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ELEMENTS OF A FINANCIAL PROJECTION INCLUDED IN RURAL AREAS ENTREPRENEURSHIP DEVELOPMENT FUNDS ACQUISITION APPLICATIONS AS EXEMPLIFIED BY THE RADP AND ROP OV

Summary: A business plan as an expression of a financial projection is an element supporting an entrepreneur in the decision-making process concerning business development. The preparation of a business plan is a supporting element in the management process, and thus also a supporting element in entrepreneurship. It is important for the structure, scope of details and difficulty of a business plan (including also an Economic Operational Plan) to be adjusted to the organizational possibilities of the entrepreneur and the amount of subsidies applied for.

Keywords: business plan, economic operational plan, financial projection, entrepreneurship, RADP, ROP OV.

1. Introduction

The paper's objective is the presentation of the topic of financial projections included in financial plans, economic operational plans and business plans, i.e. enclosures essential for submitting applications for the acquisition of entrepreneurship development funds (including also rural areas).

2. The role and importance of financial planning as exemplified by business plans

Frequent changes in the market economy cause a new approach to the functions fulfilled by an enterprise. One of these functions is planning, i.e. the determination of objectives which a company wishes to achieve in its strategy.

Planning is a permanent process connected with the preparation of a detailed plan of objectives, measures, management methods, and consequently the preparation of the basic document used in the market economy, which is a business plan. A business plan is the starting point for the management board of a newly established

company or one that intends to modernise itself. A business plan is prepared in order to be presented to the supervisory board, investors, managers of banks financing an enterprise or a company, or business representatives who have free capital and want to start joint ventures.

For a potential investor, a business plan is the first (and often the only) written document supporting financing propositions. Therefore, it is important for the project submitted for the implementation (investment) to be presented in the document in a convincing, credible and reliable way.

The development of enterprises frequently requires the acquisition of external funds. Institutions supporting investment undertakings of such companies demand a presentation of their financial standing and planned investment projects. A business plan is one of the methods of translating the economic strategy into the economic language of specific and realistic technical and economic plans. It is a document prepared or commissioned by the entrepreneur, the founder during the preparatory process aimed at the establishment of a new business (company). It contains a projection of the company's objectives and the methods of their achievement, with regard to all existing financial, market, marketing, organizational, personnel and technological factors.

A business plan is a plan of economic activities or a plan of an economic enterprise. It is a set of documents (analyses and programmes) in which, on the basis of an evaluation of the company's strategic situation and historical data, a projection of the company's objectives and methods of their achievement are presented, with regard to all existing financial, market, marketing, organizational, personnel and technological factors.

On the one hand, the basic function of a business plan is its internal function, consisting in assistance in making decisions concerning the company's development, and on the other hand, its external function, aimed at the presentation of the entity's development concept and its business activity for the factual and/or potential economic partners, in particular, banks financing the business activity, investment funds and business-supporting public organizations as well as potential economic partners.

The external function seems to be the main reason for the preparation of business plans in micro and small enterprises. This is the consequence of, for instance, the characteristics of economic activity, especially in small enterprises, such as a relatively simple economic activity consisting of a small number of processes, use of the company's own funds, a small number of contractors, functioning in a specific, known market segment, etc. The information requirements of the managerial staff of such a company are considerably smaller than those of a large company.

The preparation of a business plan by a micro or small enterprise is in many cases a formal requirement in the application process for external funds. Banks very often demand a business plan to be attached to a credit application, and institutions

granting EU subsidies regard a business plan as an obligatory part of an application. Depending on the requirements of particular institutions, apart from the most frequent elements, a business plan may also be supplemented with additional information. Depending on the type of plan and the form of business activities, particular projects may differ from one another, but each business plan should contain commercial, technical, financial, and economic factors included in a business activity plan and financial plan.

Because of the specific characteristics of micro and small enterprises, the preparation of a business activity plan should not be difficult, but because of limited possibilities of information acquisition (insufficient quantity and quality of information resulting from keeping tax records), some difficulties may appear in the preparation of a financial plan, i.e. an operating statement plan, assets and liabilities plan, cash flow plan, and in order to make it more readable, also the preparation of a detailed revenue, cost and investment expenditures plan in the form of separate statements.

3. The notion of entrepreneurship and the role and importance of SMEs

The factor which determines the development of many regions is first of all entrepreneurship connected with the local social, cultural and demographic conditions. Entrepreneurship may be understood as a process of creating something new and valuable, something that a person devotes their time and effort to in order to achieve specific financial profits and personal satisfaction, assuming an admissible financial, psychological and social risk. Entrepreneurship may be expressed in an inclination to participate actively in business life, which helps to increase the potential and level of economic entities, and in extremely difficult situations – at least to maintain their present condition. Entrepreneurship is also expressed in the active attitudes of the inhabitants, local authorities and all entities connected with a particular area, as well as the impact of external entities, which may potentially shape the favourable condition of a particular territorial unit's economy by means of their decisions [Robaszekiewicz 2000, p. 487]. Entrepreneurship is an attitude and a process of starting and developing business activities through the combination of risk taking, creativity and/or innovativeness with good management within new or existing organizations [Klich 2007, p. 29].

The entrepreneurship index is influenced by the number of small and medium enterprises of diversified sizes functioning on the market, which constitute one of the essential elements of economic order in the market economy. This allows for an initiation of the competitiveness mechanism, and consequently the optimal satisfaction of consumers' needs.

A balanced structure of market entities, including small and medium enterprises, determines balanced interactions between them, decreasing the risk of corrupt practices and eliminating distortions connected with the monopolization of the market by several powerful companies. Stressing the role of small and medium enterprises in the market economy, the emphasis is frequently put on their importance in the development of competitiveness, shaping market balance, demand, export, employment and the development of interpersonal relationships.

In highly developed countries, small and medium enterprises are the foundation of the market economy based on competitiveness. They are present in industry, trade and services. They stimulate local and regional development. They are an important element of a stable democratic system. They use their own funds and the so far inactive capital reserves, they mobilise local employment reserves. They develop new initiatives and concentrate on markets which frequently remain outside big industry's range of interest. Absorbing unemployment, they considerably alleviate social problems.

4. Acquisition of funds from the RADP

The principles of support for rural areas development were specified in Council Regulation (EC) no. 1698/2005 of 20 September 2005 on the support for rural development by the European Agricultural Fund for Rural Development (Official Journal of the European Union of 21 October 2005).

The objective of the EAFRD specified in Council Regulation (EC) no. 1290/2005 is the promotion of sustainable development of rural areas in the Community, supplementing the market policy and income support policy within the common agricultural policy, the cohesion policy and the Common Fisheries Policy. Council Regulation (EC) no. 1698/2005 of 20 September 2005 concerning support for rural development by the European Agricultural Fund for Rural Development forms the basis for the National Strategic Plan and the Rural Areas Development Programme for 2007-2013.

The Programme's instruments will be divided into axes, the implementation of which is expected to contribute to the achievement of the following objectives:

- the improvement of the competitiveness of agriculture and forestry through the support of restructuring, development and innovativeness;
- the improvement of the natural environment and rural areas through the support of land management;
- the improvement of the quality of life in rural areas and the support of diversification of business activities.

The National Strategic Plan covers the programming period for 2007-2013. On the basis of an analysis of the social, economic and environmental situation carried out, pursuant to available statistical data, the priorities and directions of rural

areas development in Poland were determined with reference to the Community priorities, which will be the foundation for the Programme.

The Rural Areas Development Programme for the 2007-2013 is an instrument for the implementation of the European Union's policy concerning rural areas development (RAD). The document specifies the objectives, priorities and principles on the basis of which activities concerning rural areas development will be supported.

The programme is implemented in the entire territory of Poland. The foundation for the implementation of the strategic assumptions of the Programme described in the National Strategic Plan of the Rural Areas Development in 2007-2013 is the set of rural areas development activities within four priority axes. All of these activities are co-financed by the European Agricultural Fund for Rural Development and by national funds allocated for that purpose in the Budget Law.

Four axes have been defined within the priority directions of support to the rural areas:

- Axis 1: The improvement of the competitiveness of the agricultural and forestry sectors.
- Axis 2: The improvement of the natural environment and the rural areas.
- Axis 3: The quality of life in rural areas and diversification of the rural economy.
- Axis 4: Leadership.

On 15 April 2009 the Regional Offices of the Agency for Restructuring and Modernisation of Agriculture (ARMA) began the processing of applications for "Diversification into Non-Agricultural Activities" (see Table 1).

Table 1. Application documents being the basis for applying for subsidies within Measure 311 "Diversification into Non-Agricultural Activities"

1. Financial aid application form within Measure 311 "Diversification into Non-Agricultural Activities"
2. Enclosures to the financial aid application form within Measure 311 "Diversification into Non-Agricultural Activities" <ul style="list-style-type: none"> • The Economic Operational Plan (...) for "Diversification into Non-Agricultural Activities" Measure included in the RADP for 2007-2013: • The Applicant's declaration concerning de minimis aid received so far; • The estate owner's/co-owner's declaration of consent for the implementation of an operation directly relating to the estate (...)

Source: Author's own analysis on the basis of www.arimr.gov.pl/pomoc.../prow-2007-2013-program.html (the website of The Agency for Restructuring and Modernisation of Agriculture).

In order to prepare the required documentation and become eligible for the assistance under the aforementioned measure, the beneficiary should pay attention to the following issues (see Table 2):

Table 2. Guidelines for filling-in the application form

1. The application form should be completed according to the provided instructions
2. All boxes of the application form should be completed, and special attention should be paid to the obligatory boxes, because if they are not completed, aid will not be granted
3. The application form should contain all necessary enclosures, and special attention should be paid to obligatory documents, because if they are not provided, aid will not be granted
4. The Applicant should complete part I.A of the application form. Information concerning the Co-owner/Owner of a producer identification number in case the operation concerns a co-owned property (including common marital property) or a producer identification number has been given to a person other than the Applicant
5. The Applicant should complete part II.A of the application form. Information concerning the area of record parcels included in the property indicated in the application form for the granting of subsidies to agricultural land and sugar payments
6. The Applicant performing an operation permanently related to the real property located outside the agricultural farm should complete part III. A of the application form. Information on the area of the record parcels included in the real property on which an operation will be performed – in case such operation is performed outside the agricultural farm indicated in the application form for granting of subsidies to agricultural land and sugar payments
7. The Economic Operational Plan is drawn up in a self-calculating version; it should be filled in according to the instructions. Gray boxes may not be edited. Yellow boxes contain self-calculating formulas and may not be edited, either
8. An application to be submitted should have the form of a printout of the whole folder of an electronic version of an application in Excel format
9. An application should be signed by the applicant/a person representing the applicant/an attorney in all the required places
10. An application to be submitted should have the form of a printout of the whole folder of an electronic version of an application in Excel format

Source: Author's own analysis on the basis of www.arimr.gov.pl/pomoc.../prow-2007-2013-program.html (the website of The Agency for Restructuring and Modernisation of Agriculture).

A financial aid application form under measure 311 “Diversification into non-agricultural activities” consists of seven main parts (consider Table 3):

The Economic Operation Plan (EOP) is an enclosure to the grant application form within Measure 311 “Diversification into non-agricultural activities” containing a financial projection. Among other things, this plan includes such elements as the characterisation of the planned operation, presentation of financial resources for the financing of the operation, forecast of revenues and costs related to the operation as well as the net present value.

Filling in the EOP means filling in the particular sheets starting with the sheet called “title”, through the sheet entitled “ID” (it includes the applicant’s details and a presentation of the planned operation, preliminary operations and a description of the operation). On the next sheet, the applicant should present a further specification of the planned operation and a detailed description of the possessed facilities

Table 3. Contents of application under Measure 311

I.Applicant details
I.A.Details of co-owner of agricultural farm/details of holder, producer identification number
II.Description of current activities
II.A. Information concerning the area of record parcels included in the property indicated in the application form for the granting of subsidies to agricultural land and sugar payments
III.Description of operation
III.A. Information on the area of the record parcels included in the real property on which an operation will be performed – in case an operation is to be performed outside the agricultural farm indicated in part II.A of the application
IV.Financing of operation
V.V. Specification of works and expenditures
VI.Information on enclosures
VII.Applicant's declaration

Source: Author's own analysis on the basis of www.arimr.gov.pl/pomoc.../prow-2007-2013-program.html (the website of The Agency for Restructuring and Modernisation of Agriculture).

necessary for conducting agricultural and economic activities. The sheets entitled “Needs and Material Scope” include a table to be filled in with an analysis of needs and benefits as a continuation of the characterisation of the planned operation. The subsequent sheets in the EOP are to include a financial projection. Data entered in the previous sheets appear and some calculations are performed here automatically. However, the quantities in these sheets are very aggregated – they comprise the quantities necessary to calculate the proposed investment's net present value. Thus, the projection includes a plan of operating revenues and costs, the amount of income tax and income necessary to assess cash flows. The projection does not include any elements related to a forecast of the development of assets and liabilities or the calculation of the basic economic ratios related to such categories as liquidity, return or profitability.

5. Acquiring funds from the ROP OV

The Regional Operational Programme of Opolskie Voivodeship for 2007-2013 (ROP 2007-2013) is one of the tools of implementing the Development Strategy of Opolskie Voivodeship [*Strategia województwa...* 2005]. The execution of tasks included in the ROP is possible thanks to funds from the European Regional Development Fund (ERDF).

It is assumed that ERDF funds are to be spent on activities ensuring support for a sustainable and integrated economic development as well as employment at regional and local levels by mobilising and strengthening the endogenic abilities with-

in the scope of operational programmes, whose objectives include a modernisation and diversification of economic structures as well as the creation and protection of permanent workplaces.

With respect to the objectives of the ERDF, the local social and economic conditions of the voivodeship and the results of a SWOT analysis, the major objective of the ROP was defined as increasing competitiveness and ensuring social, economic and spatial cohesion with a view to improving the attractiveness of the Opolskie Voivodeship as a place to invest, work and settle down in [*Regionalny program...* 2007, p. 70]. Its achievement will be possible through the achievement of the strategic objectives.

It is assumed that the fulfilment of the strategic objectives is to contribute to the stimulation of the economic potential, to improve the voivodeship's attractiveness and competitive advantages, which consequently should result in an increase in employment. The defined strategic objectives include the following:

1. Strengthening the regional economy by developing the entrepreneurship of the R&D sector as well as the tourist, sports and recreational infrastructure for social and economic development.

2. Improving the region's development prospects and its inhabitants' mobility through the development of the transport infrastructure.

3. Improving the condition of the natural environment, ensuring environmental protection and anti-flood protection.

4. Strengthening the position of education, improving the importance of culture with a view to improving the region's attractiveness; improving the level of health security with respect to ensuring the effective utilisation of the regional employment resources.

5. Preventing the social, economic and spatial marginalisation of the selected degraded areas selected for revitalisation.

6. Ensuring an effective and efficient system of managing, implementing, monitoring, evaluating and controlling the ROP OV 2007-2013 and achieving the full absorption of structural funds in 2007-2013.

In order to ensure transparency of the ROP OV 2007-2013 implementation system, mainly with respect to improving the process of potential beneficiaries' applying for funds available within the scope of the Programme, the ROP OV 2007-2013 Managing Institution adopted a decision to prepare additional documents to include the details of the whole process, i.e.:

- a guide for the beneficiaries of the ROP OV 2007-2013,
- a schedule of the application submission process,
- the regulations of updating the Indicative Investment Plan,
- instructions for filling in a key project application form,
- a model of a project application form for a key project,
- guidelines concerning the principles of developing and evaluating Local Revitalisation Plans within the scope of the ROP OV,

Table 4. The development of business plans constituting enclosures to grant applications

A business plan for entities applying for support within the scope of the ROP OV for 2007-2013	The economic operational plan An enclosure to a grant application within Measure 311 "Diversification into Non-Agricultural Activities" within the scope of the RADP for 2007-2013
<ul style="list-style-type: none"> A. Basic project details <ul style="list-style-type: none"> A.1. Applicant details A.2. Project location B. Description of applicant's current activities <ul style="list-style-type: none"> B.1. Applicant's activities B.2. Description of enterprise's activities B.3. Applicant's offer and revenue from activities B.4. Market position C. Project description <ul style="list-style-type: none"> C.1. Project objectives C.2. Investment needs and technical resources for project implementation C.3. Employment C.4. Managerial personnel C.5. Experience and human resources C.6. Current production capacity C.7. Project's material scope, cost estimate and implementation schedule (not applicable to lease financing) C.7a. Project's material scope, cost estimate and implementation schedule (applicable to lease financing) C.8. Project's material scope, cost estimate and implementation schedule of tasks qualified for support C.9. Project financing sources C.10. Cost effectiveness D. Project's marketing plan <ul style="list-style-type: none"> D.1. Competition on the market D.2. Position on the market in consequence of project implementation E. Sales forecast <ul style="list-style-type: none"> E.1. Sales forecast E.2. Sales forecast in relation to project implementation E.3. Price E.4. Revenue F. Applicant's financial standing and its forecast <ul style="list-style-type: none"> F.1. Balance sheet (PLN thousand) F.2. Profit and loss statement (PLN thousand) F.3. Current capital requirements (PLN thousand) F.4. Financial ratios 	<ul style="list-style-type: none"> I. Applicant details II. Description of planned operation <ul style="list-style-type: none"> Ii.1. Introductory information Ii.2. Description of operation III. Financial projection <ul style="list-style-type: none"> Iii.1. Own funds Iii.2. External financing of operation Iii.3. Leasing Iii.4. Costs of operation Iii.5. Planned revenue and costs related to operation <ul style="list-style-type: none"> Iii.5.1. Sales forecast in consequence of operation implementation Iii.5.2. Costs of activities included in operation Iii.5.3. Net present value IV. Additional information

Comment: Priority Axis 1: Strengthening the region's economic attractiveness; Measure 1.1: Development of entrepreneurship; Sub-measure 1.1.2: Investments in micro enterprises; Version no. 2, April 2008.

Source: Author's own analyses.

- guidelines concerning the principles of providing assistance to private persons intending to start economic activities,
- detailed guidelines concerning the use of technical assistance in relation to the ROP OV 2007-2013.

Table 4 presents the process of developing business plans constituting enclosures to grant applications within the scope of the Regional Operational Programme of Opolskie Voivodeship for 2007-2013 and the Economic Operational Plan, i.e. an enclosure to a grant application within Measure 311 “Diversification into Non-Agricultural Activities”.

In light of the requirements concerning the development of business plans as presented in Table 4, the preparation of an economic operational plan, which is an obligatory enclosure to a grant application form within Measure 311 “Diversification into Non-Agricultural Activities” seems to be an easy task. It is definitely advantageous for potential beneficiaries, and this article is addressed to farmers who frequently do not possess information necessary, for example, to draw up a forecast of a balance sheet or a profit and loss statement. However, if we want to achieve the goals of such axes as, for example, axis 1 the improvement of the competitiveness of the agricultural and forestry sectors or axis 3 the quality of life in rural areas and diversification of the rural economy, we should give more thought to a potential future requirement to include more economic and financial elements in the financial forecasts.

6. Conclusions

At the time of the occurrence of particular situations, e.g. the beginning of economic activities or the acquisition of capital, demand for additional information increases. Irrespective of, for example the form of capital acquisition (credit, loan, grant subsidy), the provider of capital requires the presentation of a convincing plan for the utilisation of acquired funds. No institution will grant financial aid without the conviction that the provided capital will be used in accordance with its intended purpose. This condition is strictly complied with, especially by financial institutions and assistance funds, which results from the nature of their activities. Thus, a business plan (economic operational plan) prepared in an accessible, readable and orderly form, and supported by additional analyses, presents a comprehensive vision of using available capital and allows for an analysis and evaluation of the possibilities of its return, thereby providing credibility to the entrepreneur applying for a grant.

In view of the fact that a business plan is an element supporting the entrepreneur in making a decision concerning the development of his or her enterprise, its preparation is undoubtedly an element supporting the management process, and thus supporting the development of entrepreneurship. However, it is important that at the time of acquiring external financing that the structure, scope and difficulties of a business plan (economic operational plan) be adjusted to the type of relevant registration system, the entrepreneur’s organisational possibilities and the amount of

a grant that the entrepreneur (beneficiary) applies for; otherwise, the preparation of a business plan (economic operational plan) may constitute a particular type of a barrier discouraging the entrepreneur from further development and increasing the scope of her economic activities.

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WYBRANE ASPEKTY PROJEKCJI FINANSOWEJ ZAWARTEJ W WNIOSKACH O POZYSKANIE ŚRODKÓW NA ROZWÓJ PRZEDSIĘBIORCZOŚCI NA PRZYKŁADACH EFRROW I RPO WO

Streszczenie: Biznesplan jako realizacja projekcji finansowej jest elementem wspierającym przedsiębiorcę w procesie podejmowania decyzji dotyczących rozwoju przedsięwzięcia. Przygotowanie biznesplanu to element wspierający proces zarządzania – sprzyja zatem przedsiębiorczości. Ważne jest, aby struktura oraz stopień szczegółowości i trudności biznesplanu (w tym także ekonomicznego planu operacyjnego) była dostosowana do możliwości organizacyjnych przedsiębiorcy oraz do wielkości kwoty dofinansowania, o jakie występuje.