1. Basic information
1.1. Désirée number: PL0008.02.02
1.2. Title: Podlaskie – SME Development
1.3. Sector: Private sector development
1.4. Location: Podlaskie Voivodship, Poland.

2. Objectives
2.1. Wider objective:
The wider objective of the project has been defined as the creation of the conditions for achieving economic and social cohesion of the Podlaskie Voivodship by upgrading the regional capacity for economic restructuring, diversification and endogenous growth, through measures stimulating the development of the SME sector.

2.2. Immediate objectives:
The immediate objectives of the project directly address one of the priorities identified in the Podlaskie Preliminary Operational Programme, being the development and promotion of the SME sector, and include:
- stimulating new investments in the regional SME sector;
- increasing its role in the economy of the region, mainly in the rural and small town areas;
- creating new jobs outside of the agricultural sector.
This will be achieved through the provision of grants to SMEs undertaking viable and creditable projects co-financed by the commercial banking sector, increasing access of SMEs to financing, and will include:
- providing financial support for the development of recent business start-ups and micro businesses, increasing their numbers, competitiveness, viability and survival rates;
- increasing access to financing for the development of SMEs with significant new job creation impact in the region.

2.3. Accession Partnership and NPAA Priority
The project is in line with the medium term priority described in the AP as development of national policy for economic and social cohesion and preparation 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 NPPA) 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 countering 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 PNDF and the operational programme for Podlaskie Voivodship. The latter has “Support for development of small and medium enterprises” as one of the priorities owing to the role that SMEs can play for long-term economic development in the region with weak state enterprises and excessive employment in agriculture.

3. Description
3.1. Background and justification:
The PNDF and Podlaskie Voivodship Preliminary Operational Programme refer to a number of factors which affect the development potential of the region, which is characterised by the second lowest per capita income in Poland, fourth highest ratio of employment in agriculture, high unemployment linked, among others, to localities previously integrated into the state farming system.
One of the priority areas which have been identified in the Podlaskie Voivodship Operational Programme as a factor which can be developed in order to stimulate growth in the region, is that of the job and self-employment creating SME sector. Though the sector already plays an important role in the economy of the region, which is finding it hard to attract the larger companies and investors, sectoral studies have shown that important gaps still remain in this area, as the numbers of start-ups and SMEs in per capita terms remain underdeveloped.
Regional strategists have therefore targeted increased business start-up rates and increased investments in existing growing SMEs as one of the key factors in the process of developing a more balanced and sustainable economic structure in a region threatened with marginalisation.
The project is therefore directly related to the identified priority of the region’s growth strategy, aiming as it does at the stimulation of the local economies through public “investments” (grants) in viable and bankable investment activities of the SMEs in the region.

To address these issues a grant scheme will be established to support investment processes in the small and medium enterprises with ready and bankable projects. The provision of grants will enable SMEs to escape from a part of the costs resulting from the loan repayment schedule and allocate, as a result, surpluses in the cash flow for new job creation.

In addition the grants will be supplemented with general business advisory and information services, financed through Phare (the national SME project, regional human resources development projects), national and regional resources and client fees. The development of SMEs financing their growth through external sources (long term loans from banks) can be further supported by the existing loan guarantee and venture capital schemes (both set up under the Polish British Enterprise Programme). In such a way an integrated regional financial support package will be developed, addressing the various financing needs of SMEs in different stages of their growth, and developed within the overall framework of the emerging national scheme for SME development.

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, especially the Know-How Fund SME project.

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 – the British Know-How Fund Enterprise project (implemented in the eastern area regions of Poland), the national level 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 – Phare SPP programme 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 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 planned Phare 2000 National Institutional Framework for Small and Medium Enterprise Development – Polish Agency for Entrepreneurship Development project
- the planned Phare 2000 National Institutional Framework for Export Development project
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 under this project will be a direct result of the introduction in the region of the selected instruments from the national SME development scheme. Both the regional project as well as 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 Usług – KSU) – is currently being developed based on 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), and within the export promotion project - Introduction to Exports, and Export Promotion Programmes.

The regional project therefore includes an appropriate mix of the instruments from the NSS “long list” presented in the national project fiche, as deemed adequate to the specific objectives of the Regional Operational Programme of the Podlaskie 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 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. Within the next few years the selected instruments 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 on level of institution building and direct company assistance.

Direct results of the project will include:
- new jobs and job opportunities in SMEs for the inhabitants of the areas covered by the project;
- new investments made (including new technology transfers) sooner in supported businesses than in non-supported benchmarking group;
- sales of the assisted businesses increased quicker than in non-supported comparable businesses;
- survival rate of small firms increased at higher rates than regional average;
- growth of the importance of SMEs in the local economies (new or improved products and services);
- new opportunities for SMEs created, including links with new partners, institutions, standards, know-how, programmes and undertakings;
- 1,200 jobs created and/or safeguarded;
- 100-200 SMEs receiving grants, including c.a. 50 business start-ups.

3.4. Activities:
- Regional investment grant scheme for SMEs: 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:
  - 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 Phrae exports project);
  - Human Resources Development training schemes for business start-ups and SMEs (financed under a separate regional project within the Phare ESC Programme in Podlaskie 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 (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.

Thus the project will involve the operation of an SME development grant scheme, involving the provision of investment grants to people starting their own businesses and companies located in the region, targeted at creating jobs for people moving away from employment in agriculture.

The Phare co-funded grant scheme will be supplemented by business advisory and information services, financed through national and regional SME and HRD project resources and client fees, and designed to generate maximum benefit in the companies availing of the grant scheme.

Among other reporting requirements the businesses availing of the support will be required to report on numbers of jobs created and maintained over a three year period after the grant financing.

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 ARES Regional Development Agency (ARES) - 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 coming into force. Other SME support institutions, including those established and/or supported by Phare and UK Know-How Fund programmes in the past, will be targeted for the inclusion on the regional list of consultants and institutions accredited for direct assistance service provision to SMEs.

5. Detailed Budget:

<table>
<thead>
<tr>
<th></th>
<th>Investment</th>
<th>Institution Building</th>
<th>Total Phare</th>
<th>Poland</th>
<th>IFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Grant Fund</td>
<td>3.0</td>
<td>0</td>
<td>3.0</td>
<td>1.0*</td>
<td>12.0**</td>
<td>16.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3.0</td>
<td>0</td>
<td>3.0</td>
<td>13.0</td>
<td>0</td>
<td>16.0</td>
</tr>
</tbody>
</table>

*Public sector

**Private sector (bank loans taken by SMEs and their own contribution towards investment costs).
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. This RFI will also play the role of the regional
“window” for the national level SME support schemes planned in the areas of quality and
innovation/technology within 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 required standards, if such a need will arise in view of the recommendations of 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 training, consulting,
certification and investment costs of implementing their projects, within the appropriate regional and national
schemes. 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
It is expected that between 150-200 grant contracts will be signed.

7. Implementation schedule

<table>
<thead>
<tr>
<th>SME Investment Grant Scheme</th>
<th>Start of tendering</th>
<th>Start of project activity</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>TORs/project specs ready</td>
<td>01.11.2000</td>
<td>01.05.2001</td>
<td>30.09.2003</td>
</tr>
</tbody>
</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 project 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
An environment impact assessment will have been prepared for all investment projects by recipient SMEs
throughout the project cycle. 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
Rates of return for the project shall be measured separately for each investment made under the project. Rates
of return for these investments will be analysed by crediting banks under the loan appraisal process. Grants will
be extended only if the IRR for investments to be made will meet or exceed market rates expected by crediting
banks.

11. Investment criteria
Catalytic - Phare support will be conducive to achieving economic and social cohesion goals in the Podlaskie
Voivodship, which otherwise could not be attained only after a much more extended period of time 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; it has been designed to build on the experiences and practise of previous Phare funded programmes – STRUDER and Programme for Alleviation of Social and Regional Costs of Coal and Steel Restructuring.

Sustainability - the project will contribute to the long term sustainable development of the economy of the region, as described in the Podlaskie Voivodship Operational Programme.

Competition - all aspects of the project will be developed with respect to the competition 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-financing of the project by the Polish government, beneficiaries (SMEs) and the crediting banks.

**Benchmarks:**
Project documentation ready by November 2000 and accepted for implementation by end of January 2001; Start of project activities by May 2001; Last SME projects finalised by end of September 2003.
## Annex 1: LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Wider Objective</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>The creation of the conditions for achieving economic and social cohesion of the Podlaskie Voivodship by upgrading the regional capacity for economic restructuring, diversification and endogenous growth, through measures stimulating the development of the SME sector.</td>
<td>Increased level of economic development of industrial areas in the Podlaskie Voivodship as compared to other regions of Poland, as well as EU average; Increased level of income in industrial areas in the Podlaskie Voivodship as compared to other regions of Poland, as well as EU average; Decreased development gaps between the Podlaskie Voivodship and other regions</td>
<td>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</td>
<td>Process of integration with the EU continued at regular pace. GDP growth in Poland sustained. Government policy in its regional development, rural areas and SME aspects not dramatically changed</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stimulate new investments in the regional SME sector. Increase SME sector’s role in the economy of the region, mainly in the rural and small town areas. Create new jobs outside of the agricultural sector.</td>
<td>Increase of the share of regional SMEs in the investments made by businesses in the region; Number of jobs sustained and newly created by SMEs in the rural and small towns of the region. Decrease of hidden unemployment in rural areas; Increase of uptake of credits by SMEs</td>
<td>Statistics of the Main and Voivodship Statistical Office; Data collected from benefiting SMEs; Research conducted in rural areas of the voivodship. Research conducted in banks and financial institutions in the region.</td>
<td>Bank services for SMEs improved;Conditions for running economic activities not worsened; Support for rural areas by state agencies sustained or developed.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Results of Project</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>new jobs and job opportunities for the inhabitants of the areas covered by the project created in SMEs created at faster rate than average for comparable areas; new investments made (including new technology transfers) sooner in supported businesses than in non-supported benchmarking group; sales of the assisted businesses increased quicker than in non-supported comparable businesses; survival rate of small firms increased at higher rates than regional average; growth of the importance of SMEs in the local economies (new or improved products and services), increasing their role as employers in the local economies at higher rates in supported projects than generally in region; new opportunities for SMEs created, including links with new partners, institutions, standards, know-how, programmes and undertakings; environment protected through the introduction of new facilities in SMEs; 1,200 jobs created and/or safeguarded; 100-200 SMEs receiving grants, including c.a. 50 business start-ups.</td>
<td>Number of new jobs and job opportunities created. Number and volume of new investments made. Volume of the increased sales in the assisted businesses. Increase in the survival rate of small firms increased. Number of new or improved products, services offered by SMEs in the region. Number of SMEs gaining knowledge necessary to apply for external financing. Number of SMEs receiving general and sector specific services tied to grants. Number and volume of grants for business start ups and existing SMEs extended.</td>
<td>WUS statistical data. Labour Offices data. Research made in local communities. Data from beneficiary SMEs. Data collected by RFI.</td>
<td>Starting date for the project not postponed. Relevant information campaign conducted. Quality of the pre-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.</td>
</tr>
</tbody>
</table>

| Inputs | SME investment grants |
Annex 2: Cumulative implementation, contracting and disbursement schedule

Podlaskie – SME Development

Planning period 01-2001 - 12.2003

Date of drafting 29.02.2000

<table>
<thead>
<tr>
<th>Subprojects</th>
<th>Implementation chart (by quarters)</th>
<th>Budget allocation cost estimate Phare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td>M€</td>
</tr>
<tr>
<td>Implementation</td>
<td>D  C  I  I  I  I  I  I  I  I  I  I</td>
<td></td>
</tr>
<tr>
<td>Contracting</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Disbursement</td>
<td>1,5</td>
<td>3</td>
</tr>
</tbody>
</table>

Annex 3

**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.