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EU Funds for Subsidizing Polish Businesses: Procedural Analysis

1. Preliminary Comments

EU subsidies have been essential sources of financing Polish companies for a number of years. In both national and regional Operating Programmes for 2007-2013, there are many possibilities of obtaining capital investment subsidies for businesses.¹ Such support is offered as non-refundable public aid, and it depends on a number of conditions that the applying business has to fulfil (the applying business is called the Applicant, and once the respective agreement has been signed, the Beneficiary).² The most important conditions of obtaining aid include the permission to be subjected to the application procedure, followed by proper project performance, the project settlement verified by an audit, and ensuring the project sustainability during a specific period.

The accepted procedure means “a collection of detailed instructions on the method

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1 Sample subsidy search engine can be found at: www.funduszeuropejskie.gov.pl/PoradnikBeneficjenta (2012-01-15)

2 Sample project recruitment announcement and full competition documentation can be found at: www.mcp.malopolska.pl/Aktualne_konkursy (2012-01-15)

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of carrying out a series of activities or operations in a specific sequence and form to attain the intended outcome." Economic practice is dominated by legal procedures, without which the outcome would not be legally valid. The outcome would rather be invalidated (Cf. Penc 1997, p. 339; Smid 2000, p. 283). However, upon the fulfilment of procedural conditions, the business will obtain reimbursement of part of the so-called qualified expenses associated with the project. Both requirements of the subsidizing agency and internal needs of the business which obtains and settles the subsidy, enforce application of a proper information and process systems. Those systems should work for increasing the chance to obtain a project subsidy by the provision of information that is indispensable during the application and settlement processes.

Referring to the Polish experiences, we can notice that the adopted procedures pose considerable barriers for many businesses intending to obtain EU subsidies. We can state without exaggeration that the procedures fully refer to the bureaucratic conception of Max Weber, in which centralization, formalization and standardization constitute the bases of model operation of the bureaucratic apparatus in the decision-making process. Hence, in the Polish conditions, a considerable proportion of applications (60-70% in the Małopolska Region) are turned down owing to procedural faults. The most frequent errors include the following:

1. Lack of a specific vision in the project cost planning process, the level of project performance and the required financial security. Determination of the project performance takes place only once the subsidy has been granted, which is contrary to the assumed procedure.
2. Difficulties with defining own business from the viewpoint of belonging to the small and medium-sized business sector. That concerns especially the businesses that are economically associated with other companies.
3. Incomplete knowledge of the competition rules and the application instructions. That can be the main reason of application denial.
4. Lack of the skill of verification of the declared expenses, in respect of indispensability and reasonability associated with the attainment of the assumed objectives.
5. Poor knowledge of the value limits imposed on some qualified expenses.
6. Lack of additional documentation connected with the procedure, e.g. that relating to environment protection.
7. Lack of some attachments that are mandatory for all the projects.

The above examples do not exhaust a complete list of procedural faults but rather indicate the most frequent reasons of application rejection.

That is why the substantive and practical goal of this paper is to present a proposal of the procedure relating to the submission of applications for business development subsidies granted by the EU.

2. Information System Operated by the Subsidized Project Settling Agency

A capital investment project is a multi-dimensional issue in a business unit in which management is crucial. The main project stages – planning and performance – are extended in time and they require dedication of at least several responsibility centres in the business. A clear solution can consist in the appointment of the Project Coordinator by the management to be responsible for the preparation of a detailed plan and project supervision. The financial and accounting personnel should actively support the Project Coordinator. At the planning stage, the person responsible for bookkeeping (the Accountant) should co-operate in the development of financial projections for the project, using the data obtained from the accountancy system. At the performance stage, the role of accountancy is more expanded. The Project Coordinator should obtain the data on the contract settlement, the project progress and any deviations found in respect of the accepted plan.

The above mentioned obligations are additionally expanded in case of EU subsidized projects. The very application procedure requires some organizational efforts involving the business management, the Project Coordinator, the financial and accounting personnel, and usually an external subsidy Specialist. Some procedural elements are common with those of project planning, although other requirements must be fulfilled exclusively to satisfy the information needs of the subsidizing agency. The business management is responsible for basic project assumptions. The Project Coordinator prepares a detailed Substantive and Financial Schedule. The Accountant provides the data required for meeting all the information requirements for drafting the application. The external Specialist evaluates the subsidizing options for all the project components, deciding of the project's scope, and drafts the application based on available data.

Once the subsidy agreement has been signed, close co-operation between the management, the Project Coordinator, the Accountant and possibly the external Specialist will be required. Such co-operation is intended to cause correct project accounting and obtaining the subsidy. It is the role of the business

management to provide general project performance supervision in such a way as to minimize possible deviations from the plan. The Project Coordinator's role is to make detailed arrangements with the suppliers, in accordance with the plan. The Accountant, acting on the basis of book entries kept in a separate project ledger, should provide data on the project progress, including the status of accounts and possible deviations or irregularities (Osikowicz 2008, pp. 61-148). The external Specialist should extend supervision over the activities relating to the project settlement, especially preparation of the payment application and the project audit³. The more complicated is the capital investment project, the more important becomes precise determination of the competences and a correct system for data exchange between the key persons involved in project settlements.

The need of an efficient information system that supports project management by observation of the procedures is revealed even the stronger the larger is the involvement of the factors which increase the project risks.

3. Project Risk Increasing Factors

The project risk means a possibility of failure preventing the project performance in whole or in part, or of exceeding the assumed project budget. The EU subsidized capital investment project risk is usually higher than in case of the project carried out without subsidies. In the event of subsidized projects, there is an additional risk of failure to obtain a subsidy or the obligation to return it. The very process of subsidy obtaining and settlement is risky and it reminds of a type of bet in which winning means that the business has fulfilled all the conditions associated with specific procedures, and the subsidy will be granted. "Losing the bet," or failure to fulfil the conditions, means the loss of a subsidy. As the subsidy obtaining and settlement processes take long time, similarly to the project sustainability, the total certainty of "winning the bet" will come years after the project completion.

Using a different metaphor, the subsidy obtaining process and the related procedures remind of climbing a mountain. The stages here include the following: analysis of the subsidy options, works on the subsidy application, application submission, formal and substantive evaluation of the application. The "summit"

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3 Sample collection of instructions for the beneficiaries settling their capital investment subsidies can be found at: http://www.mcp.malopolska.pl/MCP/Information_je_dla_beneficjentow/Instrukcje_dla_beneficjentow,140.html (2012-01-15)

is reached upon signing the subsidy agreement. However, the process of “descent”, or project settlement and sustainability is usually more difficult than that of “ascent”. At each of those stages, there is a risk of failure, resulting either in project rejection, or the necessity of subsidy reimbursement, with interest. We present below the factors which increase the risk in the procedural context.

At the **analytical stage** of identifying subsidizing options, the risk consists in a wrong evaluation of the project’s entitlement. Consequently, it is possible to submit an application which is disqualified for formal reasons. It is also possible that the business prematurely resigns of the subsidy options. That risk is charged to the subsidy acquisition Specialist, and that is why the information system should allow him to gain access to all business data that affect correct business evaluation and proper procedure application.

At the **application state**, the initial risk factors are associated with correct expense planning. The more complex is the project the larger the probability that an expense planned under the project is wrongly recognized as qualified, or the planned expense value is considerably different from the actual acquisition or production cost incurred later. That risk is charged to both Specialist and Project Coordinator. The information system should allow for the consolidation of positions in that respect.

Subsequent risk factors are associated with the **project evaluation**. At the stage of **formal evaluation**, there is a risk of failure to fulfil the competition conditions by application of incorrect procedures. That risk is usually charged to the subsidy acquisition Specialist. At that stage, the information system should provide the Specialist with access to the business data that must be revealed in the subsidy application. The exchange of information is also intended to determine a list of required attachments to the application. Preparation of some of them belongs to the Accountant (e.g. Financial Statements from previous years) or the Project Coordinator (e.g. obtaining the Building Permit Decision).

At the stage of **substantive evaluation**, the risk factors are associated with particular evaluation criteria. The risk is partly charged to the Specialist preparing the application and partly to the business management and the Project Coordinator. During substantive evaluation, generally speaking, people examine the quality of the project conception developed by the management. The role of the information system is to brief the key personnel on the substantive evaluation criteria and consolidate a joint position on such formulation of the application which complies with the assumed procedures in the best way.

Upon signing the **subsidy agreement**, the basic risk factor consists in the necessity to stop the project performance or revise it so extensively that it is

not possible to obtain a subsidy any more. In the event that it is necessary to revise the project, the information system can primarily allow for early detection of deviations from the plan and the assumed procedures. That concerns both expense scheduling or expense value modifications and the necessity to change the type and the number of project components. The risk of occurrence of deviations is the larger the more items are placed in the Substantive and Financial Schedule. Usually, revisions cause the necessity to notify the subsidizing agency or obtain its consent. The information system should allow for the evaluation of the consequences of making revisions, from the viewpoint of subsidy options. And that should be done before any project revisions are implemented. Evaluation after revisions will belong to the subsidizing agency.

At the stage of **project settlement**, carried out by submission of interim and the final requests for payment, the risk consist mainly in finding irregularities when bearing particular expenses or expense compliance with the assumed procedures. Audits are carried out by the subsidizing agency on the basis of documents (invoices, bank statements etc.) and inspections on the project site. Expense analysis intends to check expense compliance with the project, whether the expenses are reasonable, economic and reliable, and they result from the specific procedures. The Project Coordinator bears that responsibility and he is charged with the burden of proof in that matter. The information system and especially the accounting system should facilitate the project settlement process at the stage of preparatory works preceding the submission of a request for payment. Separate bookkeeping conducted for the project should provide the option of determining the expense values under particular items of the Substantive and Financial Schedule and expense bearing determination. The information system should further allow to evaluate the project indicator performance progress. Attainment of the target indicator value will prove that the project has been completed and it complies with the assumed procedures.

During the project sustainability period of 3 to 5 years after its completion, the beneficiary must maintain the project without essential changes. The risk is associated here with the implementation of changes that would result in the subsidy agreement termination and the necessity to reimburse the subsidy. The responsibility is charged to the Project Coordinator. The information system should allow for the identification of threats to the project's sustainability and counteraction against them.

Below, we present several examples of the project risk increasing factors:

- some or all the Schedule items contain unqualified expense shares (as in that case it is necessary to use coefficients for calculating expense values),
- the project requires a Building Permit and possibly the Project's Impact on the Environment Decision (as obtaining such decisions is preceded by a long-term administrative procedure),
- the project entails the purchase of second-hand fixed assets (as that causes the obligation of correct asset appraisal),
- the contracts signed between the beneficiary and the project component suppliers are complicated, e.g. they contain the security instruments for warranty repairs involving retention of part of each invoice (as the settlements between the contractors can raise doubt as to the time of complete payment or the expense amount),
- the request for payment is submitted after the end of the project performance period (as for instance the possibility of purchasing other items as part of qualified expenses are closed after the period).

In the light of the above examples, we can see how important it is to exchange information between the key persons involved in the project. An efficient information system and adequate procedure selection allow to increase the chances to obtain subsidies for a capital investment project.

4. Example of an Information System Procedure

Correct information system design can be illustrated by an example of a capital investment expense documented by an invoice. To simplify the example, we have assumed that the capital investment project is composed the following one item only: a technical device.

1. The business management makes the decision to purchase the device as part of the capital investment project. The estimated price is between 90 and 110 thousand Polish zlotys (PLN).
2. The Project Coordinator conducts market research and determines that the device's price is 100 thousand PLN.
3. The subsidy acquisition Specialist determines that it is possible to obtain a subsidy covering 50% of the expense.
4. The business management decides to go ahead with the capital investment project and they make an attempt at obtaining a subsidy.
5. The Specialist drafts an application, using the data about the previous business activities and the development plans received from the management, the Project Coordinator and the Accountant. Assuming that the device's price

can change in the future, the Specialist introduces the projected expense of 110 thousand PLN, and asks for a subsidy amounting to 55 thousand PLN.

6. The management signs the project subsidy agreement.
7. The Project Coordinator buys the device for the price of 108 thousand PLN. In addition, he prepares the supporting documentation proving that the purchase was justified, reasonable and economic.
8. The purchase invoice is approved and its value is recorded in the bookkeeping information system on a separate account (dt project's fixed asset: 108 thousand PLN, accounted VAT settlement: 24.84 thousand PLN / ct accounts payable in respect of the project suppliers: 132.84 thousand PLN). The Accountant compares the actual expense with the projected one and finds a deviation. He notifies the Project Coordinator and the Specialist.
9. The Specialist notifies the Project Coordinator about the reduction of the future subsidy from 55 to 54 thousand PLN.
10. The Accountant transfers the funds to the supplier. The payment entails 90% of the net price and the full value of VAT. The remaining 10% of the net price constitutes the security retention for warranty repairs, in accordance with the supply contract. Based on a bank statement, the Accountant enters the business activity in the ledger (dt accounts payable in respect of the project suppliers: 122.04 thousand PLN / ct bank account: 122.04 thousand PLN).
11. The Accountant presents the project ledger to the Project Coordinator and the Specialist.
12. The Specialist notices lack of full payment for the delivery, which, according to the expense qualification guidelines, makes it impossible to recognize the expense as qualified for the subsidy.
13. The Coordinator renegotiates the agreement with the supplier. Consequently, the security in the form of retention is replaced by an insurance policy acquired by the supplier.
14. The Accountant transfers the missing amount (dt accounts payable in respect of the project suppliers: 10.80 thousand PLN / ct bank account: 10.80 thousand PLN).
15. The Specialist prepares a request for payment, collecting from the Accountant a properly described invoice copy, a bank statement copy, and a fixed-asset delivery note copy. He consults with the Project Coordinator on the date of the documentation submission.
16. The management signs the request for payment. They submit the request in which the expected subsidy amounts to 54 thousand PLN.

17. The subsidizing agency approves the request for payment.
18. Based on the approval note, the Accountant enters the subsidy in the ledger because, according to IAS 20 regulations, there is adequate certainty (or justified conviction) that the business will fulfil the subsidy agreement conditions, and the subsidy will be granted. Accounting is handled by the following account correspondence: dt project accounts receivable: 54 thousand PLN / ct inter-period cost settlements. Next, the inter-period cost settlement is referred to the remaining operating costs, in proportion to the depreciation rate of the subsidized fixed asset.
19. The Specialist prepares documentation for the project audit. He collects from the Accountant the print-outs of the project's business activity records and the original documents the copies of which were attached to the request for payment. He also collects from the Project Coordinator the documentation relating to the device purchase offer.
20. The project audit is conducted by the subsidizing agency. The attending Project Coordinator and the Specialist participate in the audit. The management signs the post-audit report.
21. Next, the subsidy is transferred to the company's bank account, in the amount of 54 thousand PLN. The Accountant makes a proper record based on the respective bank statement: dt current account: 54 thousand PLN thousand PLN / ct project's accounts receivable: 54 thousand PLN.
22. During the project's sustainability period (3 to 5 years from the project completion), the Project Coordinator cares for the project maintenance, without revisions.

The sample procedure described above concerns the simplest possible capital investment project subsidized from EU resources. The application of analogous procedures in such and more complex cases is possible within the specific information system which should be operated by the beneficiary and the subsidy accounting entity. The more efficient the information system in respect of the procedure the higher the probability of successful settlement of the EU capital investment project subsidy settlement.

Summary

EU Funds for Subsidizing Polish Businesses: Procedural Analysis

For many Polish enterprises subsidies from EU funds are an important source of investment financing. Obtaining these

funds must meet a number of procedural requirements. This applies to both phases of the grant application and settlement phase of the project. This article presents a role in the enterprise information system and clearing the grant sample project settlement procedure.

Streszczenie

Fundusze unijne na dofinansowanie polskich firm – analiza proceduralna

Dla wielu polskich przedsiębiorstw środki pomocowe z funduszy unijnych stanowią ważne źródło finansowania inwestycji. Pozyskanie tych środków wymaga jednak spełnienia szeregu wymogów proceduralnych. Dotyczy to zarówno etapu wniosku o dofinansowanie, jak i etapu rozliczania projektu. W artykule przedstawiono rolę systemu informacyjnego w przedsiębiorstwie rozliczającym dotację oraz przykładową procedurę rozliczenia projektu.

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