1. Basic information
1.1. Désirée Number: PL01.06.09.02
1.2. Title: Promotion of SME Development
1.3. Sector: ESC
1.4. Location: 16 regions of Poland, and with respect to regionally identified target locations and sectors.

2. Objectives
2.1. Wider objective:
The wider objective of the project is to reduce unemployment rates in the regions, supporting them in better meeting their employment generation targets and thus facilitating stronger economic and social cohesion, under conditions of economic restructuring.

2.2. Immediate objectives:
Increased employment potential and capacities of SMEs; Increased employment opportunities in regions. These immediate objectives will be reached through the implementation of a targeted mix of regional impact actions and instruments, addressed directly to the SME sector, within the overall framework of the standards and schemes of the National SME Support System. An additional benefit resulting from the project will be the strengthening of regional SME support institutions and national SME policy. This will involve the introduction in the area of SME development in all of the Polish regions of the fuller institutional and human resources capacities and instruments, which have been first designed under the Phare 2000 projects to test approaches compatible with future financing from the EU Structural Funds.

2.3. Accession Partnership and NPAA Priority
Foremost the project helps to address issues related to the AP priority in economic and social cohesion policy and actions related to the preparation for the implementation of regional programmes and Community initiatives. The project also directly addresses the issues noted in the Accession Partnership in the areas of economic criteria and internal market priorities with respect to the SME sector, as an important component of the policies aimed at the improved competitiveness and EU market access readiness of the Polish economy. Furthermore as a horizontal project it will impact on a number of short term and medium term Accession Partnership priorities, in that the development of the SME sector directly affects the results achieved in such areas as industrial restructuring, privatisation, employment, environment protection, modernisation of agriculture related industries. The project has been designed to complement earlier actions undertaken under the NPAA priorities: Establishment of legal and institutional framework and mechanisms for programming, monitoring and controlling the regional and cohesion policy in compliance with Community requirements; and Creating conditions for the growth of the competitiveness, investment outlays and exports of the SME sector.

2.4. Contribution to the Preliminary National Development Plan
The project directly targets selected socio-economic cohesion objectives defined in the PNDP for the period till 2002 under the priorities of development of the SME sector; human resources and employment development; and restructuring the economic base of the regions and creating conditions for economic diversification. Furthermore through the project’s harmonised approach with the nationally organised SME projects, financed from the national budget, it will also impact on the targets under the PNDP objective of improvement of the economy’s competitiveness through modernisation and structural adjustment of industry and services.

3. Description
3.1. Background and justification:
With the intensification of the accession process it has become more and more important to clearly identify and benchmark key socio-economic indicators, which most strongly influence the Polish economy’s readiness for membership. After more than a decade of transformation and restructuring it is now clear that the Polish model of change has been very successful in a number of areas, allowing for economic growth and optimistic scenarios for future integration in the EU. A number of issues though continue to cause concern among policy makers and analysts. The Polish economy and society will still have to bear much of the brunt of a number of major restructuring efforts both in industry and public services, which have not yet been fully implemented. Furthermore in a rapidly changing context of the emerging global and knowledge based economy, significant adjustments will have to be made in the
structure of the national economy, if Poland is to emerge in the process as a successful participant in the international division of labour. These macro-economic issues all heavily influence the current Polish economic situation. Significant ratios of economic growth have been achieved, though accompanied by a worrying trend of increasing employment problems and questions on the longer term sustainability of growth in an economy, which is not internationalising and innovating at rates deemed as appropriate given the scale and issues facing the country. Regional disparities in unemployment and employability are pronounced, with a divergence of almost 13 percentage points between the leading voivodship (Mazowsze – c.a. 10% unemployment) and the worst affected voivodship (Warmia and Mazury – c.a. 23%). The issue is further influenced by pronounced local level disparities, with very high levels of structural unemployment evident in locations (powiats, gminas) in all the regions. The creation of sustainable jobs, mainly through increasing the employment potential of small and medium enterprises and new entrepreneurship, and creating conditions for increased employment opportunities through upgraded local companies and growing regional exports, is a high priority for the Ministry of Economy, responsible for SME development and economic growth. Promotion of employment and the reduction of unemployment rates in the most affected regions emerge as maybe the most important areas for public intervention at this stage of the accession and transformation process. This can be reached mainly through actions aimed at increasing the employability and adaptability of people already under employment and integrating currently high unemployed ratio special groups – which in turn is an area of direct concern for the Ministry of Labour and Social Policy. A key role has to be played by the SME sector. The growth of the SME sector continues to be an important priority for the Polish Government, through the Ministry of Economy which is currently implementing the second national SME policy, because of the role played by the sector in an economy under transformation. Recent research and statistical data points both to the fact, that the role of the SME sector in the economy is continually growing; and at the same time, that in certain important aspects this growth needs to be further strengthened. Recent data shows that SMEs are responsible for generating just above 48% of the GDP and employing almost 63% of the workforce. In terms of employment the trend has been that in the sector of large enterprises we have been witnessing an overall fall in employment levels, while employment in the SME sector continues to grow. The issue though, is that recently SMEs have been able to generate only an estimated two new jobs for each three jobs lost in the large enterprise sector. This trend may in the coming years be further exacerbated, with planned further public services sector, Polish National Railways and industry restructuring overlapping with growing numbers of young people entering the workforce in coming years. The numbers of active SMEs have continued to grow, though at a slightly lower pace than in previous years. The participation of SMEs in Polish exports has also continued to grow, but what is especially worrying, is that an estimated 56% of SME exports comes from companies located in just three regions (Mazowieckie, Wielkopolskie, Slaskie voivodships). SME growth and development in qualitative and quantitative terms is far more pronounced in the more developed areas of the country, with the less developed areas lagging behind. At the same time, the regional economies of the more developed areas are more diversified and less dependent on SMEs for growth; while the less developed regions, with a statistically more important role of SMEs in the regional economies, are more dependent on the sector. The project has therefore been designed to continue the process of addressing these crucial issues influencing growth of employment in the sector, and of the sector itself as a competitive and value adding element of the national economy. The sector’s continued, sustainable and more balanced growth can have a more pronounced impact on the national and regional preparedness for EU market access. At the same time the proposed approach aims to harmonise the requirements stemming from the need to maintain a sensitivity towards the objectives of employment and SME development resulting from regional priorities, with national instruments targeting specific sectoral policy goals. This process had been initiated under the Phare 2000 projects, and will be continued under this project fiche. Support will also be provided for developing new SME policy solutions, better meeting the changing goals of an economy under transformation / employment stress.

3.2. Linked activities:
The project builds on the results achieved in the area of SME development under previous and ongoing Phare programmes. These have included assistance at the national level (institutional and policy development, SME sector monitoring, research), including the development of the network of local and regional institutions and organisations providing information, training, advisory and financial services to Polish SMEs (National SME Services Network), through a number of 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
3.4. Activities:
The targeted and integrated advisory and financial instruments will be provided to SMEs through the RFIs, acting also as the Polish Agency for Enterprise Development “windows”, in key SME development priorities, identified in Government SME policy and co-ordinated with regional SME and employment support. These actions financed through Phare have been supplemented by other Government, donor and IFI programmes. These have included among others projects targeted specifically at the SME sector (USAID funded projects in policy and SME services); the area of counteracting unemployment (World Bank support for micro enterprise development project); the area of regional development (Polish-British Enterprise Development Programme in Lublin and Bialystok). The most important on-going project will be the Phare 2000 National SME Development Project and Export Development Project, and the regional level SME development actions planned under the Phare 2000 Social and Economic Cohesion Programme in the Warminsko-Mazurskie, Podlaskie, Lubelskie, Podkarpackie and Slaskie voivodships. Within these projects a coherent and harmonised approach has been developed to implement actions for the SME sector of both a national and regional character. This approach includes the further development of the National SME Support System, as a system of institutions and instruments, through which support is channelled to SMEs throughout the country. The institutions include the Polish Agency for Enterprise Development at the national level, and selected and audited Regional Financial Institutions (acting as Agency “windows”) at the regional level, working in cooperation with accredited Business Support Organisations and private sector consultants. The actions have been selected from a list of instruments identified as priority supports to the sector at the national and regional level. Under the current Phare 2001 employment promotion programme this project will be integrated and co-ordinated with the human resources development project planned by the Ministry of Labour and Social Policy. The HRD project will target training activities for currently employed and unemployed people, increasing their employability, providing the skills necessary for new business startups, and new management and professional skills. The objectives of the HRD project, namely increased employability and increased integration in the labour market of unemployed, regionally defined, special groups will mesh with the objectives of the current SME project, to attain measurable and defined targets in reducing regional rates in unemployment. Through the current project Polish SMEs will gain good territorial access to an extended range of supports, and the mix of supports available at the national and regional levels will be further refined and upgraded with specific employment generating measures. In this way through the proposed horizontal facility a basic standard of support for SMEs will be reached throughout all of the Polish regions. At the same time a significant training effort will be undertaken to upgrade links between SME and employment policy and measures, and improve the quality and availability of the consulting services within such an extended programme.

3.3. Results:
The impact of the project, calculated with respect to the Phare funding, will be an estimated 2400 jobs created; 550 SMEs will be supported in creating an additional 1000-1100 jobs; and 800 SMEs in safeguarding 4000 jobs; and thus in playing a more important role in the regional economies undergoing restructuring. This impact has been calculated: direct job creation - on the basis of the average performance in earlier programmes of 1 job created per 10,000 euro in investments and financial support; support in creation or safeguarding of jobs – on the basis of an estimation of increased external financing, competitiveness and resulting business growth / business sustainability among advisory support clients, based on earlier results (client surveys) of employment growth in 35% of those clients and employment sustainability in 51%. With the Phare funding the following results will be achieved: Increased investments in SMEs; Increased innovations in SMEs; Diversified range of products and services in SMEs; Increased exports by SMEs. These results will be measured in the estimated: 700-900 SMEs who will have received investment aid; 800 SMEs receiving company development support; 400 exporting SMEs developing actions under individual Company Export Development Plans; 400 “new economy” SMEs gaining advisory and business development grants. Furthermore the following institution building impacts and results will be achieved: Consultancy services framework more conducive to SME growth, as National SME Support System becomes more fully operational, with extensive consultant and BSO accreditation lists and instruments available for access in all of the Polish regions; 240 business consultants (15 per region) trained in skills necessary to better meet SME client needs at various stages of growth and business development; National level SME policy will better meet the changing goals of an economy under transformation / employment stress.
development strategies for regional level action. Under Phare 2001 this will include the following instruments, in appropriate mixes selected in each voivodship to best meet regional targets: Investment grants - Company Development Programme - Company Development for Exporters Programme - New Internet Based Business Development Programme. Investment grants planned under Phare 2001 will be “packaged” – by the Polish Agency for Enterprise Development in co-operation with its regional “windows” RFIs – with appropriate consulting and training inputs. These “packages” will be designed to meet the needs of SMEs on a case by case basis, under the frameworks established for the specific activities. In practise assistance to SMEs will come from the short list of instruments available at any one time in the particular voivodship through the RFI, and will include the instruments described in the current Phare 2001 project, and in previous Polish (national budget under the terms of the SME policy) and Phare (Phare 2000 – SMEs, Exports nationally; Regional and Social Cohesion and Human Resources Development in the regions) projects. In this way the exact support provided to an SME will be tailored around its needs, and will allow for a longer-term relationship to develop with the high growth companies, so as to ensure maximum impact from the support instruments provided. Company development actions (SMEs) will thus be directly linked with the HRD measures, increasing the scope of the assistance available at any one time to enterprises creating jobs. Selection criteria and procedures: The measures described below will be open to all SMEs, meeting eligibility criteria as defined with respect to the aims of the interventions (as defined in the project level regulations per measure). These regulations and the opportunity to avail of the supports will be made fully public, and selection procedures will be competitive. Measures: The instruments will be provided in the form of an appropriate mix of services and financial assistance to SMEs, organised as grants towards individual company costs involved in the following actions:

3.4.1. Investment grants
The programme will include the possibility of grant aiding SMEs participating in one of the advisory/training schemes, so as to increase the level of investments in the developing businesses. The investment grants will be provided for up to 25% of the 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 thus be provided to cover the costs of new equipment and machinery, together with any related hardware and software. This public financing support will be up to a maximum of 25% of the costs and project co-financing will remain within the range of from a minimum of 5,000 euro to a maximum of 50,000 euro. The remaining 75% of project costs will be provided by the beneficiary SME and the grant will be tied directly (combined) with a bank loan.

3.4.2. Company Development Programme.
This programme was initially developed for the smaller enterprises, within the Phare 2000 Social and Economic Cohesion Programme and will be implemented in that form with Phare funding in the five regions included in that programme. Support is 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. The Company Development support involves the provision of grants, through the RFIs, for refinancing up to 60% of the costs of advisory services. These grants will be provided to eligible SMEs involved in the implementation of individual Company Development projects, with average grants of between 3,500 to maximum 5,000 euro, covering an appropriate support package from accredited consultants.

3.4.3. Company Development for Exporters Programme:
This scheme, initially developed under Phare 2000, involves the 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 and investments 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; and including procurement of new software and hardware necessary for the introduction of new technologies; 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. In the case of Company Development for Exporters support, “packaged” grants will be made available through the RFIs for covering up to 60% of the costs of participation in the programme of eligible SMEs, with the total Phare grant of maximum 15,000 euro per company.

3.4.4. New Internet Based Business Development Programme

This will be a new programme, specifically targeting the development of new businesses involved in the areas of internet based technology businesses. This could include: business to business (internet firms that offer online trade links, usually designed to address identified gaps and inefficiencies in specific larger industrial sectors); dot.coms (firms providing portals and various content targeted at consumers); ISPS (companies responsible for the principle services related with connecting users to the Web); firms specialised in the advanced area of wireless internet access and services; E-services, encryption, smart-card support and other firms providing services related to internet use; software companies; hardware companies. Support will be provided in the form of grants towards the co-financing of the costs of the development of business plans and selected start-up and business development costs, including financial aid and help in accessing external financing (including venture capital) for the new and developing businesses. The support packages will include: consulting grants covering up to 60% of the costs of all advisory services provided to the eligible SMEs by the accredited consultants, with the total project grant of maximum 5,000 euro per company; business development grants for the co-financing of the operational costs related to the projects start-up phase and directly affecting the SMEs’ start-up and development position; these grants will be provided to cover costs of personnel, premises, operations, marketing and other from the approved long-list of eligible costs, up to a maximum of 25% of the costs, within the range of from a minimum of 3,000 euro to a maximum of 10,000 euro over a 6 month period, with the remaining 75% of project costs provided by the beneficiary start-up business.

3.4.5. Technical assistance component - Training programme for SME consultants and policy support for Ministry of Economy (classical technical assistance) – Continued upgrading of the quality of the delivery of consulting assistance to SMEs and of the policy framework. A number of the instruments included in the National SME Support System involve the provision of high quality advisory and business counselling services to SMEs at various stages of growth. A key element in the provision of such supports is the availability throughout the country of appropriate expertise, in view of changing market requirements and needs. Instruments target SMEs requiring both the more generic, general business support; as well as those requiring enhanced capabilities and in-depth services. The Polish SME consulting sector, because of its history, tends to involve younger and less experienced consultants (as compared to international practise), who require a more intensive on-going training effort. Through the component the Polish SME consultants sector would benefit from specialised training programmes, through which the availability of accredited consultants and the range of their specialisms would be increased. The training would involve both formal classroom type training, especially in new business areas (including e-commerce), and an “on the job” practical training scheme. The modules planned will directly address the skill needs resulting from the introduction of specific supports for SMEs in the regions. The Ministry of Economy will require additional advisory support in the process of developing the solutions (planned in the Third Multi-Annual Polish Government Policy Programme towards SMEs) into specific instruments and regulations better meeting employment creation goals. This contract will provide for the provision of an appropriate mix of training and short term ad hoc support to the Ministry of Economy (mainly the Department of Crafts and SMEs). The support will be provided in the process of developing, consulting and advocating, institutionalising and implementing solutions from the planned third multi-annual SME Policy by appropriate experts with legal and sectoral skills and experience. The support will include the presentation by the experts of specific legal, regulatory and policy analyses and the organisation of an appropriate study tour for the staff involved in the development of the policy solutions. This will be accompanied with the provision of detailed information on the availability of the supports.

4. Institutional Framework

The project will be implemented under the direct auspices of the Ministry of Economy, responsible for the SME sector. It will be implemented under the overview of the national steering committee, under the chairmanship of the Ministry of Regional Development and Construction, with the participation of representatives of the Ministries of Economy, Labour and Social Policy, Internal Affairs and Administration, Office of the Committee for European Integration. The Ministry of Economy will benefit from policy level input. At the national level the National SME Support System will be supported through
the training effort. The regional authorities will be supported through the project in attaining SME support, employment promotion and socio-economic cohesion goals, through the building up of the capacity of their regional SME support institutions to impact on the sector's input into the regional economies. In some regions the Regional Financing Institutions involved in the project have been identified and audited as the Polish Agency for Enterprise Development regional "windows" under Phare 2000. In the other regions an open competitive procedure is being currently organised, in close co-operation with the regional authorities and relevant Ministries. These institutions are all existing organisations, with long-term experience in SME development in the regions; some of them have been the beneficiaries and implementing organisations for internationally funded programmes (Phare, bi-lateral). All will be audited for the purpose of implementing the new function and PAED will be responsible for addressing any issues which may arise through the auditing procedure in terms of corrective actions. Through the facility the Polish Agency for Enterprise Development (acting as intermediary for the IA) and Regional Financing Institutions (selected and audited under the Phare 2000 projects as PAED "windows") will: "draw down" the financing from the IA to the beneficiary SMEs (investment grants); manage and finance the provision of the soft measures to SMEs in a co-ordinated way with the investment grants (advisory and business development grants). Direct project beneficiaries will be the SMEs operating in the regions. All activities supporting SMEs will take place under the integrated approach of the National SME Support System, as developed under the terms of the Phare 2000 national and regional projects, through the Polish Agency for Enterprise Development and Regional Financing Institutions (selected and audited under Phare 2000). Direct services to SMEs will be provided through the accredited Business Support Organisations and private sector consultants, selected on a case by case basis by the participating SMEs, from the long-lists managed by the RFI. All grants for cost co-financing of services and investments to SMEs will be provided in line with the National SME Support System standards. The Polish Agency for Enterprise Development will be responsible for monitoring and enforcing these standards.

5. Detailed Budget

<table>
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<th>Investment</th>
<th>Institution Building</th>
<th>Total Phare</th>
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<th>IFI</th>
<th>TOTAL</th>
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<td>3.11**</td>
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<td>11.05*</td>
<td>104.16**</td>
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* Polish public financing. Co-financing will be available.
** Estimated SME co-financing

6. Implementation arrangements

PAO: Vice-Minister in the Ministry of Regional Development and Construction, ul. Wspólna 4, 00-926 Warsaw, tel: 48-22-661-91-19, fax: 48-22-661-91. Deputy PAO: Undersecretary of State in the Ministry of Economy, 00-950 Warsaw, Ul. Trzech Krzyży 3/5, tel: 48-22-628-59-88, fax: 48-22-621-14-72. The Deputy PAO will be authorised by the PAO to perform all the necessary functions with respect to the project. Main responsibilities will include project development and implementation within the scope of this project fiche, including responsibility for the development of all project guidelines and regulations, all contracting and management of on-going project activities.

6.1. Implementing Agency:

Polish Agency for Regional Development (PARD), ul. Zurawia 4a, 00-503 Warsaw, tel: 48-22-629-28-88, fax: 48-22-627-22-46. PARD will be responsible for implementation of investment grants and overall co-ordination of this scheme. For the implementation of this project, utilising grant schemes for SMEs, the
IA will avail of the support of an intermediary, as foreseen in 11 (b) p.15 of the Programming Guide 2001. This intermediary will be the Polish Agency for Enterprise Development, Al. Jerozolimskie 125/127, 02-017 Warsaw, tel: 48-22-699-70-44/45, fax: 48-22-699-70-46/56. PAED will be responsible for the technical management of day to day supervision, approval of progress reports and their acceptance, monitoring and verification of invoices for the IA (advisory and business development grants). The implementation of the project will take place within the overall SME support implementation framework established under the Phare 2000 SME project, and involving the audited Regional Financing Institutions, accredited Business Support Organisations and consultants, working within National SME Support System standards. This involves that the intermediary (PAED through its regional “windows”) will enter into a grant agreement with the beneficiary SMEs. The regional “windows” (RFIs) will be responsible for recruiting and identifying eligible SMEs and providing to the SME beneficiary the “first contact” counselling. This counselling will lead to the full definition of the particular SMEs needs, selection of the most appropriate measure from the long-list available at the RFI, development of project specifications, and to the signing of the agreement by the SME with the intermediary for the grant co-financing of eligible costs. Financing for the advisory measures will be made directly available through the system; investment grants will require financing directly from the IA, also on the basis of the recommendation of the intermediary. The SME will be responsible for selecting the service provider from the accreditation list of consultants and Business Support Organisations managed by the “window”. The appropriate Business Support Organisations and private sector consultants will thus be accessed (selected) by the beneficiary SMEs for the required expertise on a project by project basis through the regional “windows” (from the list of accredited consultants/BSOs).

6.2. Twinning: Not applicable.

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
16 regional contracts on regional allocations of investment grants, between the IA (PARD), intermediary (PAED) and the 16 RFIs in the participating regions, totalling 21.9 million euro Phare financing (contracts 1-16 - see annex 5)
1 TA contract at 0.3 million euro (contract 17)
1 framework contract between IA (PARD) and intermediary (PAED) for 10.95 million euro for the running of the advisory instruments scheme (contract 18).
In all it is estimated that through the contracts the intermediary (PAED and its “windows”) will enter into an estimated 2300-2500 grant agreements with participating SMEs, including 700-900 investment grants agreements together with the IA.

7. Implementation schedule:

<table>
<thead>
<tr>
<th>TORs/project specs ready</th>
<th>Start of contracting</th>
<th>Start of project activity</th>
<th>Completion</th>
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<tr>
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<td>2. Contract 18</td>
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<td>30.09.2002</td>
</tr>
</tbody>
</table>

8. Equal opportunity
The project will involve in all phases of its implementation specific provisions for guaranteeing equal opportunity of access to activities and benefits resulting from its implementation. 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.

9. Environment
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 and procedures.

10. Rates of return
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 market competitive rates of return will receive support.

11. Investment criteria

11.1. Catalytic:
Phare support will strengthen the SME sector development orientation within the Polish central and regional administrative and institutional economic development frameworks, which otherwise would take place over a much more extended period of time and on a more modest and less efficient scale.

11.2. Co-financing:
The project is co-financed by the Polish partners.

11.3. Additionality:
The Phare project is not displacing other financing sources, especially from the private sector and IFI system, it is co-financing and not taking the place of the national policy.

11.4. Project readiness and size:
The project is ready for contracting and disbursement.

11.5. Sustainability:
The project will contribute to the creation of viable national and regional solutions beyond the date of accession and the measures involved will be continued over the next years in line with Poland’s SME, employment promotion and social and economic cohesion policies. Sustainability of the regional institutions involved will be ensured due to the fact, that the project will utilise the services of organisations with a long term track record in SME development, using varied financing sources and proving long term viability in the selection process through appropriate business planning documents. Sustainability of the instruments proposed under the project will be achieved through their gradual development and dissemination as well developed and ready made support packages for SMEs within the developing national scheme, for future financing among others under the Structural Funds.

11.6. Competition
All aspects of the project will be developed with respect to the competition provisions of the Europe Agreement.

11.7. Contribution to the Preliminary National Development Plan
The project directly targets selected socio-economic cohesion objectives defined in the PNDP for the period till 2002 under the priorities of development of the SME sector; human resources and employment development; and restructuring the economic base of the regions and creating conditions for economic diversification. Furthermore through the project’s harmonised approach with the nationally organised SME projects, financed from the national budget, it will also impact on the targets under the PNDP objective of improvement of the economy’s competitiveness through modernisation and structural adjustment of industry and services.

12. Conditionality and sequencing

12.1. Funding will be conditional on:
- co-financing of project costs through Polish public financing and participating SMEs;
- PARD reaching and maintaining national SME support system standards in investment grant provision;
- regional Agency “windows”/RFIs maintain audited standards;
- maintaining linkages with the timetables set in Government SME, employment and social and economic cohesion policies.

12.2. Milestones (benchmarks):
The key benchmarks during project implementation will include:
- decision of Phare Management Committee reached by mid-2001;
- Financing Memorandum signed by end of September 2001;
- main contract agreed and signed by beginning of February 2002;
- regional activities start in April 2002;
- SMEs uptake of supports maintained at steady level throughout second half of 2002, so that full participation reached by mid 2003;
**LOGFRAME PLANNING MATRIX FOR PROJECT**

<table>
<thead>
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<th>Date</th>
<th>02.04.01.</th>
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<tbody>
<tr>
<td>Period</td>
<td>2002-2004</td>
</tr>
</tbody>
</table>

**Project Number** | **Project Title** | **SME Development Project** | **Sources of Information** | **Assumptions and Risks** |
|-------------------|------------------|-----------------------------|---------------------------|--------------------------|

### Wider Objective
The wider objective of the project is to reduce unemployment rates in the regions, supporting them in better meeting their employment generation targets and thus facilitating stronger economic and social cohesion, under conditions of economic restructuring.

#### Indicators of Achievement
- Number of jobs created in assisted SMEs during project implementation / after 12 months / after 24 months
- Number of jobs maintained / safeguarded after 12 months / 24 months
- Ratio of lost jobs due to restructuring / new jobs created in intervention with respect to target area/sector in each region

#### Sources of Information
- Comparative statistical data
- Central and regional government documents
- National Report on the State of the Sector
- Studies and analyses
- Media reports
- Project reports and documentation

#### Assumptions and Risks
- SME development and employment promotion established as key focuses of Government socio-economic policy.
- Government policy for SMEs implemented in a timely and efficient manner, including operational functioning of Agency.
- Regional priorities maintained.
- Polish budget and other financing available in full programme period.
- Sustained growth of economy

### Immediate Objectives
- Increased employment potential and capacities of SMEs.
- Increased employment opportunities in regions.
- Strengthening of regional SME support institutions and national SME policy

#### Indicators of Achievement
- Input of assisted SMEs into local and regional economies
- Level of competitiveness and preparedness for operation on markets of assisted SMEs
- Entries into business in new sectors, taking the place of declining/restructuring industries.

#### Sources of Information
- Comparative statistical data
- National Report on the State of the Sector
- Regional and local statistics on the economy
- Project level monitoring data and information
- Studies and analyses
- Evaluation reports
- Minutes of the Project Committee
- Reports of relevant regional and local institutions

#### Assumptions and Risks
- General economic trends remain in growth mode
- General economic situation does not deteriorate
- Restructuring of major sectors of industry and services maintained

### Results/Outputs
- Increased investments in SMEs. Increased innovations in SMEs.
- Diversified range of products and services in SMEs.
- Increased exports by SMEs. 1600 SMEs receiving advisory support, of which 700-900 receiving financial aid. Consultancy services framework more conducive to SME growth, as National SME Support System becomes more fully operational, with extensive consultant and BSO accreditation lists and instruments available for access in all of the Polish regions.
- 240 business consultants (15 per region) trained in skills necessary to better meet SME client needs at various stages of growth and business development.
- National SME policy introduces quality SME measures

#### Indicators of Achievement
- Levels at which introduction of solutions directly related to raising competitiveness and market requirements of products and services has taken place at end of project.
- Increases in competitive position of supported businesses.
- Increase in levels of SME exports in supported businesses.
- Increase in levels of SME investments and external financing generated for supported businesses.
- Numbers of SMEs which avail of the proposed supports and co-finance their costs.
- Range of instruments and solutions developed and implemented, and up-taken by SMEs for implementation under project.
- % of SMEs which identify with Agency and National SME Support System, value its actions and instruments.
- SME client satisfaction response rates to services.
- % of SMEs which identify supported networks as quality service providers.

#### Sources of Information
- Project level monitoring data and information
- Documents and reports of regional and local authorities and institutions
- RFI reports
- Individual consultant reports
- Company specific comparative data
- Media reports

#### Assumptions and Risks
- RFI “window” organisations effectively involved in actions
- Financing for regional institutions available
- Government administration disposes of adequate financing
- National and regional instruments co-ordinated, so that they not “compete” for the same beneficiaries
- SMEs avail of supports
- Supports accessed by beneficiaries utilised to ends foreseen in project design

### Activities

<table>
<thead>
<tr>
<th>Activities</th>
<th>Inputs</th>
<th>Sources of Information</th>
<th>Assumptions and risks</th>
</tr>
</thead>
</table>

---

PL01.06.09.02 SME Development – p.9
<table>
<thead>
<tr>
<th>Investment grants</th>
<th>Integrated support packages for SMEs involving consulting and financial assistance – grants covering consulting and investment type costs</th>
<th>Project level monitoring data and information</th>
<th>Numbers and specialisms of accredited BSOs and consultants meet needs of the horizontal programme. Electronic reporting system eliminates potential bottlenecks between service provision and co-financing.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Development Programme</td>
<td>Informal training sessions, including sectoral expertise; ad hoc short-term policy advice</td>
<td>RFI reports</td>
<td></td>
</tr>
<tr>
<td>Company Development for Exporters Programme</td>
<td></td>
<td>Individual consultant reports</td>
<td></td>
</tr>
<tr>
<td>New Internet Based Business Development Programme</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical assistance – training for consultants / training and TA to Ministry of Economy</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Annex 2: IMPLEMENTATION CHART: SME Development Project**

<table>
<thead>
<tr>
<th>Subprojects</th>
<th>Implementation chart (by semester)</th>
<th>Date of drafting</th>
<th>Planning period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td>02.04.01</td>
<td>01.2002-09.2004</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracts 1-16</td>
<td>D/C</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>21.9</td>
</tr>
<tr>
<td>Contract 18</td>
<td>D/C</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>I</td>
<td>10.95</td>
</tr>
<tr>
<td>Contract 17</td>
<td>D/C/I</td>
<td>I</td>
<td></td>
<td></td>
<td>I</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.3</td>
</tr>
</tbody>
</table>

**Annex 3: COMMITMENT AND DISBURSEMENT SCHEDULE**

<table>
<thead>
<tr>
<th>Project Title : SME Development Project</th>
<th>Date of Drafting</th>
<th>Planning Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>02.04.01</td>
<td>01.2002-09.2004</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project Sub-Projects</th>
<th>Expected Cumulative Contracting and Disbursements</th>
<th>Budget Allocation Cost Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PLANNED</td>
<td>EUR million</td>
</tr>
<tr>
<td>CONTRACTING</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts 1-16</td>
<td>21.9</td>
<td></td>
</tr>
<tr>
<td>Contract 18</td>
<td>10.95</td>
<td></td>
</tr>
<tr>
<td>Contract 17</td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Contracting - total</td>
<td>33.15</td>
<td></td>
</tr>
<tr>
<td>DISBURSEMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts 1-16</td>
<td>2.2</td>
<td>4.4</td>
</tr>
<tr>
<td>Contract 18</td>
<td>1.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Contract 17</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Disbursements - total</td>
<td>0.1</td>
<td>3.6</td>
</tr>
</tbody>
</table>
ANNEX 4 - Feasibility studies and environmental impact assessment
All business projects supported under the schemes will be analysed under due diligence from the point of view of their sustainability and longer term business planning; only projects clearly demonstrating business viability and market competitive rates of return will receive support.
All business development projects supported under the project will be scrutinised during the appraisal procedure from the point of view of environment related hazards and protection regulations. Only environmentally friendly or neutral projects will be thus supported; as well as projects directly introducing new, environmentally friendly or neutral technologies, products, procedures.

Annex 5 - Regional Priorities and Allocations per Contract
5.1. Priorities
Each voivodship has identified a specific area for the intervention (in terms of location, sector or issue area) through the horizontal project. This will guarantee a higher impact, through a more targeted and concentrated approach, and a clear linkage of the horizontal facility with regionally defined priorities and HRD measures.

<table>
<thead>
<tr>
<th>Voivodship</th>
<th>Target area of intervention</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dolny Slask</td>
<td>The most difficult issue in this voivodship has been identified as alternative job creation in locations, in which restructuring has lead to the disappearance of traditional industries. “Post-restructuring” support will therefore be provided in powiats in which traditional industries have disappeared, and new business activities have not yet emerged, with the support aimed mainly at generating alternative SME business activities in highly depressed locations previously dominated by large enterprises. The SME supports will be linked with the HRD measures planned in this voivodship under Phare 2001.</td>
</tr>
<tr>
<td>Kujawsko-Pomorskie</td>
<td>The voivodship has identified business development infrastructure, including technology transfer and innovation facilities, as a key priority for actions aimed at developing SMEs and creating employment potential in competitive business areas. Those regional actions will be supplemented through the horizontal facility by targeted supports for SME companies utilising higher technology and showing competitive growth potential, and in linkage with the HRD measures under the Phare 2001 project.</td>
</tr>
<tr>
<td>Lubelskie</td>
<td>The voivodship plans to address the priority of increasing the role of technologically advanced and innovative SMEs in the region's economy, supporting new investments in SMEs, especially in the less developed locations in the region (rural and small towns). The actions under the horizontal facility will therefore target growth in innovative SMEs and will be concentrated in the Leczynski, Lukowski and Tomaszowski powiats, with highest unemployment rates. Furthermore special groups (mainly women affected by the planned restructuring of the health and education sectors) will be prioritised.</td>
</tr>
<tr>
<td>Lubuskie</td>
<td>The Nowa Sól township and powiat have been identified for priority actions due to the high rate of unemployment (more than 26.3%, compared to the regional average of 19.5%) and major structural problems. Up till 1990 Nowa Sól (the third largest town in the voivodship) was characterised by a strong concentration of larger metal works, light industry and construction enterprises, which provided jobs for people from the surrounding areas (including rural areas dominated by state farms). With the closures and downsizing of these enterprises the emerging SME sector requires support in further growth and job generation. The area is the only powiat in the voivodship not covered by the CBC programme.</td>
</tr>
<tr>
<td>Łódzkie</td>
<td>Continued restructuring of the light industry sector will impact heavily on the voivodship, which in its strategy has identified the differentiation of the economy of the region as one of the main aims. The horizontal SME project will therefore support these processes, through targeting SMEs operating in regionally competitive industrial and research specialisms, and providing them with supports upgrading their management and innovative potential. Supports will be closely linked with the HRD measures planned under Phare 2001.</td>
</tr>
<tr>
<td>Małopolskie</td>
<td>The voivodship has targeted the development of the high technology, and tourism and cultural heritage oriented sectors as the growth industries in the region. Through the support towards the development of these sectors quality jobs will be created in the new industries and services, including internet based services, transport, restaurants, hotels, crafts, reconstruction of monuments, publishing, films, radio and television, advertising and others.</td>
</tr>
<tr>
<td>Mazowieckie</td>
<td>The Mazowieckie voivodship concentrates in the area around Warsaw a very high proportion of Polish innovative and exporting SMEs; at the same time the peripheral areas of the voivodship are among the most poorly developed in the country. In view of this the horizontal SME project will target the most innovative industries.</td>
</tr>
</tbody>
</table>
recently established SMEs representing segments of the “new economy” in which Polish SMEs can be competitive internationally; and the upgrading of existing SMEs in those powiats of the voivodship most affected by unemployment.

<table>
<thead>
<tr>
<th>Voivodship</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opolskie</td>
<td>Economic restructuring processes have affected the voivodship most strongly with respect to those powiats, which are dominated by problems resulting from the closure of state farming; and in those areas undergoing continued and planned restructuring of the chemical industry, metal works and rail transport. The voivodship has therefore identified for the horizontal project the task of increasing the competitiveness and therefore creating the conditions for promoting jobs in those SME sectors, which can create employment for the re-trained unemployed and people threatened by unemployment.</td>
</tr>
<tr>
<td>Podkarpackie</td>
<td>The Podkarpackie voivodship in its strategy has identified the restructuring of the regional economy and especially of the traditional industries, as one of the main axes for priority actions. This includes the development of new businesses and the generation of “spin-off” companies from restructured state enterprises. The horizontal SME project will support this strategy through targeting SMEs and spin-offs with supports appropriate to their stage of growth and business area, including increasing investment levels, introduction of quality control regimes and certification, promotion and development of exports.</td>
</tr>
<tr>
<td>Podlaskie</td>
<td>The voivodship has identified the rising number of young unemployed and a number of high-risk groups among rail transport, textile industry, and health and education employees, as the targets of priority actions under the project. New business start-ups and SMEs with job creation potential will be supported in growth sectors, directly linked to the new capabilities of the re-trained target groups.</td>
</tr>
<tr>
<td>Pomorskie</td>
<td>The voivodship is characterised by poor cohesion between the dynamically developing Gdansk-Gdynia area, and the regionally peripheral areas of the former Slupsk, Elblag and Bydgoszcz voivodships, now within the Pomorskie voivodship. Unemployment issues in these areas are strongly interconnected with the closure of the former state farms. Support will be provided to innovative SMEs and businesses building on regional advantages in tourism and marine-based industries and fishing, thereby supporting the target of creating new employment opportunities in the region.</td>
</tr>
<tr>
<td>Slaskie</td>
<td>Slaskie voivodship has targeted the development of the tourism sector, especially in the attractive mountain areas of the region, as one of the key components of the overall regional restructuring strategy. Therefore tourism sector SMEs and recent start-ups will receive priority support through the horizontal facility in increasing investments, diversifying services and products, upgrading quality and competitiveness.</td>
</tr>
<tr>
<td>Swietokrzyskie</td>
<td>The powiats of Ostrowiec Swietokrzyski, Starachowice, Skarzysko and Konskie of the Swietokrzyskie voivodship have been dominated by declining industries (steel, metal works and foundries) and defence oriented industries (including the STAR truck factory). Currently they face major employment problems and will be targeted for the actions aimed at developing the SME sector as an alternative revenue generator and employment creator.</td>
</tr>
<tr>
<td>Warminsko-Mazurskie</td>
<td>Warminsko-Mazurskie voivodship has developed a strategy based on the growth of a specialised tourism sector, as the main component of counteracting the major restructuring problems, which have appeared in this rural and peripheral region. Tourism sector SMEs will therefore be the main target group for the horizontal facility in this region.</td>
</tr>
<tr>
<td>Wielkopolskie</td>
<td>The voivodship has included in its strategic documents the aim of increasing the numbers of enterprises operating in leading competitive sectors and increasing the competitiveness of existing SMEs. In view of this aim the horizontal SME project will target new start-ups and existing firms operating in innovative and technologically advanced production and services sectors and segments with supports including investment financing, quality control, export development and other, as appropriate for the stage of development of the SMEs.</td>
</tr>
<tr>
<td>Zachodniopomorskie</td>
<td>The voivodship has targeted the powiats with structural unemployment for the actions, which will be designed to reach innovative and tourism/agrotourism SMEs with appropriate supports for their development. A special emphasis will be put on the participation in the actions of young people, directly after leaving school (secondary and higher).</td>
</tr>
</tbody>
</table>
5.2. Allocations per contract
The breakdown of financing per contract is as follows:

<table>
<thead>
<tr>
<th>Contract</th>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Dolnoslaskie</td>
<td>1.487</td>
</tr>
<tr>
<td>2</td>
<td>Kujawsko-Pomorskie</td>
<td>1.336</td>
</tr>
<tr>
<td>3</td>
<td>Lubelskie</td>
<td>1.336</td>
</tr>
<tr>
<td>4</td>
<td>Lubuskie</td>
<td>1.151</td>
</tr>
<tr>
<td>5</td>
<td>Łódzkie</td>
<td>1.462</td>
</tr>
<tr>
<td>6</td>
<td>Małopolskie</td>
<td>1.418</td>
</tr>
<tr>
<td>7</td>
<td>Mazowieckie</td>
<td>1.651</td>
</tr>
<tr>
<td>8</td>
<td>Opolskie</td>
<td>1.192</td>
</tr>
<tr>
<td>9</td>
<td>Podkarpackie</td>
<td>1.370</td>
</tr>
<tr>
<td>10</td>
<td>Podlaskie</td>
<td>1.165</td>
</tr>
<tr>
<td>11</td>
<td>Pomorskie</td>
<td>1.301</td>
</tr>
<tr>
<td>12</td>
<td>Śląskie</td>
<td>1.659</td>
</tr>
<tr>
<td>13</td>
<td>Świętokrzyskie</td>
<td>1.232</td>
</tr>
<tr>
<td>14</td>
<td>Warmińsko-Mazurskie</td>
<td>1.420</td>
</tr>
<tr>
<td>15</td>
<td>Wielkopolskie</td>
<td>1.444</td>
</tr>
<tr>
<td>16</td>
<td>Zachodniopomorskie</td>
<td>1.276</td>
</tr>
<tr>
<td>Total</td>
<td>Investment contracts</td>
<td>21.9</td>
</tr>
<tr>
<td></td>
<td>Contract 17 TA</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>Contract 18 Advisory schemes</td>
<td>10.95</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>33.15</td>
</tr>
</tbody>
</table>

Investment grants for SMEs should be allocated first of all to voivodships experiencing severe structural problems (measured by the GDP per capita and the unemployment rate) so as to strengthen their productive bases. Therefore dividing the SME investment grants into 16 voivodships the following criteria have been applied: The financing has been calculated by the Ministry for Regional Development and Construction on the basis of: 30% - equal allocation per region; 30% - number of inhabitants per region; 20% - GDP per capita; 20% - unemployment rate. It is foreseen that the indicative allocation of advisory instruments scheme per voivodship (calculated on the same basis as for investments grants) will be as follows:

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dolnoslaskie</td>
<td>0.743</td>
</tr>
<tr>
<td>Kujawsko-Pomorskie</td>
<td>0.668</td>
</tr>
<tr>
<td>Lubelskie</td>
<td>0.668</td>
</tr>
<tr>
<td>Lubuskie</td>
<td>0.576</td>
</tr>
<tr>
<td>Łódzkie</td>
<td>0.731</td>
</tr>
<tr>
<td>Małopolskie</td>
<td>0.709</td>
</tr>
<tr>
<td>Mazowieckie</td>
<td>0.825</td>
</tr>
<tr>
<td>Opolskie</td>
<td>0.597</td>
</tr>
<tr>
<td>Podkarpackie</td>
<td>0.685</td>
</tr>
<tr>
<td>Podlaskie</td>
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</tr>
<tr>
<td>Pomorskie</td>
<td>0.650</td>
</tr>
<tr>
<td>Śląskie</td>
<td>0.829</td>
</tr>
<tr>
<td>Świętokrzyskie</td>
<td>0.616</td>
</tr>
<tr>
<td>Warmińsko-Mazurskie</td>
<td>0.710</td>
</tr>
<tr>
<td>Wielkopolskie</td>
<td>0.722</td>
</tr>
<tr>
<td>Zachodniopomorskie</td>
<td>0.638</td>
</tr>
<tr>
<td>Total Advisory instruments scheme</td>
<td>10.95</td>
</tr>
</tbody>
</table>

Annex 6
6.1. Capacity of the Polish Agency for Regional Development to act as IA for the SME project
6.1.1. The Polish Agency for Regional Development (PARR), a State Treasury foundation, was established in 1993 in order to support regional development in Poland, and in particular to assist and promote all types of initiatives launched for the benefit of the economic development of regions, to support the development and dissemination of information on regional development and to participate in the establishment of financial institutions promoting regional development.
6.1.2. PARR status - a State Treasury foundation. The State Treasury is represented by the Minister of Treasury as the Founder. The relevant competent government body is the Minister of Regional Development and Construction. Supervisory Board members represent also other Ministers (see: statue of PARR).

1. System for the managing of Phare funds.
   (1) Act of the establishment of PARR
   (2) statute of PARR including tasks of PARR

2. PARR internal management and organisation documents:
The organisational structure of the PARR is following: Director General; Directors - Executive Board Member; secretariat; Analyses and Information unit; Enterprise Development unit; Financial Instruments unit; Infrastructure unit; Monitoring and Evaluation unit; Accounting unit; Administrative unit. The specific tasks of each unit are described in the internal management manuals. The activities of PARR are supervised and periodically assessed by the Supervisory Board consisting of representatives of ministries involved in regional development and chaired by the representative of the Ministry of Regional Development and Construction.

(3) Management procedure manual – IA
The Management Procedure Manual for Phare - economic and social cohesion programme has been prepared and is at the stage of inter-ministerial consultations. The management procedures for programmes managed by PARR in the past are available.

(4) Co-ordination procedures.
Co-ordination procedures for Phare - economic and social cohesion are integral part of the management procedure manual. The Co-ordination procedure is fully integrated with the role of IA nominated by the Minister of Regional Development and Construction. The whole implementing procedure will be supervised by Joint Monitoring Committee and respectively regional monitoring committees. These bodies will consist of representatives of ministers, regional and local authorities, economic and social partners. Co-ordination provisions for the programmes managed by the PARR in the past were also based on decentralised implementation model with strong involvement of regional and local partners.

2. Procurement rules in line with Title IX
   (1) As the Implementing Agency for Phare - economic and social cohesion programme, PARR will respect all provisions concerning procurement as described in the "Practical Guide to Phare, ISPA, SAPARD contract procedures". Appropriate staff in the PARR already undertook training regarding new procurement procedures.

   (2) As regards SME programmes, PARR has taken the full track record of managing and operating Phare programmes within SME's scheme in Poland including grant provision. Schemes were of an earlier time than the DIS grant scheme procedures, and they were provided under the Phare programme Grant Regulations negotiated with the Commission. Currently PARR within the framework of Phare ESC 200 programme is operating schemes which are in line with the EC "Vademecum on grant management".

   (3) The Phare ESC 2001 is decentralised programme and as such majority of tasks related to contacts with the applicants is shifted into the regional level. Regional Financing Institutions (RFI), as regional co-Managers of the scheme, will be selected from among eligible institutions throughout the country, in line with procedures explained under the Phare 2000 project fiche. RFIs will be responsible for implementing the project in the regions. PARR as the Implementing Agency nominated by Minister of Regional Development and Construction will be responsible for implementation and management and will be playing the consulting role within the framework of preparing project selection procedures and contracts according to the Phare requirements. Records of all such procedures will be kept for a minimum of 5 years after the full closing of the programme under which such activity takes place.

   (4) The procedures for selecting applications are developed for each type of scheme (advisory and investment scheme). The RFIs will present the applicants to the selection committee consisting of the representatives of the local and regional authorities and business support organisations nominated by Marshal's Office, IA and Polish Agency for Enterprise Development.

   (5) Under Phare funded schemes the PAO remains responsible for final selection decisions, in line with established procedures (a Grant Committee system is proposed – regional or national depending on instrument – to facilitate the decision making process and involve the social partners). PARR – as the IA is preparing the proper Grant Regulation in co-operation with PAED, RFIs and regional authorities.

3. Separation of powers
   (1) All transactions are approved by at least two specifically authorised persons, organisationally and functionally independent.
(2) Processing of payments, accounting and procurement are organisationally separated
(3) All expenditures are based on dully approved budgets and plans, ordering, receiving and accounting
for purchases are organisationally separated from each other.

4. Staff
PARR employs 30 full-time staff. Full staff costs are covered from the national budget under the co-
financing of Phare programme actions and governmental activities. PARR receives most of financing
from Ministry of Regional Development and Construction and Office for European Integration Committee.

5. Internal Control System
(1) Internal financial control
Bearing in mind decentralised character of programmes managed by the PARR, all the operations
related to finance are controlled and checked at regional and central level. After PARR receives a
document certified by the authorised regional representative it is the subject of detailed control
procedures carried out by the appropriate units of the PARR. The financial control function is the
responsibility of the Chief Accountant under general Executive Board supervision. Delivery and quality
control functions are vested with the programme units under general Executive Board supervision. Only
with the successful completion of control procedures within the IA, a document submitted to the PARR
by the regional representative is signed by the PAO or Deputy PAO.

(2) Internal audit unit
The internal audit unit does not exist within the structure of the PARR. Such unit will be set up in the
Ministry of Regional Development and Construction with a view to provide appropriate standards for pre-
accession and structural programmes. Internal audit activities towards regional and local organisations
involved in implementing programmes managed by the PARR are carried out by the respective
programme units of the IA. These include setting up standards, on-site control visits and reporting.

(3) Financial accounting and reporting
Financial accounting and reporting is done in line with Perseus system which assures that all financial
transactions made under each programme, project and contract are identifiable in the accounts. The
information from the Perseus system is supported by the corresponding files and documentation which
are kept at different programme management level in accordance with approved audit trail. Additionally,
PARR reports on regular basis to the National Fund. It is done in line with management system.

(4) Operational monitoring, assessment and evaluation
Monitoring and evaluation unit exists within the PARR structure. It is responsible for setting up coherent
and efficient monitoring system for implemented programmes and co-operates closely with the
programme units in PARR, institutions at national, regional and local level in monitoring activities.
The monitoring system is based on bottom-up approach and respects programme implementation
framework. The reports are being prepared by contractors, final beneficiaries, intermediaries and
regional level institutions on monthly, quarterly and annual basis. PARR draws up reports for PAO, NF,
EC Headquarters and Delegation and distributes them to the interested parties. The information
generated during the implementation phase is subsequently used for ex-post evaluation of the
programmes. External evaluators are commissioned by the PARR which on its part prepares terms of
reference. Methodology used for Structural Funds programmes is incorporated for monitoring and
evaluation activities undertaken in PARR.

6.2. Capacity of the Polish Agency for Enterprise Development to act as intermediary for the IA
for the SME project
6.2.1. The Polish Agency for Enterprise Development (PAED) was established by act of Parliament as
the national agency responsible for implementing financial and advisory measures addressed to the
SME sector within SME development, export promotion and economic and social cohesion programmes.
It is operational as of 1 January 2001, and is based on the Polish Foundation for Small and Medium
Enterprise Promotion and Development (1996-2000), which had previously functioned as the IA for the
Ministry of Economy and other ministries.
6.2.2. It is a public financing sector institution. Its operations are further regulated and controlled on the
basis of appropriate regulations issued both at Government and Ministry of Economy levels, and
detailing its tasks, operations, procedures for providing grants and other financial instruments to SMEs.
These regulations also define the undertaking by PAED of its delegated roles and the management of
funds, as set down in the appropriate Financing Memoranda, for EU Phare Programme funded projects.
6.2.3. Review of Checklist under Annex 4 Grant Schemes: Checklist for Verifying Implementing Agency
1. System for the managing of Phare funds.
(1) Act of Parliament on the establishment of PAED and regulations of the Council of Ministers and Ministry of Economy on:
   a) statute of PAED,
   b) tasks of PAED;
   c) procedures for providing grants and other financial instruments by PAED.
(2) PAED internal management and organisation documents:
   a) Statute
   b) Organisational manual including organisation chart
   c) Description of account headings
   d) Instruction on the use of the financial and accounting system, and procedures for assets and liabilities listing
   e) Instruction on control and circulation of financial documents
   f) Procedures for human resource management and personnel issues
   g) Procedures for documents related to remuneration
(3) Management procedure manual - IA
The Management Procedure Manual for the IA function within PAED is under development; currently it is not a separate document, but its main areas are integrated within the full PAED management system (composed of the documents listed above).
(4) Co-ordination procedures
No comment
2. Procurement rules in line with Title IX
(1) PAED has taken over from the Polish SME Foundation the full track-record of managing and operating SME and other schemes in Poland, a significant number of which included grant provision. Some of these schemes were of an earlier time than the DIS grant scheme procedures, and they were provided under the Phare programme under conditions negotiated with the Commission’s services. Currently PAED is operating schemes which are in line with the DIS grant procedure.
(2) Regional Financing Institutions, as regional co-managers of the scheme, will be selected from among eligible institutions throughout the country, in line with procedures explained under the project fiche. Existing procedures are used for recording applications and communicating results, as developed under previous Phare funded activities (National SME Support System standards). Records of all such procedures are kept for a minimum of 5 years after the full closing of the programme under which such activity takes place; investment related documents – are archived with no time limit (i.e. the records are kept indefinitely).
(3) The evaluation of funding applications in PAED refers to SMEs and business development organisations; and other beneficiaries in specific schemes (local authorities, other). The procedures for evaluating funding applications are developed for each type of scheme, and because of the variety of beneficiaries and types of programmes, they differ in detail. The evaluation of funding applications by SMEs will be evaluated with the use of consistent, quantitative and relevant technical criteria, established for each instrument under separate regulations. Example: the selection criteria for the EXPROM II programme included 12 factors (each analysed with the use of a number of qualitative and quantitative measures): export position, export planning, effectiveness of export development plan, financial standing, existing exports and markets, product review, multiplier potential, management systems, certificates and quality marks, own resources involved in project.
(4) Under Phare funded schemes the PAO remains responsible for final selection decisions, in line with established procedures (a grant committee system is used – regional or national depending on instrument – to facilitate the decision making process and involve the social partners). PAED – as the IA providing services to the PAO - remains contractually responsible after the decisions are reached and contracts signed.
(5) Written procedures for receiving, verifying and legalising complaints
A standard procedure for receiving and verifying complaints is used. In the case of justified complaints the CEO reviews the issue and makes recommendations to the PAO.
3. Separation of powers
(1) All transactions are approved by at least two specifically authorised persons, organisationally and functionally independent.
(2) Processing of payments, accounting and procurement are organisationally separated.
(3) All expenditures are based on dully approved budgets and plans; ordering, receiving and accounting for purchases are organisationally separated from each other.
4. Staff
PAED currently employs about 60 full-time staff. Practically all of the staff came into employment in PAED directly from the Polish SME Foundation, and therefore possess significant experience in development programmes and SME instruments. Full staff costs are covered from the national budget, both under the financing of actions under the national SME policy, and under Polish co-financing of the Phare programme. To this effect PAED obtains main financing from the Ministry of Economy, with additional resources from the ministry of Regional Development, Ministry of State Treasury. A staff training budget is utilised each year for additional training, which is a responsibility of one of the Deputies to the Chief Executive Officer.

Some problems have been experienced with finding suitable professionals for the internal audit function.

5. Internal Control System
(1) Internal financial control
All operations are controlled by the CEO and in the case of Phare funded programmes personal responsibility requirements stemming from DIS procedures and PAO delegated functions are met. The formal and financial accuracy control function is the responsibility of the Chief Accountant. Delivery and quality control is also assigned to managers (Programme Managers) in line with their scopes of tasks. Responsibility for all property lies with the staff member assigned with material responsibility. Control over assets is vested in the CEO and Chief Accountant. Asset listing takes place at least once a year, and includes settlements of accounts, cash, resources on bank accounts and – once every four years – fixed assets.

Current and fixed assets, internal control, financing sources and other elements impacting on the financial statement are audited each year by independent external auditors. Financial control with respect to payment claims (contracts) and claims to the National Fund are exercised in line with the Instruction on control and circulation of financial documents. Programme units are managed by a programme manager and a programme deputy manager. Programme managers have been usually authorised by the PAO with respect to delegated functions. Project officers are responsible for specific projects (contracts) under each programme. They are authorised to undertake independent decisions at the project (contract) level with respect to delivery and quality – they undertake on-site monitoring of the contractors, monitor the provision of services (e.g. participate in training courses, research client satisfaction levels), endorse reports and prepare recommendations for payments. Any project modifications which would require changes in the contractual arrangements (scope of work, personnel changes, budgetary reallocations, changes in project duration) have to be approved by the appropriate deputy programme manager, programme manager and PAO, and the EC Delegation (as specified in DIS). All contracts and annexes to contracts are signed by the CEO. Programme procedures includes programme level audits, designed to evaluate the delivery/quality and formal/financial control over programme implementation. The Polish SME Foundation had also contracted a number of independent studies designed to evaluate programme impacts, and this will be continued by PAED.

Invoices are checked for formal and financial accuracy in the Financial and Accounting Department and endorsed by the Chief Accountant. Delivery and quality control is checked by a member of the CEO or one of the Deputies, and in the case of Phare programmes this involves the DIS requirements with respect to PAO delegated functions. CEO/Deputy level endorsement is preceded by delivery and quality control undertaken by programme staff responsible for the activity within their scope of responsibilities. Payments are made only after separated formal and financial accuracy and delivery and quality control written authorisations are made on the invoice. Payments from bank accounts can only be made in the double signature system, in line with the appropriate bank signature card.

(2) Internal audit unit
PAED has within it organisational structure a designated internal audit unit. This will be a new unit. The internal auditor will function in an organisational sense under the CEO; but will operate independently in terms of work programme and recommendations – reporting directly to the planned Audit Committee of the Supervisory Board. It is now planned that the internal audit will be operational before the end of June, 2001, as staffing problems have been encountered.

(3) Financial accounting and reporting
All financial accounting and reporting is done under the regime of the Instruction on the use of the financial and accounting system, and procedures for assets and liabilities listing. The systems used are derived from those used by the polish SME Foundation, where they were audited repeatedly. The auditors found the information to be reliable and accurate, correctly recording and allocating
expenditures, with each programme separate and identifiable in the accounts, permitting the tracking of EU resources down to the project and contract levels.

(4) Operational monitoring, assessment and evaluation
(a) Programmes are monitored by the programme units (inputs, outputs, results) and monitoring unit (results and impacts). Regular reports for the EC Delegation, PAO and relevant Ministries are prepared at monthly, quarterly, bi-annual and annual periods, involving operational reporting, monitoring, evaluation and assessment. The responsibility for the preparation of these reports is defined for the programme units and the monitoring unit. Ex post evaluation activities will be undertaken through contracted external evaluators (based on experiences gathered in the Polish SME Foundation) and through the internal monitoring system. Internally the monitoring unit prepares monthly operational reports for the CEO, and quarterly assessments (for remedial action etc.).
(b) These systems include the gathering of information necessary for effective participation in the Phare monitoring, assessment and evaluation system.