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The impact of regional development funds on the operations of enterprises in West Pomerania (West Pomeranian voivodeship)

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Abstract

The development of any region is a complex phenomenon that depends on various factors, including a financial infrastructure that supports enterprises and other business entities. Issues related to the impact of financial institutions on economic development are often addressed in the academic literature. Some researchers claim that the development of financial institutions and instruments leads to the development of the entire country, indicating a close correlation between them. Others confirm this interdependence; however, they argue that it is non-linear and it depends on other factors, such as the country's level of economic development, as well as how advanced its financial infrastructure is. Few studies have addressed the impact of regional financial institutions on regional development, and although macroscale studies have been implemented on the micro-level, they don't necessarily reflect any interdependencies. Regional financial infrastructure plays an important role in regional development, and the Regional Development Funds (RDFs) that have recently appeared in some voivodeships confirm this interdependency. These institutions are likely to become integrators and stimulators of regional financial markets, and RDFs can become entities that manage capital that can be appreciated in many banks and exert a tangible effect on regional financial policies. At the same time, they will level any market flaws in terms of access to capital by micro-, small, and medium enterprises, as well as running growth-promoting policies tailored to the specific regional needs.

Introduction

The most popular form of business development financing is to obtain non-reimbursable grants, which are increasingly being replaced with repayable financial instruments. The voivodeships that have previously provided these financial instruments now receive these funds back from the final recipients. The funds constitute considerable resources that are being used to expand and disseminate repayable financial instruments in individual regions. To this end, the regional authorities have created Regional Development Funds (RDFs), institutions designed to effectively manage the financial means obtained under the previous scheme. They are implemented via initiatives such as JEREMIE (**J**oint **E**uropean **Re**sources for **Mi**cro to Medium **E**nterprises) – the mechanism of non-grant support from public funds – and JESSICA (**J**oint **E**uropean **S**upport for **S**ustainable **I**nvestment in **C**ity **A**reas), which provides non-grant support for sustainable investments in urban areas.

RDFs have been established in 10 voivodeships as commercial law companies operating in the financial services market, and are engaged in supporting regional development via repayable financing. The aim of this article is to review the literature on the impact of financial institutions on this development, to present the operation of RDFs, and to analyse their impact on regional development. With assets amounting to millions of PLN, RDFs can exert a tangible effect on regional financial markets and broadly influence regional development.

Impact of financial infrastructure on regional development – literature review

Regional markets and financial systems involve numerous processes. In economics theory, there are many concepts and views regarding the impact of a financial system on economic growth (Alińska, 2008, p. 124). Many confirm a positive effect (Luintel et al., 2016; Durusu-Cifci, Ispir & Yetkiner, 2017), and others indicate a non-linear correlation between financial market development and economic growth. Law and Singh analysed this correlation using data obtained from 87 countries from 1980 to 2010 and identified a positive correlation up to a certain threshold, and as soon as the threshold was exceeded, the correlation became negative. Consequently, a larger financial sector is not always good for the economy (Law & Singh, 2014, pp. 36–44), as shown by the financial crisis of 2008. The financial threshold varies, and it will be lower in developing economies, and higher in the developed ones, where it has a greater impact on the economy (Ruiz, 2018, pp. 216–217). The influence on developed and developing economies can also be different, depending on the time horizon, and a positive correlation is especially shown in the medium-term perspective (Beck, Degryse & Kneer, 2014).

Other studies have confirmed that the development of financial agency services in an economy determines the real growth rate (Bencivenga & Smith, 1991); however, this impact varies depending on the economic development level and the financial system (Beck, Demirguc-Kunt & Levine, 2010). All of the above studies have focused on macroscale analyses. A solution that will enable drawing justified conclusions is to analyse the impact of regional financial sector development on regional economies. Gemzik-Salwach attempted such an analysis by examining the correlation between financial sector development and economic growth on a regional scale. By examining five factors affecting the GDP dynamics per capita in all Polish voivodeships, she demonstrated various impacts of the financial sector development level on the economic growth in individual regions. (1. Number of employees in the financial sector in the region/Number of employees in the region; 2. Salaries in the financial sector in the region/Salaries in the region; 3. Investment outlays and fixed assets of enterprises from the financial sector in the region/Investment outlays and fixed assets of enterprises in the region; 4. Investment outlays in enterprises operating in the financial sector in the region/Investment outlays in enterprises in the region; 5. Credit and loans as financing sources for investments in the region/Sources for financing the total investments in the region.) She analysed the impact of added value in the financial sector as a percentage of the total value in the region and expressed employment in the sector as a percentage of people employed in the financial sector in the region (Gemzik-Salwach & Perz, 2018). In two voivodeships, i.e. West Pomeranian and Warmian-Masurian, a high positive correlation was found between the variables (Gemzik-Salwach, 2018).

The mission of regional development should involve any local (regional) financial institutions, including non-banks, such as loan funds and credit guarantee funds. In particular, this involves the development of a business model that will significantly support the economic growth of the region and will be favourably perceived by the local community in terms of satisfying their needs and creating growth potential (Kulińska-Sadłocha & Szambelańczyk, 2014, p. 172).

A significant role in overcoming the obstacles associated with insufficient access to capital is played by special funds established by the state, as well as regional and local authorities (Flejterski, Pluskota & Szymczak, 2005). These institutions also play an active part in many local business processes, particularly by initiating cooperation with micro-, small, and medium enterprises. This cooperation is very often relation-based, which gives it a sustainable advantage over global entities where cooperation is based on formalised procedures that very frequently involve a central decision-making entity. Both bank and non-bank financial intermediaries may mitigate the credit market flaws that constitute a barrier in the flow of capital to those who need it most (Armendariz de Aghion & Morduch, 2009, pp. 33, 76; Pluskota, 2013, pp. 37–38; Luintel et al., 2016, p. 96). Poland boasts a relatively well-developed system of institutions whose fundamental purpose is to finance business activities. These primarily include banks and various kinds of funds, such as loan funds and credit guarantee funds.

Regional development funds and regional development

Local (regional) development can be defined in many ways. On the one hand, this idea can be narrowly defined as creating the best possible conditions for people entering the labour market; on the other hand – and more broadly – it can be viewed as developing the best possible living conditions in the immediate environment, organisation, and structure (Stasiak, 2016). The factors that determine regional development can be divided into internal (local) and external (non-local). Self-governments can also influence the rate and level of development via legal, administrative, institutional, organisational, economic, and financial instruments, as well as by applying appropriate spatial planning and infrastructural solutions. This study will focus mainly on institutional, organisational, economic, and financial instruments, which are expected to help create appropriate conditions to trigger the desired behaviours of business entities. The first group of instruments includes creating solutions that facilitate and support the development of entrepreneurship by also providing appropriate structures to support businesses.

One of the features of regional development is flexibility, which is manifested by an entity's ability to create potential solutions that stimulate the formation of local, regional institutions. This ensures that development is not merely an effect of scattered actions but is a result of a cooperative process between regional business entities that function in accordance with an accepted and comprehensible strategy (Filipiak & Ruszała, 2009). Such measures lead to establishing business environment institutions whose main goal is supporting the economy via institutions and instruments. Business environment institutions, also referred to as innovation and entrepreneurship centres, are classified into three groups (Płoszaj, 2015) (Figure 1):
- Entrepreneurship centres,
- Innovation centres,
- Non-bank financial institutions.

Entrepreneurship centres are institutions involved in the general entrepreneurship promotion, job creation, and providing services that support the functioning and development of the SME sector. The second group includes institutions focused on the development of innovative enterprises and ideas, whereas the third group comprises institutions that distribute non-reimbursable or repayable financial assistance, financed with EU and private funds. The third group also includes RDFs, which were established due to the development of regional financial markets. Under the previous financial perspective (2007–2013), some voivodeships decided that the funds derived from Regional Operational Programmes should be distributed as repayable instruments. This mainly regarded the financial means for financing the development of the SME sector in the form of loans, guarantees, and equity-related investments. RDFs were established in the following voivodeships:
- Lower Silesian,
- Greater Poland,
- Pomeranian,
- Kuyavian-Pomeranian,
- Mazovian,
- Subcarpathian,
- Lesser Poland,
- Warmian-Masurian,
- Opole,
- West Pomeranian.

The purpose of RDFs is to finance development activities in voivodeships through repayable instruments under the 2014–2020 perspective and the financial resources repaid by the final recipients and reused as repayable instruments (Strategy, 2017, pp. 207–208). There were two ways in which the self-governments chose to establish the RDFs. The first consisted of establishing new institutions (7 regions), while the other stipulated operating activity within the framework of existing regional development agencies (3 regions). RDFs were provided with capital from, e.g., the previous perspectives,

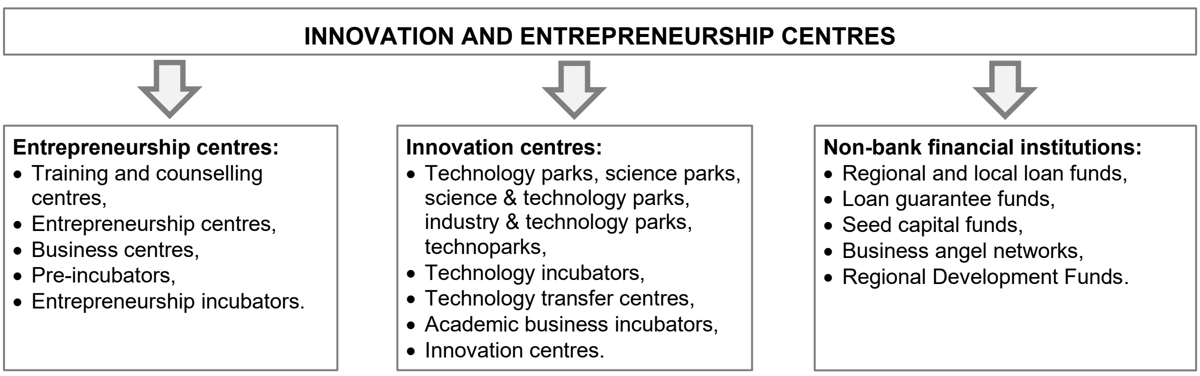

Figure 1. Classification of innovation and entrepreneurship centres (Bąkowski & Mażewska, 2015, p. 8)

to act as a stimulator and creator of repayable assistance in the regions. The entities must also skillfully distribute the funds to prevent competing with financial instruments coming from the current perspective. Moreover, they will play a role in constructing instruments that support not only enterprises but also regional and local financial intermediaries, particularly in light of capital shortages that affect some of them. Some regions plan to use them to establish regional banks for development, following the example of their German counterparts.

RDFs function in accordance with two models. One involves disbursing funds based on a transfer agreement that regulates the rules of transferring and managing the funds, any ratios that were agreed to be attained, kinds of financial instruments, and any other principles of the agreement implementation. In this model, the managing authority (MA) supervises RDF operations in two ways: as its owner, it monitors the operations, and as its settlement institution, it also monitors the implementation of the transfer agreement. The second model involves transferring funds to increase the supplementary capital for a specific purpose. The applicable supervisory organs are responsible for owner supervision (Żabski, 2017). It seems that the second model is more effective and more flexible for the fund operation. Establishing an RDF will affect the structure of regional financial markets because they manage regional funds and are also intermediaries that create regional growth and intervene when necessary.

Operations of the West Pomeranian Development Fund

In the West Pomeranian voivodeship, repayable assistance in the form of financial instruments has been offered since their establishment. In the 2007–2013 programming period, they were offered in the form of financial engineering instruments by Bank Gospodarstwa Krajowego. Under the 2014–2020 financial perspective, as part of the Regional Operational Programme for the West Pomeranian voivodeship, Bank Gospodarstwa Krajowego was also involved in distributing the funds by playing the role of the Fund of Funds. At the same time, the financial means from the previous perspective, (2007–2013) amounting to PLN 280 million from the JEREMIE initiative and PLN 148 million from the JESSICA initiative, were returned to their source, i.e. the West Pomeranian voivodeship. Some of the resources constituted funds in bank accounts, but the majority were binding agreements that concluded with financial intermediaries and final recipients. After the funds were appropriately used in the primary market and then contracted by the European Commission, they became the property of the West Pomeranian voivodeship. To this end, the West Pomeranian Development Fund was established on 1 August 2017, based on an agreement between Zachodniopomorska Agencja Rozwoju Regionalnego SA (West Pomeranian Regional Development Agency) and the West Pomeranian voivodeship. Its task was to implement the financial instruments not only in the SME sector but also to other beneficiaries to support areas such as increasing economic competitiveness, urban area development – mainly consisting of financing and regenerating degraded urban areas – and also supporting the low-emission economy and renewable energy sources. The West Pomeranian Development Fund handles the funds provided under the JEREMIE and JESSICA initiatives and manages the old portfolio. By using financial instruments, it also eliminates barriers to accessing capital, supports innovative projects and the creation of new jobs, co-finances research and development projects, and enhances the potential of the regional economy. The West Pomeranian Development Fund is currently implementing two financial instruments: a re-guarantee offered to guarantee funds and a financial facility whose aim is to provide financial intermediaries with capital injections.

The West Pomeranian Development Fund, similar to other RDFs, assists in the form of financial instruments and manages old portfolios to ensure the best possible return on the funds. Due to appropriations from the previous perspective, more than 6,000 entities operating their business activity in West Pomerania received assistance. Most took advantage of debt products (global loans) and guarantees (re-guarantees) (Table 1). When deciding to implement the JEREMIE and JESSICA initiatives in the region, the West Pomeranian voivodeship earmarked PLN 428 million. As a result, the final recipients received over PLN 800 million, whereas the value of the loans provided to beneficiaries exceeded PLN 1.2 billion. The numbers demonstrate the advantages of repayable assistance over non-reimbursable ones. Its greatest strengths include its revolving mechanism, i.e. the possibility to reuse the same funds multiple times, and the multiplier effect, which provides considerably more financial assistance compared with non-reimbursable grants. This is possible due to applying appropriate mechanisms in the guarantee instruments and the engagement of private funds at each stage of the assistance. The activities completed

Table 1. Effects of activities of the West Pomeranian Development Fund

Financial Instrument	Quantity	Value (in PLN)	Value of loans and credits (PLN)
Re-guarantee	2574	345 450 973.46	689 661 934.52
Global loan	3202	424 814 704.78	526 841 721.66
Portfolio guarantee	467	22 668 123.00	30 367 535.00
Capital instrument	22	25 830 001.00	28 636 102.00[1]
Sum	6265	818 763 802.24	1 275 507 293.18

[1] Current investment valuation.

so far have made it possible to generate a multiplier of 2.9, which means that each PLN 1.00 engaged in the financial instruments generates a final total assistance of PLN 2.9. This achieves the highest value in the case of guarantee instruments. The effects will be even greater, as the funds are always on the move and are disbursed to subsequent recipients.

Microenterprises constitute the most numerous group of final recipients, both in terms of quantity and value (Figure 2). The highest number of microenterprises used the portfolio guarantee, in amounts of up to PLN 50,000. Many microenterprises also took advantage of global loans (89% in terms of quantity, 71% in terms of value). In turn, the fewest used a re-guarantee (a guarantee instrument): respectively 80% and 63%. Small enterprises also used these financial instruments; however, their share was much smaller than microenterprises. Medium-sized enterprises also availed themselves of loans and re-guarantees, but their share was insignificant. In the case of loans, medium-sized enterprises also most often used large investment loans.

The analysis of the support value broken down into individual instruments is diverse (Figure 3). The majority of portfolio guarantees did not exceed PLN 50 k, and the distribution of other instruments was relatively regular across three ranges: 0–49 k, 50–99 k, and 100–499 k. As for re-guarantees, the three ranges also prevail, whereas, higher amounts dominated in the case of loans.

The purposes for which the funds were appropriated show a positive effect on the financial instruments and the operations of the RDFs on the region's growth (Figure 4). The debt products were used to

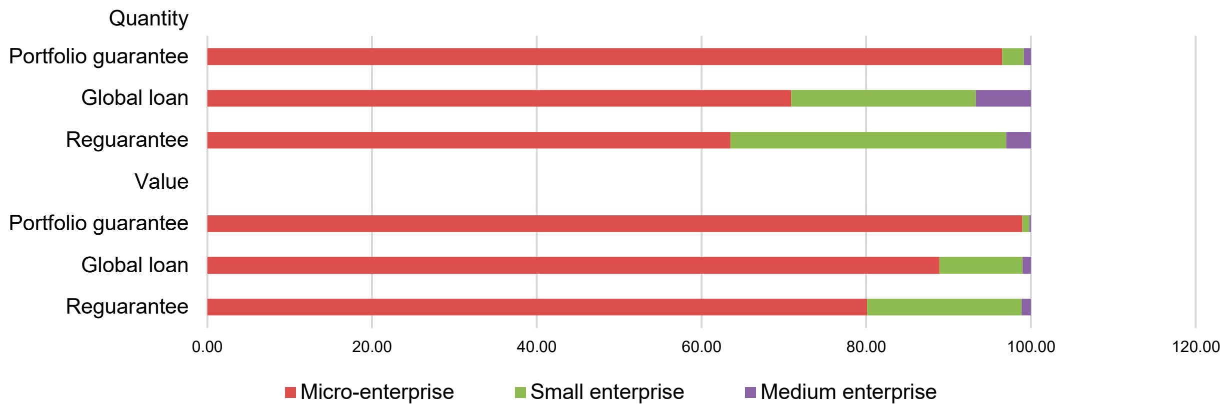

Figure 2. The shares of beneficiaries of individual financial instruments (as of 31/06/2018)

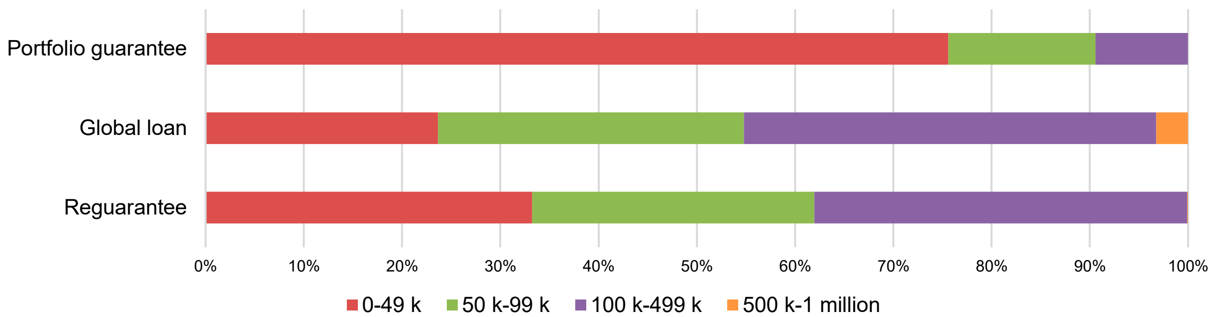

Figure 3. Value of support broken down into financial instruments (as at 31/06/2018)

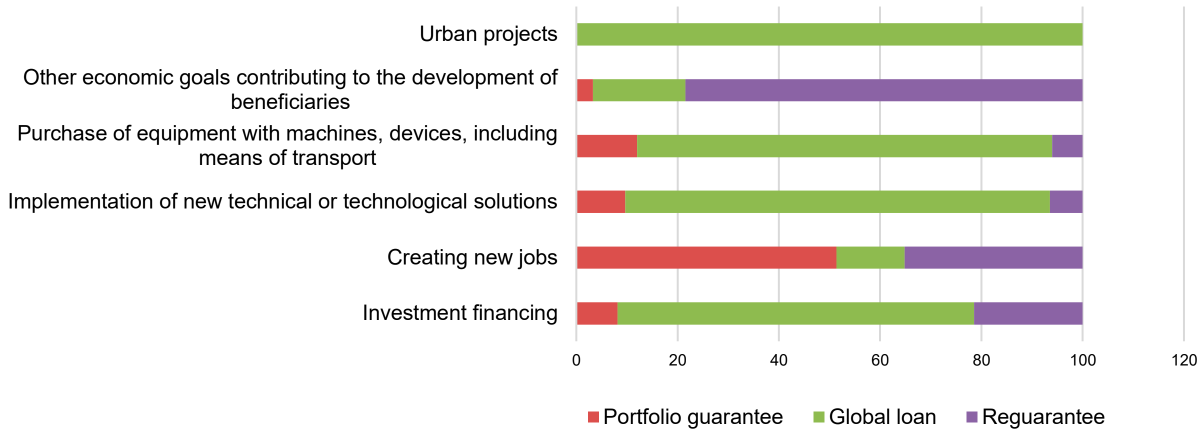

Figure 4. Purpose of financing in the distribution of financial instruments (as at 31/06/2018)

finance investments consisting of purchasing, constructing, or upgrading production, service, and commercial facilities; implementing new technological solutions; and purchasing plant machinery and means of transport that were directly related to the purpose of the investment. This is understandable because a financial intermediary requires tangible security for the loan. In quantitative terms, the most popular global loan purposes included equipment purchases (1444 loans) and investment financing (939 loans); however, in terms of value, the opposite was observed. In the case of guarantee instruments, other purposes dominated, both in terms of quantity (1675 guarantees) and value (PLN 117 million).

Conclusions

Repayable financial instruments are popular because of their increased efficiency due to their renewability, better quality of financially self-sufficient projects, their use of private funds that provide a multiplier effect, and decoupling business entities from grants. The positive effect of financial instruments (guarantees) was confirmed by studies carried out for Italian companies. Due to loan guarantees, the companies significantly increased their assets, sales, and employment levels (Bertoni et al., 2019).

Regional development funds play an important role in implementing any repayable assistance by managing financial appropriations from the previous perspective, while also preparing for the next. At the same time, their impact on the regional (not only financial) market is ever increasing. In the future, these institutions may serve as integrators and stimulators of regional markets. As a result of the funds they disburse, they will shape the regional financial policy and instruments, depending on the needs. Moreover, they will become regional competence centres, and some will even become regional investment banks that influence new regional development.

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