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Financing sources for business activities run by women from rural areas, as exemplified by the Podlaskie Voivodeship

Introduction

Irrespective of their size and location, business entities unalterably need financing. Considering that the SME sector has a significant contribution to GDP, the problem of enterprise financing deserves attention. Small and medium-sized enterprises generate every second Polish zloty – 47.3% of GDP, including the smallest companies, which generate almost every third zloty – 29.4% [Raport PARP 2013:13]. Nevertheless, they still have to face difficulties in raising capital and often finance business with their own funds. Eurobarometer surveys indicate that enterprises run by women are granted smaller amounts of loans at a higher interest rate and are financed with own funds more frequently than those operated by men: 80% of enterprises run by women and 65% of those run by men [Survey of the observatory of European SMEs 2007].

The type of internal capital and possibilities of its raising available to enterprises depend on various factors, including, but not limited to, the organisational and legal form of an enterprise, its financial situation, development stage, macroeconomic circumstances or the condition of the financial market. Small companies starting their activity with lower creditworthiness have considerable difficulties in obtaining financing in banks. Companies that have been in business for a longer period of time can benefit from a much broader range of possibilities as regards financing sources. Their availability varies depending on the ability of a given company to pay obligations and scale of its business, but it is generally much easier for them to obtain financing of investment projects as well as current assets.

Financial institutions have wide capital-raising possibilities and offers, but smaller entrepreneurs, including women, usually use them only to a limited extent. Although their awareness in the scope of financial products increases both, in Poland and other countries of the European Union, women still rarely decide to benefit from more complex offers (40% of women declared such an intention in 2013 as compared to 50% of men) [Brdulak 2013:19]. In general, entrepreneurs most frequently use bank loans and leasing, which they regard as the most easily available financing sources.

The main reasons for not applying for external financing are as follows: a fear of incurring a debt and lack of sufficient own contribution or adequate securities. Women are more afraid of the risk that their business could fail [Survey of the observatory of European SMEs 2007]. Financial institutions believe that the central problem of small companies is poor preparation of applications for financing, probably resulting, *inter alia*, from a lack of necessary skills and awareness in the scope of business planning, including the financing strategy. Another major issue is a low level of knowledge about business financing opportunities among entrepreneurs, particularly in rural areas [Raport diagnostyczny 2014:21].

Eurobarometer surveys suggest that a lack of financing sources for a venture is the main reason for not undertaking business activities, mentioned more frequently by women than by men. The economic determinants of undertaking business activities by women, including the credit system, have been emphasised by E. Lisowska in her research [Lisowska 2001a].

The aim of this study is to analyse the financing sources of small and medium-sized enterprises, in-

cluding those run by women, in particular from the rural areas of the Podlaskie Voivodeship. The analysis has been prepared on the basis of secondary literature and selected findings of the survey titled *Entrepreneurship of women in rural areas, as exemplified by the Podlaskie Voivodeship*, conducted as part of research BDS-7/IP/10/2013 in the second half of 2014.

General trends in the structure of enterprise financing in the context of the situation in rural areas

Surveys conducted by the Polish Agency for Enterprise Development (PARP) and Innovation Development Agency (Agencja Rozwoju Innowacji S.A.) indicate a steady tendency to contract external financial obligations less and less often [ARI 2013]. The prolonged economic crisis across the world and economic downturn in Poland led to a situation where, in 2012, 40% of companies financed their needs solely from own funds [Raport diagnostyczny 2014:39].

In 2012, bank loans were the most frequently chosen source of external capital. In the first half of 2013, as in the previous years, overdrafts enjoyed the greatest popularity: one in five companies benefited from this type of loan. One in ten companies took out a working capital loan while only 5% of companies chose an investment loan [Ministerstwo Gospodarki 2013]. As regards the smallest companies, one in the ten applied for a loan; in the case of small and medium-sized companies, the figures were one in four and one in five respectively.

Considering the extended network of cooperative banks in rural areas and knowledge of local conditions, the foregoing tendencies are likely to apply also to enterprises and people starting their business in the countryside. It should be noted, however, that the authors of a report on the survey conducted at the commission of the Polish Agency for Enterprise Development in 2010 [Badanie PARP 2010], small and medium-sized enterprises located in rural areas, contrary to common belief, take out loans much more frequently than business entities in small and large cities. Only 2.6% of entities not applying for loans were enterprises based in the countryside [Badanie PARP 2010:49].

As regards women, they generally use loans as an external financing source less frequently [Marlow, Patton 2005]. This may be related to the existence of a specific group of barriers applicable to women's entrepreneurship [Łuczka 2013:166]:

- female owners of small and medium-sized enterprises are more willing than men to use own funds,
- women face difficulties in raising venture capital,
- women experience discrimination in the loan market (as indicated by data from the USA),
- they have lower creditworthiness as a result of the lower business survival rate.

The barriers in access to financing are mentioned also by E. Lisowska in her research on women's entrepreneurship [Lisowska 2001:86-93].

The second most popular financing source among small and medium-sized enterprises after bank credits is leasing [*MŚP pod lupą* 2011]. As regards companies owned or managed by women, however, they are less interested in leasing as compared to companies owned by men or so-called "mixed" companies (www.lesing.org.pl). Entrepreneurs choose leasing mostly as a method of purchasing vehicles, in particular passenger ones, but there is also a dynamic rise in the purchase of heavy-duty vehicles: those with a mass of up to 3.5 tonnes and trucks, road tractors, semi-trailers/trailers and buses. The other segment of leasing is the financing of machine and device purchase [*MŚP pod lupą* 2011].

As regards the agricultural sector, in the first half of 2011, the value of contracts for the financing of agricultural machines exceeded PLN 893 million and constituted almost 60% of the value of all leasing for farmers in 2010. The popularity of leasing among farmers is undoubtedly related to EU grants, thanks to which they are able to modernise their farms. Enterprises constitute – along with local government units – a group of beneficiaries with the highest value of projects implemented as part of the National Strategic Reference Framework [*Przedsiębiorczość w Polsce* 2013]. As of the end of 2012, their value amounted to PLN 74.6 billion, i.e., 97% of the value of all investment loans granted to enterprises by monetary financial institutions operating in Poland (69% in 2011). Projects with the highest total value of the EU contribution were implemented by enterprises as part of the Infrastructure and Environment Operational Programme – PLN 33.5 billion – and the Innovative Economy Operational Programme – PLN 18 billion. The projects of enterprises financed as part of sixteen Regional Operational Programmes

amounted in total to PLN 14 billion of financial support from EU funds. The share of all enterprises in the spending of EU funds as of the end of 2013 was estimated at 32% and PLN 85,710 million [*Przedsiębiorczość w Polsce 2013*].

The Rural Development Programme for 2007-2013 was a programme addressed to rural areas. Two measures, in particular, were dedicated to entrepreneurship development, formation of new companies and jobs, as well as improvement of farm incomes: *Diversification into non-agricultural activities* and *Formation and development of micro-enterprises*. Their aim was to activate inhabitants of rural areas by building a social potential in the countryside. Three measures were undertaken as part of Axis IV, among which *Implementation of local development strategies* supported entrepreneurship development in the countryside.

Companies may be financed also from loan funds granting loans to micro, small and medium-sized enterprises and persons starting a business that face certain difficulties in obtaining commercial financing due to a lack of necessary securities or credit history. Loan funds grant loans for investment, economic, as well as mixed investment and economic purposes. According to the data obtained from 70 loan funds, in 2012, they had a loan capital of PLN 1,983 million and had granted more than 82.4 thousand loans since the beginning of their operation. The end of 2012 saw a rise in the average capital endowment of such funds by about 17%. In 2012, almost 8.3 thousand loans of the average value of PLN 77.8 thousand were granted. Their value rose as compared to 2011 by nearly 12%. In terms of the size of enterprises, 75% of the total number of loans were granted to micro-entrepreneurs, 20% to small entrepreneurs and 4% to medium entrepreneurs. Two among more than 70 loan funds focus mainly on rural enterprises (FDPA and FWW). Compared to commercial banks, loan funds have more simplified loan procedures and their price proposals are much more favourable thanks to the supply of capital from public funds and the EU. Beneficiaries who receive EU grants, however, are not allowed to use resources of most loan funds as a bridge facility because this would constitute double financing from EU resources.

In 2012, nearly 2% of entrepreneurs decided to acquire an external investor who did not require the return of the contributed capital [ARI 2013]. More than half of investment projects were addressed to the biotechnological (26.5%) and consumer (24%) industries. Financial services also gained in impor-

tance and constituted 18%. As in the previous years, most funds were assigned to mature companies (about 63%, i.e., EUR 344 million) and about 30% to dynamic growth companies (EUR 157 million). Both, the structure of ventures financed so far and the degree of their maturity indicate that private equity funds have rather no significant share in rural areas [Raport diagnostyczny 2014:37-49].

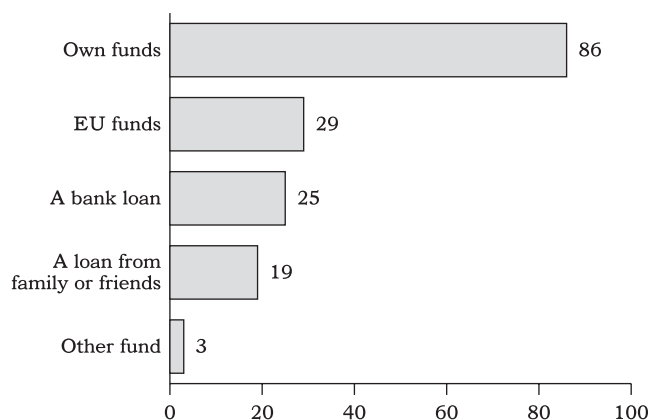
The structure of financing sources for enterprises run by women residing in rural areas of the Podlaskie Voivodeship

The survey titled *Entrepreneurship of women in rural areas as exemplified by the Podlaskie Voivodeship* has covered female owners and co-owners of companies based in the rural areas of the voivodeship who registered their business as a natural person or a civil-law partnership and were listed in registers as operating companies during the survey. The following research methods have been applied: desk research, quantitative research based on an interview (questionnaire) survey conducted using the direct method (PAPI – Paper and Pencil Interviewing) with 150 female entrepreneurs and qualitative research consisting of individual in-depth interviews (IDS) with 30 female entrepreneurs. The research sample was selected using the method of Respondent-Driven Sampling (RDS), characterised in literature as quasi-random and giving results that are the least distorted by systematic errors [Salganik, Heckathorn 2004:193-239].

The structure of financing sources for enterprises run by the women residing in the rural areas of the Podlaskie Voivodeship who have been covered by the survey is similar to the general tendency in business financing. The survey findings indicate that, in the case of women, funds for starting business included mostly own funds (86%), partly EU funds (29%), and, in 25%, funds from a bank loan (Figure 1).

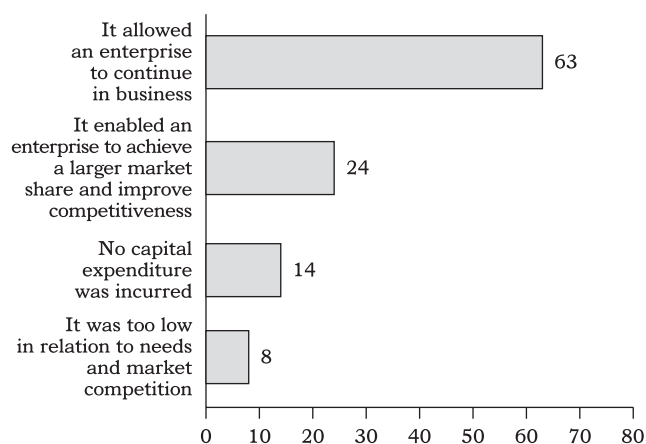
Capital expenditure incurred by female entrepreneurs in their companies in the course of the last two years in most cases allowed those enterprises only to continue in business (63%). In the case of 24% of the surveyed entrepreneurs, it enabled their companies to achieve a larger market share or improve their competitiveness. 14% of female entrepreneurs did not incur any capital expenditure in the last two years of running their companies (Figure 2).

Figure 1. Funds for starting business for women from the Podlaskie Voivodeship



Source: own study based on the findings of the survey *Entrepreneurship of women in rural areas, as exemplified by the Podlaskie Voivodeship*, $N = 150$.

Figure 2. Capital expenditure in companies operated by women from the Podlaskie Voivodeship from 2012 to 2014



Source: see Figure 1.

Capital expenditure in the enterprises covered by the survey allowed them to continue in business above all. This is best seen in the case of companies that have operated on the market for 6 to 10 years. Female owners of companies that have been in business for more than 10 years usually have emphasised that the capital expenditure incurred was too low in relation to their needs and market competition. The companies that did not incur any capital expenditure include mostly the youngest companies: those that have operated on the market for 3 years. The companies in which capital expenditure allowed for an increased market share and improved competitiveness are companies operating for 3 up to 5 years (Table 1).

The companies managed by the respondents in most cases did not benefit from public external funds for company development (67%). The mentioned reasons for not applying for external funds included most frequently a lack of interest in any form of assistance (35%), and too complicated documentation (35%). Some women (12%) did not know about such a possibility. Other reasons attributed by the surveyed women to their decision not to use external funds included too general (insufficient) assistance from consultants, lack of assistance from those programmes despite application and lack of knowledge where to apply for such assistance (Figure 3).

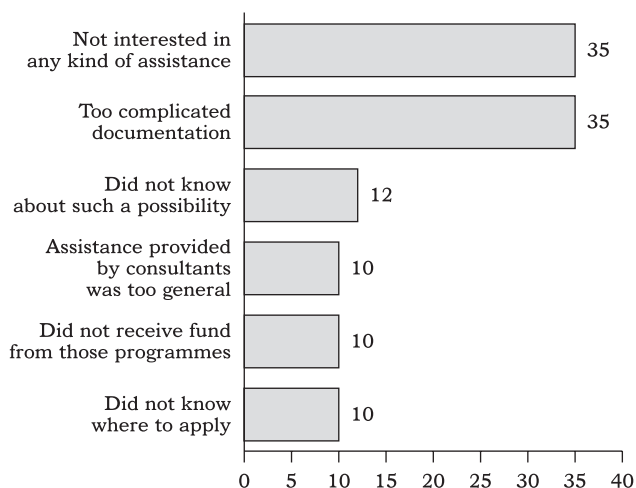
It should be noted that as many as 54% of the female entrepreneurs covered by the survey do not intend to use public external funds earmarked for company development. Nevertheless, one in three female entrepreneurs – 34% – has declared an intention to use such funds (Figure 4).

Table 1. Capital expenditure in the context of the duration of a company's presence on the market (%)

Volume of capital expenditure	The duration of a company's presence on the market			
	up to 3 years	from 3 up to 5 years	from 6 up to 10 years	over 10 years
It allowed an enterprise to continue in business	57	64	70	63
It was too low in relation to needs and market competition	7	4	7	12
No capital expenditure was incurred	17	14	7	15
It enabled an enterprise to achieve a larger market share and improved competitiveness	24	32	27	17

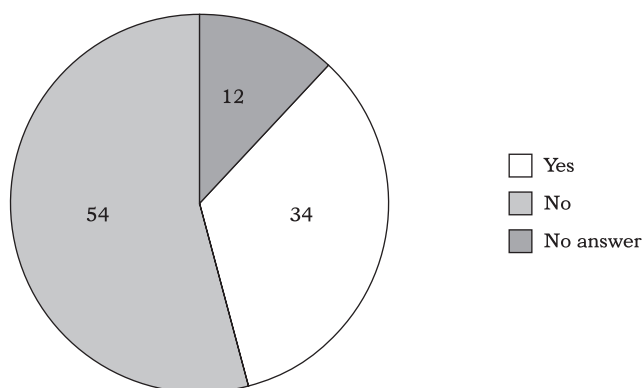
Source: See Figure 1.

Figure 3. The reasons of female entrepreneurs from the Podlaskie Voivodeship for not using public external funds



Source: See Figure 1.

Figure 4. Intention of female entrepreneurs from the Podlaskie Voivodeship to use public external funds for development in the near future



Source: See Figure 1.

The women from the Podlaskie Voivodeship covered by the survey spent external public funds mostly on the launch and development of micro-enterprises, purchase of office equipment, training and consulting, as well as environment protection activities.

Summary

The aim of the study was to analyse the financing sources of small and medium-sized enterprises operated by women from the rural areas of the Podlaskie Voivodeship. It may be noted that women benefit

from the existing possibilities of obtaining capital from financial institutions only to a small extent. In the case of the women from the Podlaskie Voivodeship covered by the survey, 86% of funds for starting a business were own funds. Consequently, it can be stated that women prefer financing from own funds and rarely use external financing sources, such as credits and loans. This applies also to men as noted in the publication of Zabierowski et al. [2012] – 17% of small and medium-sized companies use credits and loans. In literature, this phenomenon is defined as the “credit mentality of small and medium entrepreneurs” [Łuczka 2013:32-33].

The surveys conducted at the commission of the Innovation Development Agency (Agencja Rozwoju Innowacji S.A.) suggest that entrepreneurs are discouraged by the procedures of obtaining external capital (53.3%), high costs of its obtaining (43.75%) and required securities (38,54%). This is confirmed by the survey conducted among female entrepreneurs from the rural areas of the Podlaskie Voivodeship, who mentioned in particular “complicated documentation“ (emphasised on multiple occasions in individual interviews).

According to a Poland-wide survey, the two main reasons for a refusal to grant a loan to companies from the SME sector is a lack of creditworthiness (71%) or securities (24%). Other cases of refusal resulted from incomplete documentation and other reasons. Financing institutions use to believe that poor preparation of applications for financing is another problem of small companies. This is confirmed by the survey conducted among female entrepreneurs from the rural areas of the Podlaskie Voivodeship. One of the significant elements determining a credit decision is also the profitability of a venture, which, in the case of rural enterprises, is much lower as compared to enterprises operating in cities due to their mostly limited local character. This applies in particular to enterprises from the sector of services for the public, for which the market in the countryside is still relatively small due to the low incomes of the rural population.

Individual interviews conducted with the female entrepreneurs covered by the survey suggest that they assess preparation of business plans and applications as a highly complicated process. According to those women, only companies that have properly kept accounts or assistance of consulting companies are able to prepare documentation and implement investment projects. This, in turn, necessitates high costs that start-ups can hardly afford. According to

the participants of the survey, starting a business is not facilitated by the long duration of application processing as confirmed by the statistics which show that the average time for applications that led to the signing of an agreement was 301 days and 256 days for rejected applications (www.minrol.gov.pl). Another major problem is the method of investment financing, which was based for a long time on the principle of cost reimbursement. Another barrier to obtaining a loan, particularly in the case of start-ups, is a lack of credit history and own contribution.

Access to financing is a factor determining the development of entrepreneurship. It is one of the major problems of the SME sector apart from finding customers [Zabierowski et al. 2012:48]. One of the barriers to obtaining external financing is undoubtedly the poor knowledge of entrepreneurs, including women, about the possibilities of business financing. Consequently, it seems necessary to prepare entrepreneurs for using the offers of financial institutions. Improving and broadening their skills and competencies assume particular significance in the forthcoming financial perspective for the EU.

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