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THE SIGNIFICANCE OF EU STRUCTURAL FUNDS FOR POLISH ENTERPRISES: THE CASE OF THE LODZ REGION

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Abstract. The issue of how to stimulate economic growth and development remains an open question. The EU structural funds are meant to help solve the problem at the regional level within the framework of the cohesion policy. Only some of these funds are used to directly subsidize businesses that are the engines of growth in a market economy.

This paper aims to evaluate whether structural funds have played a positive and significant role in the development of enterprises in a region which does not belong to the economic leaders in Poland. It is based on the results of a direct study, statistical data and evaluation reports, as well as on the economic literature.

The direct study was conducted in 2011. It focused on micro-economic projects supported by EU funds in the Lodz region. Interviews were conducted with representatives of 80 enterprises, which had completed at least one such a project. We conclude that the subsidies from structural funds have positively stimulated modernization of the companies, albeit on a limited scale.

Key words: *EU structural funds, cohesion policy, enterprises*

JEL code: O12

1. Introduction

Art. 174 of the Lisbon Treaty (*Consolidated version*, 2010) stipulates that the "overall development of the Union" calls for actions that would guarantee real convergence of the regions, not only, as has been the case so far, in the economic and social dimensions, but also their territorial cohesion. These actions are designed to improve efficiency in the use of resources and reduce the disparities in living standards among integrating economies which, for various reasons, cannot be achieved by market mechanisms or by policies pursued by individual countries (Pelkmans, 1997). The cohesion policy, in its pro-efficiency aspect, should thus be treated as an equivalent of state intervention at the level of the Union, which facilitates long-term growth and economic development in circumstances when market mechanisms enable entrepreneurs to make decisions in line with the evolving competitive advantage of a region. In the light of new structural economics (Lin, Monga, 2010), state activities in the area in question can be justified by, e.g. market weaknesses in terms of the coordination of development processes in various sectors of economy. This is reflected in the inability of the private sector to ensure the availability, to market participants, of sufficient infrastructure to modernise and diversify the structure of production of goods and services. That is

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relevant to both its "hard" components, i.e. transport, communication, and energy, as well as its "soft" components, i.e. highly skilled employees, subsidies for investment purchases, working capital, or expansion into foreign markets. Interference can also be justified by the assistance it offers to entities which take the risk of implementing innovations connected with shifting to new, more modern and productive manufacturing sectors.

Structural funds and the Cohesion Fund, which redistribute a part of the Union's general budget for development and social purposes, are the most important instruments for achieving cohesion. The EU institutions have a decisive voice when it comes to deciding which programmes will be supported in the member states, which results from the conviction that this is the way to better allocation of production factors in all sectors of the economy (Molle, 2000). The selection of specific programmes is, however, a political compromise between equality and efficiency.

The success of the cohesion policy in all three dimensions depends, first of all, on the accelerated development of weaker regions, i.e. on the dynamics of the endogenous potential of their economies, not on social transfers which, by improving only the living conditions of the local community, fail to stimulate technological innovation or modernise production structures. The necessity of such distribution of funds relates mostly to regions where the level of income is low and the growth rate is slower than for their richer neighbours. The region of Lodz is a good example. Although GDP per capita increased in this region from 47% of the EU27 average in 2004 to 56% in 2010, the absolute differences in relation to the best regions in Poland-Mazovia and Lower Silesia - also increased (*Raport Polska 2011*).

In the financial perspective of 2007-2013 the basic document specifying the principles and directions binding in Poland for the allocation of structural funds is the National Cohesion Strategy. Its objectives and assumptions are detailed in 22 national and regional Operational Programmes. These programmes finance projects proposed by entities from the sector of public finances as well as by non-public entities, among which companies are the most numerous group. Over a half of the funds allocated for Poland end up in public infrastructural projects. Enterprises receive 30% of EU funds, but they implement the largest number of projects.

When taking into account the commonly known infrastructural weaknesses undermining the international competitiveness of the Polish economy (Schwab, 2012), the need for rational extension of the road and railway networks to stimulate growth remains unquestioned.[2] Nevertheless, the effective use of EU support at the microeconomic level seems particularly important to activate local production resources. Companies striving for maximisation of profit will, in the end, be decisive for the success of the cohesion policy.

Numerous research studies, evaluations, and reports discussing the effects generated by structural funds[3] are dominated by works on the macroeconomic, regional, and sectoral effects of individual Operational Programmes, not on the importance of funds for companies in regions, which do not have the best economic record in Poland. These latter effects are much less visible to the general public and do not have such a large impact upon the EU's image as do infrastructure projects. Hence, the objective of this paper is to explain the use of funds by companies in the Lodz region and to assess their potential importance for the modernisation of the region's economy. Conclusions are drawn based on a questionnaire study conducted in 2011 with the representatives of 80 companies which had completed at least one EU project in the Lodz region. Attention was paid to investment projects co-financed from the European Regional Development Fund (ERDF) under the Regional Operational Programme for the Region of Lodz (ROPRL). The maximum subsidy for such projects is EUR 2 mln.

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2 At the present stage of development investing in local water treatment plants, airports, roads outside of transportation networks, aqua parks, concert halls and operas raises certain doubts (Gorzelak, 2012).

3 (http://www.rpo.lodzkie.pl/wps/wcm/connect/rpo/rpo/strona_glowna/ewaluacja/badania_ewaluacyjne/) Evaluations and reports are often commissioned by institutions, which distribute the subsidies that is why their impartiality can be questioned.

2. Characteristics of enterprises in the Lodz region

Poland is divided into sixteen regional administrative units (regions). The region of Lodz covers 5.8% of the total area of the country, with a population of over 2.5 million, i.e. 6.7% of the population of Poland. Compared to other regions, its economic development is moderate. In 2010 the value of the GDP generated in the Lodz region was PLN 1,416.6 bln, representing approximately 7% of the national GDP. In terms of GDP per capita the national average reached PLN 34K, while the same ratio for Poland was PLN 37.1K.

Since more detailed characteristics of enterprises in the Lodz region can be found in the literature (Dorożyński, Misiak, 2012), below we present only some data which *indirectly* illustrates the situation:

- in 2009 the share of agriculture and industry in the structure of the economy of the region, measured by gross value added, exceeded the average for the country as a whole, while the share of construction and services of all types (trade, finances and insurance, other services) was below the national average. This indicates a relatively greater dependence on traditional sectors (*Produkt…*, 2011);
- gross value added per working person in all sectors was 12 percentage points (pp) lower than the Polish national average (*Produkt…*, 2011). Agriculture and financial services were the closest to the national average, while the processing industry and trade services performed the worst in this respect (lower by 15 pp and 12 pp, respectively). Companies in the region were characterised by low productivity, which is mainly due to an anachronistic intra-sectoral production structure. That is particularly true of industrial processing, where the productivity index was among the lowest in Poland;
- the share of employment-related costs in gross value added was 39.8%, compared to the national average of 41.5% (*Produkt…*, 2011), which suggests that low labour costs constitute an advantage of the region;
- in 2011 the list of the 500 largest companies in Poland included only 14 companies from the Lodz region (with the best ranked at no. 27). This means that there are no local champions which, by developing cooperation networks with smaller companies, could become locomotives of economic growth in the region (*Lista 500*, 2012);
- in 2010 there were 38 companies with foreign capital per 100K inhabitants, compared with 60 per 100K for Poland overall. These companies accounted for less than 1% of all private companies registered in the region, and only 138 had a capital share higher than USD 1mln. In terms of the structure of companies employing more than 9 persons, companies with foreign capital had a 32% revenue share, 27% share in terms of financial results, 33% in terms of revenue earning costs, 10% in terms of employment, 20% in terms of fixed asset expenditures, and more than half of them dealt with exports and/or imports. This large share in terms of economic importance of the small, not very strong group of companies with foreign capital demonstrates how weak local competition is (*Działalność gospodarcza…*, 2011);
- when it comes to innovation, the region of Lodz is in the moderate group. Within that group, in the category of medium innovators and ranks next to last in the hierarchy of EU regions (*Regional…*, 2012). Its relative strength in this aspect consists in innovation enablers; a bit lower is the activity of companies in creating innovations, and the biggest weakness concerns the effects of implementing innovations. In other words, innovation potential in the region was relatively significant, outlays on innovation not among the lowest, but resources and the way such innovations were used did not translate into the commercialisation of new solutions, i.e. into economic results. This means knowledge is not considered significantly important as a factor that could improve the competitiveness of businesses in the region.

3. Possibilities of allocation of projects to companies

Enterprises may use preferential external sources of funding subject to the provisions on state aid. Since 2004 there are also programmes co-financed with the EU resources, which, because they are non-repayable, are highly attractive to entrepreneurs. They are addressed to various industries and sectors of economy, e.g. for investment in fixed assets, implementation of innovation, internationalisation of economic operations, and human resources development.

Regional Operational Programmes are the most important source of funding for companies at the regional level. Above all they enable the purchase of fixed assets. These programmes are complemented by the Operational Programme Innovative Economy, which co-finances, e.g. research and development of new technologies with subsidies that may exceed EUR 2M. Hence, big companies successfully apply for them, as well as affiliates of international holdings which operate in Poland.

By the end of September 2012, 6970 contracts were signed for the implementation of EU projects in the Lodz region. Companies were beneficiaries in 3540 contracts, i.e. more than half. Some of them have implemented more than one project however, hence the number of companies as signatories of the agreements amounted to 1905. Thus, less than 1 % of all economic operators in the region benefited from EU funds. The total value of contracts reached ca. PLN 8.5 bln.

The projects financed from structural funds can be divided into investment and non-investment projects (Dorożyński, 2012). The first category includes infrastructure such as roads, communications, social infrastructure, and the environment, and is addressed to government administrative organs and local authorities at various levels. Companies may apply for subsidies for modernisation and development of their production capacity.

Among non-investment projects, there is a special category of projects relating to public responsibilities in the field of an active unemployment prevention policy and social welfare. These are addressed mostly to local administration, as the so-called ‘systemic projects’, for which funding is guaranteed almost automatically, i.e. without the need to bid for it. The second category comprises projects connected with education available to schools at various levels, and to entities, including companies, which offer educational or vocational training courses. The third category includes projects that subsidise R&D projects and works, and the implementation and commercialisation of innovation. These projects are available to companies and entities working in the field, i.e. higher education institutions and research institutes. In the fourth group are projects that support entrepreneurship, designed for existing companies and potential start-ups.

The above demonstrates that all companies must apply for resources under operational programmes by submitting project bids, which poses additional requirements connected with the drafting of an application. Bidding also means competition which, in theory, should favour the selection of the best projects, on the condition that the institution which intermediates in budgetary allocations to projects is able to correctly evaluate the proposals in terms of their substantive merits. In most instances the proposals are economically reasonable, as they usually require the engagement of a beneficiary’s own resources in the amount of 50% of the total value of the project, and profitability parameters (price) are conditioned by the competitive single EU market. However, in the Polish reality meeting the above conditions for optimum allocation of resources using administrative methods turns out to be very difficult (Geodecki et al. 2011).

4. Sample profile

The study included 80 companies from the voivodeship of Lodz that received assistance from EU funds. It was conducted between April and June 2011 as a direct and partly structured study, using the method of targeted sampling and individual in-depth (expert) interviews.

According to data generated from the KSI SIMIK 07-13 National Information System, since the beginning of the programme in 2007 until 31 March 2010, within the framework of the European Regional Development Fund 954 contracts for co-financing were signed under the Regional Operational Programme for the Region of Lodz. This means that our sample covered 16% of the beneficiary population.

Almost all respondents were based in cities, over 50% of them in Lodz (capital of the region), and only 5% in rural areas. Such a proportion correctly reflects the territorial dispersion of companies receiving EU assistance in the voivodeship.

Roughly 2/3 of interviews were conducted with members of the top management bodies: directors, CEOs or their deputies. The remainder of respondents occupied lower positions. They mainly belonged to the middle level staff: project managers and coordinators.

The questionnaire, which consisted of 36 questions in total, comprised classification questions as well as questions relating to behaviours and attitudes. They were of both the closed and open-ended type; some were accompanied by rating scales. Interviewers could ask for additional information, change the order of questions or ask for more detailed explanations. Open-ended questions were divided into two main thematic modules. The first referred to the respondents' opinion on the impact of EU funds on employment and human capital in their companies. The second concerned their evaluation of the administrative system of spending EU funds in the region. The average duration of interviews was approximately one hour.

The sample was clearly dominated (85%) by small and medium sized companies employing respectively between 10 and 49 and from 50 to 249 people. Micro companies were much more scarce and large companies formed the smallest group. Because of the structure of the economy in the region, we analysed mostly industrial processing and trading companies, as well as some construction companies but we omitted businesses from the agricultural sector.

5. Economic profile of the sample

Despite the economic slowdown in Poland in 2009, the majority of companies covered by the study increased both their sales and employment in the 2006 – 2010 period, and these two indices declined for only a very few companies. Only a small group (11%) increased sales with reduced employment, which may be interpreted as a symptom of accelerated modernisation. Almost all companies in 2010 were profitable and recorded a net profit.

In 2010, compared to 2006, there were more exporting companies and entities for which exports had become the main source of sales. Nevertheless, the overall importance of foreign markets remained minor. Although in 2010 almost 60% of companies recorded revenue from exports, it was the main source of sales for only 11%, and the only source for only 2%. Hence, the dependence of companies upon the economic situation in Poland was significant.

Exports played unequal role in individual sectors. More than three-fourths of industrial processing companies, one-half of trade companies, and only less than 30% of other servicing companies dealt with exports. All of the output of construction companies ended up in the domestic market.

Three-fourths of companies covered by the study were set up before 2001, meaning they were experienced in economic operations.

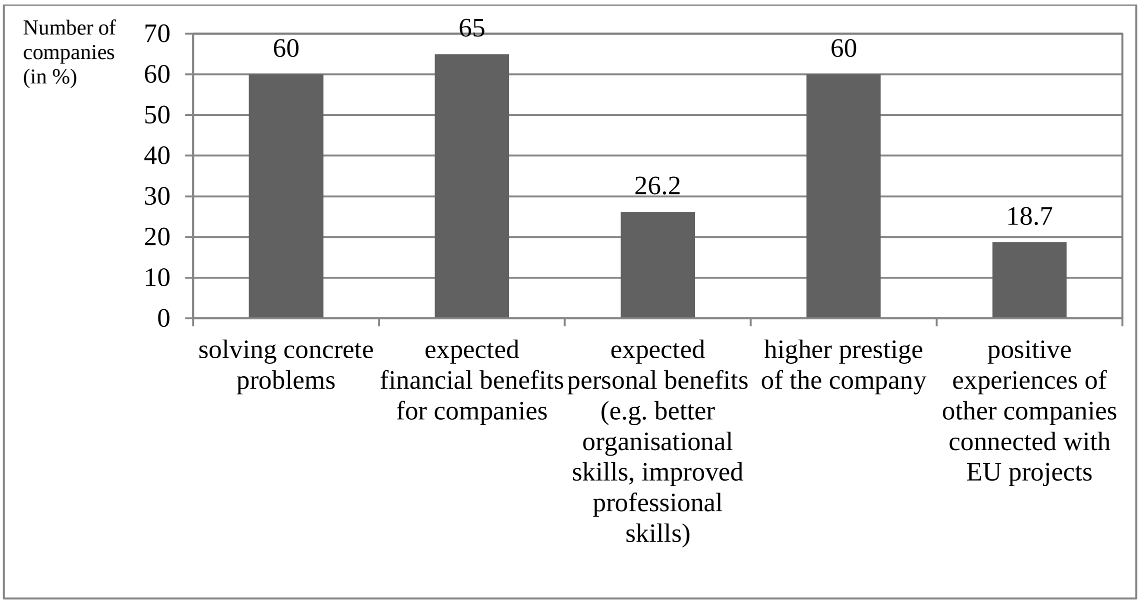
6. Project profile

The sample included companies which received assistance from EU funds. Almost half of them implemented only one project, more than one-fourth implemented two projects, while 15% implemented five or more. Thus only a small fraction of the sample had a great deal of experience in EU projects.

Our survey showed that this experience came about gradually. Some of the submitted applications were negatively assessed by intermediary institutions, a process experienced once or twice by a majority of the analysed companies. There were different reasons for rejecting applications, such as:[4] too few points in the evaluation (9), substantive errors in the application (9), formal mistakes (7), inconsistency of the project with the objective of a given measure (5), project not innovative enough (4), and misleading by the intermediary institution (3).

In order to better evaluate the importance of EU resources for companies, one should examine the motivations and motifs of companies which applied for project subsidies. In their answer to a closed question, the respondents could list several reasons. In their opinion the most important was the receipt of resources for technical modernisation of production equipment. Companies expected that this would be achieved by the purchase of more modern machinery, equipment and research devices, which will improve their market position. These expectations featured mainly in the group of small entities and in industrial and construction businesses. Acquiring soft skills that help gain markets (e.g. negotiating skills and languages) was treated as less important. The majority of companies perceived the participation in EU projects as a factor which enhanced their reputation, although this was not considered a primary goal.

The need to improve the quality of human capital motivated only one fourth of companies to submit an application. The importance of the factor was appreciated by much more service companies than industrial ones (but less than a half in both cases), which might relate to on average higher skill requirements vis-à-vis the workers and higher labour intensity in the service sector.



Source: own study.

Fig. 1. **Reasons for applying for EU funds**

In order to identify the major difficulties in the delivery of projects, respondents were presented with nine factors to rate on a five-point scale.[5] Besides the distribution of factors for our analysis of the

[4] The share of companies listing particular reasons is given in brackets.
[5] The following scale was used for difficulties: a little or not difficult (1), a little difficult (2), moderately difficult (3), difficult (4), very difficult (5)

answers, we used the mean, standard deviation, and coefficient of variability. Prior to this we assessed the reliability of the measure using Cronbach's alpha coefficient.[6] Its value of 0.744 means that the measure was highly reliable, hence the results which we obtained can be statistically analysed.

It turned out that, contrary to some earlier opinions and expectations, the implementation of EU projects did not cause any major problems (see Adamkiewicz et al., 2009.; Weiss, 2011, pp. 190-191). Most respondents stated it was "a little or not difficult" or "a little difficult". The mean (2.257) for all answers suggests that on average the difficulties were considered to be slightly more than "a little difficult". Assessments of individual factors were clearly differentiated, which is confirmed by the high values of coefficients of variability (almost all above 50%).

The most troublesome issue for respondents was the lack of experience in drafting the documentation, and the need to provide co-financing for projects. As a result, knowledge concerning how to prepare an application was strongly correlated to the frequency of applying for EU resources, which confirms the importance of the principle of *learning by doing* for success in competitive bidding. The vast majority of companies which applied not more than three times declared difficulties in drafting an application ("moderately difficult", "difficult" or "very difficult"), while over half the companies which applied for EU funds more than three times classified the difficulties related to the application process as minor ("little or not difficult" or "little difficult").

Table 1

Importance of experience in drafting project application and difficulties in using EU programmes

How many times did the entity apply for EU resources?	**Difficulties in benefiting from EU programmes connected with the absence of experience in drafting project application**		**Total**	**Average**
	v. little or none and little	**moderately difficult, difficult and very difficult**		
	in %			
1	21.7	78.3	100.0	3.304
2	36.4	63.6	100.0	2.905
3	30.0	70.0	100.0	3.100
4	55.6	44.4	100.0	2.556
5 – 9	83.3	16.7	100.0	1.750
10 and more	75.0	25.0	100.0	2.500
Total	**42.5**	**57.5**	**100.0**	**2.810**

Source: own study.

The requirement to contribute one's own resources and co-fund using them posed serious difficulties (at the very least assessed as "moderately difficult"). These especially concerned small and micro-companies, usually weak in terms of capital and struggling to maintain financial liquidity. Perhaps that was why their problems with providing their own resources could not be solved by applying for a bank loan. Even the cost of drafting project documentation was sometimes an obstacle, as these companies used the services of consulting companies when drafting the application. Hence, in terms of competition for EU money, bigger, better managed enterprises with adequate human and financial resources stood a better chance of winning.

[6] This reflects the level of agreement among respondents in answers to individual questions, i.e. shows the probability of answers to questions on a scale from 0 to 1. The higher the coefficient, the better the answers measure the phenomenon covered by the study, (see Ferguson, Takane, 2004).

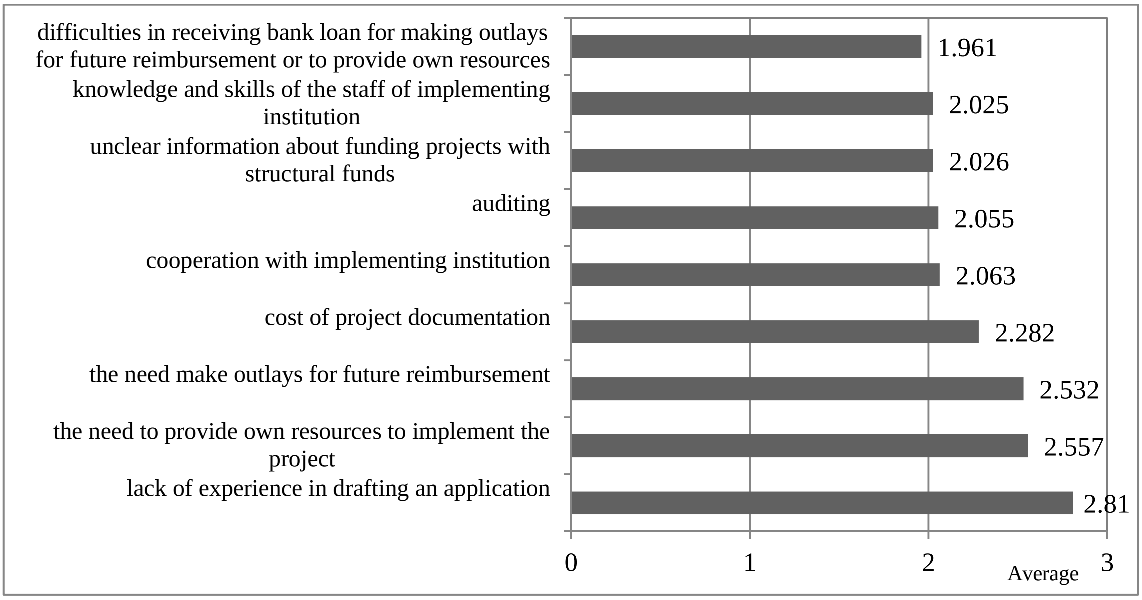
Table 2

Ensuring own resources as an obstacle to benefiting from EU programmes, and the size of companies

Employment	Importance of ensuring own resources as an obstacle		Total	Average
	very little or none and little	moderately important, important and very important		
	in %			
up to 9 people	37.5	62.5	100.0	2.875
10 – 49 people	35.3	64.7	100.0	2.758
50 – 249 people	47.0	53.0	100.0	2.412
250 and more	100.0	–	100.0	1.500
Total	**43.7**	**56.3**	**100.0**	**2.557**

Source: own study.

Relations with the implementing institution and auditing bodies that monitor the use of EU resources were considered less of a problem. This would seem to be a good sign in terms of the organisation of state and local government administration in the region. One of its important tasks was disseminating information about projects to and among potential beneficiaries. Most respondents positively assessed the flow of information from the implementing institutions. However, these were the opinions of those companies which received funds ("in general the availability of information seems rather good. I and a large share of my acquaintances received the money from the EU so it cannot be bad. [...] Those who receive the funds say it is easy, those who do not, say it is difficult").

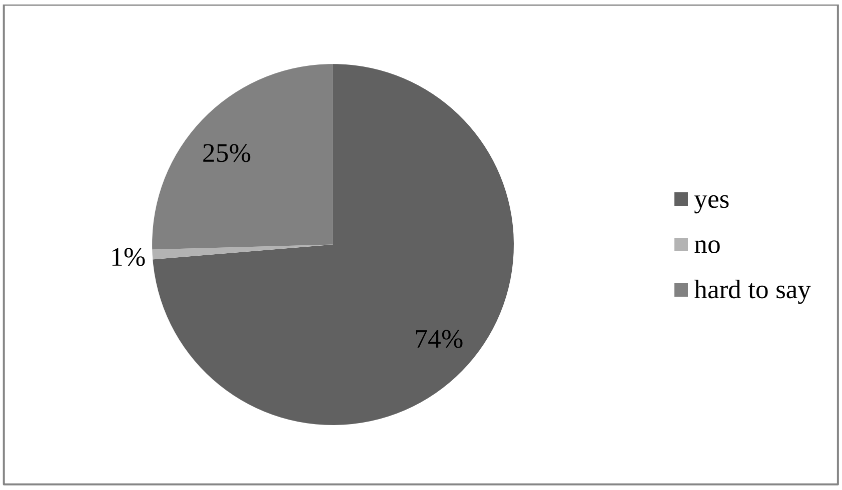


The means were calculated using the following scale of difficulties: little or not difficult (1), little difficult (2), moderately difficult (3), difficult (4), very difficult (5)
Source: own study.

Fig. 2. **Difficulty ranking for benefiting from EU programmes (by average answers)**

7. Outcomes of EU projects

According to the vast majority of companies, the implementation of EU projects is worth continuing. This is confirmed by the fact that at the time the study was conducted almost three-fourths of respondents had already decided to participate in subsequent project bids, while only 2% concluded they did not need them for the growth of the company.



Source: own study.

Fig. 3. **The share of companies planning to apply for EU resources in the future**

Benefits and costs were assessed by respondents with reference to fourteen factors on a three-degree scale.[7] For most of them (56%) the balance was positive, and only 14% of respondents evaluated them negatively. Despite the 14% negative assessments, it should be noted that, as has already been mentioned, only 2% did not plan to re-apply for resources from Operational Programmes.

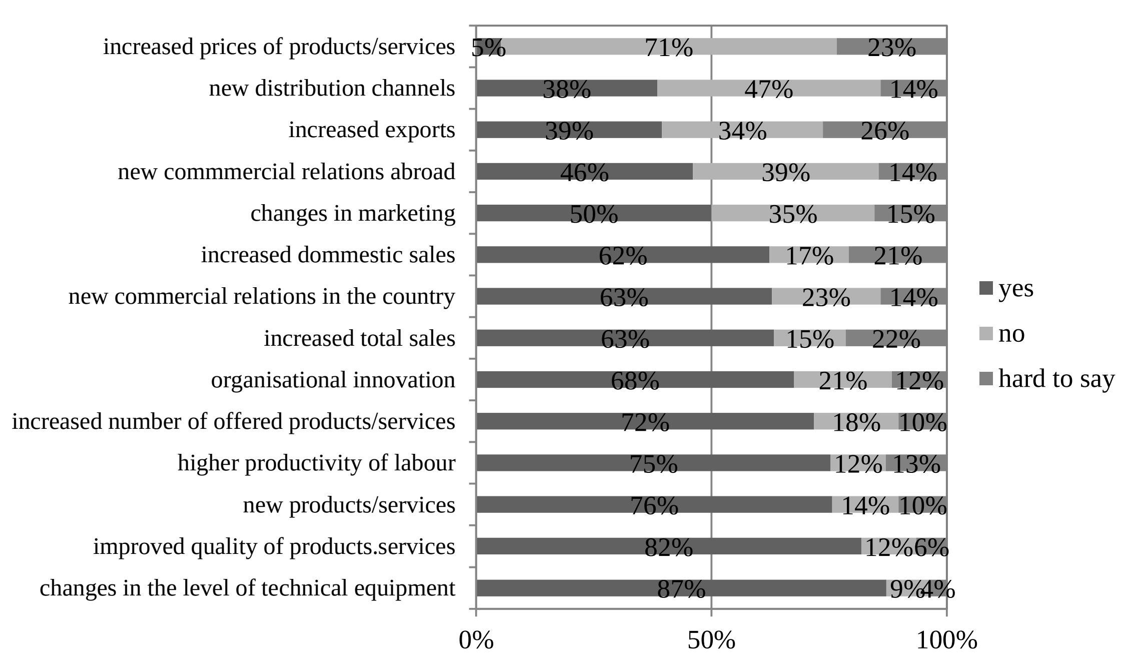
Our detailed analysis of effects showed that projects contributed mainly to the enhanced competitiveness of the majority of companies, mainly due to significantly improved technical equipment. This allowed companies to offer customers new products and/or services of higher quality. Productivity also improved. Over 60% of companies increased their sales, but on the domestic market rather than through exports. The introduction of new organisational solutions and improved business management had a much smaller impact upon the above changes.

As has already been stressed, for the majority of companies the main goal was to upgrade, in broad terms, their products and production. In our sample as many as 85% of companies stated that they achieved this aim, the rest had no opinion. This means that, from the microeconomic point of view, EU resources were rationally used. On the other hand, however, only a few companies improved their innovation potential by applying for patents, certificates, or other intellectual property rights to products and technologies. This may mean that the level of implemented innovation was moderate, and that improved competitiveness resulted from higher marginal productivity of investment.

Relatively few companies went beyond the acquisition of new machinery, establishing new commercial relations (mostly with domestic rather than foreign companies), implementing marketing innovation, and gaining access to new distribution channels. Average prices were not increased either, as

[7] The following rating scale was used to assess the effects: yes, no, hard to say.

the activities undertaken served to strengthen strategies of competitive pricing rather than competing over the value of products sold.



Source: own study.

Fig. 4. **Effects achieved as a result of the implementation of the EU programmes (share of companies)**

Table 3

Increase in innovation capacity as a result of EU projects (in %)

Item	Company's status			Total
	yes	in the process of obtaining	no	
Certificate of conformity of the quality management system with ISO standard	10.0	12.5	77.5	100.0
Other quality certificates	13.7	2.5	83.8	100.0
Patents for inventions	6.2	5.0	88.8	100.0
IPR for utility models	8.7	1.3	90.0	100.0
Rights to registered industrial designs	10.0		90.0	100.0
Protection of trademarks	12.5		87.5	100.0

Source: own study.

8. Impact of projects upon companies' human resources

One of the main objectives of the cohesion policy in Poland is the reduction of unemployment, i.e. better use of labour in quantitative terms. On the other hand, it is generally considered that the market success of a company and growth of the economy depend on the quality of these resources, i.e. on human capital (Florczak, 2012). For this reason in our study we looked at projects implemented by companies from the point of view of managing the human factor.

Projects turned out to be an effective stimulus for increasing employment in more than 70% of companies. The increases, however, were not that large and usually did not exceed five new jobs. Only a very few respondents hired more than 20 new employees. Employment was mostly based on employment contracts (96% of companies), i.e. the form usually most attractive to employees. Civil law contracts, which offer more flexibility to employers, were more scarce and were used by only 28% of enterprises.[8] There was only one case where the implementation of a project led to a decrease in employment. As could be reasonably expected, the increase in employment was much higher in medium-sized than in small companies.

A private company does not include combating unemployment as its primary objective, but rather aims at generating a profit. Hence respondents drew our attention to the inconsistency between the social and efficiency-related requirements in competitions for projects funded with the EU funds. They pointed out that purchasing machinery and equipment to implement technological and organisational modernisation is aimed rather at reducing labour costs than increasing employment. This lack of a propensity to hire new people was also dictated by striving to better use their own staff.

Most companies were rather clear about the requirements with respect to the skills and experience of employees they were seeking. While these preferences were strongly differentiated, nevertheless people with a technical background were definitely the most often hired. This was typical not only for industrial processing and construction, but also for the services industry. A clear preference was given to young people, in particular between 26-35, i.e., young but with some professional experience. Skilled workers were most in demand, with high skills, professional experience, and a specialist background.

However, companies hired only several people with high skills (mostly between one and four very rarely more). The newly recruited employees were not usually intended for managerial positions, and had a technical vocational background (e.g. machine operators, mechanics) or higher technical education (IT, engineers). It may be said they complemented human resources in companies without significantly altering their average quality. Only in a few individual cases were people recruited for managerial positions.

Table 4

Highly skilled persons employed as a result of EU funded projects *

Did the company need to hire highly skilled people as a result of project implementation?	Number of companies	
	absolute terms	in %
No	25	43.9
Yes	32	56.1
Total	57	100.0

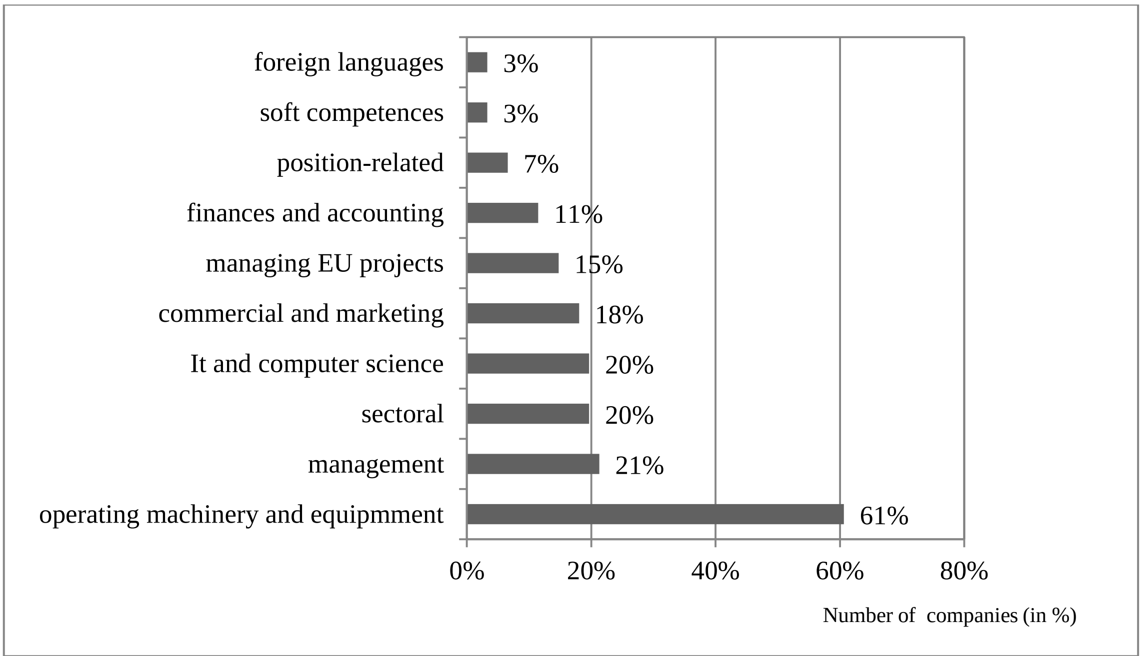
* This question was posed only to companies which declared increased employment as a result of the project
Source: own study.

Human capital in companies which implemented EU projects also improved with the assistance of various training courses. Trainings were organised in more than three-fourths of the companies. The percentage was a bit higher for service companies than in industrial processing and construction. Employees were mostly trained domestically, much more rarely abroad. In more than one-third of the sample trainings and courses, they were attended by the majority of staff. These were very popular mostly in those sectors offering modern services.

[8] Respondents could choose several answers.

Training was independent of position, but employees were trained more often than managers. In particular the courses for the former were of an *ad hoc* nature relating to the current needs of a company, as opposed to being designed to systematically improve skills. Upgrading skills was mainly related to investments, as in almost half of the companies it was connected with servicing the machinery and equipment purchased with EU funds. Other trainings, such as in computer literacy and practical skills necessary in given industries, were less popular. Some employees were acquainted with the regulations and procedures for the implementation of EU projects. Training courses addressed only to managers, which were much more rare, dealt mainly with managing a company, human resources, production, working time, and quality. There were very few foreign language courses.

The usefulness of training courses was assessed also in an open-ended question. Opinions differed ("… EU funds motivate employers to train their people, which is always positive. Improved skills usually lead to higher pay, which is also good. It is a pity, however, that some of the training courses made no sense. [...] We have serious reservations vis-a-vis the knowledge our staff acquired at courses. The only exception is in those cases where the company organises training itself to train its people in a given direction").



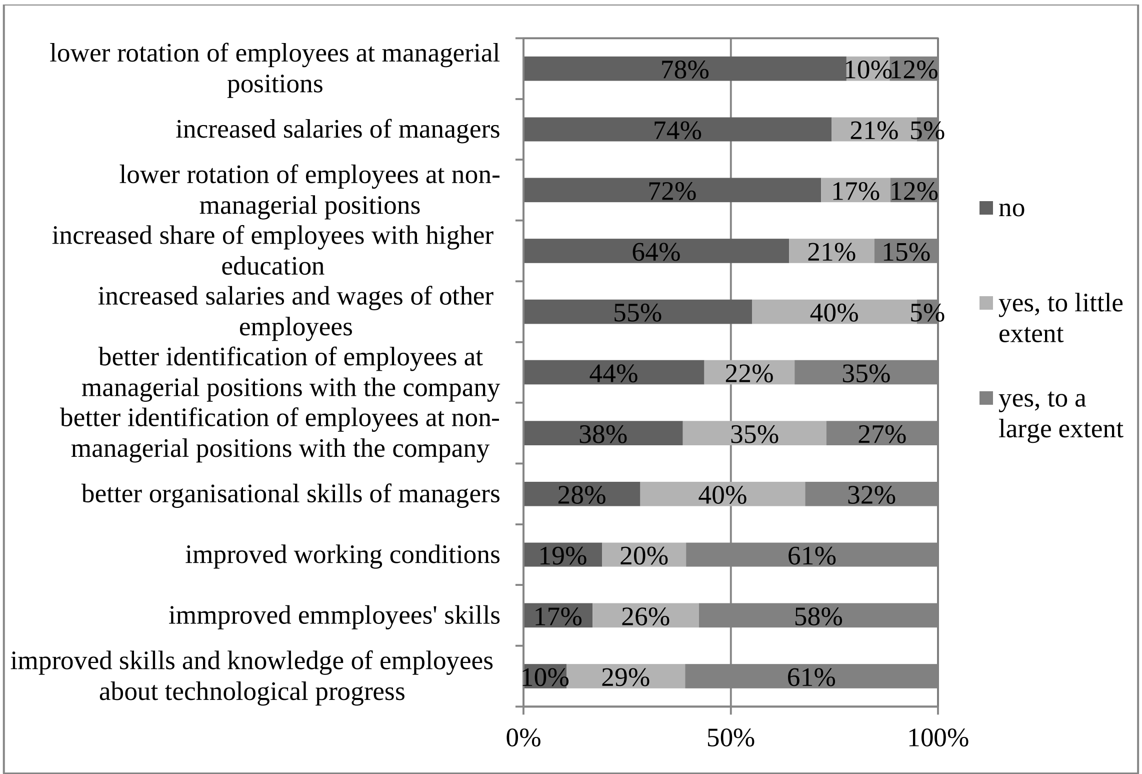
Source: own study.

Fig. 5. **Subjects of training courses (share of companies)**

The effects of EU projects on human resources in companies were determined by asking questions accompanied with a three-degree rating scale (no, little, big). We took account of eleven factors, which became our assessment criteria. Opinions were highly diverse. EU programmes positively impacted some factors, but less positively others. Assessments broken down by the size of companies and sectors were similar.

The impact of projects on employees' skills was assessed the highest. According to the majority of companies, it was very positive and contributed to improved skills and knowledge concerning technological progress. Many companies pointed to better organisational skills of their managers. However, a number of companies assessed the impact as relatively minor. That is consistent with the opinions of companies presented in answers to open-ended questions („using structural funds contributes to improved qualifications, knowledge, and skills of the employees, which increases the technical level and quality of products which we manufacture and sell. Labour productivity increases, workers make fewer mistakes, and use more efficient tools”).

To a limited extent EU projects led to a better identification of employees with their enterprises. In many companies staff rotation decreased and salaries and wages increased, but usually only a little.



Source: own study.

Fig. 6. **Structure of impact of EU projects upon human resources (share of companies)**

9. Conclusion

The cohesion policy in economically backward regions in Poland should enhance their endogenous growth potential. In the Lodz Region economic growth depends mostly on the development of SMEs, which face particularly large problems in gaining access to external sources of funding and, out of necessity, must use their own capital resources. Hence, subsidies from structural funds can provide them with a unique opportunity for investment and support in their struggle for market success.

In fact, due to the scarce supply of EU subsidies, only a few companies have benefited from the opportunity. At the same time, as demonstrated by our study, the projects involved rarely introduced any new quality or provided foundations for sustainable growth. Above all they focused (successfully) on providing effective support to technical modernisation of existing manufacturing equipment and helped the beneficiaries increase their marginal productivity of capital by exploiting low labour costs. However, they contributed only to a small degree to the introduction of the latest manufacturing methods or switching to more modern economic sectors. Rarely were they used as a tool to invest in human capital. It may be said that although they contributed to the increased value of output of beneficiaries, only rarely did the projects encourage them to offer their products to more demanding foreign markets.

We must stress that this conservative approach was adopted by enterprises which had a past history of good economic results. Gaining access to structural funds in fact required sound finances and specific *know how* about the rules and procedures of competing for the resources. Thus, the funds were mostly allocated correctly from the social point of view and strengthened the more competitive market participants.

The study also shows that increasing the pool of subsidies for companies would not necessarily remedy the situation with respect to accelerating economic growth in the region, mainly because of the limited efficiency of the bureaucratic machinery that allocates the subsidies and the large transaction costs involved in direct allocation. This matter, however, requires a more in-depth analysis.

In the light of the forthcoming financial perspective for 2014-2020, the concept of local authorities to concentrate on use of the resources for growth-oriented rather than for social objectives has become of primary importance. Rational support to local businesses to create technological development and accumulate human capital should be an important part of the plan. However, it remains uncertain whether direct EU subsidies for businesses can become an effective tool for this.

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