomic cohesion.

An important policy for improving the functioning of the Internal Market is also structural policy, which is part of the economic and social cohesion policy and separates regional and cohesion policy. Structural and regional policies are often used interchangeably, since it spends up to 90 per cent of structural funds on these policies[94].

The European Union, underlining the importance of SMEs for job creation and economic growth, included in the European Union Treaty of 1992 (Maastricht Treaty) a provision obliging it to ensure

94 Polityka strukturalna w Unii Europejskiej i jej główne instrumenty, http://1markoz.webpark.pl/politykastrukturalnaue05.htm (data odczytu 8.04.2008)

the necessary conditions for the competitiveness of the Community's industry and to take measures for their creation, i.e. to establish conditions conducive to the creation, development and cooperation of SMEs and the promotion of the use of their industrial potential[95]. The Treaty created the legal basis and principles for EU action on SMEs[96].

Therefore, SME support became the main priority of EU industrial policy, as evidenced by the adoption in 1994 of the Integrated Programme for SMEs and crafts, which focuses on the following areas: legal changes to simplify legislation and administration, improvement of the financial and tax environment for enterprises, facilitation of access of SMEs to research, information, training and development of culture and business relations.

The programme consists of three components[97]:

- coordinated actions for mutual consultation and exchange of experience,
- EU initiatives aimed at SMEs, e.g. the Structural Funds, the Cohesion Fund, simplification of the Internal Market, the introduction of the euro, etc.
- EU initiatives aimed at SMEs directly, through dedicated multiannual programmes.

Under the second component, the Structural Funds are an instrument of economic and social cohesion policy, and their priority is, inter alia, economic growth and bringing less developed regions closer to the

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[95] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., Warszawa 2000, s. 180.

[96] W. Aftyka, A. Chmielewski..., op. cit., s. 174.

[97] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 181-183.

developed ones of the EU Member States[98]. Another element is the Cohesion Fund - the EU financial instrument which is introduced at the level of selected countries and whose objective is to facilitate the integration of less developed countries through the construction of transport networks and environmental protection facilities of supraregional importance[99].

In addition to the usual activities of Structural Funds, support to SMEs included a number of initiatives specifically targeting companies in the sector. The European Commission has proposed the Community Initiative for SMEs aimed at enterprises in the sphere of production and services, operating in underdeveloped regions (with GDP per capita lower than 75% of the EU average), in order to improve their competitiveness[100]. In parallel to this initiative, SMEs received support and assistance from other Community Initiatives.

As part of a reinforced pre-accession strategy, candidate countries have access to the PHARE programme and to the additional Structural Funds - ISPA and SAPARD, which will be replaced by the Structural Funds and the Cohesion Fund when the country becomes a member.

The third component is the above-mentioned EU initiatives supporting SMEs directly through multi-annual and specific programmes. *The Third*

[98] A. Rogut, Małe i średnie przedsiębiorstwa w integracji ekonomicznej. Doświadczenia Unii Europejskiej. Lekcje dla Polski, Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2002, s. 189.

[99] Fundusze strukturalne - wiadomości podstawowe,

[100] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 197-199.

Multi-annual Programme for SMEs was implemented in 1997-2001 and *the Multi-annual Programme for Enterprises and Entrepreneurship* was realised in 2001-2005*.*

The so-called Lisbon Strategy was adopted in Lisbon in March 2000 and it has become the most important socio-economic programme of the EU. Its aim was to create a strong and competitive EU economy in relation to the US one, with a knowledge-based economy and high economic growth and social cohesion. The strategy is focused on four areas: innovation - the knowledge-based economy; liberalisation of energy markets, telecommunications, transport and financial services; entrepreneurship - facilitating business start-ups and enterprises; and social cohesion through the creation of an active social state. The main focus is on assisting and supporting SMEs, the main job creators in the EU[101].

The European Charter for Small Enterprises was adopted in the same year, setting out the main principles of EU policy towards the SME sector[102].

A new SME support programme „*Creating an entrepreneurial Europe*" was adopted in 2003 and its priority is to reduce the costs of registering business activity, improve the work of administration responsible for servicing companies and introduce contact between enterprises and administration via the Internet[103].

[101] W. Aftyka, A. Chmielewski..., op. cit. s. 49.

[102] W. Aftyka, A. Chmielewski..., op. cit., s. 175.

[103] Raport o stanie sektora małych i średnich przedsiębiorstw..., op. cyt., s. 93.

Taking into account the previous considerations, SME support policy can be defined as a set of actions undertaken in the European Union, primarily by the European Commission, the state administration, government institutions and local authorities (on which I will focus my attention in this work), aimed at stimulating and supporting the establishment processes of enterprises, helping them to develop and increase their competitiveness.

All measures taken with regard to SMEs constitute the essence of a sector-oriented policy and are mainly part of other public policies, and are assumed to be an element of industrial policy. If you look at the goals that the state wants to achieve, the de facto state policy can be divided into two zones:

– The first area, which undoubtedly can be called SME policy, because its objectives are to create an enabling environment for the functioning, establishment and development of SMEs and their high competitiveness in domestic and foreign markets.
– The second area, where SMEs are a tool used to implement the objectives of other national policies, e.g. combating unemployment, restructuring of agriculture and development of rural areas, where SMEs create new non-agricultural workplaces[104].

The state policy can be divided into five main policies: foreign, environmental, defence, social and economic, which are the most important in terms of assistance to SMEs. In turn, economic policy can

[104] Polityka gospodarcza, http://pl.wikipedia.org/wiki/Polityka_gospodarcza (data odczytu 28.04.2008)

be divided in different ways. An example of an important division for SMEs is the separation of economic policies into macro- and microeconomic ones. Macroeconomic policy includes monetary, fiscal and trade policies, and microeconomic policy includes industrial and agricultural ones.

SME support policy is based on the assumption that the state has the greatest influence on the SME sector through economic policies and that SME competitiveness and economic policies combine a number of different interdependencies. Macroeconomic conditions influence the development dynamics of SME to a great extent, although it is known that macroeconomic indicators have no direct impact on the development and competitiveness of SME[105]. There is also a feedback between GDP and the main determinants of economic competitiveness, such as education and development expenditures, scientific and technological resources[106] [107].

The economic policy of the state in relation to the SME sector consists in defining activities aimed at eliminating the existing barriers to its development, at the same time creating appropriate conditions for its functioning and extending organisational, training, information and technical assistance.

Stable economic policy is crucial for the development, resilience and prospects of small and medium-sized businesses, as it ensures long-term

[105] Piasecki i in., 1998, cyt. za B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 134.

[106] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 134.

[107] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 134

economic balance and, at the same time, reduces the tax burden and interest rates. Elimination of unnecessary burdens related to administrative, social and tax obligations, which generate significant costs for entrepreneurs, simplifies the functioning of SME, which is of crucial importance for the condition of this sector. All these activities support the development of enterprises - their modernisation, expansion of sales markets, production development and constitute the essence of economic policy addressed to small and medium businesses.

Poland's integration into the European Union was dependent on the fulfilment of several political and economic conditions. In addition to the stability of institutions guaranteeing democracy, legality, respect for human rights, protection of the rights of national minorities, the rule of law and the existence of a market economy, a critical condition was the existence of a strong and competitive economy, which would enable enterprises to cope with competitive conditions and market forces within the Union and enable Poland to meet the obligations of membership, including the objectives of political, economic and monetary union[108]. Strong economy is created by powerful small and medium enterprises - as it has already been mentioned, SMEs constitute 99.8% of all companies operating in the European Union and employ 66% of all employees, which makes them an important, if not the most important element influencing the efficient functioning of the EU market[109]. The share of

[108] .B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 175.

[109] C. Leśniak, Polityka Unii Europejskiej..., op. cit. s. 71-72.

the SME sector in the total number of enterprises and employees in Poland is very similar. In order for Poland to become a full member, a process of adjustment is required to meet the criteria for integration. The process of adaptation of the country's economy to the requirements of the Internal Market is associated with profound changes and transformations in the structure of the economy as a result of changes in the structure of internal demand and international currency, foreign direct investment, concentration and restructuring processes, development of relations of internal and international cooperation[110].

This process has significant consequences for Polish enterprises, creating specific opportunities and risks for them, as EU integration brings many benefits from the removal of barriers and restrictions on the flows of goods, services, labour and capital, but also requires them to be more competitive.

The specific features of SMEs, such as dependence on external conditions, higher adaptation costs for smaller companies and reduction of internal resources, make integration effects more tangible for SMEs than for large enterprises. The consequences of integration depend on the ability of SMEs to adapt to the new external environment, assessed in terms of achieving or improving competitiveness, and which is determined by the national socio-economic policy. The experience of EU Member States shows that the integration of a country with a low level of economic development has a positive impact on its development, but on condition that it also

[110] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 167.

conducts a rational economic policy when receiving aid from the Community. The high quality of this policy is particularly important for the SME sector, as it creates new market opportunities, conditions for it to take advantage of economies of scale in production, leads to increased process and product innovation and gives an opportunity to improve the efficiency of the company's operations in the face of growing competition[111].

The dependence between the economic policy and competitiveness of enterprises results from the fact that the competitiveness of SME is not only the effect of the company's behaviour, but also of the behaviour of its environment - the competition takes place between enterprises, but apart from typically microeconomic elements, macroeconomic, social and cultural factors are also of critical importance. They are the ones that make enterprises in one country relatively more successful than those in other countries. The conclusion is that determining external factors may be at the basis of the company's activities.

Many factors, both micro and macroeconomic, affect the economic condition and competitiveness of the SME sector and mainly include:

- the company's assets,
- the ability of the enterprise to introduce scientific and technical progress,
- the quality of the company's resource management,
- the qualification of the company's employees and their entrepreneurial qualities,

[111] W. Aftyka, A. Chmielewski..., op. cit., s. 55-56.

- profitability of production,
- the quality of the company's products,
- cooperative relations of the company with other entities,
- condition, trends and dynamics of the country's economic growth,
- stability of the currency,
- the condition of supply and demand on both internal and foreign markets,
- financial and tax system.

In the latter case, they have a particularly strong impact on SMEs:

- the actual rate of profit taxation, which determines how much of the income an entrepreneur contributes to the State Treasury and how much it accumulates, for example, by investing in the development of a company;
  - depreciation rates for fixed assets, on which the level of investment depends, and in turn, it depends on whether amortisation charges provide for renovation of fixed assets;
- the level of social security that affects the cost of labour;
  - the NBP interest rate, which determines the level of expenses on bank loans - a high interest rate may lead to the loss of financial liquidity by the company;
  - zloty exchange rate;
- financial and non-financial support from the state;
- availability of banking and insurance services, debt collection rules.

The current competitiveness of Polish SMEs is based on advantages that are traditional and relatively easy to understand, such as rather low costs of labour and raw materials. Small and medium-sized enterprises operating in this way are able to be competitive only in the short and medium term, and their limited adaptability makes them susceptible to changes in external conditions and loss of competitive advantage. Competitive advantages, such as product uniqueness or strong customer relationships, are quite rare and entail high replacement costs. These are examples of advantages that give SME a chance to develop and achieve long-term competitiveness and which are possible thanks to high flexibility of small scale activities[52]. Long-term competitiveness is understood primarily as the ability and possibility to build and develop competitive advantages of a higher level. It is based on the advantage of the dominant role of investment and technology, rather than on the supply of production factors, and its achievement is determined by: Factor conditions, i.e. the equipping of the country with production factors necessary for competition, e.g. labour force with appropriate qualifications or infrastructure.

Demand conditions, i.e. the nature of internal demand for products of various industries, presence of related industries enabling companies to divide activity within the value chain or transfer knowledge from one industry to another, presence of supporting industries, which constitute the supply base by the conditions of establishing companies and the nature of internal competition[53].

The high quality of economic policy will bring us closer to the advanced level of economic development of other EU countries. It is particularly important for SME, as improvement of their competitiveness will create new market opportunities and conditions for them to take advantage of economies of scale and will allow them to reduce costs[54].

As mentioned above, the SME policy does not function as an independent one, it is a part of other state policies and is implemented primarily through economic policy. Measures of the economic policy, consisting in elimination of the existing barriers to SME development and creation of appropriate conditions for its functioning, are aimed at creation of conditions for: establishment and development of SME, reduction of the risk of conducting business activity, growth of competitiveness and development of financial services for this sector[112].

Personally, I believe that the more precise formulation of economic policy objectives is the existence of an enabling environment for the creation and development of the SME sector and for increasing its competitiveness by reducing the risk of economic activity, increasing access to external financing and developing services, therefore this sector is so important.

Programme *Small and medium-sized enterprises in the national economy. The SME policy* created in 1995 was the first comprehensive concept of the Polish economic policy towards SMEs and was developed in connection with Poland's signing of the Agreement on the Association of Poland with the

[112] W. Grudziewski, I. K. Hejduk, Małe i średnie..., op. cit., s. 197.

European Union. The agreement indicates a very important role for SMEs in EU industrial policy and therefore acknowledges that SME support is an important element of the government's strategy to promote economic development and reduce unemployment. The objective of the programme was to facilitate the establishment and development of SMEs, improve their competitiveness, increase the security of business operations, and develop financial services for SMEs. Financial, organisational, informational and training instruments, as well as legal ones were envisaged[113]. Once again, it should be noted that a more correct definition of the objectives of the programme is the existence of an enabling environment for the creation and development of the SME sector and for increasing its competitiveness, achieved through improved business security and the development of financial services for SMEs.

Another government document was *the Directions of Government Activities towards Small and Medium-sized Enterprises until 2002.* It defined the government's policy towards SMEs in the pre-accession period and stressed the need to adapt the Polish SME to the conditions of competition on the Internal Market. The main objective of the programme was to create conditions for the establishment and use of the SME development potential and it was divided into three partial objectives, which were assigned to specific measures. These objectives include: increasing the competitiveness of the sector, increasing the export of the

[113] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 208-209.

SME sector, increasing investment expenditures[114]. At this moment I cannot agree with the author of the above fragment - in my opinion it is more correct to point out that the aim of the programme was to adapt Polish SMEs to the conditions prevailing on the EU market. This was to be achieved by creating an enabling environment for the establishment and development of the SME sector by stimulating the growth of investment spending, which would lead to an increase in its competitiveness and, consequently, in exports.

The role of SMEs was also highlighted in the document "*Concept of the country's medium-term economic development until 2002"*, adopted by the Council of Ministers in 1999. Special attention was given to the need to stimulate the economic activity of SMEs, increase their competitiveness and share in GDP, exports, investment costs and reduce unemployment in the weakest regions of the country, especially in villages and small towns[115].

In 2002, another *Preliminary National Development Plan for 2002-2003* was established, based on the document *„Directions of Government Activities towards Small and Medium-sized Enterprises until 2002".* It was argued that SMEs should play an important role in, inter alia, stabilising and professional diversification of local labour markets in both industrial and agricultural restructuring[116].

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[114] B. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 208-209

[115] A. Rogut, Małe i średnie..., op. cit., s. 255-256.

[116] T. Piasecki, A. Rogut, D. Smallbone..., op. cit., s. 208-209, s. 255.

In February 2002 another document was adopted, which was a continuation of the program *„Directions of Government Activities towards Small and Medium-sized Enterprises until 2002"* with a very similar name – *„Directions of Government Activities towards Small and Medium-Sized Enterprises from 2003 to 2006".* At the same time, two more programmes were created, also very important for the SME sector: *„Increasing the innovativeness of the economy in Poland until 2006"* and *„ePoland 2001-2006".* The first one promoted the development of information technologies and the second one supported the development of electronic economy.

The Government of Poland also took measures to improve the access of entrepreneurs to external sources of financing by expanding the system of guarantee and loan funds, adopting in August 2002 a governmental document called *„the Government Programme for the Development of the System of Guarantee and Loan Funds and Sureties for Small and Medium-sized Enterprises for 2002-2006 - Capital for Entrepreneurs".*[117]

Another program proposal was presented in the document *„Entrepreneurship - Development – Work"* from 2002. It presented a strategy based on three pillars: the public finance strategy, the growth strategy and the European integration strategy.

The document „Entrepreneurship - Development – Work" from 2002 assumed a strategy based on the use of legal, procedural and tax instruments aimed at improving the situation of enterprises and stimulating

[117] W. Aftyka, A. Chmielewski..., op. cit., s. 210.

their activities. Two packages of measures have been identified: The first one is, *above all, entrepreneurship.* It was addressed to enterprises, especially SMEs, and its aim was to eliminate formal barriers to starting up, running a business and creating new workplaces.

In my opinion, the objectives of this package should be formulated as „freedom of economic activity" and „business-friendly state", while the objectives mentioned in the document are the actions that lead to their achievement.

The second package – „First job" - is the next set of complexes, the purpose of which was to create conditions that would make it easier for graduates to enter the first job[118].

In 2003, a key document relating to regional assistance was adopted, „*the National Development Plan 2004-2006*", which aims to „develop a competitive knowledge-based and entrepreneurial economy capable of ensuring long-term harmonious development, employment growth and social, economic and spatial cohesion with the European Union at the regional and national levels"[119].

SMEs were also beneficiaries of other government programmes within the framework of counteracting unemployment, restructuring of rural areas and regional policy programmes.

Also the structural policy, as one of the directions of the economic policy, emphasised the importance of SME in the economic development of the country,

[118] A. Rogut, Małe i średnie..., op. cit., s. 256-257.
[119] W. Aftyka, A. Chmielewski..., op. cit., s. 217-220.

in particular in the privatisation policy, in the policy aimed at counteracting unemployment and in the agricultural policy.

The aim of privatisation policy was to reduce state interference, increase the share of the private sector in the economy and its demonopolisation, leading to the growth of competition. This meant for the SME sector that the state supported the founding processes, created appropriate conditions for ownership transformation processes, e.g. the possibility to sell enterprises in installments, simplified procedures for the sale of enterprises and introduction of institutions of State Treasury enterprises.

Unemployment policy focused on an active policy aimed not at social protection for the unemployed, but at stimulating the process of creating new workplaces. The aim of this policy was to gradually reduce the unemployment rate, with a special focus on unemployed young people.

Agricultural policy aimed at rural development by modernising and improving the structure of agriculture and creating workplaces in industry, commerce, services and the agricultural sector. For the SME sector this meant support for founding processes, preferential loans and other financial support from the state[120].

[120] Ekonomika i zarządzanie małą firmą..., op. cit., s. 85-86.

6.4. Characteristics of SME financing sources

The general definition of credit refers to credit as a monetary debt contracted with a bank for a specific purpose and time, and a specific percentage.[121] However, the concept of credit can be divided into two categories [122]:

- A credit, as an economic category, leads to the formation of financial relations between a bank and a legal entity or an individual known as a borrower. This is expressed as the transfer of a specific amount of money by the bank to the borrower's disposal. An agreement is created in which the lender, i.e. the bank, becomes a creditor and the borrower becomes a debtor;
- Credit, as a legal category, creates legal relations between the lender and the borrower. This relationship is based on a bilateral agreement.

Banks carry out various credit operations depending on the needs of their customers. The order of their granting, use and repayment depends on the type of credit. The credit agreement has several characteristics:

- is a consensus agreement - it is concluded at the time of its signature. Providing the borrower with funds is not a necessity to conclude a contract, but an element of the execution of the concluded con-

[121] Pietraszewski M., *Ekonomia przedsiębiorstw część 2*, Wyd. eMPi[2], Poznań 2006, s. 130.

[122] Jankowska K., Baliński K., *Rachunkowość bankowa*, Wyd. Difin, Warszawa 2004, s. 88.

tract. This also applies to funds made available to the borrower on the date of the contract;[123]

- is a bilaterally binding agreement because the bank undertakes to place a certain amount of money at the disposal of the borrower for a certain period of time in the agreement. The borrower undertakes to use it in accordance with the terms and conditions specified in the agreement and repay the used loan amount with interest within the specified period;[124]
- is a paid contract - it means that in exchange for the transferred money the bank can demand payment of remuneration. The most common form of remuneration is interest on the loan amount;[125]
- is a monetary obligation - as under the loan agreement the bank can only take over the provision of a certain amount of money to the borrower.[126]

Lending by banks is one of the main tasks of their activities. The amount of available funds accumulated by banks determines the amount of loans issued by them.[127] At the turn of the last few years, the role of bank lending has increased. The reason for this was the development of private enterprise. There have also been significant changes in the credit

[123] Radwański Z., Panowicz-Lipska J., *Zobowiązania, część szczegółowa*, Wyd. Difin, Warszawa 1996, s. 45

[124] http://www.biuro-nieruchomosci.eu/pdf/f6.pdf

[125] http://www.infor.pl/prawo/umowy/finanse/92487,Kredyt-i-pozyczka-to-nie-to-samo.html

[126] Heropolitanska I., *Kredytowanie działalności gospodarczej małych przedsiębiorstw z uwzględnieniem zagadnień majątkowo małżeńskich*', wyd. TWIGGER, Warszawa 2001, s 365-365

[127] Pietraszewski M., *Ekonomia przedsiębiorstw… op.cit.*, s. 130.

system. The loan has become an integral part of the country's economic life. This is especially important for doing business and developing the enterprise.[128] Credit is an instrument for the creation of money in accordance with the increase in demand for money, related to the increase in the production of goods and services, trade in goods and income for production and consumption purposes. It can be used to generate additional income in order to increase demand for products and consumption and to compensate for the decrease in demand caused by the creation of monetary reserves and savings by various entities. However, income earned through bank loans must be recoverable, which sets some natural limits for the loan.

A bank loan is primarily an economic relationship between a bank and a borrower. Therefore, we define bank credit as a transaction that consists in placing certain funds at the disposal of the borrower's client through the bank for a contractually defined period of time, obviously for a specific purpose.[129] Therefore, the borrower is obliged to use the funds in accordance with the conditions specified in the contract. First of all, he is obliged to repay the loan amount together with the interest within the agreed terms of repayment, as well as to pay the commission for the granted loan.[130]

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[128] Heropolitańska I., Borowska E., *Kredyty i gwarancje bankowe*, Wyd. Poltex, Warszawa 2000, s. 17.

[129] Wysocki M., *Polityka kredytowa banku komercyjnego,* Twigger, Warszawa 2013, s. 92

[130] Ibidem, s. 95

The purpose of a loan means, first of all, that the loan is granted for very specific purposes. If the conditions of the loan agreement are not fulfilled, the bank has the right to terminate the agreement. Timeliness is the determination of an appropriate credit repayment deadline, which is recorded in the credit agreement. Non-compliance with the loan repayment deadline results in complications in the bank's liquidity. On the other hand, the repayment of the loan in this situation will consist of unconditional repayment of the loan over a specified period of time, as well as on appropriate terms and conditions agreed upon by both parties to the loan agreement.[131] Irrelevant, even minor changes to the terms of the loan agreement require an accurate written annex. Credit payments should also be mentioned, which are the most important feature of any commercial bank. Payments are nothing more than the interest rate at which each bank earns money. In return for using bank money, we have to pay a certain amount of money, which is set by the bank. It should also be mentioned here that the payment of a loan must also include a commission on the loan granted. Ensuring of maneuverability is closely related to the risk. Banking law states that, „*in order to secure the repayment of a loan, the bank may require the borrower to provide collateral in accordance with civil law, bill of exchange law and regulations relating to pledges, sureties and security and property rights to immovable property, the so-called mortgage*".[132]

[131] Ibidem, s. 104

[132] Dz. U. Nr 72 z 2002r., poz.665

Lending to legal entities and individuals is the core business of commercial banks. A bank loan is a very important product in every bank.

Using the separation of bank loans by purpose, the following loans can be identified:[133]

- <u>*loans to enterprises*</u> - these are loans to legal entities and enterprises for financing any economic activity, for operation, as well as for investment and other purposes.
  - *granting of overdraft to enterprises*, which consists in granting each client the right to a negative balance of the current account, determined by the amount and term of debt repayment.
  - *working capital loans* - mainly intended for current working capital requirements and repayment of current liabilities related to economic activities,
  - *investment loans* are intended primarily to finance economic outlays. Of course, the goal is to acquire new fixed assets and sometimes to modernise existing ones,
  - <u>*consumer and individual loans*</u> - their purpose is to cover individual customers and finance consumption. Of course, the subject of this loan is consumer goods.
  - *overdrafts for the population* - when granting a loan, banks indicate the specific amount of overdraft and the exact term for which the overdraft was concluded,

[133] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe,* Warszawa 2012, s. 277

  - *installment loans* - i.e. loans repayable in parts. They are used to buy consumer goods such as cars and household appliances.
  - *cash loans* are a very attractive and easily accessible banking product. They concern granting cash for a definite period of time.
  - *lombard loans* - loans issued mainly as collateral for securities, various goods and valuables.
- <u>*construction and housing loans*</u> - funds intended to support the revival of the housing market in Poland.
  - *loans for construction*, cash flow covers construction costs of buildings,
  - *housing loans,* which are provided by the bank, are intended for the purchase of real estate or housing.

Mortgage loans are usually granted by banks for investment purposes, but their best known and most characteristic feature is - mortgage collateral. Polish mortgage banks, like all other commercial banks, can only operate in the form of joint stock companies and special banks. On the other hand, the scope of their activities is regulated by the relevant law.[134] A mortgage covered bond is nothing more than a registered collateral or a bearer bond issued on the basis of mortgage-backed bank loans. This mortgage bond can be issued as a document or in dematerialised form, I mean a computer record. On the basis of the norms of Polish law, mortgages are executed by making an entry in the land and mortgage register

[134] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe,* Warszawa 2012, s. 286.

of immovable property, which is kept in the district courts. Before issuing mortgage collateral, banks are required to check in the registers of land plots and mortgages that the borrower is the real owner of the property and that the mortgage does not contain any debts or records. Mortgage takes very different forms, such as:[135]

– ordinary mortgage,
– capped mortgage,
– compulsory mortgage,

We usually apply ordinary mortgages to loans already granted. The application for registration in this mortgage must contain information on the amount of the loan granted, the interest rate and the most important conditions of its repayment. On the other hand, a capped mortgage secures the repayment of various loans, but not for a fixed amount, as well as loans that a bank may grant in the future. A compulsory mortgage is requested from the borrower by banks in case the borrower has not repaid the loan on time. On the other hand, if the borrower in any way does not fulfill the conditions of the mortgage loan, the banks have the right to auction the real estate, encumbered with a pledge, in the course of enforcement proceedings in court. The real estate can also be accepted by a creditor, which is a commercial bank. There is very often a joint mortgage, which is intended to secure one receivable for several real estate objects simultaneously. Joint mortgages are created primarily on the basis of the law or

[135] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe*, Warszawa 2012, s. 295

as a result of the division of real estate encumbered with mortgages, and it is then that at least two separate legal mortgages emerge. In accordance with the law, statutory mortgages are also established to secure budget accounts receivable.[136] The statutory mortgage does not require entry in the land and mortgage register, and it has the right to enforce against other mortgage loans. Statutory mortgage privileges limit the effectiveness of mortgage collateral for commercial bank claims.

Another criterion for credit allocation is the form of payment. A distinction can be made: withdrawal of all the money from a branch of the bank, at the cash desk - it is a cash loan, and non-cash loan - it is a transfer to the account of the supplier or contractor of a particular cash service. If we take into account the method of use and repayment, we will distinguish the following types of loans:[137]

- *target loans* are intended to finance one or more clearly defined transactions,
- *loans in the form of a credit line* - these are loans that can be used to finance a large number of different and frequent transactions within a certain credit limit. The credit line can be revolving at the same time.
- *rolled-over loans* - consisting in the fact that the bank repeatedly extends the repayment date of the loan by a specified time and on specified dates,

[136] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe,* Warszawa 2012, s. 302

[137] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe*, Warszawa 2012, s, 310

- *bridging loans* - this type of loans is granted when the client needs funds quickly, before granting a basic loan. If the borrower receives the principal loan, the bridge loan is repaid.

The most important criterion for a bank, of course, is the term of the loan, as it depends on the pace at which the bank's funds will be maximised. Thus, we distinguish three types of credit periods:[138]

- *short-term loans* - granted for the period up to 1 year,
- *medium-term loans* - loans are granted for a period of 1 to 3 years,
- *long-term loans* - granted for a period longer than 3 years.

The currency breakdown of lending by currency is as follows:

- *złoty-denominated loans* - these are loans whose value of the loan granted and the process of credit debt servicing is expressed exclusively in Polish zlotys,
- *foreign currency loans* - denominated only and exclusively in foreign currencies. Foreign currency loans are also reimbursed in Polish zlotys, while payments are calculated at the exchange rate on the repayment dates.

Applying the criterion depending on the loan repayment security, we will distinguish:[139]

- *secured personal loans* - there is a surety near the debtor, i.e. a so-called „guarantor" who undertakes to repay the amount due. The guarantor is fully

[138] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe*, Warszawa 2012, s. 315

[139] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe,* Warszawa 2012, s. 302.

aware that if the debtor fails to comply with the terms of repayment or loses his solvency, the burden falls on him. Such a loan is secured by, among other things: civil sureties, blank bill of exchange, incurrence of liabilities, bank guarantees, bills of exchange guarantees.

- *a loan against property* - the borrower authorises the bank from which the loan was taken to cover the outstanding debt from the sale of a certain property.

If we accept the criterion of separation by form of lending, we will highlight, among others, the following:[140]

- *overdraft facility* - debt in the form of a debit balance, which is precisely defined in the account. Revenue then reduces the level of indebtedness. These loans are of the following nature:
  - payment *credit, otherwise monetary or temporary*, the loan is granted due to a temporary lack of funds in the borrower's account to cover current payments. Such a credit results in a temporary debit balance,
  - *open-end credit,* a loan granted on the basis of a completely separate credit agreement. An open-end credit is always a short-term revolving loan, which also creates a debit balance.
- *loan in a credit account* - a loan is issued by opening a new separate credit account specially intended for recording the use of the loan and its repayment,

[140] Heroplitańska I., Jagodzińska-Serafin E., Kruglak J., Ryżewska S., *Kredyty, pożyczki i gwarancje bankowe*, Warszawa 2012, s. 325.

- *discount loan* - a loan granted by banks within the framework of discounting operation of promissory notes. Discounting operation is the purchase of a promissory note prior to its payment date. The bank deducts interest (so-called „discount”).
- *accceptance loan* is a credit agreement under which the bank is obliged to accept promissory notes issued by an authorised person in compliance with all other terms and conditions of the agreement.

In the sphere of economic activity, a business entity may be an enterprise that will generate additional net income (i.e., after taxation) for business entities sufficient to repay the loan on a specified date, along with interest. The subject of the loan may also be temporarily accumulated reserves, which after being liquidated in the form of cash will become a source of loan repayment.[141]

Seemingly, cooperation is a familiar concept, which is directly related to making joint decisions to achieve mutual success. Cooperation is very important, but its success depends on the abilities of the company’s managers and their involvement[142].

The term „collaboration” is often associated with the term „cooperation”. Cooperation can be understood in two ways. The first one is the general aspect, which shows cooperation as working together with someone, contributing to the achievement of

[141] Jaworski W. (red.), *Leksykon Finansowo-Bankowy*, Wyd. Państwowe Wydawnictwo Ekonomiczne, Warszawa 1991, s. 192.

[142] Wasiluk A., *Zaufanie i współpraca pomiędzy przedsiębiorstwami w perspektywie budowy i rozwoju struktur klastrowych*, Politechnika Białostocka, Wydział Zarządzania, Białystok 2012, s. 87.

a specific goal, helping to achieve something. The second approach is the understanding of cooperation from the economic and organisational point of view. This refers to any relationship between two or more economic entities that jointly pursue a business purpose or avoid undesirable situations that may have a negative impact on the development of the enterprise[143].

Cooperation of enterprises is a more and more frequently discussed topic among specialists in management and economic sciences. Apparently, cooperation is a commonly understood term, but it should be looked at more closely to learn about inter-organisational relations[144].

In the works on the topic of inter-organisational relations, one can find many definitions of this phenomenon, including „the organisational network", „network organisation", „network structure", or just a „network". The most common name used in the literature is „inter-organisational network", which best reflects the phenomenon of this relationship. This can be viewed as a special form of cooperation between public and private enterprises, aimed at achieving a common goal in their activities[145].

In order to maximise profits and maintain its competitive position, a market participant must define the form and manner of action that best and most quickly

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[143] Jaworski W. (red.), *Leksykon Finansowo-Bankowy*, Wyd. Państwowe Wydawnictwo Ekonomiczne, Warszawa 1991, s. 89.

[144] Jaworski W. (red.), *Leksykon Finansowo-Bankowy*, Wyd. Państwowe Wydawnictwo Ekonomiczne, Warszawa 1991, s. 90.

[145] Jaworski W. (red.), *Leksykon Finansowo-Bankowy*, Wyd. Państwowe Wydawnictwo Ekonomiczne, Warszawa 1991, s. 91.

brings it closer to success. It is possible to act independently or to look for suitable forms of inter-organisational cooperation. Forms that avoid cooperation with others may be devoid of many of the benefits of such partnerships. Entities deciding to enter into cooperation directly refer to the search for development opportunities[146].

Leasing

Corporate networking is a concept related to the above mentioned forms of cooperation between companies. It is worth noting that there has been a significant popularisation of the network and organisational issues, which is widely considered and analysed in modern publications and research on management, sociology, economics and psychology at the same time. Research in these networks also covers various disciplines within the management sciences, namely strategic management, logistics and marketing[147].

Inter-organisational networks are a unique subject of research. At the same time, it is also pointed out that it is necessary to notice a specific need to take into account the processes of „networking" of society, households or technologies[148]. Such a variety of analytical approaches to the issues under discussion can also be associated with a multitude of specific

[146] Sroka W., *Sieci aliansów. Poszukiwanie przewagi konkurencyjnej poprzez współpracę*. PWE, Warszawa 2012, s. 92.

[147] Sroka W., *Sieci aliansów. Poszukiwanie przewagi konkurencyjnej poprzez współpracę*. PWE, Warszawa 2012, s. 35.

[148] Sroka W., *Sieci aliansów. Poszukiwanie przewagi konkurencyjnej poprzez współpracę*. PWE, Warszawa 2012, s. 39.

interpretations. It should be emphasised that despite the many and varied efforts, no generally accepted definition of a network organisation has been developed at the same time. Therefore, in the literature one can find terms that refer more precisely to the economic relations that are of a network nature:
– inter-organisational networks;
– network organisations;
– network structures[149].

Of course, the essence of the economic network can be based on the links between the entities that form part of that network. In general terms, an interpretation can be adopted for which the organisational network is a system of two organisations involved in a long-term relationship[150]. You can also define an organisational network as a set of assets that are connected by a set of links. At the same time, it should be noted that inter-organisational relations can be consultative, sympathetic, friendly and economic in nature. An organisational network is at the same time a multi-entity and complex structure, which has a different degree of permanence, openness and coherence[151].

Over the past ten years, leasing has become one of the most common forms of co-financing of small, medium and large enterprises. This is such a specific

[149] Sroka W., *Sieci aliansów. Poszukiwanie przewagi konkurencyjnej poprzez współpracę*. PWE, Warszawa 2012, s. 40.

[150] Kwiecień A., *Efektywność relacji w sieci*, [w:] Duraj N., Pieloch -Babiarz A. (red.): Przedsiębiorczość, strategie i metody zarządzania przedsiębiorstwem. Wydawnictwo UŁ, Łódź 2014, s. 31.

[151] Bień W., *Zarządzanie finansami przedsiębiorstwa*, Wydawnictwo Difin, Warszawa 2002, s. 32.

way of acquiring new objects that the improvement of old ones and the creation of completely new offers of this kind of assistance are constantly being observed, so that the conditions of leasing contracts are becoming more and more favourable for self-employed persons.[152] Finally, leasing is also an alternative and simplified form of response to the harsh conditions of banks, which are not always ready to provide large amounts of loans[153].

Leasing is classified as medium-term external financing. It makes it possible to finance most or even all of the investment costs of the beneficiary from external resources. It can also be used for short-term use of property. Compared to a rent or tenancy agreement, a lease agreement has three characteristic elements:

– the subject matter of the contract is generally capital stock,
– the duration of the contract is precisely defined,
– the payment for use is always expressed in money[154].

In Polish economic practice, due to the specifics of legal and tax regulation, there are two types of leasing: *operational and financial leasing.*

Operational leasing is the most common form of leasing of movables and intangible assets. This is because all rent payments (e.g. initial rent, service fee,

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[152] Bień W., *Zarządzanie finansami przedsiębiorstwa,* Wydawnictwo Difin, Warszawa 2002, s. 77-78

[153] Ustawa z dnia 26 lipca 1991... - op. cit oraz Ustawa z dnia 15 lutego 1992... - op. cit.

[154] J. Bednarz, E. Gostomski... - op. cit., s. 116 - 117.

rent fee) are deducted from the tax base of the lessee (beneficiary) according to the tax legislation. The use of an operational leasing as a tax shield does not perform its functions in a situation when the lessee does not receive any revenue or generates losses, as well as when it is settled on a lump sum basis, when the taxable amount is not the actual income received, but the income from the sale of goods or services. Moreover, it should be noted that a lessee using this form of leasing cannot make depreciation write-offs of the leased asset. These write-offs are made by the lessor for whom they constitute tax deductible expenses. Therefore, the use of operating leases is significant only if the lease term is shorter than the total depreciation period of the leased asset. It should be noted that the minimum period of operational lease is regulated by law and amounts to 40% of the standard depreciation period, and in the case of property lease - ten years[155].

Financial leasing is used primarily to finance long-term investments such as real estate or high-value technological lines. As finance leases, unlike operating leases, do not include statutory limits on the minimum duration of a lease, they are also used to finance investments that have a shorter duration than the minimum duration of an operating lease. The financial lease agreement provides for automatic transfer of ownership of the leased property to the lessee as soon as the last payment under the agreement is made. A lessee may collect depreciation charges on the subject of the lease, but unlike

[155] I.Próchicka - Grabias, A. Szelągowska... - op. cit., s. 89 - 92.

operating leases, the deductible tax value does not represent the full amount of the lease payment, but only the interest part of it.

Factoring

The term factoring is still not defined in Polish law, so the factoring agreement is treated as an unnamed one. In accordance with the provisions of the Ottawa Convention not ratified by Poland, factoring may be used to determine the amount of receivables from a factor other than the purchase of goods or services by the debtor for his personal purposes and with a long-term payment term or in installments, to secure the factor of financing or to assume the function of debt management, or to transfer the risk of the debtor's solvency into the general factor, or for all purposes[156]. According to the above definition of factoring, a factor is a business entity, which as a result of the sale with deferred payment became the holder of certain receivables, which he transfers to this factor. A factor is a specialised institution dealing with the purchase of receivables within factoring and providing additional services. The debtor is the recipient of the factor's products (services), which has payment obligations to the creditor[157].

The essence of factoring, as a source of financing of entrepreneurial activity, is based on financing in the factor of settlement cycles of separate trade operations carried out by this factor. This is performed by

[156] J. Czarecki, Faktoring jako instrument finansowania działalności MSP, PWN, Warszawa, 2007, s. 70 - 71.

[157] I. Próchicka - Grabias, A. Szelągowska... - op. cit, s. 133.

a factoring organisation that pre-finances accounts receivable by a factor (before the date of its payment) by paying the purchase price for it less the factor fee for financial services provided. Financing of an economic entity through factoring can be done in one of two ways: promotion or discounting.111 Factoring is a well-known and commonly used source of financing, and its growing importance is evidenced by the increase in the turnover of factoring institutions in recent years.

Forfaiting

A forfaiting agreement is an unnamed agreement, which means that it is not regulated by any law. The name of the contract is derived from a forfait, i.e. in advance, on a flat-rate basis. This agreement constitutes a special form of debt sale in exchange for a specific price.

The subject matter of the contract is the assignment by one party of a claim in exchange for payment of a „predetermined" price to another entity, which may be either a natural or a legal person or a partnership under commercial law. This contract applies the provisions of the Civil Code relating to sales and the assignment of receivables.[158] The subject matter of the forfaiting agreement is a monetary claim that meets the following conditions:

- results from a commercial or leasing transaction,
- is undisputed, uncertain and unencumbered, and its transferability is not limited,

[158] Ustawa z dnia 23 kwietnia 1964... op. cit.

– is secured by the bank in one of the following ways: bank surety on a promissory note, bank guarantee, letter of credit, promissory note issued by the bank or a bill of exchange.[159]

The advantages of forfaiting are that in practice its use is encumbered with high costs. They are influenced by factors such as: invoice value, maturity, cost of money, counterparty risk, etc. Costs incurred by the supplier include interest and commissions. The discount on the redemption of a promissory note is the equivalent of interest that is directly linked to market interest rates.

In addition, the bank adds margin and its size depends on the risk level of the domestic counterpart or the country of the foreign counterpart in case of export.

Forfaiting in Polish conditions is offered mainly by banks, but the theory also suggests that a forfaiter institution is a financial entity (or carries out financial activities), but not a bank.

Franchising

According to the definition adopted in the European Code of Ethics for Franchise[160], „franchise is a system for the sale of goods, services or technology which is based on close and continuous cooperation between legally and financially separate

[159] J. Mazurek, *Forfaiting:płynność, poprawa,eliminacja,*CFO, http://cfo.cxo.pl/artykuly/55967/Forfaiting.plynnosc.poprawa.eliminacja.html (13.12.2009)

[160] Kodeks Etyki Franczyzy przyjęty przez Europejską Federację Franczyzy jest stosowany przez firmy należące do Polskiej Organizacji Franczyzodawców.

and independent enterprises, the franchiser and its individual franchisees. The essence of this system is based on the fact that the franchiser grants its individual franchisees the right and imposes on them the obligation to conduct business in accordance with its concept. Within the framework and for the duration of the written franchise agreement and in exchange for direct or indirect financial benefits, this right entitles the franchisee to use the franchisor's trade name, trademark or service mark, know-how, business practices, technical knowledge, procedural system and other intellectual or industrial property rights, as well as to benefit from the franchisor's continuous commercial and technical assistance"[161].

A franchiser is a company with intangible or tangible value, such as a trademark, company brand, production process, know-how, and organisational solutions that are subject to franchising. Franchisees are usually small or medium-sized enterprises that do not have large financial capital, professional marketing skills, proven market production processes, etc.[162]

This method can also be used as a way to overcome financial barriers to company development. These barriers may result from factors such as lack of own funds, difficulties in obtaining credit, fear of investing one's own money (despite their availability). In the case of franchising, the development of the network of units takes place with franchisees' money - without the need to involve the franchiser in financial participation. In addition, franchisees pay a certain

[161] Portal, www.franchising.pl.

[162] I. Próchicka - Grabias, A. Szelągowska...- op. cit., s. 153.

percentage of their turnover to the franchisor during the entire term of the agreement.

Securitisation

Securitisation is an off-balance method of raising capital for investment and operational purposes. Simply put, this method consists in converting the allocated assets into securities that can be sold on the stock market. In practice, this means transferring the debt (in the form of a sale or sub-participation) to a securitisation company. The main entities involved in the securitisation process are[163]:

- *process originator* - a financial institution or an economic entity operating in virtually every sector of the economy, i.e. agriculture, aviation, automotive industry, construction, advertising, food industry, telecommunications, etc. The main task of the originator is to create a pool of uniform financial assets that will be used to issue securities. The originator sells the assets selected in a strictly defined form to a company established solely for securitisation purposes.
- *Special Purpose Vehicle (SPV)* - a legally distinct entity, independent from the originator or any other securitisation participant. This structure is intended to separate the risk associated with the issue of securities from the risk caused by the activities of the originator. The primary task of the SPV is to issue securities on the basis of segregated assets for securitisation. Financial assets are directed to the appropriate group of investors.

[163] https://case-research.eu/files/?id_plik=4174

- *investors* - economic entities, i.e. so-called institutional investors, e.g. pension funds or individual investors.
- *administrator, service agent (servicer)* - supervises the timeliness and appropriate amount of payments from the securitised assets, their credit quality, and in the event of its deterioration, activates appropriate security measures.[164]

The essence of securitisation is to separate the risk of the originator from the risk of the pool of its assets. Having quality assets, even an entity with low creditworthiness may initiate an emission. At present, the benefits of securitisation methods are not limited to raising additional funds. As the technology develops, it offers an ever-increasing range of benefits. This operation is beneficial for both originators and investors, who can safely invest their money.

Trade credit

Trade credit is a deferral of payment for specific products. It is granted by suppliers with sufficient financial potential. It is used in situations where the company intends to purchase a specific product in conditions of lack of funds to make a lump-sum payment. Other terms for trade credit are money lending and commercial or commodity credit[165].

Trade credit is granted for a period from several days to several months. Payment deferral period depends on the supplier's industry, the assessed risk in

[164] A. Waszkiewicz, „Papierowe" bogactwo sekurytyzacji, Bank i Kredyt, kwiecień 2004, s. 16-17.

[165] T. Kaczmarek, op. cit., s. 153.

the transaction with the customer, the nature of the product, the specifics of the company, as well as the relationship between the counterparties. The following deadlines can be highlighted[166]:

– short-term, for new customers, unknown counterparties and small orders;
– standard, offered to customers making regular purchases;
– long-term, for customers with low credit risk, who carry out large orders.

Trade credit provides business units with an opportunity for mutually beneficial financing of each other. A company using a deferred payment date obtains benefits in the form of an uncollected bank credit. In most cases, companies are both the giver and the recipient of trade credit, due to their cooperation with suppliers and customers. Trade credit is a source of financing when the sum of values transferred to recipients is lower than financial benefits obtained from suppliers[167].

There are two forms of trade credit[168]:

• supplier credit, which consists in a real deferral of payment for goods and services. The recipient decides to use trade credit at a more favourable price than other sources of financing. Supplier credit costs are included in the final price to be paid by the recipient. However, he has the opportunity to receive a rebate, i.e. a discount, when paying in

[166] T. Kaczmarek, op. cit, s. 154.

[167] J. Stacharska- Targosz, *Finansowanie działalności przedsiębiorstw,* Wydawnictwo Wyższej Szkoły Bankowej, Poznań 2005, s. 83.

[168] T. Kaczmarek, op. cit., s. 153.

cash or at an earlier date than that specified in the invoice;

- a recipient credit in the form of an advance payment which is a part of the entire payment and which guarantees the customer's fulfilment of the respective transaction. It shall remain with the vendor if the recipient fails to fulfil his obligations. Due to the lack of additional collateral, it is not possible to determine the customer's creditworthiness.

The possibility of obtaining a discount is related to the classification of trade credit as a classic form of credit. The non-classical form of trade credit is characterised by the impossibility to obtain a discount due to early payment[169].

The decision to obtain a trade credit should be carefully considered by the organisation's board of directors. It is necessary to analyse the conditions established by the supplier and, in particular, the amount of price discounts. The company's task is to compare the profitability of trade credit with other sources of financing, in particular short-term bank credit[170].

Trade credit is often elevated above other forms of financing. This is due, in particular, to the high availability to buyers who are known to suppliers and regularly make purchases. In addition, it is usually granted in an open account and does not require any extra collateral. It is also free of charge if you are

[169] J. Grzywacz, op. cit., s. 15.

[170] M. Sierpińska, D. Wędzki, *Zarządzanie płynnością finansową w przedsiębiorstwie,* Wydawnictwo Naukowe PWN, Warszawa 2002, s. 254.

entitled to a discount or rebate. When business entities enter the market with a high risk of bad debts, it is difficult to obtain trade credits. Due to the lack of collateral or pledges on these loans on the Polish market, a large number of overdue and uncollectible receivables were created, which are losses for the company and the state budget. In addition, an entity that uses trade credit without discounts finances its operations with a fairly expensive source of financing[171].

Enterprises usually decide to use trade credit financing in the event of problems with obtaining other sources of financing. There are many similarities and significant differences between bank credit and trade credit. Bank loans are granted after a detailed analysis, assessment of the creditworthiness and potential collaterals of the business unit, while trade credit is an expression of confidence in the customer[172]. It is also worth noting that there are regulators of the trade credit market, i.e. the companies that insure them. Failure to obtain the insurance company's approval often results in the cancellation of business contacts or reduction of risk due to the decrease in the cost of credit. Thanks to insurance companies, there is a greater control over trade credit financing[173].

Companies should use multiple sources of supply to find the best credit terms and conditions, as well as to update the creditors' list in the order of their maturing obligations. However, they should keep in

[171] M. Sierpińska, D. Wędzki, op. cit., s. 252.
[172] T. Kaczmarek, op. cit., s. 154.
[173] J. Stacharska- Targosz, op. cit., s. 84.

mind that exceeding obligations towards suppliers can be very harmful due to the deterioration of their credit rating. In addition, some suppliers may refuse further credit and require cash payments. In this way, the company may obtain worse conditions in subsequent transactions than competitors, which cooperate with the same supplier, thereby disadvantaging its business[174].

Public issue of shares

The capital market can be defined as the market for medium-term and long-term capital that is attracted by issuing financial instruments and, above all, securities. Legal and organisational division of the capital market divides it into public and private markets. The most important feature of the public capital market is the unrestricted access to capital offered to all investors[175]. The market organisation shall ensure access to capital, the protection of investors' interests through its supervision, and access to information about the issuer of a financial instrument[176]. The public market makes it possible to attract capital on more favourable terms than the private market because of easier access to investors and the possibility of obtaining a higher issue price[177].

Public issue of shares may be carried out only by

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[174] M. Sierpińska, D. Wędzki, op. cit., s. 256.

[175] M. Panfil, *Finansowanie rozwoju przedsiębiorstwa,* Wydawnictwo Difin, Warszawa 2008, s. 131

[176] M. Panfil, *Finansowanie rozwoju przedsiębiorstwa*, Wydawnictwo Difin, Warszawa 2008, s. 131-132.

[177] R. Pastusiak, *Przedsiębiorstwo na rynku kapitałowym,* Wydawnictwo CeDeWu, Warszawa 2010, s. 11.

joint stock companies and limited joint-stock partnerships. An important moment in the entity's development is its initial public offering on the stock exchange, i.e. the first issue of shares on a public market (IPO), as well as subsequent issues to raise capital[178].

The choice of financing a company through the public issue of securities is connected with the compliance with the strict requirements of the stock exchange law. The Law on Public Offering of Securities, the Law on the Conditions of Introduction of Financial Instruments into Organised Trade, the Law on Open Joint-Stock Companies and the Code of Commercial Companies are normative acts regulating the activities related to the increase of the charter capital by issuing shares[179]. The most favourable moment to undertake it is the time of good economic situation on the market, hence the companies adjust its date to the prevailing conditions. However, entities must take into account that the subscription period cannot exceed 3 months and they are obliged to notify the capital increase up to 6 months after the shares are admitted to public trading.

Equity in companies is accumulated or increased through the issue of shares or an increase in the value of existing instruments. Shares are securities issued by companies. Holders of shares become their co-owners, acquiring the rights and obligations of

[178] M. Panfil, op. cit., s. 131.

[179] A. Michalak, *Finansowanie inwestycji w teorii i praktyce,* Wydawnictwo Naukowe PWN, Warszawa 2007, s. 120.

shareholders[180]. One of the types of shares are ordinary shares. They are issued at a selling price equal to or greater than their nominal value and are determined on the basis of a demand register. The difference resulting from the sale at a price higher than the nominal value increases the company's reserve capital. Conversely, the share capital, which is calculated as the product of the nominal value of shares and the number of shares contributed by shareholders as a result of the acquisition of shares[181]. The second type of shares are preferred ones. They allow their holders to have priority over ordinary shareholders in terms of dividends, voting rights and other benefits in the case of liquidation of the company[182]. These privileges result in a lower risk of investment in securities compared to ordinary shares[183]. Bonds are less popular than shares, but they are also an important source of capital. In particular, these are convertible bonds, which are a hybrid financing instrument. These bonds at a predetermined conversion price can be exchanged for the issuer's shares - they have an embedded option with the right to repurchase the shares[184].

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[180] R. Machała, *Praktyczne zarządzanie finansami firmy,* Wydawnictwo Naukowe PWN, Warszawa 2004, s. 212.

[181] W. Dębski, *Rynek finansowy i jego mechanizmy,* Wydawnictwo Naukowe PWN, Warszawa 2014, s. 206.

[182] I. Pruchnicka- Grabias, A. Szelągowska, *Finansowanie działalności gospodarczej w Polsce. Wybrane aspekty,* Wydawnictwo CeDeWu, Warszawa 2014, s. 176.

[183] J. Grzywacz, *Finanse przedsiębiorstwa,* Oficyna Wydawnicza Szkoła Główna Handlowa w Warszawie, Warszawa 2013, s. 14.

[184] I. Pruchnicka- Grabias, A. Szelągowska, op. cit., s. 177.

The decision to issue company's securities on the public market is one of the most important and key financial decisions. An entity that thinks about its introduction should consider arguments both in favour of and against such an approach. The issue of shares is connected with obtaining a new source of financing. Easy access to capital promotes growth and competitive advantage[185]. Their financial resources are less limited and capital inflow is not dependent on the resources of the owners, compared to companies whose shares are not traded publicly. Diversification of the investment portfolio is also considered to be one of the positive aspects of participation in the public market. Ownership of shares in public trading enables quick sale of own securities and obtaining funds for other investments. Moreover, it is received favourably by the issuer's shareholders due to the fact that the risk of the issuer's portfolio is reduced[186]. Participation in the public market also allows for a market assessment of the company's value. This may be necessary in terms of performance assessment and the ability to objectively encourage management and promote continuity[187]. On the other hand, the company should also consider the adverse consequences of the public offering. First of all, these are the costs of issue and costs related to the publication of relevant information

[185] B. Kołosowska, *Finansowanie sektora małych i średnich przedsiębiorstw poprzez rynek kapitałowy w Polsce,* Wydawnictwo CeDeWu, Warszawa 2013, s. 89.

[186] S. Antkiewicz, *Akcje i obligacje w finansowaniu przedsiębiorstw,* Biblioteka Menedżera i Bankowca, Warszawa, 2002, s. 18.

[187] J. Czekaj, Z. Dresler, *Zarządzanie finansami przedsiębiorstw,* Wydawnictwo Naukowe PWN, Warszawa 2001, s. 178-179.

about the issuer. Organisations pay stock exchange fees and are required to submit audited financial statements in accordance with the law. These costs can often be a heavy burden for small businesses. In addition, the units shall have information obligations. There is a lot of information available to the public that ensures the transparency of listed companies and the risk of their use by competitors. Another deterrent to listing on the stock exchange is the risk of hostile takeover or loss of control. Owners must keep in mind that they then become co-owners and that shareholders may table resolutions at the General Meeting of Shareholders which may differ from their vision[188].

Credit guarantee funds

Credit guarantee funds are not profit-oriented parabank entities. They provide financial assistance in the form of guarantees mainly to small enterprises which have difficulty in completing the collateral required for the credit procedure[189].

The funds as such do not directly provide financial resources for enterprises. Their task is to facilitate access to bank credits and loans for small and medium-sized enterprises[190]. The offer of funds is addressed to companies that are creditworthy but unable to provide sufficient collateral, so they cannot obtain a working capital loan or investment loan.

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[188] I. Pruchnicka- Grabias, A. Szelągowska, op. cit., s. 181.

[189] *Ekonomika i zarządzanie małą firmą*, red. B. Piasecki, Wydawnictwo Naukowe PWN,Warszawa–Łódź 2001, s. 71.

[190] M. Matejun, *Wspomaganie i finansowanie rozwoju małych i średnich przedsiębiorstw*, Warszawa 2011, s. 11–26.

Sureties usually cover between 50% and 80% of the loan requested. The permissible participation of a particular fund depends on the internal mechanisms of the fund, as well as the type of its activities and the company that carries it out.[191] The fund's services are not free of charge and they collect a guarantee fee, which averages about 1.5% of the guarantee amount (rather than the total loan amount). However, this is an approximate figure and the commissions vary from fund to fund. In most cases, the rule also provides for an increase in commissions depending on the duration of funding. The highest commissions reach 6%. On the other hand, in the case of loans with a very short repayment term, e.g. for less than 3 months, some funds apply very low commissions amounting to 0.15%[192].

Thus, guarantee funds support enterprises in obtaining loans and borrowings.

Venture Capital

In the case of innovative and implementing companies, venture capital funds are a popular form of financing. Risk capital is a medium- and long-term measure invested in units whose shares are not issued on the Warsaw Stock Exchange. Venture capital funds are linked to two capital markets: formalised and informal capital markets. Funds on formalised

[191] M.G. Woźniak, *Rozwój sektora małych i średnich przedsiębiorstw w Polsce a wzrost gospodarczy,* wyd. AE w Krakowie, Kraków 2006, s. 15–30.

[192] https://poradnikprzedsiebiorcy.pl/-czym-jest-fundusz-poreczen-kredytowych

markets are regulated by registration, fiscal and reporting requirements[193]. The participating entities have legal personality and are affiliated to associations[194]. Thanks to formal venture capital funds, the entity receives long-term cash deposits, which enable investors to obtain a high rate of return. Entities that generally provide capital in the form of acquisitions of shares in an enterprise, inter alia, are economic entities, financial institutions or consulting firms[195]. Capital is introduced into the enterprise in the form of ownership and the investor becomes a co-owner of the enterprise[196]. The purpose of investors is to obtain significant profit from the increase in the value of the company in the form of resale of their shares. Thanks to the interest-free capital made available in the start-up or development phase, the company is able to implement innovations and thus generate high revenues. The risk in venture capital companies is diversified through investments in various innovative undertakings, in different markets and in different phases of the market cycle. This allows not only to optimise risks, but also to achieve various revenue streams[197].

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[193] W. Czemiel- Grzybowska, *Rola pomocy publicznej w finansowaniu małych i średnich przedsiębiorstw w Polsce,* Wydawnictwo Naukowe PWN, Warszawa 2013, s. 101.

[194] M. Krawczyk, *Finansowanie działalności innowacyjnej MŚP,* Wydawnictwo Uniwersytetu Łódzkiego, Łódź 2012, s. 126.

[195] Z. Głodek, *Zarządzanie finansami przedsiębiorstw,* PWE Polskie Wydawnictwo Ekonomiczne, Warszawa 2004, s. 114-115.

[196] M. Krawczyk, op. cit., s. 129.

[197] Z. Głodek, op. cit., s. 115.

The investment process of venture capital funds may be divided into the following phases[198]:

- Acquisition of capital - occurs at the beginning of the fund's operation, the capital of which comes from its founders or as a result of securities issue;
- Search for investment objects - when in the case of small and unpopular funds they are looking for suitable investment projects themselves, and in the case of developed markets, the funds are based on a passive strategy, consisting in the analysis of received applications for funding;
- Analysis - during which the most optimal investment projects are selected;
- Negotiations and investments - which determine the duration of investments, participation in management, form of investment withdrawal;
- Participation in management - includes control over current activities, joint determination of the company's development strategy;
- Deinvestment - the withdrawal of fund.

In addition, in the event of bankruptcy, investors try to save their business in order to make profits. For comparison, a bank in case of failure may aim to bankrupt the company in order to secure the repayment of the loan[199]. Another advantage is the long-term nature of the investment from the perspective of the fund. In addition, they are involved in projects at different stages of development. They are used in

[198] A. Skowronek- Mielczarek, op. cit., s. 53.
[199] A. Skowronek- Mielczarek, op. cit., s. 49.

units in the phase of start-up, dynamic development or expansion of a new product or new markets[200].

Despite the many advantages of venture capital funding, the disadvantages of venture capital can also be identified. Among other things, these are high requirements and also a complicated procedure, which consists of talks with the owner, providing a lot of information about the company, analysis of documents and business plan, as well as detailed negotiations. With the start of venture capital financing, new responsibilities are also created, such as detailed reporting[201]. The acceptance of the investor as co-owner is also a significant barrier for the company. Unit owners have limited freedom to make strategic and operational management decisions. A significant share of venture capital in the equity of a company may result in the loss of ownership control[202].

Business Angels

Business angels are private investors with good knowledge of the industry. They contribute not only capital to the start-up or development of the project, but also knowledge, contacts and experience. They help to manage the unit, co-design strategic plans and influence the formation of the organisational structure[203]. They are involved in financing the

[200] J. Grzywacz, op. cit., s. 15.

[201] *Ibidem,* s. 14.

[202] H. Zadora, *Finanse małego przedsiębiorstwa w teorii i praktyce zarządzania,* Wydawnictwo C.H. Beck, Warszawa 2009, s. 89-90.

[203] H. Waniak-Michalak, op. cit., s. 162-163.

company to achieve profits, as well as satisfaction in creating new business and fulfilling their own aspirations[204]. A company implementing an innovative activity must have a sense of support from an experienced investor, but also keep in mind that the investor will participate in the decision making process, hence the signing of the agreement must be undertaken with great caution[205].

The main difference between venture capital and business angels is the amount involved in the investment. Business angels prefer to diversify their investments by engaging smaller amounts of money in many projects. On average, they finance about 5 innovative companies per year[206].

Business angel financing started in the United States, in the California Silicon Valley. The business angels have been investing in Poland since 1990, during the transformation process. At that time the development of entrepreneurship was progressing and many small and medium-sized enterprises were starting their activity. Business angels are not a new form of financing business activities, but in recent years they have gained popularity and have become a subject of research and interest[207].

In the literature there are many benefits of the presence of business angels. They invest in companies at an early stage of its development, becoming

[204] H. Zadora, op. cit., s. 88.

[205] T. Kaczmarek, *Finanse przedsiębiorstw,* Wydawnictwo Wolters Kluwer, Warszawa 2014, s. 96.

[206] M. Mikołajczyk, M. Krawczyk, *Aniołowie biznesu w sektorze MSP,* Wydawnictwo Difin, Warszawa 2007, s. 65.

[207] M. Mikołajczyk, M. Krawczyk, op. cit., s. 50.

not only their financiers but also their guardians. A significant advantage for new entrepreneurs is that business angels have less restrictive conditions than other financing institutions. In addition, it helps to attract more customers, facilitates access to foreign markets and enables the buyout of managers. The often emphasised advantage of business angels is their experience and knowledge. New companies have no managerial skills and no specialised experience. Business angels help to do business due to their good knowledge of the market or industry, as well as business contacts established in previous years. For many start-ups, intangible aspects are often more important than the injected capital itself[208].

Financing through business angels is also associated with the negative aspects. An external investor who receives part of the shares reduces the independence of the owner of the company in decision-making. The financier, in turn, has to make a risky decision related to the high probability of not achieving the expected benefits (statistically only 20% of business angels' investments provide a high return on capital). In addition, there is a risk of different business visions for both parties, which is linked to the failure of the cooperation[209]. Additionally, there is a great difficulty in finding a business angel, as many projects are rejected. This requires the entrepreneur to prepare an accurate and reliable

[208] M. Mikołajczyk, M. Krawczyk, op. cit., s. 54.
[209] H. Waniak-Michalak, op. cit., s. 170-171.

business plan in order to attract the investor's interest and provide reliable data[210].

Due to the anonymity of investors, the analysis of business angels' performance is significantly limited. In order to formalise this market, business angel networks are being created that enable investors to establish contacts between investors and owners and help to share knowledge with all members. In addition to improving the communication system, the networks also aim to break down the barriers to the development of the business angel market.

Net profit

Net profit is considered to be the primary source of financing for current and development activities. It is a net positive financial result expressed in monetary terms. It is calculated by comparing operating income, operating expenses and appropriate costs[211].

At the end of each financial year, shareholders decide on the manner of its division. The possibility of internal financing depends on the profitability of the company. Only positive net profit makes it possible to increase equity capital using internal sources. This is not feasible in the case of a loss where the company is forced to reduce its equity to cover the loss[212]. In joint-stock companies, profit distribution is carried out in accordance with the provisions of the Code of Commercial Companies. According to this

[210] M. Mikołajczyk, M. Krawczyk, op. cit., s. 53.

[211] J. Grzywacz, op. cit., s. 58.

[212] J. Jaworski, *Teoria i praktyka zarządzania finansami przedsiębiorstw,* Wydawnictwo CeDeWu, Warszawa 2010, s. 234-235.

legal Act, part of the profit is not distributed and is transferred to the supplementary capital. Write-offs for supplementary capital amount to 8% of the profit before reaching 1/3 of the declared share capital. The loss in the joint-stock company is covered by the reserve or supplementary capital. If it exceeds their sum, and if it is higher than 1/3 of the share capital, the company's management board shall adopt a resolution on the future of the company during a shareholders' meeting[213].

Regardless of the size of the company, it is important to meet the expectations of the owners when distributing net profit. They decide to hold the entity's equity through the rate of return they implement. This issue concerns more small and medium-sized enterprises, since in the case of large companies the rate of return is increased by capital gains. Moreover, capital injected by owners is often only a part of personal property in large companies. In small and medium-sized enterprises, most of the savings are often in the form of capital employed, and in many cases the enterprise is the only source of income for the owner and his family. For this reason, there may be pressure to reduce development capital, i.e. to reduce the level of self-financing, in order to satisfy personal material needs[214].

The long-term profit of a company has a positive impact on its market value. The economic

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[213] J. Jaworski, *Teoria i praktyka zarządzania finansami przedsiębiorstw*, Wydawnictwo CeDeWu, Warszawa 2010, s. 16.

[214] M. Nowak, *Zarządzanie finansami małych przedsiębiorstw,* Wydawnictwo CeDeWu, Warszawa 2014, s. 49.

independence and creditworthiness of the unit are improved. Thanks to generating high profits, the company is considered to be a reliable institution, enabling it to obtain a high return on invested capital. This results in the so-called multiplier effect, i.e. a greater possibility to obtain additional sources of financing for development. A high profit rate is considered by shareholders as a security, a guarantee of repayment of external capital[215].

Depreciation write-offs

Depreciation is also a means of internal financing, as there is no external inflow of funds. Depreciation represents costs associated with the consumption of fixed and intangible assets. This cost is expressed in a monetary measure and is gradually transferred to the products. The amount of depreciation write-offs is equal to the amount of depreciation of fixed assets and the aforementioned intangible assets, and thus corresponds to the decrease in the value of assets adjusting their initial cost to their net value. Depreciation is the financial recognition of the consumption of assets and reflects the loss of the ability of assets to generate economic benefits[216].

Depreciation write-offs are carried out from the initial value of fixed assets that are owned or co-owned by a given economic entity. They must be procured

[215] A. Mleczarek, *Źródła zewnętrznego finansowania małych i średnich przedsiębiorstw w Polsce,* Oficyna Wydawnicza Szkoły Głównej Handlowej, Warszawa 2002, s. 70.

[216] D. Ostrowska, *Źródła finansowania działalności a sprawność przedsiębiorstw działających w Polsce,* Wydawnictwo Difin, Warszawa 2014, s. 93.

or manufactured in-house, complete and suitable for use. They are used in the period exceeding the financial year and are related to the conducted activity or are used due to the lease, tenancy or rental agreement[217].

Depreciation is a specific type of cost. It is reflected in the financial result of the enterprise and its incurrence is not normally directly linked to expenditure. Depreciation has an impact on the reduction of net profit without cash outflows from the entity (unlike other costs).

A distinction should be made between the period of depreciation and the period accumulated depreciation. The accumulated depreciation is the process of economic and physical consumption of a fixed asset, which results in a reduced value of this asset. On the other hand, depreciation is related to the reduction in the value of the fixed assets in the process of production (included in production costs) through the gradual transfer of their value to new products produced with their help. Depreciation commences on the date fixed assets are put into operation and is replaced by depreciation when the initial value is equal to the amount of depreciation accrued. It is made from the next month after it is entered into the accounting records. On that date, the company must indicate the rates or period, as well as the depreciation method used[218].

[217] T. Kaczmarek, op. cit., s. 104.
[218] T. Kaczmarek, op. cit., s. 104.

Polish legal Acts allow for three methods of depreciation write-offs[219]:

- linear - consists of monthly write-offs of fixed payments at the rates established by the Act of 15 February 1992 „On corporate income tax” and amendments to certain legislative acts regulating taxation rules;
- degressive - using the appropriate increasing coefficient, which causes decreasing values of depreciation write-offs (the method is applied until equalisation with the value according to the linear method);
- progressive - consisting in the increasing value of depreciation write-offs every month.

Depreciation included in deductible expenses affects the tax base and, therefore, reduces the amount of income tax due. In this case, the depreciation write-offs directly affect cash flows, and the reduction of the income tax liability is called a tax shield. The value of cash from depreciation write-offs, together with funds related to the existence of a tax shield, constitute the depreciation capital. Thus, depreciation is a means of raising funds for new investments, which prevents the decapitalisation of fixed assets and is an important source of financing for the development of the company[220]. Additionally, depreciation write-offs have an impact on the net profit. Higher depreciation charges result in a lower net profit and consequently a lower amount to be distributed and paid as dividends. This results in an indirect impact of depreciation write-offs on the value of retained

[219] J. Grzywacz, op. cit., s. 58.
[220] D. Ostrowska, op. cit., s. 95.

assets in the entity. Depreciation measures are not only a cost, they are also the capital used to finance the purchase of fixed assets. The financial resources released from fixed assets return to tangible fixed assets and increase their value. Consequently, depreciation funds represent funds resulting from the transformation of assets. Depreciation capital can be reinvested in fixed assets or accumulated to finance investments. Financing from the released depreciation capital is called the effect of the return on capital or the effect of the release of capital[221]. Together with the resulting effect of the capital increase, it determines the possibility of capacity expansion, which lasts as long as the depreciation capital is reinvested in tangible fixed assets. The amount of production capacity increase depends on the duration of depreciation write-offs and the applied depreciation method[222].

Entities that have a large relationship between a depreciation shield and expected cash flows are less likely to use external sources of funding in their operations. Due to the fact that the value of depreciated fixed assets affects the amount of depreciated tax shield, in entities with a high share of tangible assets and consequently high depreciation write-offs, a smaller share of foreign capital is noticeable[223].

[221] J. Iwin- Garzyńska, A. Adamczyk, *Wybrane zagadnienia finansów przedsiębiorstw,* Polskie Wydawnictwo Ekonomiczne, Warszawa 2009, s. 104.

[222] *Ibidem.* s. 106.

[223] J. Ostaszewski, *Finanse przedsiębiorstwa,* Oficyna Wydawnicza Szkoła Główna Handlowa w Warszawie, Warszawa 2006, s. 187.

Subsidies

Widely understood subsidies and subventions are primarily related to European funds. They constitute a very specific source of funding, as they consist of non-repayable financial assistance. The objective of the common policy of the European Union is the progressive removal of barriers to the free movement of goods, services and persons.

The Structural Funds in the EU are the basic instruments of structural policy in a united Europe, whose aim is to support the restructuring and modernisation of the economies of the Member States and, above all, to reduce disparities between the level of development of individual regions.

The EU has various funding programmes. Funds from these programmes may be allocated depending on the type of economic activity or project. The allocation of direct funding is carried out by European institutions. Resources are available in the form of subsidies and contracts. Subsidies are provided for specific projects concerning Union policies, usually after a public **call for proposals**. Subsidy applications may be submitted by companies or organisations associated with them (business associations, business service providers, consultants, etc.) carrying out projects that serve EU interests or are conducive to the implementation of an EU programme or strategy. Contracts are published by the EU institutions for the purchase of services, goods or works needed for the functioning of the institution - for example, studies, training, the organisation of conferences, IT equipment, etc.

Indirect funding allocations is managed by national and regional authorities. This represents almost 80% of the EU budget and comes mainly from the five major funds that make up the European Structural and Investment Funds.

There are five European Structural and Investment Funds[224]:

- European Regional Development Fund (ERDF)
- European Social Fund (ESF)
- Cohesion Fund (CF)
- European Agricultural Fund for Rural Development (EAFRD)
- European Maritime and Fisheries Fund (EMFF)

These funds have a common legal framework (Common Provisions Regulation) but are also subject to fund-specific regulations[225]. European Structural and Investment Funds play an important role in achieving the EU's objectives of smart, sustainable and inclusive growth. Between 2014 and 2020, €454 billion will be invested in 500 programmes, mainly in strategic growth-generating areas, notably research, development and innovation, support for SMEs, the low-carbon economy, and information and communication technologies.

The European Structural and Investment Funds may finance projects through subsidies and financial instruments.

EFSI offers risk finance instruments (excluding subsidies) through the European Investment Bank,

[224] www.europa.eu

[225] Dodatkowe informacje można uzyskać na stronie internetowej: http://ec.europa.eu/contracts grants/funds pl.htm

without allocation of amounts by geographical region or area, but based on market demand for investment finance.

The European Structural and Investment Funds and EFSI can mobilise additional investments by complementing each other and maximising the mobilisation of private resources. These two instruments differ in terms of their action logic, structure and legal framework, but also complement and reinforce each other.

The European Structural and Investment Funds can be combined with EFSI in different ways[226]:

a) Combining European Structural and Investment Funds with EFSI **at project level:**
   – An eligible project receives financial resources from the European Structural and Investment Funds programme (either in the form of subsidies or through financial instruments), from EFSI and possibly also from other investors co-operating with the Structural Funds and EFSI.
b) Combining European Structural and Investment Funds with EFSI **at the level of the investment platform**:
   – The managing authority may wish to launch a **new** investment platform (considered as a financial instrument) in which EFSI and other investors will invest their resources, including in the form of a multi-level fund.

[226] https://ec.europa.eu/commission/priorities/jobs-growth-and-investment/investment-plan-europe-juncker-plan/european-fund-strategic-investments-efsi_pl

  - The managing authority may also transfer funds from the Structural and Investment Funds programme to an **existing** investment platform (considered as a financial instrument) set up under the EFSI measures at national, regional, transnational or cross-border level.

c) Combining European Structural and Investment Funds **with EFSI support (provided through an investment platform)** at the level of financial instruments or at project level:
  - In this case, the managing authority shall establish a financial instrument in which the investment platform operating in support of EFSI participates as an investor. Other investors may also participate in the project. The capital from EFSI and separate resources from Structural and Investment Fund programmes will then be invested through this financial instrument in projects (in which other investors can also participate).

Due to its nature and structure, EFSI cannot be used as national co-financing for a programme covered by the European Structural and Investment Funds.

However, national co-financing for such a programme can be obtained from another EIB/EIF financial product, through a loan to structural programmes or through intervention at project level.

Under certain conditions, additional resources obtained and mobilised from combined European Structural and Investment Funds and EFSI interventions may also be considered as national co-financing for such a programme.

EFSI support does not constitute State aid and is not subject to EU State aid rules. Subsidies from European Structural and Investment Funds for enterprises may involve State aid subject to EU State aid rules, unless the measures have been granted on market terms.

The European Regional Development Fund (ERDF) aims to strengthen the economic and social cohesion of the European Union by correcting regional disparities.

ERDF investments are concentrated in a few key priority areas - this approach is referred to as „thematic concentration”. These are the following areas[227]:

- innovation and research,
- Digital Agenda,
- support for small and medium-sized enterprises (SMEs),
- a low-carbon economy.

The amount of ERDF funding allocated to these priorities will depend on the category of region.

- In more developed regions, at least 80% of the resources should be devoted to at least two of the abovementioned priorities.
- In transition regions, at least 60% of the funds should be earmarked for these purposes.
- In less developed regions, this limit is 50%.

In addition, part of the ERDF resources should be earmarked specifically for projects related to the low-carbon economy:

- more developed regions: 20%;
- transition regions: 15%;
- less developed regions: 12%.

[227] https://ec.europa.eu/regional_policy/pl/funding/erdf/

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The Cohesion Fund is intended for Member States whose per capita gross national income (GNI) is less than 90% of the EU average GNI. It aims to reduce economic and social disparities and promote sustainable development. Under the Common Provisions

[228] https://ec.europa.eu/regional_policy/pl/funding/erdf/

Regulation, the Cohesion Fund is now subject to the same programming, management and monitoring rules as the ERDF and ESF.

For the 2014-2020 period, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia will receive assistance from the Cohesion Fund.

A total of EUR 63.4 billion was earmarked from the Cohesion Fund for actions in the following categories[229]:

- trans-European transport networks, in particular the priority projects of pan-European interest identified by the EU - the Cohesion Fund is used to support infrastructure projects under the „Connecting Europe Facility";
- environment - in this area, Cohesion Fund resources can also support energy and transport projects provided that they offer clear environmental benefits in terms of energy efficiency, use of renewable energy sources, development of rail transport, promotion of intermodality, strengthening of public transport, etc.

Financial assistance from the Cohesion Fund may be withheld by a Council decision (taken by a qualified majority) if the Member State exceeds the permitted limit of the state budget deficit and fails to address the problem or takes appropriate measures to address it[230].

229 http://www.europarl.europa.eu/ftu/pdf/pl/FTU_3.1.3.pdf

230 http://www.fundusze-strukturalne.pl/fs.html

European Maritime and Fisheries Fund (EMFF)

The European Maritime and Fisheries Fund is the fund for the EU's maritime and fisheries policy for the period 2014-2020.

It is one of the five European structural and investment funds that complement and support growth and job creation through economic recovery in Europe.

The purpose of the fund is to[231]:

- facilitate the transition of fishermen to sustainable fisheries;
- support for coastal communities to diversify their local economies;
- finance projects contributing to the creation of new jobs and the quality of life of coastal communities in Europe;
- facilitate access to finance.

The Fund is used to co-finance projects while using national sources of funding. Each Member State allocates, on the basis of the size of its fisheries sector, a share of the total budget of the Fund in the following amounts. Each country then develops an operational programme indicating what it would like to spend the financial resources allocated to it. Once the programme is approved by the Commission, the national authorities decide which projects will be funded. National authorities and the Commission are jointly responsible for the implementation of the programme[232].

[231] https://ec.europa.eu/fisheries/cfp/emff_pl

[232] https://www.ficompass.eu/sites/default/files/publications/EMFF_The_european_maritime_and_fisheries_fund_PL.pdf

Since January 2007 The Instrument for Pre-Accession Assistance (IPA) replaces a whole series of European Union programmes and financial instruments for candidate or potential candidate countries: PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the Financial Instrument for Turkey.

The IPA 2007-2013 (the so-called „IPA I") can be implemented in five areas[233]:

– Transition assistance and institutional strengthening;
– Cross-border cooperation (with EU Member States and other IPA countries);
– Regional development (transport, environment and economic development);
– Human resources (strengthening human capital and combating social exclusion);
– Development of rural areas.

IPA beneficiary countries are divided into two groups[234]:

– EU candidate countries (Turkey, Albania, Montenegro, Serbia and the Republic of Northern Macedonia) can benefit from IPA in all five areas;
– The potential candidate countries of the Western Balkans (Bosnia and Herzegovina, Kosovo under UNSCR 1244/99) can benefit from the IAP only in the first two areas.

The European Union Solidarity Fund (EUSF), which was established to respond to major natural disasters, is an expression of European solidarity

[233] https://elearning.wzp.pl/mod/page/view.php?id=1191&lang=de

[234] http://zssiedlce.korzenna.iap.pl/?id=72585&location=f&msg=1&lang_id=PL

towards EU citizens who have been victims of such disasters. The immediate reason for the establishment of the Fund was the severe floods that hit Central Europe in the summer of 2002[235]. The funds accumulated so far have been used in 80 different natural disasters, such as floods, forest fires, earthquakes, hurricanes and droughts. Twenty-four European countries have received more than €5 billion in support so far.

The European Agricultural Fund for Rural Development

Member States and regions shall develop rural development programmes based on local needs and at least four of the six common **priorities of the Union**, which are[236]:

- promoting knowledge transfer and innovation in agriculture, forestry and rural areas,
- supporting the viability and competitiveness of all agricultural sectors and promoting innovative farming techniques and sustainable forest management,
- improving the organisation of the food chain, animal husbandry and risk management in agriculture,
- restoring, preserving and enhancing ecosystems linked to agriculture and forestry,
- supporting resource efficiency and the transition of the agricultural, food and forestry sectors to a low-carbon and climate-resilient economy,

[235] https://www.portalsamorzadowy.pl/klucze/fundusz-solidarnosci-unii-europejskiej,1493,0.html

[236] https://ec.europa.eu/regional_policy/pl/funding/solidarity-fund/

– promoting social inclusion, poverty reduction and economic development in rural areas.

EU rural development policy is financed by the European Agricultural Fund for Rural Development (EAFRD) with a budget of €100 billion for the period 2014-2020[237]. Each EU country receives funding for a period of seven years. In addition, EUR 61 billion of public money from the Member States is earmarked for this purpose.

For example, it should be noted that in the 2007-2013 programming period, the SME sector received support of almost EUR 75 billion to increase innovation and deployment of new technologies and access to higher qualifications, as well as to modernise its working methods.

For the period 2014-2020, SMEs received support in the amount of €140 billion, partly due to the increased use of financial instruments. These measures have largely enabled entrepreneurs to access finance in the form of grants, loans, loan guarantees, venture capital funds, to gain better access to markets around the world and to reduce business risks and to prepare entrepreneurs, managers and employees to adapt to new challenges.

[237] https://ec.europa.eu/regional_policy/pl/policy/what/glossary/e/european-agricultural-fund-for-rural-development

CONCLUSION

The European Union budget is an extremely important financial instrument for the implementation of many (complex) EU policies. The EU budget makes it possible to finance many complex activities which the member states - belonging to the Community - cannot cover from their own resources or can do so in a more economical way by combining their own resources with EU money.

W ciągu najbliższych kilku lat lub dziesięcioleci Unia zamierza stworzyć niepodzielny autorytet polityczny, którego zadaniem będzie wdrażanie wspólnej polityki zagranicznej w państwach członkowskich.

This policy shapes the principles responsible for the functioning of the central banks of the countries. It is also subject to sovereign decisions taken by the authorities of European Union member states, whose effects have significant consequences for macroeconomic events in other member states.

More balanced governance, improved financial management, efficiency and accountability are the key challenges that EU Institutions will face in the coming years. These challenges are of particular importance at a time when the efficient and responsible use of resources is paramount.

The costs planned for the next year's budgets must be covered by EU own resources. This means that EU contributions are adjusted to the specific budgetary requirements detailed in the report. However, it is not uncommon for this set of elements to fail, and there are many strained budgetary relations between the EU's priority authorities and European institutions.

European Institutions e helpdevise a finance transformation strategy - empowering them to manage complex situations by visualising and shaping the future state of their finance function. Given increased expectations of the finance function in many organisations, not least European Institutions, finance leaders need to adapt in order to meet a new set of exigent requirements. They need to break down traditional barriers between departments in order to improve internal control, efficiency, performance measurement and strategy definition and they need to do so in a way that is only "disruptive" in the most positive sense.

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