03.02 Lubelskie - SME Development

1. Basic Information
1.1 Désirée number: PL0008.03.02
1.2. Title: Lubelskie - SME Development
1.3. Sector: Private sector development
1.4. Location: Lubelskie voivodship, Poland

2. Objectives
2.1. Wider objective:
The wider objective of the project has been defined as strengthening the economic and social cohesion of the Lublin region by developing SMEs necessary to reach growth targets in selected priority areas.

2.2. Immediate objectives:
The immediate objectives of the project directly address the priorities identified in the Lubelskie voivodship Preliminary Operational Programme, being the multifunctional development of rural and small town communities and economic diversification through restructuring of the productive sector. This will be achieved through:
- the development of business start-ups and micro business, increasing their numbers, competitiveness, viability and survival rates;
- the development of growth oriented small and medium enterprises with innovative and competitive products and services;
- assisting in the development of exports of SMEs in the region;
- the strengthening of the business support environment and SME access to external financing - developing local and regional institutions with significant levels of capabilities (skills) and capacities (financing) to influence business growth.

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 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, capitalisation of regional and local credit and credit guarantee systems.

The project is in line with both PNDP and the operational programme for Lubelskie Voivodship. The latter has a priority “Creation of production basis in rural areas and small towns”. The project will be implemented within the priority and touch upon one of the main weaknesses of the voivodship identified in the SWOT analysis, i.e. uneven distribution of business activities between large urban centres vs. small towns and rural areas.

3. Description
3.1. Background and justification:
The Preliminary National Development Plan and Lubelskie voivodship Preliminary Operational Programme note a number of factors strongly influencing the possible future development scenarios of this strongly rural region, including:
- very low per capita income in the region (ranked only 13th out of the 16 regions of the country);
- uncompetitive farming as dominating economic activity in the region (outside of the main cities), low quality of life in rural areas;
- risk of a deepening gap and loss of regional level cohesion between the growth areas (Lublin) and the marginalised rural areas, threatened with significant losses in population levels;
- identified priorities in the development of the rural areas through restructuring of the economy and
including:

- upgrading the quality of life of the inhabitants of the villages and small towns of the region, through measures aimed at lifting income levels and the quality of services available to these people through the development of SMEs and the SME infrastructure stimulating access to external financing;
- creating new sources of income, especially through establishing conditions conducive to the establishment of new and development of existing small and medium enterprises in the communities;
- creating new job opportunities.

The project is directly related to the identified priorities in the development of the rural areas and small towns of the region, providing them with the opportunities for generating growth and development through a restructured productive sector. One of the priorities in this respect is the goal of achieving more effective regional structure and distribution patterns of viable SMEs. Structurally this includes increases in numbers and quality of business start ups; numbers of small businesses which are growth oriented and employment creating, innovative and operating in modern sectors; numbers of internationally competitive and exporting medium sized enterprises. In terms of distribution the goal of regional cohesion suggests that rural and small town areas must generate increased numbers of new businesses, including those drawing in resources into the communities from outside of the region. Such trends, if generated, could form a base for further development of these communities as the whole region braces to compete for resources for growth in the pre-accession period.

The approach which has been selected therefore will directly lead to the upgrading of the quality of life in areas threatened by low growth by developing some key sources of income for the inhabitants of small communities in an economy under restructuring. Instruments conducive to the growth and development of new and existing alternative business activities will be used as a means for generating income and strengthening market lead changes in the structure of the local and regional economies.

3.2. Linked Activities:

In the Lubelskie voivodship a competent network of business support organisations is operational, including Business Support Centres, the Regional Credit Guarantee Fund and the Regional Equity Fund (venture capital). This network, originally established with the support of the British Know-How Fund, today cooperates closely with the Phare supported National SME Services Network and other networks and institutions, providing valuable services to the SMEs of the region. Important gaps though still exist in service provision, both in terms of geographical coverage and sectoral expertise. With this in view the programme, where appropriate, will aim at the further development of the regional network as an “institutional best practise” regional programme for SMEs.

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, including areas of the Lubelskie Voivodship), 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 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 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 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 SME 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) Programmes; and within the export project on the 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 Lubelskie 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. 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 on level of institution building and direct company assistance.

Through the scheme as operating in the region the following direct results will be achieved:

- 1,500-1,700 jobs created and/or safeguarded;
- 3,000 SMEs receive general business information services;
- 350-400 SMEs gaining general business and sector specific knowledge and skills, building capacities necessary to compete more effectively on markets, and advisory support in preparing feasibility studies, market studies and business plans for their development;
- 80-100 SMEs upgrade their export related competitive position and develop exporting activities, participating in trade missions and fairs;
• 100-125 SMEs upgrading their competitiveness through new technology, machines and equipment, and innovative operations financed in targeted investments;
• 350-380 SMEs receive loan guarantees.

Additional impacts in the longer term 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), 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;
• existing regional credit guarantee fund with increased capital available for guaranteeing bank credits and start-ups loan schemes to all SMEs from the targeted areas.

3.4. Activities:
In order to meet the objectives described above it is proposed to implement four specific sub-projects.
Sub-project 1 – Company Development Programme
Sub-project 2 – Company Development Programme for Exporters
Sub-project 3 - SME Investment Grants Fund
Sub-project 4 - SME Credit Guarantee Fund (solely Polish financing)

1. **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 which 75 % Phare) of the costs of these services will be provided from public funding to eligible SMEs, with average grants of between 3,500 to 5,000 euro, covering a minimum 10 man-day support package.

2. **Company Development for Exporters Programme**: co-financing of the costs of implementation of Company Export Development Plans (CEDPs) of existing and potential exporters; co-financing will cover the development of the CEDP (including company development strategy, export market development strategy, export readiness financing plan); technical assistance in its implementation; and co-financing of selected activities aimed at
• company development - preparing the company for competition on selected export markets, through product development and design, production and service quality and standards, technology production and layout, packaging, export management skills;
• export market development - eligible costs will include advisory, training and information services and market research; trade fair and trade mission participation especially to regionally targeted markets of Holland, France, Portugal, Great Britain, Ukraine and Moldova; promotion materials development and production, mailings, partner search and company visits; and other international market development and promotion costs;

grants will cover 60% (of which 75 % Phare) of the costs of participation in the programme from public funding to eligible SMEs utilising a technical assistance and financial assistance facility, with the total Phare grant of maximum 10,000 euro per company.

3. **SME Investment Grants Fund**:
SMEs successfully participating in the:
• Company Development Programme (described above);
• Company Development for Exporters Programme (described above);
• availing of the SME Credit Guarantee Fund (described below and solely Polish financed)
• or in the nationally funded SME and export promotion schemes, and Human Resources Development training schemes for business start-ups and SMEs (financed under the Phare 2000 Economic and Social Cohesion Programme)

will be able to avail in the first instance of additional financial assistance in the form of a targeted investment grant scheme:
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 (Phare co-financing 75% with a maximum 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 SME’s 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).

4. **SME Credit Guarantee Fund:**

Grant towards the increase in the capital of the regional guarantee fund, solely through additional Polish financing (100% Polish financing, no Phare programme input is planned). The guarantees will be provided as an element of the overall programme of supports available to SMEs, allowing for an integrated delivery of the various support mechanisms and addressing the various needs of companies at their particular stages of growth and business development.

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**

Sub-projects 1-3: the project will be managed by an appropriate Regional Financing Institution (RFI) selected, in co-operation with the Ministry of Regional Development and Polish SME Foundation/Polish Agency for Entrepreneurship Development, through competitive tender and guaranteeing access to the programme through an appropriate system of local „windows” (Business Support Organisations – Local Development Agencies, Business Support Centres, Chambers of Commerce). The project will involve cooperation with regional banks.

Sub-project 4 will be managed by the Lublin Enterprise Fund (LEF), the institution currently running the regional credit guarantee scheme established under the Polish-British Enterprise Programme. 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 being this arrangement comes into force.

5. **Budget: (in million euro)**

<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>
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<tr>
<td>Company Development Programme</td>
<td>1.48</td>
<td>0</td>
<td>1.48</td>
<td>0.5*</td>
<td>1.12**</td>
<td>3.1</td>
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<tr>
<td>Company Development for Exporters</td>
<td>0.92</td>
<td>0</td>
<td>0.92</td>
<td>0.3*</td>
<td></td>
<td>1.83</td>
</tr>
</tbody>
</table>
Programme | SME Investment Grants Fund | 3.5 | 0 | 3.5 | 1.17* | 10.5** | 15.17 |
| Credit Guarantee Fund | 0 | 0 | 0 | 2.0* | 1.5** | 3.5 |
| Total | 5.9 | 0 | 5.9 | 17.7 | 23.6 |

Polish co-financing includes:
* Public sector – national budget
** Private sector

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

6.4. Contracts
Sub-project 1: It is expected that up to 350-400 contracts will be signed
Sub-project 2: It is expected that up to 80-100 contracts will be signed
Sub-project 3: It is expected that up to 100-125 contracts will be signed
Sub-project 4: It is expected that up to 350-380 contracts will be signed.

7. Implementation schedule:

<table>
<thead>
<tr>
<th>Programme</th>
<th>TORs/project specs ready</th>
<th>Start of tendering</th>
<th>Start of project activity</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Investment grant fund</td>
<td>01.11.2000</td>
<td>01.01.2001</td>
<td>01.04.2001</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 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. 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.
Based on existing Polish and Lublin regional experience the credit guarantee sub-project demonstrates the clear potential for achieving competitive economic rates of return (including not only commercial but also general development and social value added).

11. Investment criteria:
• Catalytic - Phare support will be conducive to achieving economic and social cohesion goals in the Lublin region, 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 demonstrates clear co-financing 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 the sub-projects will meet all conditions for co-financing by the start of project implementation; regional guarantee fund is immediately implementable.
• Sustainability - the project will contribute to the long term sustainable development of the region, as described in the Lubelskie 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 specific sub-projects will be conditional on:
• co-financing of project costs through the national budget and the beneficiaries;
• all tendering, contracting, reporting and monitoring conditions met.
Strengthening the economic and social cohesion of the Lublin region by developing SMEs necessary to reach growth targets in selected priority areas.

Multifunctional development of rural and small town communities and economic diversification through restructuring of the productive sector, including: The development of business start-ups and micro business; The development of growth oriented small and medium enterprises with innovative and competitive products and services; Assisting in the development of exports of SMEs in the region; The strengthening of the business support environment and SME access to external financing.

Annex 1: LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Project Number</th>
<th>Project Title</th>
<th>Lubelskie - SME Development</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
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<tbody>
<tr>
<td></td>
<td>Wider Objective</td>
<td>Indicators of Achievement</td>
<td>Statistics of the Main Statistical Office (GUS).</td>
<td>Integration with the EU continued. GDP growth in Poland sustained. Government policy in its regional development, rural development and SME aspects not dramatically changed</td>
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<td></td>
<td>Strengthening the economic and social cohesion of the Lublin region by developing SMEs necessary to reach growth targets in selected priority areas.</td>
<td>Increased level of economic development of industrial areas in the Lublin region as compared to other regions of Poland, as well as EU average; Increased level of income in industrial areas in the Lublin region as compared to other regions of Poland, as well as EU average; Decreased development gaps between the Lubelskie Voivodship and other regions.</td>
<td>Statistics of the Voivodship Statistical Office (WUS). Statistics of the EUROSTAT. Expert studies and analyses Regional Government reports</td>
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<td></td>
<td>Multifunctional development of rural and small town communities and economic diversification through restructuring of the productive sector, including: The development of business start-ups and micro business; The development of growth oriented small and medium enterprises with innovative and competitive products and services; Assisting in the development of exports of SMEs in the region; The strengthening of the business support environment and SME access to external financing.</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 in the SMEs located in rural and small towns of the region; Decrease of the “hidden” unemployment in rural areas of the region through employment in SMEs; Increase of exports from the region through increase of SME exports.</td>
<td>Statistics of the Main Statistical Office (GUS). Statistics of the Voivodship Statistical Office (WUS). Data collected from benefiting SMEs. Research conducted in rural areas of the voivodship. Research conducted in banks and financial institutions in the region.</td>
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<td></td>
<td>Results of Project</td>
<td>Indicators of Achievement</td>
<td>Statistics of the GUS. Statistics of the WUS. Data collected from benefiting SMEs. Research conducted in rural and small town areas of the voivodship. Research conducted in local banks of the region. Data collected by LEF and the region.</td>
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<td>1,500-1,700 jobs created and/or safeguarded; 3,000 SMEs receive general business information services; 350-400 SMEs gaining general business and sector specific knowledge and skills, building capacities necessary to compete more effectively on markets, and advisory support in preparing feasibility studies, market studies and business plans for their development; 80-100 SMEs upgrade their export related competitive position and develop exporting activities, participating in trade missions and fairs; 100-125 SMEs upgrading their competitiveness through new technology, machines and equipment, and innovative operations financed in targeted investments; 350-380 SMEs receive loan guarantees.</td>
<td>Volume of investments made. Number of new businesses in the region. Increase in sales and production of supported SMEs. Number of new links, partnerships, etc. of supported SMEs Number of people trained. Number of new jobs created. Number of SMEs receiving support. Export increase of supported SMEs.</td>
<td>Statistics of the EU. Statistics of the WUS. Data collected from benefiting SMEs. Research conducted in rural and small town areas of the voivodship. Research conducted in local banks of the region. Data collected by LEF and the region.</td>
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<td>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; Company Development for Exporters Programme; SME Investment Grants Fund.; SME Credit Guarantee Fund (solely Polish financing).</td>
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Date 06.03.2000
Period 2001-2003
Budget 5.9 M€

03.02 Lubelskie - SME Development / 8
<table>
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<th>Annex 2: Cumulative implementation, contracting and disbursement schedule</th>
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<th>Planning period</th>
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**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.