1. Basic Information
1.1. Désirée Number: PL0008.01.02
1.2. Title: SME Development
1.3. Sector: Private sector development
1.4. Location: Poland - Warminsko-Mazurskie Voivodship.

2. Objectives
2.1. Wider objective:
The wider objective of the project has been defined as the creation of conditions for achieving economic and social cohesion of the Warminsko-Mazurskie Voivodship by developing small and medium sized businesses.

2.2. Immediate objectives:
The immediate objectives of the project address directly the priority identified in the Warminsko-Mazurskie Operational Programme, being the development and promotion of entrepreneurship and the strengthening of the manufacturing and services sectors, through growth of small and medium enterprises. Targeting mainly the rural areas and small towns so characteristic for the region, the objectives include:
- the development of businesses after start-up and micro-businesses, increasing their numbers, competitiveness, viability and survival rates;
- the development of growth oriented small enterprises with innovative and competitive products and services;
- the development of medium sized enterprises with significant job creation capacities in the region, including those operating in the sectors of services and manufacturing.

2.3. Accession Partnership and NPAA Priority
The project responds to the medium term priority identified in the Accession Partnership – developing national policy for economic and social cohesion and preparing for the implementation of regional development programmes as well as Community Initiatives.

2.4. Contribution to the Preliminary National Development Plan
SMEs through their market flexibility and potential for employment creation can play a major role in regional development. Therefore one of the priorities for the country’s cohesion policy identified in the Preliminary National Development Plan (annexed to the NPAA) is “Improvement of the economy’s competitiveness through modernisation and structural adjustment of industry and services”. The priority will be implemented through the measure “Development of the SME sector”. This measure shall be complemented and enhanced by the activities carried out in the regions under the priority “Strengthening development potential of regions and counteracting marginalisation of certain areas”. One of the proposed instruments is “Supporting development of small and medium enterprises” by grants for start-ups and existing SMEs, advisory and information instruments for entrepreneurs, support for the creation of new enterprises.

The project is in line with both PNDP and the operational programme for Warminsko-Mazurskie Voivodship. The latter identifies “Support for small and medium enterprises” as one of the priorities for action. It is stated in the regional operational programme that small and medium term enterprises should constitute the basic tissue of the economy in the region where economic activity is concentrated in three major cities and high rate of unemployment is the main challenge.

3. Description
3.1. Background and justification:
The Warminsko-Mazurskie Voivodship Outline Operational Programme for Regional Development has identified some key issues and development priorities for addressing in the nearest future. The region is characterised by deep structural problems, the most important among these are a result of:
- the region’s peripheral and inaccessible nature (lakes, forests, rivers),
- its history and the abrupt migration of its former inhabitants in the wake of World War II, and
- recent economic development trends (leading to underdevelopment and strong dependence on the state farm system until the beginning of the 1990’s).

This has led to the highest unemployment rate in the country (including very high rates among former state farm employees, living in the artificial „communities” which formerly belonged to the state farms; and among young people - 50% of the unemployed are below 34 years of age); lack of traditional businesses and business ethics among the inhabitants (one third of existing enterprises have been operational for less than
one year); significant levels of poverty and dearth of endogenous resources for growth. Within such a context one of the priority areas for stimulating sustainable growth in the region has been identified as the further development of the small and medium enterprise sector. The apparent paradox in Poland is that the SME sector has been developing most dynamically in the high growth areas of the largest urban centres, where - due to the concentration of large industry - the SME sector plays a relatively minor role in the regional economy. On the other hand in such regions as Warminsko-Mazurskie, the SME sector plays the most important role in the regional economy, while remaining relatively underdeveloped, with a low ratio of the number of businesses per population of the region. Therefore the creation of conditions conducive to the growth of the SME sector has been prioritised in the region, as an area in which due to the still existing market gaps relatively impressive cost-impact ratios can be expected with the introduction of business development measures. The choice of the specific SME development measure – grants to SMEs linked to banking credits - stems from two considerations - demand driven and supply driven. One of the core needs of the businesses from the SME sector is that of access to external investment financing, through the banking system. With over one third of the businesses in operation in the region having a track record of less than one year, the issue of increasing the numbers of bankable business undertakings is crucial for the growth of the region. In this context the introduction of a grant scheme linked with bank loans will begin to address some of the issues of access to external financing. Furthermore it should be noted, that Warminsko-Mazurskie Voivodship is already covered by a number of preferential (subsidised) loan schemes, targeting new job creation and business start-ups by the unemployed. In the second half of 2000 a micro-loan project financed from Polish public funds should also become operational. The issue of the high collateral requirements of the banks and loan institutions though will remain, as the problem is very typical within the existing liabilities structure of the specific mix of SMEs active in the Warminsko-Mazurskie Voivodship, and this problem in time should be addressed through the further development of the credit guarantee system. All project activities will be implemented with the use of the project impact assessment guidelines developed for the Phare 2000 Economic and Social Cohesion Programme by the Implementing Agency. These will include comparative benchmarking analyses of beneficiaries and non-beneficiaries, in order to gather statistically significant data for future programming exercises.

3.2. Linked activities:
The project builds on the results achieved under several previous and ongoing Phare programmes, which have provided assistance in the creation and development of local and regional institutions and organisations, capable of providing information, training, advisory and financial services to SMEs. A number of these organisations are members of the National SME Services network. This SME support infrastructure has also benefited from the assistance of other donors, as well as the World Bank loans. Currently in the Warminsko-Mazurskie Voivodship there are 5 operational local guarantee funds for SMEs - 2 were established within the Phare PL9111 Local Initiatives Programme (both received additional financing from the Agency for State Agricultural Property – AWRSP) and 3 with gmina support and financing. The project’s instruments have been developed on the basis of experiences gathered especially within the previous Phare Programme funded activities in the area of small and medium enterprise development. These have included a number of national level programmes and projects designed specifically for the SME sector:

- PL9004 SME Sector Import and Support Programme (SME SIP);
- PL9109 Private Sector Development Programme (PSD);
- PL9511 Support to Entrepreneurship in Poland (STEP I);
- PL9603 SME Export Promotion (EXPROM II);
- PL9610 Support to Entrepreneurship in Poland II (STEP II);
and other programmes with important SME related components, including chiefly:
- PL9111 Local Initiatives Programme (LIU);
- PL9207 STRUDER Programme.

These actions financed through Phare have been supplemented by other Government, donor and IFI programmes, including:

- in the SME sector – USAID funded projects in policy and SME services (GEMINI, Business Information Centre Project, FIRMA 2000, FABRYKAT 2000)
- in the area of counteracting unemployment - World Bank support for micro enterprise development project (TOR 10)
- in the area of regional development – the Dutch Government funded project in SME development in the
former Olsztyn voivodship; Phare-INRED and SPP programmes as well as World Bank projects supporting the preparation of regional development strategies; bi-lateral projects in regional (local) development; Government programme supporting a choice of measures within regional restructuring programmes in selected regions, with financing made available on a competitive basis to regional and local operational level institutions and organisations for regionally selected mix of preferential loans and grants for enterprises, and institution building measures.

The current project is also structured in such a way, so as to take advantage of the results, capabilities and capacities built under the previous Phare funded interventions aimed at the development of the national and regional institutional framework for SME development, built around the concept of the National SME Services Network of over 120 co-operating organisations and institutions – local, regional and national. Currently the role of the operational level national centre for SME development within the network and within its sector monitoring and advocacy roles is being played by the Polish Foundation for Small and Medium Enterprise Promotion and Development. The Foundation is also an Implementing Agency under the Phare Programme for Ministry of Economy projects.

On-going activities with crucial relevance for the project include foremost:

- the Human Resources Development component of the Phare Economic and Social Cohesion Programme, which includes training actions stimulating new business start-ups and access to knowledge by SMEs.

The national level SME project has been designed to meet selected priorities identified in the preliminary National Development Plan, which also includes specific SME issues as prioritised under the Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002. This project will include, among others, a number of measures – which will be available nationally – concentrated on increasing SME competitiveness.

3.3. Results:

The results which will be achieved within this project will be a direct result of the introduction of the selected instruments from the national SME support scheme in the region.

Both the regional project and the national project have been developed within the emerging national SME aid scheme. This aid scheme – the National SME Services scheme (NSS, i.e. Krajowy System Uslug – KSU) – currently is being developed around two main types of efforts: the already mentioned network of co-operating Business Support Organisations (the National SME Services Network), and the emerging “long list” of standardised SME development instruments (advisory, information, training, financial). In the Phare 2000 exercise it has been therefore decided to concentrate on the national level on the Introduction to Quality, Innovation and Technology for Business Development, Fit for Business in Europe (module for recently privatised SMEs).

The regional projects in this project fiche therefore include an appropriate mix of the instruments from the NSS “long list” presented in the national project fiche, as deemed appropriate to the specific objectives of the Regional Operational Programme of the Warminsko-Mazurskie Voivodship.

In this same way specific direct company assistance instruments from another key activity - the programme of national level actions within the Government’s Policy Guidelines for Small and Medium-Sized Enterprises, entering implementation as of the beginning of the year 2000 – will also be an integral part of the thus developing national scheme. In the first year of implementation this programme will concentrate on implementing the Business Information and Counselling Programme, and a Fit for Business in Europe Programme module for crafts and small businesses.

The implementation arrangements, quality assurance and design for all these efforts are those as developed under the national scheme. In this way, as financing becomes available from various resources – Phare, national and regional Government – the scheme is operationalised both from the national and regional levels. Within the next few years the instruments thus selected will form the core of the national scheme, with a changing mix of nationally and regionally prioritised instruments. When operational both in a national and regional “envelope”, such instruments will be made available through the same “windows”, both at level of institution building and direct company assistance.

Specific direct results of the project will include:

- Up to 600-700 jobs created and safeguarded in targeted SMEs.
- 20-40 SMEs gaining knowledge, skills and building capacities necessary to compete more effectively on markets, receiving general and sector specific company development advisory services package, creating new jobs.
- 80-140 SMEs upgrading their competitiveness through investment in new technology, machines and
equipment, and innovative operations financed in targeted investments, stemming from implementation of development plans prepared under SME and HRD national and regional schemes.

Longer term impacts of the project will include:

• Increased role of SMEs in employment in the areas covered by the project.
• Higher than regional average survival rate of assisted firms after 18 months.
• Increase in turnover of assisted firms after two years, in ratios higher than in non-supported firms.
• Increased participation of SMEs in local and regional economies - input into local and regional product, turnover, investments.

3.4. Activities:
Provision of an appropriate mix of services and direct financial assistance to SMEs, organised as grants towards individual company support and group (cluster) events, including Company Development Programme and Investment grant scheme.

Company Development Programme: general and sector specific consulting and information services provided at the individual company level in identified key areas affecting the SMEs' business competitiveness, such as marketing and market development, management, HRD and staff training, product design and development, internal financing and accounting, quality assurance, strategic planning, strategic development and planning, new technologies, production management and others; grants covering up to 60% of the costs of these services will be provided from public funding (75% Phare) to eligible SMEs, with average Phare grants of between 3,500 to maximum 5,000 euro, covering a minimum 10 man-day support package.

Investment grant scheme: Under the scheme SMEs will be able to avail of financial assistance in the form of a targeted investment grant scheme; in the first instance SMEs successfully participating in the following business development and human resource development / business start-up support programmes will be targeted:

• Company Development Programme (described above);
• Introduction to Quality scheme (financed under the national Phare SME project);
• Innovation and Technology for Business Development (financed under the national Phare SME project);
• Fit for Business in Europe (financed under the national Phare SME project);
• Introduction to Exports and Export Promotion Programmes (financed under the national Phare exports project);
• Human Resources Development training schemes for business start-ups and SMEs (financed under a separate regional project within the Phare Economic and Social Cohesion Programme in Warminsko-Mazurskie Voivodship)
• Investment grant for covering costs related to projects financed from bank credits and involving investment projects directly affecting the SMEs’ competitiveness and including foremost the introduction of new technologies and re-equipment of the key production and service facilities; grants will be provided to cover costs of new equipment and machinery, together with any related hardware and software, up to a maximum 25% of the costs (of which 75 % Phare), Phare co-financing will remain within the range of from a minimum of 5,000 euro to a maximum level of 50,000 euro, with the remaining 75% of project costs provided by the SME; the grant will be tied directly (combined) with a bank loan.

The investment grant schemes will include provisions directly tying the grant with a bank credit for the investment project. It is proposed, that the financing ratios will allow for: at least 20% but not more than 50% financing from the SMEs own resources, which together with the bank credit would amount to 75% of investment project total; and 25% public financing in the form of the grant.

Within a given period SMEs would apply for the grant in the RFI, on the basis of the business plan/credit application, which they are planning to submit to a bank. It would also be possible for banks operating in the region to approach the RFI with business plans/credit applications from SME clients, which the banks would consider for crediting after attaining a promissory note from the RFI.

The proposals would be accepted by the RFI on formal grounds (financing ratios and other formal requirements related to project timing, size of business, sector eligibility etc.). On the basis of this acceptance a “promissory note” (including draft grant agreement with the SME) would be issued, valid for a set period of time, and then forming a part of the business plan/credit application. In cases in which the bank decides to issue the credit, the RFI would enter into the grant agreement with the SME (presenting a blank bill of exchange), with provisions for either:
• advance payment of up to 45% of grant, and final payment of the remaining amount after the completion of the investment; or
• financing for SME of eligible investment project costs proportionally to the uptake of the bank credit.
The specific arrangement will be selected and agreed between the RFI and SME based on project size, cash flows, and other project aspects.
Priority would be given at each tranche for projects presented by SMEs benefiting from the advisory and training projects (national and regional, SME – exports – HRD).
All services will be provided in the line of standards of the National SME Services network.
All project activities will be implemented with the use of the project impact assessment guidelines developed for the Phare 2000 Economic and Social Cohesion Programme by the Implementing Agency. These will include comparative benchmarking analyses of beneficiaries and non-beneficiaries, in order to gather statistically significant data for future programming exercises.

4. Institutional framework
The project will be managed by the Regional Financing Institution (RFI) – the Warminsko-Mazurska Agencja Rozwoju Regionalnego - and guaranteeing access to the programme through an appropriate system of local „windows”. This institution will be subject to an audit, organised under the terms of the Phare 2000 national SME project and implemented through independent auditors, before this arrangement comes into force.

5. Detailed Budget:

<table>
<thead>
<tr>
<th>Investment</th>
<th>IB</th>
<th>Total Phare</th>
<th>Poland</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Company Development Programme</td>
<td>0.1</td>
<td>0</td>
<td>0.1</td>
<td>0.03*</td>
<td>0.09**</td>
</tr>
<tr>
<td>2. Investment grants scheme</td>
<td>2.1</td>
<td>0</td>
<td>2.1</td>
<td>0.7*</td>
<td>8.4**</td>
</tr>
<tr>
<td>Total</td>
<td>2.2</td>
<td>0</td>
<td>2.2</td>
<td>9.22</td>
<td>11.42</td>
</tr>
</tbody>
</table>

*Polish public funding **Private sector

6. Implementation arrangements
6.1. Implementing Agency
PAO: Undersecretary of State at the Ministry of Regional Development
Implementing Agency: Polish Agency for Regional Development.

6.2. Twinning: n.a.

6.3. Non-standard aspects
For all grant schemes, whose procedures and formats are not covered by the current DIS Manual, the implementation arrangements will follow the principles for such schemes as laid down in the Financing Memorandum.
The project will involve co-operation with regional banks. The RFI will also play the role of the regional “window” for the national level SME support scheme planned in the Phare 2000 national project. With this in view the Polish SME Foundation / Polish Agency for Entrepreneurship Development will be responsible for introducing measures upgrading the RFI to appropriate standards, if such a need will be identified by the independent audit.
Eligible SMEs will include all SMEs located in the region, meeting sector definition criteria as established in the Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002 and specific business segment, financial standing, project feasibility eligibility criteria which will be detailed for each of the sub-programmes.
Individual SMEs availing of the particular supports will be selected through an open and public procedure, designed with the use of objective selection criteria and competitive procedures, and in line with the EC Vademecum for grants. Participating SMEs will enter into agreement with the RFI, the agreements detailing the specific terms and conditions for the assistance, including a selection of grants to cover consulting, certification and investment costs of implementing their projects.
Individual consultants acting under a „long list” for the scheme will be identified by the RFI in accordance with the National SME Services standards for SME support services, institutions and consultants, and selected for individual assignments by the SMEs involved; other services, which the consultants on the long...
list and identified within the individual SMEs support agreements cannot provide to the companies, will be contracted by the SMEs after a competitive comparison of offers procedure.
Investment grants to the SMEs will be provided based on credit financing decisions of the eligible banks, with grant financing made available after the bank has reached a positive decision on financing the project.

6.4. Contracts:
Company development programme: it is expected that between 20 and 40 contracts will be signed.
Investment grants: it is expected that between 80 and 140 contracts will be signed.

7. Implementation schedule:

<table>
<thead>
<tr>
<th>TORs/project specs ready</th>
<th>Start of tendering</th>
<th>Start of project activity</th>
<th>Completion</th>
</tr>
</thead>
</table>

8. Equal opportunity:
Specific provisions for guaranteeing equal opportunity of access to activities, employment and other benefits resulting from the project implementation will be included. Gender related indicators will be gathered and monitored throughout the projects implementation to ensure that corrective steps can be taken at an appropriate moment in the projects life cycle, and will be included in the project impact assessment guidelines benchmarks, developed for the purpose of ensuring a full comparative assessment of the efficiency and effectiveness of the measures introduced in the project.

9. Environment:
Environment impact assessments will be made for all investment projects in recipient SMEs, as appropriate. The scope and specific requirements of the assessments will be adopted based on existing Polish and EU regulations, in the light of each individual case and in view of, inter alia, their nature, size and location.

10. Rates of return:
All SME projects supported under the scheme will be analysed with due diligence from the point of view of their long term effect on the growth of the business and requirements of longer term business planning; only viable commercial activities will thus be supported.

11. Investment criteria:
- Catalytic - Phare support will be conducive to achieving economic and social cohesion goals in the Warminsko-Mazurskie Voivodship, which otherwise could be attained only after a much more extended period of time and on a more modest and less efficient scale.
- Co-financing - the project is co-financed by the Polish partners.
- Additionality - the Phare project is not displacing other financing sources, especially from the private sector and IFI system, it is co-financing identified priorities and not taking the place of national resources.
- Project readiness and size - the project is ready for contracting and disbursement, as it will meet all conditions for co-financing by the start of project implementation; existing „blueprints” for services and grants are immediately implementable.
- Sustainability - the project will contribute to the long term sustainable development of the region, as described in the Warminsko-Mazurskie Voivodship Operational Programme.
- Compliance with state aid provisions - all aspects of the project have been developed with respect to the state aid provisions of the Europe Agreement.
- Contribution to the Preliminary National development Plan – the project is in line with two priorities of the Preliminary National Development Plan and as such will contribute to increase of economic and social cohesion of the country and region.

12. Conditionality and sequencing:
Co-funding of the project will be conditional on:
- co-financing of project costs through the national budget and the beneficiaries;
- all tendering, contracting, reporting and monitoring conditions met.
### Annex 1: LOGFRAME PLANNING MATRIX FOR PROJECT

#### Project Number | Project Title | SME Regional Grant Facility | Date | Period | Budget | Assumptions and Risks
--- | --- | --- | --- | --- | --- | ---
 | | | | 28.02.2000 | 2001-2003 | 2.2 M€ | Integration process with the EU on track. GDP growth in Poland sustained. Government policy in its regional development, rural areas and SME aspects not dramatically changed

#### Wider Objective | Indicators of Achievement | Sources of Information | Assumptions and Risks
--- | --- | --- | ---
(1) | Creation of conditions for achieving economic and social cohesion of the Warminsko-Mazurskie Voivodship by developing small and medium sized businesses | Increased level of economic development of the Warminsko-Mazurskie Voivodship as compared to other regions of Poland and EU average; Increased level of income in industrial areas in the Warminsko-Mazurskie Voivodship as compared to other regions of Poland and EU average; Decreased development gaps between the Warminsko-Mazurskie Voivodship and other regions | Statistics of the Main Statistical Office (GUS). Statistics of the Voivodship Statistical Office (WUS). Statistics of the EUROSTAT. Expert studies and analyses Regional Government reports | Integration process with the EU on track. GDP growth in Poland sustained. Government policy in its regional development, rural areas and SME aspects not dramatically changed

#### Immediate Objectives | Indicators of Achievement | Sources of Information | Assumptions and Risks
--- | --- | --- | ---
(5) | The development of recent business start-ups and micro-businesses. The development of growth oriented small enterprises with innovative and competitive products and services. The development of medium sized enterprises with significant job creation capacities in the region, including those operating in the sectors of services and manufacturing developed in the region after the war. | Increase of the share of regional SMEs in the investments made by businesses in the region. Increase in the number of newly established businesses. Increase of the viability and survival rates of regional SMEs Number of jobs sustained and newly created in the rural and small towns of the region. Decrease of the “hidden” unemployment in rural areas of the region. SME access to external financing improved – increase in SME uptake of credits | Statistics of the Main Statistical Office (GUS). Statistics of the Voivodship Statistical Office (WUS). Data collected from benefiting SMEs. Research conducted in selected areas of the voivodship. Research conducted in banks and financial institutions in the region. | Bank services for SMEs improved. Conditions for running economic activities not worsened. Support for rural areas by state agencies sustained or developed

#### RESULTS OF PROJECT | Indicators of Achievement | Sources of Information | Assumptions and Risks
--- | --- | --- | ---
Up to 600-700 jobs created and safeguarded in targeted SMEs. 20-40 SMEs gaining knowledge, skills and building capacities necessary to compete more effectively on markets, receiving general and sector specific company development advisory services package, creating new jobs. 80-140 SMEs upgrading their competitiveness through investment in new technology, machines and equipment, and innovative operations financed in targeted investments, stemming from implementation of development plans prepared under SME and HRD national and regional schemes. | Number of services provided. Geographical distribution of services. Number of sustained or new jobs. Number and volume of investments of supported SMEs as compared to regional average. Survival rate of SME clients as compared to regional average. Numbers of new and improved products and services introduced by supported SMEs. Number of new facilities built by supported SMEs as compared to regional average. Financial standing of supported SMEs as compared to regional SME average. | Labour Offices data. Research made in local communities. Data from beneficiary SMEs. Data collected by RFI. Data from regional banks and financial institutions. | Starting date for the project not postponed. Relevant information campaign conducted. Quality of the support services for interested SMEs. Local bank branches active in project implementation. Increasing interest of SMEs in subsidised schemes. Availability of adequate pool of highly qualified and dedicated SME service providers.

---

01.02 Warmia Mazury SME Development / 7
Inputs

- Provision of an appropriate mix of services and assistance to SMEs, organised as grants.

### Annex 2: Cumulative implementation, contracting and disbursement schedule

<table>
<thead>
<tr>
<th>Subprojects</th>
<th>Implementation chart (by quarters)</th>
<th>Budget allocation cost estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td>Phare</td>
</tr>
<tr>
<td>Contracting</td>
<td>2,2</td>
<td></td>
</tr>
<tr>
<td>Disbursement</td>
<td>1,1</td>
<td>2,2</td>
</tr>
</tbody>
</table>

### Annex 4

**Feasibility studies and environmental impact assessment**

All business projects supported under the schemes will be analysed under due diligence from the point of view of their sustainability and longer term business planning; only projects clearly demonstrating business viability and market competitive rates of return will receive support.

All business development projects supported under the project will be scrutinised during the appraisal procedure from the point of view of environment related hazards and protection regulations. Only environmentally friendly or neutral projects will be thus supported; as well as projects directly introducing new, environmentally friendly or neutral technologies, products, procedures.