05.02 Slaskie – SME Development

1. Basic Information
1.1. Désirée Number: PL0008.05.02
1.2. Title: Slaskie – SME Development
1.3. Sector: Private sector development
1.4. Location: Poland - Slaskie Voivodship

2. Objectives
2.1. Wider objective:
The wider objective of the project is to strengthen the economic and social cohesion of the Slaskie Voivodship, as an area threatened with decline and increasing developmental gaps related to its industrial heritage.

2.2. Immediate objectives:
The immediate objectives of the project directly address the priority identified in the Slaskie Voivodship Preliminary Operational Programme, being the:

- restructuring of the economies of industrial areas dominated by traditional, changing and declining sectors, especially coal, steel, textile; and
- the development of competitive alternative (small and medium enterprise sector) business activities.

The project aims at achieving these objectives through an package of SME development instruments, tailored to the specific needs of the SME sector in the Slaskie Voivodship, as identified in the Operational Programme, and integrated within the national SME development scheme.

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 recent start-ups and existing SMEs, advisory and information instruments for entrepreneurs, supports for exporters.

The project is in line with both PNPD and the operational programme for Slaskie Voivodship. The latter identifies “Restructuring of industrial areas – change in traditional industrial sectors and support towards the creation of alternative economic activities” as one of the priorities for action. SME development is perceived as a way for creation of alternative economic activities in the region faced with the restructuring of declining industries.

3. Description
3.1. Background and justification:
As described in the PNPD and Slaskie Voivodship Preliminary Operational Programme the development and restructuring effort in the Slaskie Voivodship is impacted on by a number of significant factors, including:

- identified strengths and weaknesses, opportunities and threats, linked with regional development and addressed in a number of priority areas for action;
- restructuring programmes in steel, coal mining, textiles and - in the future - in the defence industry sector;
- SME development policies and instruments;
- human resources development and employment policies.

In this policy and regional context important gaps have been identified in the area of alternative business creation and development. To address these gaps, the targeted provision is required of competitiveness building supports to the growth oriented, employment creating and exporting SMEs. The development of these enterprises is one of the most important conditions for the effective restructuring of industry in the region and for creating a strong economic base which will be able to deal with the resulting employment problems on a long term basis.

Much of the initial development of the SME sector has already taken place, as healthy start-up rates in the aftermath of the economic reforms of the early 1990’s have been supported through, among others, EU Phare
and World Bank efforts. A significant effort to increase the numbers and upgrade the quality of business start-ups and SME employment levels directly related to the steel and coal sectors restructuring is currently underway, supported under the Phare Programme for Alleviation of Social and Regional Costs of Coal and Steel Restructuring. What is becoming more and more urgent is the need to further develop the competitiveness of existing growing SMEs, in order to stabilise and infuse greater confidence and sustainability to a sector which will have to play an important role as the stabilising backbone of local and regional economies under restructuring stress.

The project will revolve around the results, which can be achieved through the greater competitiveness of those SMEs, which play an important part in the local and regional economies of Slaskie Voivodship, because of the roles they play as: new and significant employers; diversifiers of the spectrum of economic activities and business linkages inside and outside the region; introducing of innovations and new technologies; leaders in their communities.

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 a network 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.

The project’s instruments have been developed on the basis of experiences gathered especially within the previous Phare Programme funded programmes 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 countering unemployment - World Bank support for micro enterprise development project (TOR 10)
- in the area of regional development - World Bank projects supporting the preparation of regional development strategies (which included the old Katowice Voivodship); 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 (used to finance among others the creation of a regional network of local business development agencies);

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. This national level 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 development 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). The planned national level export development project also includes instruments integrated within this overall national scheme. 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 national export promotion project - Introduction to Exports, and Export Promotion Programmes.
The regional projects in this project fiche 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 Slaskie Voivodship. Within the Phare 2000 exercise this involves the Investment grants scheme and Company Development Programme.
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.
The direct results of the project will include:
• 180-230 SMEs gaining knowledge, skills and building capacities necessary to compete more effectively on markets.
• 125-175 SMEs upgrading their competitiveness through new technology, machines and equipment, and innovative operations financed in targeted investments.
• Up to 1,000 jobs outside of traditional industries created and/or safeguarded in targeted SMEs and between 7 000 and 8 000 additional jobs created and/or safeguarded directly or indirectly through investments in selected locations.
• 100-150 SMEs receiving general and sector specific company development advisory services and financial assistance package, creating new jobs;
• 60-80 exporting SMEs receiving technical and financial assistance in developing their exports.
Additional longer term impacts will include:
• 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.
• Increased exports of supported SMEs.
3.4. Activities:
The project includes measures designed to support the creation and growth of alternative businesses in areas dominated by declining industry, and is organised as an SME development grants scheme divided into three sub-projects:
• Company Development Programme - competitiveness building consulting packages for selected SMEs in business development and sustained business growth.
• Company Development for Exporters Programme - co-financing of implementation of Company Export Development Plans in companies developing exports.
• Regional investment grant scheme for SMEs.
These will be provided in the form of:
• Provision of an appropriate mix of services and direct financial assistance to SMEs, organised as grants towards individual company support and group (cluster) events.
Under each of the three programmes, inputs will be provided in the form of integrated company development schemes, in the form of grant aids co-financing the individual company costs of:

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 grants of between 3,500 to maximum 5,000 euro, covering a minimum 10 man-day support package.

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, promotion materials development and production, mailings, partner search and company visits; and other international market development and promotion costs;
  - grants will cover 60% of the costs of participation in the programme from public funding (75% Phare) to eligible SMEs utilising a technical assistance and financial assistance facility, with the total Phare grant of maximum 10,000 euro per company.

Investment grant scheme:
SMEs successfully participating in the:
- Company Development Programme (described above);
- Company Development for Exporters Programme (described above);
- 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 of 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 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 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).

5. Detailed Budget

<table>
<thead>
<tr>
<th>Investment</th>
<th>Institution Building</th>
<th>Total</th>
<th>Poland</th>
<th>IFI</th>
<th>TOTAL</th>
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<tr>
<td>1. Company Development Programme</td>
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<td>0</td>
<td>0.55</td>
<td>0.18*</td>
<td>0.49**</td>
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<td>2. Export Development Programme</td>
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<td>0.85</td>
<td>0.28*</td>
<td>0.75**</td>
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<td>3. Investment grants scheme</td>
<td>3.45</td>
<td>0</td>
<td>3.45</td>
<td>1.15*</td>
<td>13.8**</td>
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<tr>
<td>Total</td>
<td>4.85</td>
<td>0</td>
<td>4.85</td>
<td>16.65</td>
<td>21.5</td>
</tr>
</tbody>
</table>

Polish co-financing includes:
* public sector
**private sector (including: fee contributions and minimum requested investment financing from own resources and bank loans)

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. 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
Subproject 1: it is foreseen that 100-150 grant contracts will be signed
Subproject 2: it is foreseen that 60-80 grant contracts will be signed
Subproject 3: it is foreseen that 125-175 grant contracts will be signed

7. Implementation schedule:

<table>
<thead>
<tr>
<th>Subproject</th>
<th>TORs/project specs ready</th>
<th>Start of tendering</th>
<th>Start of activity</th>
<th>Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Export Development Programme</td>
<td>01.11.2000</td>
<td>01.01.2001</td>
<td>01.04.2001</td>
<td>30.09.2003</td>
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<tr>
<td>3. Investment grant scheme</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 SME investment projects. 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 the project will be analysed on an ongoing basis from the point of view of their long term effect on sustainable growth of the SME and taking into account longer term business planning; the projects will have to clearly demonstrate the potential for achieving competitive rates of return if they are to receive co-financing under the project.

11. Investment criteria:
• Catalytic - Phare support will be conducive to achieving economic and social cohesion goals in the Slaskie 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 the sub-projects 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 - STEP I and II, EXPROM II, Alleviation of Social and Regional Costs of Coal and Steel Restructuring.
• Sustainability - the project will contribute to the long term sustainable development of the region, as described in the Slaskie 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-funding of project will be conditional on:
• co-financing of the sub-projects through regional and central budget and beneficiary SMEs;
• co-financing of the sub-projects by the crediting banks and loan institutions;
• appropriate environmental assessment and feasibility analyses conducted and confirming SME projects viability; these analyses will be done in co-operation with the crediting banks participating in the project;
• all contracting, reporting and monitoring conditions met.
## Annex 1: LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Date</th>
<th>24.02.2000</th>
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<tbody>
<tr>
<td>Project Number</td>
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<tr>
<td>Wider Objective</td>
<td>Slaskie – SME Development</td>
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<tr>
<td>Period</td>
<td>2001-2003</td>
</tr>
<tr>
<td>Budget</td>
<td>4.85 MEUR</td>
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<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statistics of the Main Statistical Office (GUS).</td>
<td></td>
</tr>
<tr>
<td>Statistics of the EUROSTAT.</td>
<td></td>
</tr>
<tr>
<td>Expert studies and analyses Regional Government reports</td>
<td></td>
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</tbody>
</table>

## Wider Objective

- **Project Title**: Slaskie – SME Development
- **Indicators of Achievement**: Increased level of economic development of industrial areas in the Slaskie Voivodship as compared to other regions of Poland, as well as EU average; Increased level of income in industrial areas in the Slaskie Voivodship as compared to other regions of Poland, as well as EU average; Decreased development gaps between the Slaskie Voivodship and other regions
- **Assumptions and Risks**: Integration with the EU continued. GDP growth in Poland sustained. Government policy in its regional development, industrial restructuring and SME aspects not dramatically changed

## Immediate Objectives

- **Project Title**: Slaskie – SME Development
- **Indicators of Achievement**: Restructuring of industrial areas dominated by traditional and declining sectors, especially coal, steel, textile. The development of competitive alternative (small and medium enterprise sector) business activities. Growth rate of emerging business sectors and branches in the Slaskie Voivodship. Increase in the share of regional SMEs in investments made by businesses in the region. Changed employment patterns in the region.
- **Sources of Information**: Statistics of the GUS. Statistics of the WUS. Research conducted in selected areas of the voivodship. Research conducted in banks and financial institutions in the region.
- **Assumptions and Risks**: Bank services for SMEs improved. Conditions for running economic activities not worsened. Restructuring process of coal and steel industries in the region continued

## Results of Project

- **Project Title**: Slaskie – SME Development
- **Indicators of Achievement**: 180-230 SMEs gaining knowledge, skills and building capacities necessary to compete more effectively on markets. 125-175 SMEs upgrading their competitiveness through new technology, machines and equipment, and innovative operations financed in targeted investments. Up to 1,000 jobs outside of traditional industries created and/or safeguarded in targeted SMEs and between 7 000 and 8 000 additional jobs created and/or safeguarded directly or indirectly through investments in selected locations. 100-150 SMEs receiving general and sector specific company development advisory services and financial assistance package, creating new jobs; 60-80 exporting SMEs receiving technical and financial assistance in developing their exports. Number of SMEs with improved profitability and investment capacities. Export increase level in assisted SMEs as compared to regional average turnover increase level in assisted SMEs as compared to regional average Increase of investment level in assisted SMEs, as compared to regional average Number of certificates obtained by assisted SMEs, as compared to regional data. Employment growth in assisted SMEs as compared to regional average. Number and quality of new products and services offered by assisted SMEs. Number of SMEs and their staff trained to rise their skills. Number of innovations and new technologies implemented under the project.
- **Sources of Information**: GUS statistical data. WUS statistical data. Labour Offices data. Research made in local communities. Reports of business support organisations. Data collected by RFI. Data from beneficiary SMEs.
- **Assumptions and Risks**: Starting date for the project is not postponed. Relevant information campaign conducted. 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. SMEs ready to co-finance the services.
Inputs
- Provision of an appropriate mix of services and assistance to SMEs, organised as grants:
  - Company Development Programme
  - Company Development for Exporters Programme
  - Investment grants scheme.

Annex 2: Cumulative implementation, contracting and disbursement schedule

<table>
<thead>
<tr>
<th>Subprojects</th>
<th>Implementation chart (by quarters)</th>
<th>Budget allocation estimate Phare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>D</td>
<td>CI</td>
</tr>
<tr>
<td>Contracting</td>
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<td></td>
</tr>
<tr>
<td>Disbursement</td>
<td>2,425</td>
<td></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 environmental 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.