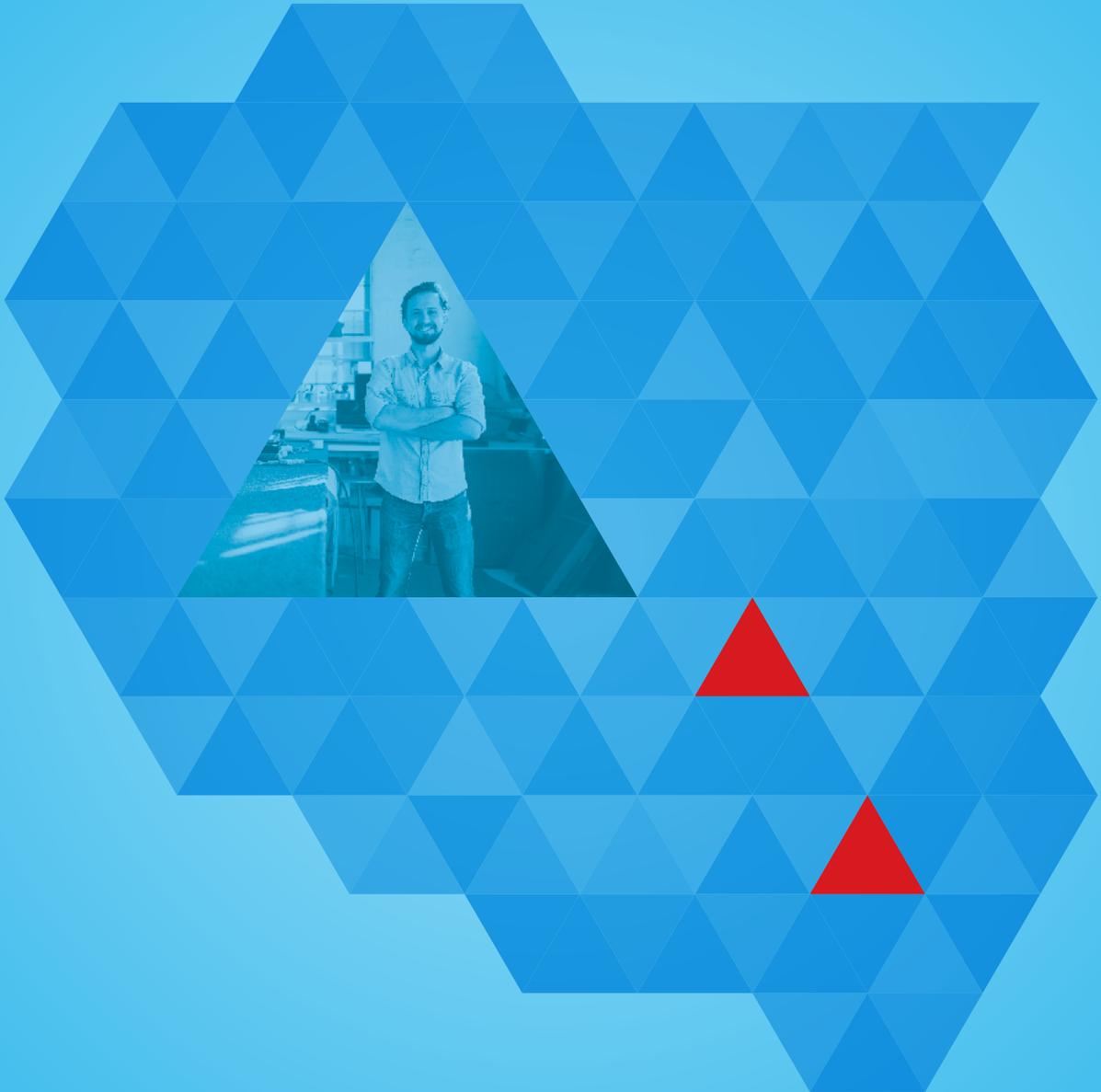


# POLAND CATCHING-UP REGIONS

## ACTIVATING ENTREPRENEURSHIP IN DEPRIVED AREAS



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PODKARPACKIE  
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# POLAND CATCHING-UP REGIONS

**Activating Entrepreneurship  
in Deprived Areas**

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# What is the Lagging Regions Initiative

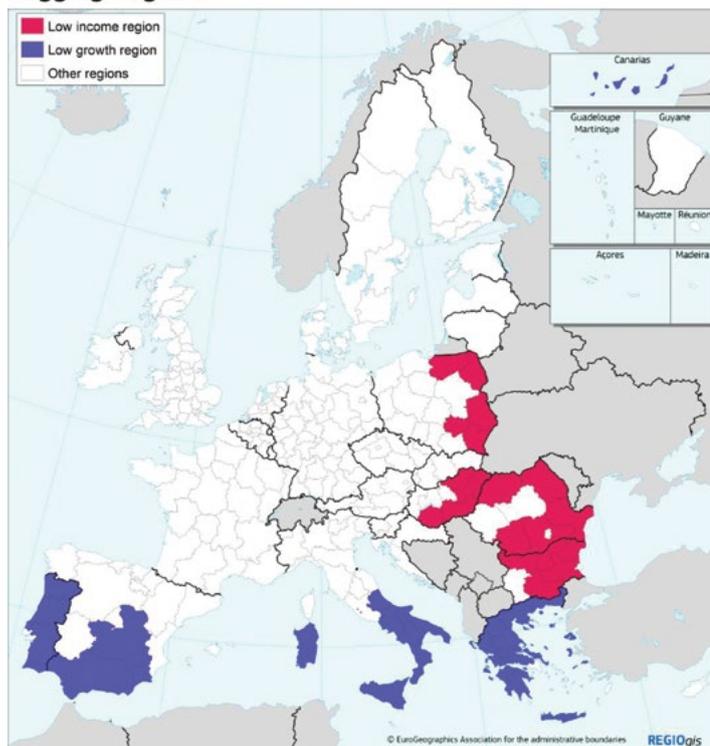
The scope of the EU Cohesion Policy is to narrow development gaps and reduce disparities between Member Countries and regions. To this extent, around €454 billion of ESI (European Structural and Investment) Funds have been allocated to help EU regions become more competitive. However, not all EU regions have been able to fully take advantage of the benefits of EU growth, due to the effects of the 2008 economic crisis and due to a host of structural problems.

To this end, Corina Crețu, the Commissioner for Regional Policy, together with the Task Force for Better Implementation has started the Lagging Regions Initiative. The aim of the Initiative is to identify what holds back growth in less developed regions, and to provide targeted actions for unlocking their growth potential. Thus, these lagging regions will be assisted to involve a broad range of stakeholders (regional and local administrations, educational institutions, business support institutions, SMEs, entrepreneurs, investors, NGOs, IFIs) to help respond to concrete needs they have and to maximize the impact of regional investments. Two types of lagging regions have been identified:

- **LOW GROWTH REGIONS**, which cover the less developed and transition regions that did not converge to the EU average between the years 2000 and 2013 in Member States with a GDP per Capita (PPS) below the EU average in 2013. These include almost all the less developed and transition regions in Greece, Italy, Spain and Portugal
- **LOW INCOME REGIONS**, covering all the regions with a GDP per Capita (PPS) below 50% of the EU average in 2013. This group covers the less developed regions of Bulgaria, Hungary, Poland and Romania.

## Lagging Regions in the EU

### Lagging Regions



Source: DG REGIO

Poland and Romania are the first countries to pilot this initiative, with two regions each – Swietokrzyskie and Podkarpackie in Poland, and North-West and North-East in Romania. In April 2016, Commissioner Crețu together with Marshal Adam Jarubas in Swietokrzyskie and Marshal Wladyslaw Ortyl in Podkarpackie have officially launched the Polish part of the Lagging Regions Initiative called „Catching-up Regions Poland”. The „Catching-up Regions Poland” is an implementation-focused program that aims at providing tailored support to the two Polish regions to boost the impact of EU and private investments in specific areas selected by the two regions.

Over a year of joint work, the World Bank provided hands-on technical assistance and helped coordinate five activities that were selected by the Podkarpackie and Swietokrzyskie regions in coordination with the European Commission, Ministry of Economic Development, and the Bank. The five selected activities were:

- Improving the commercialization of Research & Development (R&D) results generated by public research facilities and enabling better utilization of existing technology transfer centers in the Podkarpackie region.
- Strengthening the vocational education and training system in the Swietokrzyskie region, using best practice examples from around the world and tailoring them to the regional context.
- Activating entrepreneurship in deprived areas in the Podkarpackie and Swietokrzyskie regions.
- Identifying ways to improve conditions for starting a business in the Podkarpackie and Swietokrzyskie regions.
- Supporting the creation of in-house financial instruments in the Podkarpackie region.

This report constitutes one of the outputs of the “Catching-up Regions Poland” work. More outputs, including an overview report and reports for individual activities in both English and Polish can be accessed on the World Bank’s website.



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# Acronyms and Abbreviations

<b>BSI</b>	Business Support Institution
<b>BUR</b>	Baza Usług Rozwojowych
<b>ECS</b>	Enterprise Competitiveness Scheme
<b>EFA</b>	Economic and Financial Analysis
<b>ERDF</b>	European Regional Development Fund
<b>ERR</b>	Economic Rate of Return
<b>EU</b>	European Union
<b>IA</b>	Independent Advisor
<b>ICT</b>	Information and Communication Technology
<b>MO</b>	Marshal Office
<b>OP</b>	Operational Programme
<b>PLN</b>	Polish złoty
<b>ROP</b>	Regional Operational Programme
<b>SME</b>	Small or Medium-size Enterprise

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 1

# INTRODUCTION

## **This is the final report of Activity 2 of the Poland's Catching Up Regions Trust Fund.**

The European Commission specified the Terms of Reference (TOR) for Activity 2, as follows:

Developing and implementing a system to stimulate uptake of services in SMEs, and identifying ways for SMEs to more easily access relevant EU funds. This activity will have as a distinct output a report prepared by the Bank with proposals for how SMEs could better take advantage of services offered by public institutions in the selected poviats and recommendations regarding adjusting services provided to SMEs by the BSIs in the region.

### **Accordingly, this final report is a proposed design for an enterprise support system.**

Preparatory research was presented in prior reports and is included in Annexes 1, 2, and 3. For ease of reference, this scheme will be referred to by its working title: the Enterprise Competitiveness Scheme (ECS).

**In brief, the ECS is comprised of three windows for enterprise support services: Operational; Strategic; and Group.** In all three windows, beneficiary Small and Medium-Size enterprises (SMEs) will receive public financial support for co-financing of business advisory services to improve competitiveness and contribute to regional economic growth.

- 1. Operational window.** This window distributes small vouchers of 5 000 to 12 500 PLN (2 800 EUR) to SMEs fulfilling basic eligibility criteria. These vouchers are designed to support standardized services, which assist the firm in improving or expanding existing operations. Example expenditures are: marketing consulting services; website development; assistance in applications for financing; and specialized skills training. Expenditures must be matched by the SME at a minimum 50% ratio, so the maximum value for the services will be 25 000 PLN.
- 2. Strategic window.** This window distributes larger vouchers of 15 000 to 120 000 PLN (27 000 EUR) to SMEs through a competitive process. These vouchers are designed to support larger, more complex consulting services, which assist the firm in changing its orientation. Example expenditures include: marketing strategies; assistance to enter foreign markets; improving production processes; and strategic planning for new products and markets (either foreign or domestic). Expenditures must be matched by the SME at a minimum 40% ratio (i.e. 60% contribution from public resources), so the maximum value for the services will be 200 000 PLN.
- 3. Group window.** This window distributes a few large matching vouchers between 120 000 and 2 000 000 PLN to consortia of SMEs, following a competitive application and review. These vouchers are designed to support joint initiatives between the SMEs that reduce constraints on the competitiveness of multiple SMEs. Examples of potential joint programs include: development of procurement activities (to reduce costs); lobbying (e.g. to obtain mutually beneficial support for purposes to be determined by the SMEs); and products' development (e.g. regional branding or marketing for cultural tourism). Expenditures must be matched by a consortium at a 15% ratio (i.e. an 85% contribution from public resources as a voucher), with a maximum total for the services of 2 352 940 PLN.

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 2

# **RATIONALE AND BACKGROUND**

## 2.1 Objectives

**This document proposes a design for an enterprise support scheme in Świętokrzyskie and Podkarpackie regions of Poland.** For ease of reference, this scheme will be referred to by a working title: the Enterprise Competitiveness Scheme (ECS).

**The objective of the ECS is to support further competitiveness of SMEs in targeted regions to increase their contribution to regional economic growth, particularly through jobs.** The scheme will boost SMEs abilities to compete with firms outside their region, through increased exports and/or outcompeting imports.

**The ECS will establish an enterprise support system that is focused on demand for services from SMEs, rather than on the supply of particular support initiatives from BSIs.** In recent years, publicly-funded business support measures focused on BSIs as interlocutors to provide create and market advisory and other services to SMEs. Unfortunately, this process created a supply-driven offer, not necessarily matching demand from SMEs. The ECS is intended to be more responsive to firms' needs, and BSIs' services should be demand-driven.

**Funds available for the ECS are likely to be a maximum of 49,5 million Euro in Świętokrzyskie, and approximately 8 million Euro in Podkarpackie (with the ability to increase this allocation over time).**<sup>2</sup> These funds should be available without major modifications to the regional Operational Programmes (OPs).

## 2.2 Context

**Preparatory research by the World Bank team revealed the following insights.** These are described in more detail in Annex 1, and are based upon in-depth interviews with 40 SMEs in the two regions during mid-2016.

- **Almost all interviewed SMEs noted how tough competition in their industry is.** Many SMEs found it tough to compete successfully inside or outside their region. This often stems from a lack of differentiation of their product, compared to their competitors (thus making it difficult to earn a premium price). SMEs (especially smaller ones) are often subcontractors to larger firms, and have little power to negotiate prices because their products are widely available, and thus they cannot exercise market power.
- **In most cases, SMEs compete on costs and price.** Occasionally, companies manage to demonstrate quality, but they remain in markets where only minimal quality standards are required, thus they are stuck in a race to the bottom on price.

<sup>2</sup> These estimates are made on the basis of the World Bank team's discussions with Marshals' Offices in the two regions.

- **SMEs in both regions have potential to grow.** Examples are demonstrated by a few SMEs, producing tradable goods and services, that have successfully differentiated their products, established a 'niche' or brand, and have quickly expanded, creating more jobs and increasing their revenues from exports. Examples include: a producer of handmade glass decorations that now has national and foreign buyers and is increasing its production capacity; a manufacturer of specialized mirrors that has increased its production capacity 25 times in the last 10 years.<sup>3</sup>

We created classifications for three types of SMEs in the two regions, as shown in Figure 1. It should be noted that we do not attempt to estimate the proportions of SMEs that fall into each category.

**Figure 1.** Types of SMEs, based on background research in Świętokrzyskie and Podkarpackie.



<sup>3</sup> Many examples of firms in each category are given on pages 13 and 14 of Annex 1.

**The aim of the ECS scheme could help: SMEs in Category 3 move into Category 2; SMEs in Category 2 to move into Category 1; and SMEs in Category 1 sustain and improve their ability to compete successfully.** SMEs in Category 3 did not have plans for investments or to improve their margins (and in some cases no willingness to do so). SMEs in Category 2 had some ideas to improve their competitiveness, but had not implemented investment plans, nor pivoted their businesses towards opportunities for growth. SMEs in Category 1 will need to further adapt and sustain their competitive niche in existing or new markets; they are more likely accustomed to using specialized consultancy services already, but face a difficulty in identifying quality consultants and service providers.

**Based on the range of needs, a diversity of services will be required—often customized at the individual SME level.** Consulting services to support the growth of SMEs must be specialized according to particular industries and particular firms (in order to reveal industry-specific opportunities: for example, market opportunities in apple exports will be different to mirror exports), and according to characteristics of the business (size, management structure, willingness to take risks, etc). It is reasonable to assume that delivery of these services will need to be tailored to the needs of each firm.

**SMEs' interest in business development services varied substantially.** Several patterns emerged during our interviews with 40 SMEs:<sup>4</sup>

- **Highly ranked services are often strategic services.** (rather than operational services), which can help a business change its practices, develop new products, and reach new markets.
- **Mid-ranked services are those often given by enterprise support programs.** (e.g. business planning, specialized training, support in accessing finance), but it is notable that these may not be top priorities overall.)
- **Few firms ranked 'managerial training' as a priority, but this need was inferred by interviewers** after talking in-depth with managers about: strategic decision-making; supervising daily operations (e.g. a general manager is trying to cover marketing, accounting, and staff management, despite declared shortcomings in their knowledge); and motivation levels amongst workers, which may reflect managerial shortcomings as much as any intrinsic deficit in worker quality.

**Overall, the interviews suggested there is a shortage of such services.** SMEs declared a need and a willingness to pay for a range of consultancy services, but often would pay, "as long as it is of good quality. Sometimes it turns out we know more than the 'expert.'" SMEs also recognized the need, and the potential benefits, of group services, but were unwilling to pay for them (fearing difficulties in implementation, and a risk of 'free-riding' by SMEs who did not pay). *These findings are shown in detail in Annex 2, including examples of the types of services SMEs most desired.*

**These findings informed the design of the ECS.** They indicate SMEs' potential growth and increased competitiveness along with a demand for business development service The ECS will address SMEs' concerns about paying for consulting services.

<sup>4</sup> For the full analysis, see pages 4-6 in Annex 2.

## 2.3 Process for designing the scheme

The ECS was designed through the following process:

**(i) Assessment of demand and needs** for business development services by SMEs, including in-depth, one-on-one interviews with 40 SMEs to understand the private sector context in the targeted lagging districts (the four poviats in which the World Bank team was requested to focus its work). The results of this assessment are reported in Annexes 1 and 2 of this document.

**(ii) Assessment of current supply** of business development services, through interviews with approximately 20 BSIs. The results of this assessment are reported in Annex 3 of this document.

**(iii) Stakeholder group meetings (discussion seminars):**

- 1<sup>st</sup> June 2016: in Staszów with the powiat authorities, the Governor and representatives of the local Chamber of Commerce;
- 2<sup>nd</sup> June 2016: in Staszów with the powiat authorities – including the Mayor, and Deputy Mayor, and the Director of the Labor Office;
- 3<sup>rd</sup> June 2016: in Sandomierz with the powiat authorities, including the Governor and Deputy Governor, Mayor and Deputy Mayor, and representatives of the local BSIs;
- 21<sup>st</sup> June 2016: in Leżajsk and in Brzozów with the powiat and town authorities—including the Governor and deputy Governor in Leżajsk, Mayor of Leżajsk, and Director of the Brzozów Labor Office;
- 22<sup>nd</sup> June 2016: in Rzeszów with the Leżajsk and Brzozów powiat and town authorities, plus BSIs and the Podkarpackie region's Marshal's Office.

**(iv) Review of prior schemes and 'good practice' documentation**<sup>5</sup> The team accounted for patterns observed in successful schemes elsewhere in the world.

**(v) Internal team design proposals.** In order to lessen the risk of 'groupthink,' the team of five core members split into two groups and independently designed proposals. The team coordinator then selected the best features from each one.

**(vi) Technical discussions with the appropriate technical staff of the Marshals' Offices of Świętokrzyskie and Podkarpackie:**

- 3<sup>rd</sup> November 2016: in Kielce (both Marshals' Offices participated);
- 6<sup>th</sup> December 2016: in Rzeszów (both Marshals' Offices participated).

**(vii) Key decisions put to the Steering Committee** in Warsaw on 10<sup>th</sup> November 2016. The Steering Committee was asked its preferences on several alternatives within each element of the scheme's design.

**(viii) Economic and Financial Analysis.** A summary of the EFA is included in this document. The EFA aims to forecast the approximate impact of the ECS scheme, including an analysis of the core assumptions and their effects on the scheme.

**(ix) Final report drafted and peer reviewed.** Three peer reviewers with substantial and diverse experience were chosen: John Nasir (Lead Economist, World Bank), Xavier Cirera (Senior Economist, World Bank), and Stephen Roper (Professor, Warwick Business School, UK).

<sup>5</sup> Most notably, the following two documents:

- Hristova, Diana & Antoine Coste (2016), 'Matching grants: how to make grants a better match for private sector development', Washington DC: World Bank.
- Phillips, David A. (2000), 'Implementing the market approach to enterprise support: a comparative evaluation of matching grant schemes', Washington DC: World Bank.

**(x) Feedback and comments incorporated.** Written comments were received from the European Commission, the Polish Ministry of Economic Development, and the Marshal's Office of Świętokrzyskie. Verbal comments were received from the Marshal's Office of Podkarpackie. A Steering Committee on 3rd February 2017 decided on the remaining unresolved issues, and the final report was revised accordingly.

## 2.4 Logical framework

**The ECS subsidizes the expansion of the business development services' market.** The subsidy is expected to generate the following impacts:

- (i) An increase in demand by SMEs for business development services;
- (ii) As more service providers enter the market, prices will be reduced through competition, while quality should increase;
- (iii) The ECS will be successful if, when the subsidy is removed, the level of demand for business development services remains higher than when the scheme commenced.

**The logical framework for the scheme is represented in Table 1.**

**Table 1.** Logical framework for ECS

	1. OPERATIONAL	2. STRATEGIC	3. GROUP
OBJECTIVE	Increase income level and jobs growth in Podkarpackie and Świętokrzyskie		
RATIONALE	SMEs need to <i>improve, refine, or expand existing operations</i> —but perceive services as expensive and of uncertain quality / benefit.	SMEs need to <i>change firms' orientation, develop new product(s), or enter new market(s)</i> —but perceive services as expensive and of uncertain quality / benefit.	SMEs need to <i>release some constraints that afflict several SMEs collectively</i> —but perceive services as expensive and of uncertain quality / benefit.
INPUTS	<ul style="list-style-type: none"> <li>• Funding under OP;</li> <li>• Administrative allocation of staff by Marshal's Office;</li> <li>• Contractors procured: ECS Administrator/Operator; Independent Advisors; Online 'marketplace.'</li> </ul>		
VOUCHERS	Small vouchers of 5 000 to 12 500 PLN, awarded according to basic eligibility, constituting maximum 50% of contract value.	Larger vouchers of 15 000 to 120 000 PLN, awarded competitively, constituting maximum 60% of contract value.	Grants of 120 000 to 2 000 000 PLN for a strategic initiative by a group of SMEs, constituting maximum 85% of contract value.
OUTPUTS	<ul style="list-style-type: none"> <li>• Operational improvements by the SME (e.g. new accounting system adopted; new market entered; investment finance obtained).</li> <li>• Increased willingness to use strategic services</li> <li>• Increased willingness by SMEs to pay for Operational services in future without subsidies.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthened strategic planning and management capabilities;</li> <li>• Strategic improvements by the SME (e.g. new products developed; new markets entered);</li> <li>• Increased willingness to pay for Strategic services in future, without subsidies.</li> </ul>	<ul style="list-style-type: none"> <li>• Collective or club initiatives successful in releasing a constraint on competitiveness of multiple SMEs.</li> </ul>

	1. OPERATIONAL	2. STRATEGIC	3. GROUP
OUTCOMES	<ul style="list-style-type: none"> <li>• Increase in sales revenues;</li> <li>• Increase in export revenues;</li> <li>• Increase in number of jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in sales revenues;</li> <li>• Increase in export revenues;</li> <li>• Increase in number of jobs.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in sales revenues;</li> <li>• Increase in export revenues;</li> <li>• Increase in number of jobs.</li> </ul>

## 2.5 Monitoring, Evaluation & Improvements

This section proposes arrangements for monitoring, evaluating, and improving the scheme over time.

### 2.5.1 Monitoring

**The impacts of the ECS scheme should be tracked to ensure that its financial input is worthwhile, based on outcomes.** The ECS Administrator should track the following metrics on a six-month basis:

- **Output indicators.** The ECS Administrator must track the following indicators:
  - Number of enquiries; number of vouchers awarded; number of vouchers used;<sup>6</sup>
  - Number of enterprises receiving services (by SME size category, industry category, and location [which powiat]);
  - Type of services for which vouchers are utilized;
  - Systematic patterns in ratings and comments on 'ECS marketplace' website (e.g. repeated problems in delivery of particular types of services);
  - Frequent complaints via the 'grievance redress mechanism' of the ECS Administrator;
  - Positive comments and feedback from voucher recipients about their impact.
- **Outcome indicators.** These indicators will require that the ECS Administrator remain in contact with the SME after reimbursement, in order to collect the data required:
  - Description of actual changes made by the SME (e.g. new accounting system; new products; expand to more markets; obtain investment finance);
  - Increase in sales revenues;
  - Increase in export revenues;
  - Increase in number of jobs;
  - Any repeated use of consulting services.

### 2.5.2 Cost effectiveness

**The Economic and Financial Analysis contained in Section 7 of this document includes a sensitivity analysis for various assumptions made in design of the project.** The analysis estimates that the ECS will have a positive net impact if it is able to increase the sales growth rate of SMEs by 29% (e.g. raising the annual growth rate from 1% to 1.29%, or from 2% to 2.58%).

<sup>6</sup> In many voucher schemes, more firms receive vouchers than actually put them to use (due to cold feet, change of circumstances, inability to find a satisfactory service provider, etc).

**This target for increases in sales should be taken as a ‘hurdle rate’ for the ECS—i.e. if the rate of a 29% increase in growth rate is not met, then the scheme is not likely to achieve a positive net impact.** It is recommended that if this rate is not reached in a given year, a clear action plan should be formed by the ECS Administrator to succeed the following year. If the target value is not reached two years in a row, the scheme should be heavily revised or cancelled, since it is not adequately improving the competitiveness of SMEs.

### 2.5.3 Improvements

**A systematic assessment of the ECS scheme should be conducted once per year.** The assessment should provide recommendations on improving the scheme from year to year. The assessment should review monitoring indicators, and interview a selected number of beneficiaries and service providers to provide feedback so as to make adjustments to the scheme. This assessment can be contracted out by the Marshal’s Office.

**Depending on the results of the assessment, it is likely that key elements of the scheme can be varied as implementation progresses.** In particular, the co-financing rate (public contribution to vouchers) should aim to be reduced over time, as confidence in SMEs builds in the market for consulting services.

### 2.5.4 Evaluation

**An independent evaluation should be made at the end of the ECS, or every three years (whichever is sooner).** This evaluation should include an economic and financial analysis of the scheme, together with recommendations and lessons from the ECS, which can be used to inform future enterprise support schemes either in Eastern Poland or elsewhere.

## 2.6 Lessons learned from comparison projects

**The subsidy aims to respond to opportunities, but it also brings risks** (summarized in Figure 2). The scheme is designed to respond to these risks as robustly as possible.

**Figure 2.** Opportunities and typical problems with enterprise support schemes



Several 'good practices' of successful comparison projects were incorporated in the design of this scheme<sup>7</sup>:

- Scheme based on SMEs' needs analysis (i.e. the scheme design is demand-led);
- Clear policy objectives (i.e. increased ability of SMEs to compete successfully);
- Simple and clear application criteria, and low-entry barriers compared with traditional grant programmes;
- Flexibility in use of vouchers (i.e. recipients should have some freedom to decide on the best uses);
- Availability of an 'honest broker' (in the ECS, this is the Independent Advisor (IA))

**A lesson from comparator schemes that is NOT reflected in this design is addressing supply-side constraints at the same time as demand.** Based on experiences with prior enterprise support schemes globally, it is important to first ensure that there are enough qualified business support services. This can be done through certification or quality standards and/or subsidies to providers to develop such services. Accordingly, in preparing the ECS, the team drafted an extensive section to provide for pre-transaction subsidies to service providers that respond to an identified gap in the market for consultancy services. However, this section is not included in the final version of this document, on the decision of the Steering Committee that other sources of funding (including prior disbursements of the Regional OPs) have already been used extensively to support service providers, and some other sources of funding remain for that purpose.<sup>8</sup>

**The team also reviewed other business development voucher programs in Poland for additional insights to inform the design of this project.** Begun in 2008 as a program of the Polish Agency for Enterprise Development (PAED), these were financed by Polish government resources. Subsequently, the program was extended (covering options of so-called 'small' and 'big' vouchers, depending on the support scale) and continued until 2014-2015. Simultaneously, similar initiatives were implemented on a regional scale. One of these, financed under the Regional Operational Programme (ROP) of Kujawsko-Pomorskie (2007-2013), had a regional Chamber of Commerce manage the voucher program. Some of the initiatives were evaluated (this was the case of the PAED programs as well as the voucher mechanism in kujawsko-pomorskie region<sup>9</sup>). The most important findings of reviews of these programs were the following:

- The most crucial ingredient of success is the **selection of service providers**. Whenever possible, the programs should allow only for service providers representing a given level of quality and service potential. The selection and verification system is of utmost importance to the success of the programme.
- **The voucher system should specify various types or groups of services and assign to them maximum levels of support (public resources co-financing rates).** The evaluations demonstrate that co-financing (as vouchers) is a strong quality assurance

<sup>7</sup> These 'good practices' are summarized from the following sources:

- World Bank (pre-publication draft), 'Vouchers to foster innovation activities and collaboration'
- World Bank (pre-publication draft), 'Grants and matching grants for R&D and innovation activities'
- Roper, Stephen (mimeo), 'Innovation vouchers: what do they do? What are the key operational decisions', Enterprise Research Centre and Warwick Business School.

<sup>8</sup> That section on pre-transactional subsidies is available on request from [akilroy@worldbank.org](mailto:akilroy@worldbank.org)

<sup>9</sup> (1) 'Assessment of effectiveness and efficiency of the program <voucher for innovation>', PAG Uniconsult on the order of Polish Agency for Enterprise Development (PAED), Warsaw 2010, (2) M. Gajewski, J. Szczucki et al. 'Ex-post evaluation of program <voucher for innovation>', PAG Uniconsult & PRO Consulting on the order of PAED, Warsaw 2010, (3) M. Gajewski, J. Szczucki et al. 'Ex-post Evaluation of the Pilot Edition of support under <big. > voucher program', PAG- Uniconsult & ARC Market and Opinion on the order of Polish Agency for Enterprise Development, Warsaw 2014 and "Pilot research voucher program in kujawsko-pomorskie voivodship" (vouchers for research services), AMSSM, Kutno, 2013.

mechanism by giving SMEs a stake in the process. Lower contributions by SMEs (e.g. rates of less than 50%) carry a risk that they do not have a strong interest to offer high-quality services. Typical contributions by SMEs should be around 50%, in order to balance an incentive to participate with an incentive to ensure positive results.

- The voucher systems should be organized to assure **fast decision-making processes on applications**. Simpler or less costly services should receive a faster decision process on the vouchers.
- There exist various voucher implementation models, including those in which implementation is **contracted to an external entity** (e.g. in case of Kujawsko-Pomorskie region, an organization external from the managing authority, administered the scheme and managed the funds).
- Adopted solutions were based on the **service-costs reimbursement model**. This solution is workable, especially in case of smaller vouchers (e.g. 50-100 000 PLN). Higher amounts may necessitate a pre-payment or partial payment mechanism in tranches. This consideration also depends on the type of services eligible for co-financing under a given voucher mechanism).
- To accelerate the vouchers implementation process, **the timeframe for services delivery should be limited** to programs with potential tangible effects. Therefore, it is important to establish strong indicators for projects financed with vouchers.

**The system of granting and settling expenditures financed by vouchers should be simple.** It should be formalized sufficiently in order to mitigate the risk of fraud or inefficient use of the funds. This is especially important when the implementation process is transferred to an external entity (as was the case of the voucher in Kujawsko-Pomorskie) voivodship.

## 2.7 Comparison with other Operational Programmes

**The ECS scheme will co-exist with at least two other Operational Programmes (Ops): Eastern Poland and Rural Development.** Some aspects of these OPs are similar to the business support measures proposed here. To avoid duplication, a summary of these OPs was made, and is included for reference.

In the Eastern Poland OP:

- **Measure 1.2** supports the improvement of export business models for SMEs. With a budget of approximately 115 million Euro, it provides advisory and financial support in two stages: (i) develop a new business model, based on the internationalization of the SME (up to 50 000 PLN, with public contribution up to 80%); (ii) advisory services, assets (including the purchase of software to support business processes), and travel to implement the business model (up to 500 000 PLN, with public contribution up to 80%). Examples of advisory services include identification of new markets; marketing tools and strategies; finding business partners; adapting products to new markets; or design of an e-commerce solution.
- **Measure 1.3** supports the introduction of new products and the fostering of R&D networks. Applicants for grants for R&D networks should be a consortium of at least five SMEs. The grants can cover services, equipment, construction and property development

(up to a limit), and other eligible expenses. The minimum value of eligible expenditures is one million PLN, and the maximum is seven million PLN. Co-financing rates from public resources ranging from 70% (for investment support) to 85% (for consulting services).

- **Measure 1.4** supports relatively accomplished SMEs (of at least five employees and sales revenue of at least 600 000 PLN), in sectors that are consistent with smart specialization priorities. The maximum value of support is 100 000 PLN for Stage I (for financing of a 'design audit'), and three million PLN for Stage 2 (implementation of the design strategy, including purchase of machinery, equipment and intellectual property rights). This measure carries a budget of more than 144 million Euro.

In the Rural Development OP:

- **Action 1** provides support for the operation of Local Activity Groups (LAGs), including operational expenses and professional development of people involved in the implementation of a Local Development Strategy. The support takes the form of a lump sum, determined on the basis of the cost of existing LAGs and is dependent on the number of citizens living in the area covered by the Local Development Strategy.
- **Action 2** provides support for the implementation of "cooperation projects." Cooperation projects may involve inter-regional cooperation between LAGs. Support may fund up to 100% of eligible costs of operations and is paid as reimbursement of costs. The anticipated value of each project is at least 50 000 PLN.

**The objectives of Measures 1.2 and 1.4 of the Eastern Poland OP are similar to those of the ECS scheme.** However, there are some key differences:

- The Eastern Poland OP is substantially more selective: it requires SMEs to be ready to export (which is not a requirement that many companies can meet). In contrast, the ECS scheme will support a wider range of SMEs, and will help to build a pipeline of SMEs that can later apply to the Eastern Poland OP or a similar scheme.
- The Eastern Poland OP has a broad range of eligible expenditures (including physical investments), whereas the ECS focuses narrowly on business services. The ECS is envisaged to solve a specific problem, which is the suboptimal use of business services by SMEs in order to improve their operational efficiency, strategic direction, and collaborative initiatives—as diagnosed in the analysis and interviews that preceded the ECS, and documented in Annexes 1 and 2 of this document.
- The Eastern Poland OP concentrates its support in a number of large projects, while the ECS will support a larger number of SMEs with smaller contributions. Eligible expenditures under the Eastern Poland OP can reach a maximum of 3.1 million PLN per company, while eligible expenditures under the ECS can reach a maximum of 200 000 PLN per company.

**Finally, there is also some similarity between the ECS and the Baza Usług Rozwojowych (BUR) schemes, but it should be noted that BUR focuses on training, while the ECS is geared towards expanding the business services sector.** Thus there may be some value in including BUR service providers in the ECS roster, but the focus of their services is likely to be different.

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 3

# ELIGIBILITY CRITERIA

## 3.1 Eligible beneficiary SMEs

Eligible SMEs should fulfill the following criteria:

- Meets standard European criteria to be **categorized as an SME**;<sup>10</sup>
- Headquarters or main plant is located **in the target region**;
- Operational for **at least 12 months** prior to applying to the ECS scheme;
- **Previously received no more than two ECS grants** (i.e. maximum three grants can be received by a single SME). This criteria would not apply to SMEs that become members of a Group services application;
- Fulfils **de minimis** criteria or, if they do not, is classed within article 18 of the Commission regulation 651/2014 of 17 June 2014;<sup>11</sup>
- **Engaged in the production of tradable goods and services.** Tradable goods and services are those that can be traded across geography, rather than produced and consumed only in a local market. Examples of tradable goods and services include: agricultural products, manufactured goods, ICT services, and tourism. Examples of non-tradable goods and services include: retail (shops), taxi services, hairdressing, household cleaning services, cafés, plumbing services, and motor vehicle repair. These non-tradable goods and services would be excluded from being eligible.

The exclusive focus on tradable goods and services is for three reasons:

- i. Tradable goods and services is a reliable way to raise the region's economic output. They **increase export revenue, or diminish leakage of income through imports**, hence contributing most directly to regional income growth.<sup>12</sup>
- ii. Firms engaged in producing tradable goods and services are **competing predominantly with firms outside the poviats and regions**. Therefore, support for such firms carries less danger of producing a win-lose situation where recipient firms gain at the expense of other firms in the same area;
- iii. Export-oriented tradable goods and services are a route to **higher productivity and innovation**, as has been documented in research literature.<sup>13</sup>

**This requirement does NOT mean that recipient firms are already exporters: rather, they are engaged in products and value chains that have the potential to be exported.**

In the case of firms that are engaged in non-tradable services as well as tradable goods or services (e.g. tourism operator, as well as local taxi services), the application should clearly be delineated as being for the tradable part of the business.

**Targeted SMEs.** Applicants to the ECS will be scored on several criteria in order to favor some categories of SMEs. *This approach is already used in the regional OPs, particularly*

<sup>10</sup> As specified here: [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en) In brief: less than 250 employees, and a turnover of EUR 50 million or less (or balance sheet total of EUR 43 million or less).

<sup>11</sup> In brief: under de minimis criteria, no more than EUR 200 000 in state aid may be received by the SME in the last three fiscal years. SMEs that have already reached that limit would instead fall under the 651/2014 regulation, which stimulates a maximum aid intensity of 50% of the expenditure.

<sup>12</sup> Non-tradable goods and services mainly circulate income around the local economy (through the provision of local goods and services); they would expand incomes only if households or firms are consuming more of those services (i.e. eating higher value meals in restaurants; having more haircuts per year; cleaning their premises more often). As evident from these examples, economic growth via non-tradable goods and services is likely to be marginal rather than substantive, and thus is deemed not to be a strategically strong route to regional economic development.

<sup>13</sup> See Annex 1, footnote 3 for a list of indicative references.

**Measure 1.4 in Podkarpackie (direct grants for SMEs) and Measure 2.5 in Świętokrzyskie (investment support for SMEs).** Under the ECS, these categories could include:

- **Geographical location.** Applicants from lagging poviats
- **Business sector.** Applicants engaged in business sectors that are consistent with smart specialization priorities could be scored more highly, if required.
- **Size of firm.** While the European Union (EU) definition of SMEs includes firms from zero to 249 employees, it is recommended that the ECS scheme subsidize firms between three and 50 employees. **Thus, some (but not the smallest) micro-size firms would be included, and firms of less than 50 employees would be advantaged.** The rationale for this proposal is as follows:
  - Excluding firms of less than three employees. Ninety-five percent of all firms in the two regions are micro-size (less than 10 employees).<sup>15</sup> The proposal to exclude the smallest of these micro firms is made because firms of between zero and two employees have yet to prove themselves capable of scaling-up and contributing to regional job growth. Opening the program to firms of below three employees will greatly increase the transactions costs of filtering applications (since there will be a much larger number), but may not channel funds to firms that have real growth potential. Firms with three to nine employees can be considered to have 'self-selected' as having growth potential, due to their size.<sup>16</sup>
  - Preferring firms of less than 50 employees. In view of the wide size bracket for medium firms (50 to 249 employees), the team did consider whether to exclude medium-size firms that are larger than, for example, 100 employees, because they already have their own financial means and technical knowledge to procure business development services, if and when they are required. However, because medium-size firms are more likely export, this would not exclude them, but consider them at a lower priority compared to small-size firms, in order to channel public funds to firms that have the most limited self-knowledge and financial resources.

## 3.2 Eligible and ineligible expenditures

**ECS funds should be spent on consultancy services that aim to increase the competitiveness of an SME.** Demand for these services, according to the team's background research (see Annex 2), includes the following main areas of consulting services:

- Production process improvements;
- Management and administration improvements;
- Expansion of markets for existing products (including export assistance);
- Product innovation and differentiation;
- Legal services;
- Access to finance for investments;
- Collaborative initiatives, such as joint product development or regional product branding.

<sup>14</sup> A medium-size firm has less than 250 employees; a small-size firm has less than 50 employees; and a micro-firm has less than 10 employees. Turnover and balance sheet criteria are also given. See 'What is an SME?' article for more details-- [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition\\_en](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en)

<sup>15</sup> Data is presented in Table 1, Annex 1.

<sup>16</sup> Indeed, some organizations, such as the World Bank, already categorize a firm as 'small' if it has five employees or more

**In order to maximize flexibility of the ECS scheme, and its ability to adapt to SMEs' needs, a strict list of eligible services is not provided.** Since the ECS is driven by demand, it is recommended to provide indicative services without adhering to a strict list.

**Ineligible expenditures should include the following:<sup>18</sup>**

- (i) Any goods, machinery or equipment;
- (ii) Rental of buildings or lease of land;
- (iii) Lease of tangible and intangible assets;
- (iv) Non-consulting services (e.g. travel, venue hire, renovation of buildings);
- (v) Consulting services incurred outside the eligible period (e.g. cost of project preparation);
- (vi) Operating costs (raw materials, energy, fuel, telecommunications, heating, maintenance, building management, etc.);
- (vii) Interest on debt;
- (viii) Contributions to pension or health insurance;
- (ix) Fines, financial penalties and expenses of litigation;
- (x) Losses due to fluctuations in currency exchange rates and fees on the exchange rate;
- (xi) Payments of bonuses to employees;
- (xii) Bank charges for opening and administering accounts, fees for financial transfers and other costs of a financial nature;
- (xiii) Interest and other financial charges (warranty, etc.);
- (xiv) Insurance policy charges (including assets acquired from the project);
- (xv) Value Added Tax (VAT) on consultancy services;
- (xvi) Recipient SMEs' staff time or services for the project to be implemented;
- (xvii) Consultant services to prepare the application.

Eligible costs are the external fees paid to consultants or other trainers, exclusive of VAT or other taxes.

<sup>17</sup> These should be for a specific purpose, rather than routine legal services. For example: assistance to negotiate a new or particularly complex supply contract.

<sup>18</sup> This is adapted from a list of ineligible expenditures in a similar ERDF call for proposals.

**ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 4

# DEMAND-DRIVEN SUPPORT FOR SMEs

**The ECS will comprise three main windows: Operational; Strategic; and Group.** A summary of these three windows is shown in Table 2. A full description follows subsequently.

**Table 2.** Comparison of the three ECS windows for SMEs

	1. OPERATIONAL	2. STRATEGIC	3. GROUP
Anticipated budget <sup>19</sup>	Approx. 14% of total	Approx. 42% of total	Approx. 22% of total
Examples	<ul style="list-style-type: none"> <li>• Smaller, simpler marketing actions, website preparation;</li> <li>• Assistance entering foreign markets (basic information);</li> <li>• Elaboration of applications for commercial financing;</li> <li>• Legal services;</li> <li>• Specialized training;</li> <li>• Managerial training</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic business planning, product development (branding; differentiation; innovation);</li> <li>• Production process improvements (cost optimization &amp; efficiency);</li> <li>• Assistance entering new foreign markets (tailored strategy).</li> </ul>	<ul style="list-style-type: none"> <li>• Services provided to a group of firms to achieve joint objectives (e.g. regional branding; tourism joint products; export promotion; market intelligence; industry trends; client recognition).</li> </ul>
Eligible SMEs	Tradable goods & services only (agribusiness, light manufacturing, tourism, etc). Excludes retailers and other non-tradable local services.		
Rate of co-financing	50%	60%	85%
Value per voucher <sup>20</sup>	5 000 PLN to 12 500 PLN	15 000 PLN to 120 000 PLN	120 000 PLN to 2 000 000 PLN
Max duration	12 months	18 months	24 months
Application process by SMEs	Simple single-stage (formal eligibility of SME and service)	Two-stage (eligibility + diagnostic assessment)	Via a consortium
Diagnostic process	SME	SME + Independent Advisor	Consortia of SMEs + Independent Advisor
Eligibility of service providers	Simple registration	Simple registration	Tender
Information platform	All service providers and tenders searchable on single centralized website (one per <i>voivodeship</i> )		
Selection of service providers	SME selects service provider	Same as for Operational services, but IA can assist SME	ECS administrator manages tender
Quality assurance	Online reviews & feedback	Online reviews & feedback + peer review (by IA)	MO reviews the contracts and deliverables
Verification	Short report on completion		Report every 3 months
Monitoring & feedback	Output & outcome indicators Program evaluation		

<sup>19</sup>These window sizes are guidelines and can be reviewed according to demand. The remaining 22% is estimated for overhead costs: the ECS Administrator; 'ECS marketplace' website; IAs; Evaluation Committee; and internal costs of the Marshal's Offices.

<sup>20</sup>These values show the contribution from public resources. The total size of the services contract will be larger, e.g. the 12 500 PLN maximum for an operational voucher will yield a 25 000 PLN services contract (@ 50% co-financing rate), and the 120 000 PLN maximum for a strategic voucher will yield a 200 000 PLN services contract (@ 60% co-financing rate).

**In each of the three windows, SMEs can apply for partial payment for business consultancy services.** Successful applicants will be granted a voucher to use for the services for which they apply. *No physical (paper) vouchers will be issued: the voucher is an agreement by the ECS Administrator to reimburse the SME for the partial cost of a contract with a business consultancy service provider.* Once the voucher is issued, the SME may decide not to use it for any reason. Reimbursement to SMEs will occur after full delivery of the service, once the provider issues a final invoice.

**During preparation of this scheme, several options were presented to the Steering Committee, and the Steering Committee expressed its preferences.** Those decisions in which clear preferences were expressed are reflected in the design of the scheme. In summary, they are:

- **Service providers will not be limited to BSIs.** BSIs will compete with commercial providers of business development and consultancy services, to provide services to SMEs.
- **Service providers will not be limited to those only in Podkarpackie or Świętokrzyskie.** In pursuit of greater efficiency and competency, service providers outside the two regions will be able to bid on contracts under the ECS scheme. Service providers based in the two regions may be preferred by the SMEs for some reasons (e.g. proximity, accessibility, prior knowledge, etc), but those from outside the regions will not be excluded from consideration.
- **Some functions to administer the scheme may be contracted out by the Marshal's Offices, under a management contract.** The requirements of the ECS Administrator are detailed in Section 5.1, below.

**Some other options were considered, but are not proposed for inclusion in the scheme.** The following options are not proposed for the following reasons:

- **Variable co-financing rate.** Within each of the windows, the co-financing rate could be increased for select categories of SMEs (i.e. those from the poorest *poviats*). The risk of this approach is that it leads to 'gaming' by SMEs—e.g. setting up an office in favored locations. If strong controls are in place, this variable rate could provide more intensive support to SMEs in the poorest areas.
- **Performance contracting.** Service providers could be incentivized to exceed expectations by linking their payment to the performance of the SMEs. This approach has been used in some innovative matching grant schemes internationally. For example, service providers could be paid a bonus of 1% of the SME's profits. Ultimately, SMEs would be free to incorporate it into their contracts, but it is not built into the scheme as a mandatory characteristic (since it may not be suitable in all situations).

## 4.1 Operational window

**The window for Operational services is designed to subsidize smaller, simpler business development services.** Examples of such services are as follows:

- Small-scale marketing plans, website development;
- Assistance in preparing applications for commercial financing;
- Legal services;<sup>21</sup>

<sup>21</sup> These should be for a specific purpose, rather than routine legal services. For example: assistance to negotiate a new or particularly complex supply contract.

- Basic assistance in entering foreign markets;
- Specialized skills training;
- Managerial training.<sup>22</sup>

Since they are somewhat standardized and commonly known, SMEs will be better equipped to diagnose its need for such services and to procure them.

#### 4.1.1 Rate of co-financing

The ECS scheme will contribute up to 50% of the value of Operational Services, excluding VAT.

#### 4.1.2 Expected value

The ECS scheme will contribute up to 50% of the value of Operational Services, excluding VAT.

- **Maximum.** The maximum value of the voucher will be 12 500 PLN (2 800 EUR) per application—i.e. 50% of a total contract size of 25 000 PLN, excluding VAT. Applicants are free to apply for support to contracts at values greater than 25 000 PLN, but in those cases, the public contribution in this window will be limited to 12 500 PLN (i.e. the applicant would cover more than 50% of the contract value for the larger contracts).
- **Minimum.** A minimum contract size would be set at 5 000 PLN, in order to exclude contracts of a negligible size.
- **Average.** We expect the typical voucher to be approximately 11 000 PLN (2 500 EUR), given the scope of the services involved, and the willingness of the targeted SMEs to pay.

#### 4.1.3 Maximum duration

The maximum duration of the service provision will be 12 months.

#### 4.1.4 Application process

The application process will be a **simple single-stage process**, in which the applicant SME demonstrates formal eligibility of the company and the service.

The application will be made through the online ‘ECS marketplace’ website and accepted on a rolling basis (i.e. can be submitted at any time). The applicant SME will need to demonstrate formal eligibility of the company and to describe their needs and desired impact(s) of the consulting services. The submission will be checked against the eligibility criteria as specified in Section 3.1 (‘Eligible beneficiary’), focusing on the size of the company, the value of the voucher requested, and the type of service it will be used for. The number of attachments required should be limited. The ECS Administrator should aim for a fast-turnaround on every application (two weeks as a maximum).

#### 4.1.5 Diagnostic process

For simple services, we assume that the SME is capable of diagnosing its own needs. The subsidy provides a financial incentive for them to use business support services. If the SME meets the basic eligibility criteria then the application is approved.

#### 4.1.6 Eligibility of service providers

**Service providers are required only to register and give their credentials in the online ‘ECS marketplace.’** This information should be sufficient for SMEs to choose a provider, especially since the basic information will be supplemented with user ratings and comments.

<sup>22</sup> Training services may be removed by the Marshals’ Offices if they are deemed to duplicate training available under the BUR scheme.

The ECS Administrator will not be required to approve a service provider before they can enter the marketplace, except to verify that the provider is a legitimate provider of consulting services.<sup>23</sup>

**Accreditation or formal quality standards will not be required**, though the service provider can choose to mention these on their website in order to attract more interest. Those accredited in the BUR database<sup>24</sup> should be automatically registered on the 'ECS Marketplace' website. It should however be noted that the level of services provided through BUR is likely to be more basic than those required through the ECS.

**Some additional requirements can be made of service providers at the time of contracting, as specified in Section 6.2 ('Procurement process').**

#### 4.1.7 Quality assurance

**Quality control will be ensured by two mechanisms:**

- (i) Basic credentials, and user ratings and comments, on the 'ECS marketplace' website** User feedback will help the SME to assess quality upfront (this will be easier for Operational Services than for Strategic Services, owing to a greater standardization of services).
- (ii) Active monitoring by SMEs.** The ECS scheme requires some financial contributions from SMEs, therefore the SMEs have a vested interest the good quality delivery of those services. In essence, this joint financing of the services aligns the interests of the Marshal Office and SMEs around good quality services, and thus decentralizes monitoring and quality assurance on the services to the SMEs.

#### 4.1.8 Selection of service providers

**Service providers will be selected in accordance with procurement guidelines detailed in Section 6.2 ('Procurement process').**

#### 4.1.9 Verification and Voucher Reimbursement

The ECS Administrator will reimburse SMEs after submission of the following documents:

- (i) Copies **of the contract and invoice** from the service provider, which is consistent with the approved application for the voucher. The SME is responsible for payment to the service provider;
- (ii) A **one-page report produced by the service provider** upon completion of the project, detailing the process and outcome. While the bureaucratic requirements of the ECS scheme should be kept to a minimum, this short report is a means to reduce the chance of fraud;
- (iii) Confirmation that the SME submitted a **review of the service provider** on the ECS marketplace website.

**Final payment to the service provider will be made by the SME.** This payment must be made if the service was compliant with the TOR for the service provider. If the SME is concerned about service quality, they may request an opinion from the IA. This opinion is given informally, but may assist in mediating a payment dispute.

<sup>23</sup> In principle, the ECS Administrator could provide upfront quality control for service providers. However, that option is not proposed here, given the relatively small size of the scheme compared to the extra costs that vetting would incur. In order to vet service providers, the Administrator would have had to develop minimum requirements for each service (of which there are many), which is an onerous and expensive undertaking.

<sup>24</sup> The BUR [Database of Development Services] is a free-of-charge database of service providers in Poland. It is available at the national level, and lists business services focused on training, vocational courses, counselling, post-graduate studies, mentoring, and coaching. The database supports SMEs and individual businesses in accessing the most appropriate training and advisory services that can improve their skills and business operations. The Database Administrator is the Polish Agency for Enterprise Development (PARP). Service providers who are registered in BUR were verified by PARP, according to their experience, capacity, and quality system. The service provider must demonstrate implementation of a certified quality system. The list of accepted certificates is published on the PARP website.

## 4.2 Strategic services

### **The window for Strategic support is designed to subsidize strategic consultancy services.**

It will be tailored to the needs of each SME to ensure that they receive the most appropriate and highest quality services. Examples of such services are as follows:

- Preparation of complex marketing strategies;
- Production process improvements (cost optimization & efficiency);
- Strategic business planning, product development (branding; differentiation; innovation), and market intelligence (competitors + customers);
- Industry trends & technology trends;
- Assistance in entering foreign markets (more complex support than under the Operational Services window).<sup>25</sup>

On the basis of the team's background research, SMEs recognize the need for these services, yet they are the least willing to pay for them, owing to the perceived high cost and risk of poor quality outputs. Nor are SMEs knowledgeable to diagnose their firms' needs and develop a quality scope of work (terms of reference).

#### **4.2.1 Rate of co-financing**

The ECS scheme will contribute up to 60% of the value of strategic services, excluding VAT.<sup>26</sup>

#### **4.2.2 Expected value**

- **Maximum.** The maximum value of the grant will be 120 000 PLN per application—i.e. 60% of a total contract size of 200 000 PLN, excluding VAT. Applicants are free to apply for support to contracts at values greater than 200 000 PLN, but in those cases, the public contribution will be limited at 120 000 PLN (i.e. the applicant would cover more than 60% of the contract value for larger contracts).
- **Minimum.** In order to exclude contracts of that should be in the Operational window instead, or which will have only marginal impacts on competitiveness, a minimum voucher size could be set, of approximately 15 000 PLN<sup>27</sup> (i.e. 60% of a total contract side of 25 000 PLN, excluding VAT).
- **Average.** We presume that the average voucher size will be approximately 40 000 PLN (9 000 EUR), given the scope of the services involved, and the willingness to pay the targeted SMEs.

#### **4.2.3 Maximum duration**

The maximum duration of the service provision will be 18 months. This is deemed sufficient for full delivery of strategic consulting services to an SME.

<sup>25</sup> Assistance in entering foreign markets may be removed by the Marshals' Offices if they are deemed to duplicate support available under the Eastern Poland Operational Program (POPW). However, there is reason to believe that the targeted beneficiaries under POPW are larger or more advanced companies than the potential SMEs of this scheme. See Section 2.7 ('Comparison with other OPs') for more details.

<sup>26</sup> Any SME that cannot fulfil de minimis criteria would be limited to 50% of the value, under the block exemption rule of Commission Regulation 651/2014, 17 June 2014.

<sup>27</sup> Even if the Operational Services voucher has a maximum size of 12 500 PLN, the Strategic services voucher would have a minimum size of 15 000 PLN rather than 12 500 PLN in order to exclude overlap. (This is because a 12 500 PLN voucher indicates a services contract value of 25 000 PLN at a 50% co-financing rate, and a 15 000 PLN voucher indicates a services contract value also of 25 000 PLN at a 60% co-financing rate.)

#### 4.2.4 Application process

The application process will be a two-stage process:<sup>28</sup>

- (i) In the first stage, the applicant SME will need to demonstrate **formal eligibility** of its company and service. This will be done through an application on the ECS marketplace website, to describe the needs of the company and the desired impact of the consulting services. The submission will be checked against the eligibility criteria as specified in Section 3.1 ('Eligible beneficiary'), focusing on the size of the company, the value of the voucher requested, and the type of service. The number of attachments required should be limited. The ECS Administrator should aim for a fast-turnaround on every application (maximum of two-three weeks). Applications will be accepted on a rolling basis.
- (ii) In the second stage, the applicant SME will receive a **diagnostic advisory service** from the IA. This requirement is based upon the background research done in preparation for this scheme, which found that SMEs tend to have a poor appreciation of the strategic business development services available. The IA will advise the SME on potential services. Revisions to the application may be made at this stage, subject to the SME remaining eligible. The decision on whether to revise the application is the responsibility of the SME; the IA plays only an advisory role.

**An Evaluation Committee should be comprised of three business people with international experience and/or public officials with substantial private sector experience.** A strong understanding of business development and export markets will be important. The Marshal's Office should appoint the Committee Chair. The time commitment of the Evaluation Committee will be relatively substantial – perhaps two days a month – reflecting the time taken to review and rank applications and attend a monthly meeting. Remuneration for this will be considered an overhead cost to the ECS.

**An application should be approved only if its benefits are likely to outweigh its public and private costs.** For the Strategic and Group windows, a project-scoring schema should be developed to reflect the likely impact of the project and its contribution to the objectives. A pass/fail condition should apply to eligibility. Each member of the Evaluation Committee should independently score project proposals (according to the likelihood of the application to generate the Outcome Indicators specified in Section 2.5 of this document—i.e. increases in sales revenues, export revenues, or number of jobs), and then scores compared.

It is recommended that a fixed budget be allocated at each meeting to fund the top rated applications. Where applications are exceptional but cannot be funded in one month, allowance should be made to carry forward applications to the next decision point.

**This process contrasts with the Operational window, in which applications should be approved based solely on whether they meet the eligibility criteria.**

#### 4.2.5 Diagnostic process

**In the Strategic window, the SME should be advised about the benefits of a strategic consultant to help them assess their needs and potential benefits.** The voucher provides a substantial financial incentive for the SME to use such services, plus the advisory services of the IA.

**This diagnostic process should be standardized.** Several models for the diagnosis of SMEs are available (such as Growth Mapper,<sup>29</sup> Growth Wheel,<sup>30</sup> and others). The use of a specific diagnostic process should be specified for the IAs, and basic training should be given in the prescribed technique at the inception stage of the contract between the Marshal's Office and

<sup>28</sup> Implementation of this process should be made consistent with the respective legal regulations, particularly with the Polish implementing regulation (ustawa wdrożeniowa), articles 37-51.

<sup>29</sup> <http://www.growthmapper.co.uk/>

<sup>30</sup> <http://www.growthwheel.com/>

the IAs. This diagnostic process is not included in this report, but should be developed in the Terms of Reference for the IAs.

#### 4.2.6 Eligibility of service providers

**Service providers are required to register on the 'ECS marketplace' website, as described in Section 4.1.6 ('Eligibility of service providers').**

#### 4.2.7 Quality assurance

**Quality control will be ensured by three mechanisms:**

- (i) Basic credentials plus user ratings and comments on the 'ECS marketplace' website.** User feedback will help the SME to assess quality upfront (though this will be more difficult than for the Operational Services window, owing to the lack of standardization of services).
- (ii) Peer review by the IA.** This is proposed because of the relatively complex nature of the services. Strategic services are likely to incur more frequent disputes between the SME and the service provider about the quality of services provided. The IA will not have formal powers, but will advise the SME on whether delivery of the service was satisfactory. Contracts can be disputed and payment withheld in case of substandard delivery of the services.
- (iii) Active monitoring by SMEs.** The ECS scheme requires some financial contributions from SMEs, therefore the SMEs have a vested interest the good quality delivery of those services. In essence, this joint financing of the services aligns the interests of the Marshal Office and SMEs around good quality services, and thus decentralizes monitoring and quality assurance on the services to the SMEs.

#### 4.2.8 Selection of service providers

Service providers will be selected in accordance with procurement guidelines, detailed in Section 6.2 ('Procurement process').

#### 4.2.9 Verification and Voucher Reimbursement

Reimbursement for the costs of the contracted service will be made to the SME after submission of the following documents:

- (i) A **copy of the contract and invoice** from the service provider, which is consistent with the approved application for the voucher. The SME is responsible for payment to the service provider;
- (ii) A **short report produced by the service provider**, upon completion of the project (three pages is a sufficient length), detailing the process and the output. While the bureaucratic requirements of the ECS scheme should be kept to a minimum, this short report is a means to reduce the chance of fraud;
- (iii) Confirmation that the SME has submitted a **review of the service provider** on the 'ECS marketplace' website.

**Final payment to the service provider will be made by the SME.** This payment must be made if the service was compliant with the TORs for the service provider. If the SME is concerned about service quality, they may request an opinion from the IA. This opinion is given informally, but may assist in mediating a payment dispute.

In riskier cases (e.g. in high value contracts, or in any other case where the Scheme Administrator deems there is a risk of fraud), the ECS Administrator may request a second opinion from the IA that the service was delivered effectively. In other cases, the ECS Administrator should be responsible for awarding and monitoring the grants, without the need for further technical advice.

## 4.3 Group services

**The window for Group services is designed to subsidize services provided to a group of SMEs to achieve joint objectives.** The grants will solve a problem that stems from SMEs being smaller than the minimum efficient size to procure such services themselves.<sup>31</sup>

- Small-scale marketing plans, website development;
- Assistance in preparing applications for commercial financing;

### 4.3.1 Intended activities

**Activities to solve common problems may relate to operational efficiency or to strategic choices:**

Operational efficiencies can be increased through, for example:

- **Joint procurement** (e.g. reducing costs of production by procuring supplies collectively at lower prices);
- **Joint lobbying for common needs** (to advocate for reforms or investments by local or national decision-makers -- e.g. sector-specific business environment reforms, or investments in shared infrastructure).

Strategic improvements could be made through:

- **Development of joint products** (such as regional branding for agribusiness products; integrated tourism products which combine agricultural or cultural heritage tours with accommodation and activities);
- **Shared market intelligence or industry trends** (the procurement of strategically useful information which can be interpreted by each SME according to their own needs, but is not viable for individual SMEs to commission on their own).

**A subsidy is required to solve a coordination failure** - whereby SMEs recognize the potential benefits from such services, but are disinclined to procure them because of the transaction costs in arranging a group of SMEs to work together, and because of the risk of 'free-riding' where other SMEs benefit from the service but have not contributed to its costs.

**If the subsidy is successful, the beneficiary SMEs should be willing to scale-up their own financial contributions, so that the Group service continues even once the subsidy ends.** This scenario may sound unlikely for BSIs who have become accustomed to 100% public subsidies, but international experience does demonstrate it is frequently achieved.<sup>32</sup> Within Świętokrzyskie, inspiration can be found in the example of SanExport (located in Sandomierz powiat). SanExport is a limited liability company, established by in 2011 as a collective of dessert apples producers, to expand their exports. With four full-time staff,<sup>33</sup> it supports activities such as contract negotiations (usually pursued on behalf of a large number of producers, so that they gain more market power to negotiate with overseas buyers).

<sup>31</sup> In most cases, these shared services will fall into two categories (best defined using their technical terms):

- 'common services' (those which are diminished through their use, yet are difficult or impossible to exclude others from 'free-riding'—i.e. rivalrous but non-excludable);
- 'club services' (those which are not diminished through their use, but which can be provided to the exclusion of others—i.e. non-rivalrous but excludable).

By contrast, services that are rivalrous and excludable are 'private services', and services that are non-rivalrous and non-excludable are 'public goods.'

<sup>32</sup> According to an international survey of cluster initiatives, approximately 34% of revenues come from private sources such as membership fees and sales of services. This finding is shown in Lindqvist G., Ketels C., Sölvell Ö., (2013) The Cluster Initiative Greenbook 2.0; Ivory Tower Publishers, Stockholm.

<sup>33</sup> This information was gathered through an interview with SanExport.

**Successful activities are likely to support a group of SMEs in a long-term initiative.** A more stable structure (funded by membership fees or other means) could oversee repeated, iterative activities that support the continual evolution of a group of SMEs. This has been the experience with the most successful cluster initiatives in Europe and elsewhere. *But a key lesson from cluster initiatives is that the most successful initiatives start with specific activities, rather than starting with an institutionalized organization.*<sup>34</sup> It is important to demonstrate value first; then the administrative arrangements can come later.

### 4.3.2 Initiators

**Based on their needs assessment, consortia of SMEs will propose joint services to solve shared problems.** This allows the emergence of group service proposals without an expensive prior competitiveness analysis.<sup>35</sup> However, it also carries a risk because SMEs' will be limited in their knowledge of xxx, and may not take a sufficiently long-term view on opportunities for commercial sustainability.<sup>36</sup> Therefore, it is recommended that the IA assist the ECS Administrator with assessing the commercial sense of such proposals.

**It should be anticipated that a larger group of SMEs (e.g. 10 SMEs and upwards) might prefer to engage a service provider (e.g. a BSI) to organize the application for Group services and transactions with the services provider.** In this case, the operational costs of the BSI can be included in the value of the proposal. The service itself could be provided by the same service provider (i.e. BSI is the initiator and the provider), or by another service provider (i.e. BSI is merely an organizer and convener of outsourced services).

### 4.3.3 Eligible beneficiaries

**Each shared service must respond to the needs of a minimum of three SMEs.** Potential beneficiaries should be groups of SMEs operating in the same locality or belonging to the same or complementary sector of a business activity. The group may be led by an SME, BSI, or another organizational entity acting as a consortium leader (e.g. a Chamber of Commerce/ industry, sector association, or educational establishment).

### 4.3.4 Rate of co-financing

**The ECS scheme will contribute up to 85% of the value of Group services.** The beneficiary SMEs must pay the remainder.<sup>37</sup> This relatively high cofinancing rate of 85 percent is proposed because of the increased difficulty of encouraging financial contributions from SMEs to Group activities. The Group services window is designed to provide a large financial

<sup>34</sup> This observation may help explain the weak results of cluster initiatives in previous OPs, and the distaste for cluster initiatives in OP 2014-2020. According to an evaluation of cluster initiatives, only 20% of targeted enterprises actually reported benefits from the initiatives-- PSDB (2013), 'Ewaluacja: Jak zmieniają się klustry dzięki wsparciu z PO RPW [Evaluation: How do the clusters supported by the OP EPD changed?]', Warsaw: Polska Agencja Rozwoju Przedsiębiorczości [Polish Agency for Enterprise Development] <https://badania.parp.gov.pl/files/74/75/77/20264.pdf>

<sup>35</sup> An alternative option was considered during preparation of this report: a 'Directed Call', in which the Marshal's Office is the initiator, and opens a call for proposals to solve a specific problem of competitiveness, which is identified by industry diagnostics and analysis. This approach would prioritize specific sectors which the Marshal's Office believes carry commercial opportunities (e.g. the smart specialization sectors), but requires additional analysis in order to identify specific shared constraints and problems that a shared service can help resolve. In practice, this process would be outsourced by the Marshal's Office to a strategic consultant, who should be given terms of reference to identify opportunities for increased competitiveness within specific sectors of the economy. However, this option is not favoured, because of the extra complexity and expense that it would involve.

<sup>36</sup> We anticipate this problem on the basis of international experience with the initiatives proposed by SMEs. There is a tendency for SMEs to prioritize measures, which lower costs of production, but not those that pivot their businesses and change their markets. The latter is difficult for SMEs to see when they are focused on paying their bills and earning enough revenue to make it through the year, even if it may be more lucrative in the long-term.

<sup>37</sup> SMEs that cannot fulfill de minimis criteria would be limited to 50% of the value, under the block exemption rule of Commission Regulation 651/2014, 17 June 2014. That means the 85% co-financing rate must be adjusted on a pro rata basis, proportionately to the value of the Group application of those SMEs.

incentive to solve coordination failures between SMEs.

#### 4.3.5 Expected value

The total permitted value of the project (i.e. the ECS contribution, plus private contributions) should depend on the number of SMEs involved. The upper limit for value per firm could be:

- 30 000 PLN per micro enterprise;
- 40 000 PLN per small enterprise;
- 50 000 PLN per medium enterprise.<sup>38</sup>

**The maximum value of the Group services voucher will be 2 million PLN** —i.e. 85% of a total contract size of 2 352 941 PLN, excluding VAT.<sup>39</sup> Most, if not all, projects would not be close to this threshold, because of the limits on value per firm.<sup>40</sup>

**The minimum value of the Group voucher will be 120 000 PLN**, in order to exclude contracts that are of negligible value and/or benefit fewer than three SMEs at once.

#### 4.3.6 Maximum duration

The maximum duration of the service provision will be 24 months. This duration is proposed because of the risk of ceasing a joint service before its value has become apparent to SMEs.

#### 4.3.7 Application process

A group of SMEs will apply for a Group services' voucher. Their application will be assessed using the same method as for Strategic services, as described in Section 4.2.4 ('Application process').

#### 4.3.8 Diagnostic process

**A group of SMEs submitting a joint application will be responsible for the initial diagnostic work necessary to put together their application.** These costs would not be subsidized, though the services of an IA can be requested if the group of SMEs can demonstrate that they fulfill the basic eligibility criteria for beneficiaries (see Section 3.1: 'Eligible beneficiary')<sup>41</sup>.

#### 4.3.9 Eligibility of service providers

**Service providers are required to register on the 'ECS marketplace' website, as described in Section 4.1.6 ('Eligibility of service providers').**

#### 4.3.10 Quality assurance

**Quality control will be ensured by three mechanisms:**

**(i) Basic credentials plus user ratings and comments on the 'ECS marketplace'**

<sup>38</sup> These upper limits are suggestions and can be revised slightly. They are proposed in order to ensure that Group services applications benefit a sufficient number of SMEs to be desirable investments with public funds. We do not recommend removing the limits entirely, since that will remove the discipline of making the Group services demand-led by SMEs.

<sup>39</sup> 2 000 000 PLN is 85% of 2 352 941 PLN.

<sup>40</sup> For example, a Group services application would require 50 small-size firms in order to reach the value of 2 million PLN.

<sup>41</sup> In the alternative option discussed for Group services ('directed call'), the diagnostic would be undertaken by the Marshal's Office (or a strategic consultant). In case this option is ever reconsidered in future, that process is noted here for reference:

- Mapping of current economic activity in the targeted economic sector;
- Review of relevant industry trends and emergent commercial opportunities for targeted firms to differentiate themselves and earn a higher profit margin;
- Review of the needs of advanced buyers in order to identify key priorities for targeted firms;
- Benchmarking of the current activities of firms, and conclusion about priority interventions (to be conducted by public and private sectors in partnership).

This methodology is based on the European Foundation for Cluster Excellence (EFCE), and describes the key steps in a 'competitiveness reinforcement initiative'. The EFCE previously provided training in Podkarpackie (see <http://www.clusterexcellence.org/podkarpacka-cluster-academy/>). The staff trained in this program should be able to refine and finalize the terms of reference—or even to conduct the work themselves. The topics for this diagnostic work should be determined upfront by the Marshal's Office, most likely in industries and sectors consistent with the Smart Specialisation strategy—leading to perhaps one call per industry or sector.

**website.** This user feedback will help the group of SMEs assess quality.

**(ii) Peer review by the IA.** Peer review is proposed because of the relatively complex nature of Group services. The IA will not have a formal 'sign off' role, but will assist the ECS Administrator in verifying the correct use of the grant for eligible expenditures.

**(iii) Active monitoring by SMEs.** The ECS scheme requires some financial contributions from SMEs, therefore the SMEs have a vested interest the good quality delivery of those services. In essence, this joint financing of the services aligns the interests of the Marshal Office and SMEs around good quality services, and thus decentralizes monitoring and quality assurance on the services to the SMEs.

#### 4.3.11 Selection of service providers

Service providers will be selected in accordance with procurement guidelines detailed in Section 6.2 ('Procurement process').

**A detailed budget must be prepared by service providers, and may include direct costs as well as operational costs (overheads) .<sup>42</sup>**

#### 4.3.12 Verification and payments

**In consortium awards, it is anticipated there will be a single Lead Entity** (SME, BSI, or other organization) **that acts as the contracting body on behalf of the group of SMEs.** The Lead Entity would contract a service provider on behalf of the consortium. The Marshal's Office reimbursement agreement ('voucher') would be with the Lead entity of the consortium. The Lead Entity will be responsible for monitoring service delivery to partner firms, ensuring sign-off, and collecting firms' contributions. An allowance of (maximum) 5% of the total service cost may be paid to the Lead entity for undertaking this administration. This will be paid quarterly in arrears spread over the lifetime of the project. It should be considered as an overhead to be paid by the ECS on top of the value of the Group services voucher.

Reimbursement (for the costs of the contracted service) will be made to the Lead Entity after submission of the following documents:

**(i) A copy of the contract and a copy of the invoice** from the service provider, which is consistent with the approved application for the voucher;

**(ii) A short report produced by the service provider** on completion of the project (three pages are sufficient) detailing the process that was undertaken and the output that was produced.

**(iii)** Confirmation that the entity representing the SMEs has submitted **a review of the service provider** on the online 'ECS marketplace' website;

**(iv)** Confirmation of the **financial contribution of at least 15% of all member SMEs in the Group.** This financial record must be reviewed closely in order to ensure that the service has genuinely benefited the applicant group. **If a member SME leaves the group or does not pay their contribution, the total size of the ECS reimbursement must also be reduced accordingly.**<sup>43</sup>

**Final payment to the service provider will be made by the Lead Entity.** This payment must be made if the service was compliant with the TORs for the service provider. If the Group is concerned about service quality, the Lead entity may request an opinion from the IA. This opinion is given informally, but may assist in mediating a payment dispute.

In higher risk cases (e.g. in high value contracts, or in any other case deemed to have a potential

<sup>42</sup> According to the current interpretation of ERDF rules, reimbursement is based on actual costs. But this will be a strong disincentive for service providers, who must also cover overheads and operational costs. Therefore, it would be highly desirable for reimbursement to be permitted on the full development cost (including staff time, overheads, and operational costs). The reasonableness of these costs will be determined through the bidding process.

<sup>43</sup> This condition is important, in order to ensure that the Group services voucher meets its objective of providing a service that is of value to the whole group of SMEs.

risk of fraud), the ECS Administrator may request a second opinion from the IA that the service was delivered effectively. In other cases, the ECS Administrator should be responsible for awarding and monitoring the grants, without needing further technical advice.

**The Administrator and the beneficiary, on a case-by-case basis, will determine a payment schedule to the service provider.** In view of the larger size of the contract, a staggered disbursement schedule may be useful. For example:

- 10% at signing of the contract;
- 60% to be paid in tranches during delivery of the contract, on a case-by-case basis, as determined by a schedule, according to technical content of the subproject;
- 30% on satisfactory completion of the contract (verified by the IA).

#### 4.3.13 Monitoring and feedback

The service provider should produce a report every three months detailing the process that is being undertaken and the output that is produced. The purpose of this report is: (i) to document outputs and outcomes of the project; and (ii) to verify correct usage of the funds.

## 4.4 Repayable vouchers?

In preparing the ECS, some alternatives were considered but rejected. One of these was the idea of conditionally repayable funds. The essentials of this idea are recorded here in case of a potential subsequent scheme.

**Repayable vouchers tailor the subsidy level to the actual needs of the SME.** This solution responds to one of the trickiest decisions in any voucher or matching grant scheme— to decide on the rate of co-financing, which must be sufficiently high to incentivize SMEs to use the scheme, but not so high as to be an inefficient use of public resources. Unfortunately that optimal rate of co-financing is likely to be different for every SME, which makes it almost impossible for the voucher scheme to be truly efficient. By contrast, under ‘repayable vouchers,’ the co-financing rate can initially be set high, and then decreased, according to the impact of the voucher on SME revenues. *Thus, subsidies will be larger for those SMEs for whom the enterprise support did not work, and less for SMEs for whom the enterprise support was effective.*

**In a repayable vouchers scheme: if the grant is successful, SME revenue grows, a portion of which can be repaid to the publicly funded voucher scheme.** The public sector still provides the subsidy (voucher), but where SME revenues grow as a result, some of those benefits can be recouped. This will benefit both entities because repayment will maximize and prolong the impact of the voucher scheme, since funds would be partially replenished over time by repayments.

**Repayable vouchers would be based on international the experiences of Revenue-Based Financing (RBF).** RBF has been utilized commercially and by public bodies in the United States, United Kingdom, Ireland, Canada, Israel, New Zealand, and Serbia, amongst others.<sup>44</sup> The basic principles are as follows:

<sup>43</sup> This condition is important, in order to ensure that the Group services voucher meets its objective of providing a service that is of value to the whole group of SMEs.

<sup>44</sup> Baptista, António (2015), ‘Revenue-Based Financing in the SME Universe’, part of Benchmarking SME Support Programs, commissioned by the World Bank, mimeo. Traditionally, RBF has been used mainly in high margin and/or capital-intensive sectors (e.g. ICT, biotech, etc)--- **but** some RBF firms have tweaked their model to make it viable to a wider array of sectors (i.e. by extending the maturity, and lowering the cost of capital).

- In RBF, (usually in the form of loans), **capital is repaid if the investment is successful, but is not repaid if the investment fails.** The repayment occurs as a percentage of revenues (i.e. if revenues dip, for whatever reason, the repayment stops).
- When commercial providers use RBF, they set the effective interest rate higher than a bank loan, but at a lesser cost than giving equity to investors. The cost of borrowing reflects the additional risk taken on by the lender (higher risk than a loan, which must be repaid by the SME whatever happens to their revenues). **Thus, the downside risk is transferred from the SME to the lender.**

**When adapting RBF in the form of a repayable voucher, some modifications could be made:**

- **It would not need to be entirely commercially profitable, but would focus on extending the life and cost-effectiveness of the funds.** The use of a partially repayable mode is to recoup some of the benefits where SMEs are successful. Its cost effectiveness for taxpayers would thus be higher than distributing vouchers/grants to SMEs as a one-time disbursement.
- **The percentage of revenues taken as repayment from the SME could focus on extra revenues.** Most RBF schemes take a percentage of SME revenues (e.g. 3% of SME revenues). In a repayable voucher scheme, a percentage of extra revenues could be taken (i.e. repayment only on the portion of revenues that increase, owing to the subsidized investments).
- **Traditionally RBF is used to pay back the entire investment—but in a voucher scheme the repayment could be capped (e.g. SME repays a maximum of 50% of the voucher value).** The cap would be made in order to further incentivize the SME to choose to invest in consulting services and other eligible services in the first place (i.e. to demonstrate that it will always be better off, whether repayments are due or not).

**Repayable vouchers appear to be possible under EU funding, according to the relevant guidance documents.<sup>45</sup>**

**And, based on team discussions and feedback from the Steering Committee, repayable vouchers are not proposed for the initial version of the ECS scheme.** The main reason for caution is that repayment conditions will risk dis-incentivizing SMEs from applying for vouchers. This risk stems from the following contextual conditions in Eastern Poland:

- i. SMEs are hesitant to use consultancy services of the type that this scheme will support, and are skeptical that the services will be valuable. Repayment conditions could further complicate this decision.
- ii. SMEs are habituated to receiving free (grant) support from public authorities, and will not find repayable support attractive.
- iii. Even if increased revenues are achieved, it will be difficult or impossible to attribute them to services received (since they could also have been caused by other investments, e.g. machinery, equipment, premises). So SMEs may perceive it as unfair to expect repayment for these services when the revenue increase may actually have been from goods investment.

**Overall, even if repayable vouchers are not incorporated in this first version of the ECS, conditional repayment could be incorporated in subsequent years of the scheme, once confidence in the scheme has built amongst SMEs.**

<sup>45</sup> 'Guidance for Member States on Definition and use of repayable assistance in comparison to financial instruments and grants', document EGESIF\_15\_0005-01, dated 15th April 2015.

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 5

# **ROLES AND RESPONSIBILITIES**

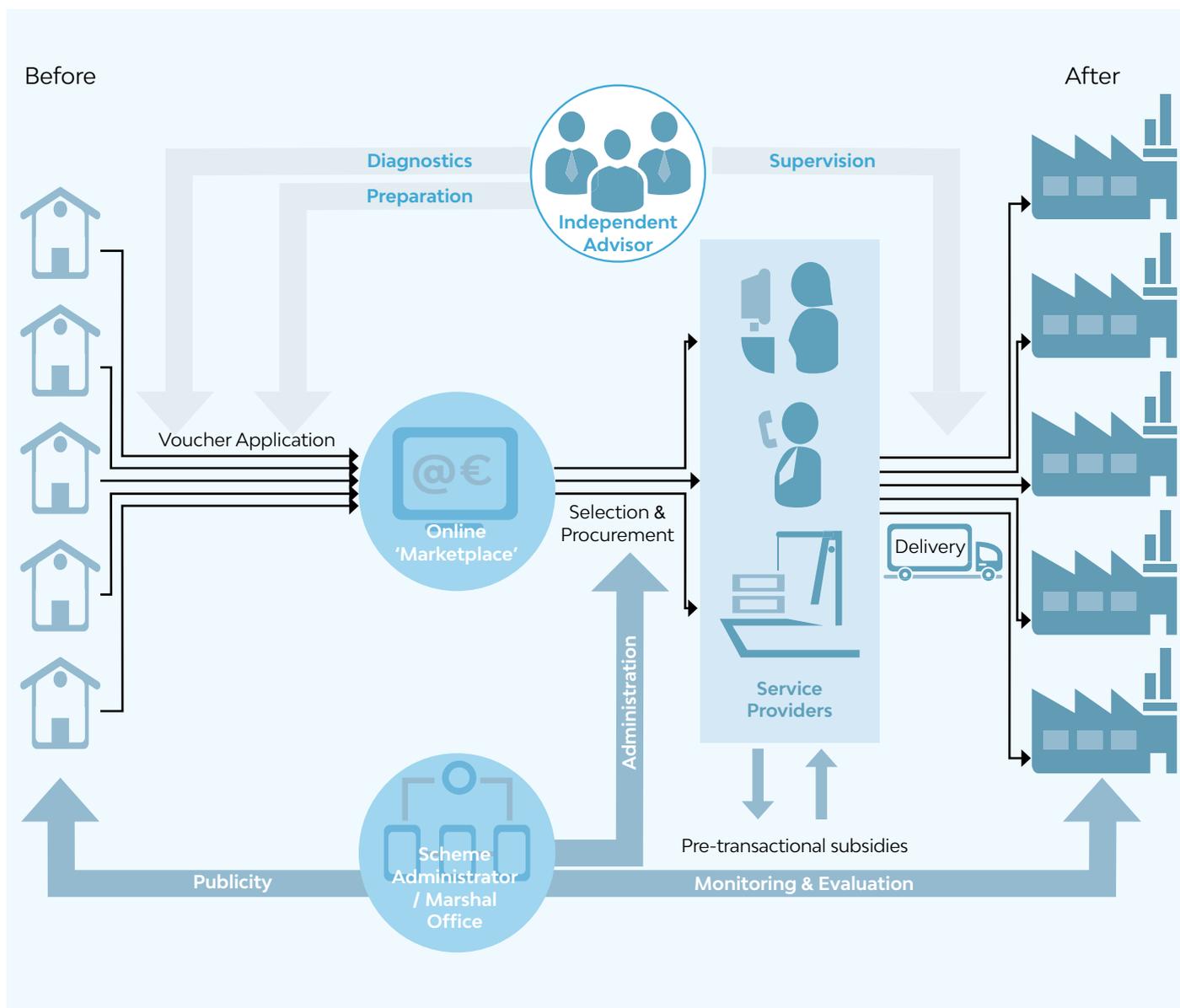
Four key parties will be required for the ECS scheme to function successfully:

- (i) ECS Administrator;
- (ii) IA;
- (iii) 'ECS marketplace' website;
- (iv) Service providers.

**The first three of these will comprise the management costs of the scheme, and can be considered as overheads.** In a total program of 18 million EUR per year, these costs could constitute approximately 15% of the value of the scheme (approximately 2% to 8% for the ECS Administrator, 3% for the IAs, 1% for the website, plus costs within the Marshal's Office to establish the scheme).

The functions of these four parties are represented in Figure 3 below, and are described in detail in the following sections.

**Figure 3.** Schematic design of the ECS



## 5.1 ECS Administrator

The objective of the ECS Administrator will be to ensure the functioning of the scheme, including making adjustments to it, if needed. It requires the following responsibilities:

- Prior revision of OP plans, if necessary;
- Publicity and promotion of the scheme;
- Administration of vouchers, including selection of successful applicants, quality control, payments and financial control;
- Maintenance of online 'marketplace' platform;
- Monitoring and evaluation of the program to increase efficiency.

**The Marshal Offices could fulfill most of these tasks, or contract them to an external entity.** Such scheme will have to be in conformity with the Common Provisions Regulation and the State Aid Regulation.

**The following tasks would be required from the administrator of the scheme.**

According to preliminary discussions with the Marshal Offices, tasks (1) [revision of ROPs] and (5) [evaluation] might be managed directly, while the other tasks would be contracted to a consulting firm or BSI. If contracted out, the contract value for the ECS Administrator might range between 2 and 8% of the total value of the ECS budget, depending on the scope of work. These tasks are as follows:

**1. Preconditions and establishment of the ECS.** The requirements for this activity will be determined by the Managing Authority, but will likely include: revisions to some ROP documents; preparation of the detailed implementation arrangements; and procurement of the IAs, ECS Marketplace, and Evaluation Committee consultants. These tasks may include (for example):

- a. Revisions to ROPs' "Detailed description of priority axes" document, reflecting new contents of the Programs' Measure(s) (or sub-Measures) under which the new support transfer models will be carried out. A decision must be made on sources of finance for the new models (voucher / collective services), and on the final amounts of public sources available for implementation of the new models (including the internal allocation for voucher models vs. delivery of collective services). It may also be necessary to specify the means of selection for the ECS Administrator, since non-competitive procurement has been discussed.
- b. ROPs implementation schedules to incorporate the ECS and its related provisions (for example: activation of the online 'marketplace' to support implementation).
- c. Public documents containing information regarding access to support under the ECS.
- d. Legal documents for granting support under the new models and settling the utilization of the support on the side of the final beneficiary (documents fulfilling requirements being in line with respective conditions / requirements for EU structural funds utilization of support in favor of SMEs under regional programs).
- e. ROPs' implementation guidelines to reflect specific features of the ECS.

**2. Administering the ECS scheme.** Administrative mechanisms for implementation and day-to-day management would include:

- a. Assignment of staff with appropriate experience to monitor and oversee the tasks described here;
- b. Selection and procurement of IAs, as specified in Section 5.2 ('Independent Advisor');
- c. Selection and procurement of a service provider to establish and maintain the online 'ECS marketplace' website, as specified in Section 5.3 ('ECS marketplace');
- d. Oversight of the procurement process for service providers;
- e. Administration of the financial reimbursement of SMEs as described in those same sections.
- f. Provision of a grievance redress mechanism. A standard mechanism as per administration of EU Funds can be used. It should specify the redress mechanism, which can be used by SMEs to dispute a negative decision on their application, and by service providers to dispute a negative decision on a contract for which they bid. Standard procedures for public procurement and EU Structural Funds may be used.

**3. Designing, approving, and implementing a communications plan to promote the ECS to its intended beneficiaries.** The objective of this activity is to raise the interest of potential beneficiaries in using the ECS measures. The plan would likely include:

- a. **Targeting SMEs:** publicizing the availability of the ECS, including through the marketing channels used for promotion of ROPs, with special emphasis on promoting the 'ECS marketplace' website; organizing and implementing promotional events for SMEs in the two regions, through membership-based business organizations and BSIs; **and raising awareness amongst entrepreneurs about potential benefits from using business development consulting services.** This may include a summary of the results of work of selected service providers (and similar results from locations outside Poland) in order to stimulate the other SMEs to benefit from such services and to take part in the support scheme.
- b. **Targeting service providers:** inform key potential service providers (within the two regions and outside of them), probably by e-mail, followed up by telephone calls.

Both channels above should mention the ECS marketplace website as a source of further information.

**4. Day-to-day monitoring of the ECS.** Indicators to monitor are described in Section 2.5 ('Monitoring, Evaluation & Improvements').

**5. Yearly assessment of the ECS, to adjust implementation arrangements, and ensure a positive impact.** In preparing the ECS, an economic and financial analysis was undertaken (as reported in Section 7 'Economic and Financial Analysis'); however it is only an estimate, done before the scheme is initialized. A yearly assessment, on the basis of detailed monitoring data, will permit the Marshal's Offices to determine the cost-effectiveness of the ECS, and to make necessary adjustments. Further details are recommended in Section 2.5 ('Monitoring, Evaluation & Improvements').

**Any person or company fulfilling the role of ECS Administrator must be prohibited from working as an IA or as Service Provider, in order to avoid a conflict of interest.**

## 5.2 Independent Advisor

**The objective of the IA is to catalyze the ECS system.** It will be achieved by advisory services to SMEs to improve the efficiency of their choices, and to the Marshal's Office to improve the efficiency of delivery of services. *In essence, the IA acts as a 'broker' to ensure a smooth transaction between the SME, the service provider, and the ECS Administrator.*

### 5.2.1 Main tasks

**The IA will focus on five main tasks.**

The first task is mandatory for all applications by SMEs for Strategic services. The other four tasks are optional and will be performed only if the SME requests them.

**(I) Assist SMEs in diagnosing needs.** As part of the application process for the Strategic Services window, SMEs must receive an assessment from the IA about their needs for business advisory services. This requirement is made on the basis of the background research done in preparation of this scheme, which found that SMEs tend to have a relatively poor appreciation of the strategic business development services available. The IA should make recommendations tailored to the needs of each SME, to encourage growth in the following areas: jobs, sales revenue, exports, and/or productivity. The application will include a score from the IA about the strength of the application, according to their diagnostic. The IA should focus on increasing the value of the benefit from the service provision.

**(II) A simplified version of a standard methodology should be employed for the diagnosis.** Several models for diagnosis of SMEs are available (such as Growth Mapper, , Growth Wheel, and others). The use of a particular process should be specified in the TOR for the IAs, and basic training should be given in the prescribed technique at the inception stage of the contract between the Marshal's Office and the IAs. The diagnostic method must be simple enough that it can be applied within one day of onsite meetings by the IA with SME managers and other key staff, plus analysis of any existing company documents that are made available for the IA (company strategy, quality, management policy, etc.).

**(III) Assisting SMEs in preparing applications to the ECS.** It is likely that this role would focus mainly on complex services (of which SMEs may not be sufficiently knowledgeable before receiving the service), but it could be requested by the SME for Operational services too. The IA would help the SME write TOR for the service provider (description of tasks, and description of the expected output), according to the needs of the SME and its strategy. This external, professional assistance would increase the quality of the service contract and will aim to increase the likely satisfaction of the SME with the service. *SMEs should pass the first-stage of the application process (formal eligibility) before being able to benefit from the IA's services, in order to optimize the time expended by IAs.*

**(IV) Assisting SMEs in selecting a service provider.** Upon request by the SME, IAs may advise them on selecting a suitable service provider. This assistance will be available only for service orders over a specific value (e.g. more than 50 000 PLN). The advisory role brings two advantages: the IA may be more experienced than the SME in use of the service, and thus be able to advise on a qualified provider; the IA may know the needs of the SME well, especially if he/she assisted in the diagnosis and application preparation. Nevertheless, the SME is ultimately responsible for selection of a service provider.

**(V) Assisting SMEs in monitoring and mediating the quality of service provision.** If the SME is concerned about service quality, they may request active monitoring of the service by an IA. The IA may assist the SME in querying the quality or other aspect of the service

that does not conform to the terms of reference. In case of continued problems, the IA would mediate between the SME and the service provider, and could act as an impartial arbiter in case of a payment dispute.

The ECS Administrator, rather than the SME, can request a further task from the IA:

**(VI) Assist the Administrator in verifying delivery of the required service.** The Administrator may request a second opinion (beyond that of the SME) that the service was effective. This option can be utilized in high value contracts, or in any other case where the ECS Administrator deems there is a risk of fraud (e.g. the SME indicates delivery of a service they never received, in order to receive the subsidy). In other cases, the Scheme Administrator should be responsible for awarding and monitoring the grants, without needing further technical advice.

**The IA would be contracted on a retainer basis, and would be paid at an hourly or daily rate.** The IA would invoice the ECS Administrator for advisory services on a standard schedule (e.g. verification of a service received by an SME: maximum four hours, plus travel time).

**The total costs for the IA contracts are estimated in Table 3, below.** The estimates are approximate and depend on three main factors:

- **Cost of services.** We assume 400-600 PLN per day for a reasonably experienced and knowledgeable local consulting firm.
- **Labour intensity of the given service.** The relatively low-number of person days per SME is proposed to keep down the transaction costs for the Strategic services window. These can be re-assessed after the first year of implementation, if necessary.
- **Total number of SMEs served.** This depends on demand, but here we use estimates that are consistent with the economic and financial analysis of the project.

**Table 3.** Estimated costs per region for Independent Advisors

	Daily rate	Number of person days per SME	Total number of SMEs using the given support	Total amount, excl. VAT Cost PER REGION
I Assist SMEs in diagnosing needs	500 PLN	1,5	400	300 000 PLN
II Assist SMEs in preparing applications to the ECS	500 PLN	2	200	200 000 PLN
III Assist SMEs in selecting a service provider	500 PLN	1	200	100 000 PLN
IV Assist SMEs in monitoring and mediating the quality of service provision	500 PLN	2	100	100 000 PLN
V Assist the Scheme Administrator in verifying quality of delivery of the required service	30 000 PLN	lump sum		30 000 PLN
<b>TOTAL PER REGION</b>				<b>730 000 PLN</b>

**The IAs should use Key Performance Indicators (KPIs) to determine contractors.** KPIs would likely be as follows: number of SMEs served; number of service providers selected with the IA assistance; and number of service outputs verified. If appropriate, ratings of IAs can be given by SMEs, and this information would be utilised by the ECS Administrator to take decisions about the renewal of IA contracts.

### 5.2.2 Procurement requirements

**The IA will be contracted using public funds—i.e. no payments will be collected from SMEs using the scheme.** In this sense, the IA can be considered as a ‘free service’ provided to SMEs, to audit their needs and to improve their satisfaction with the ECS.

**The IA will be selected competitively, based on the following criteria.**

#### **Formal (‘entry’) criteria:**

The IA will likely be a commercial entity or a BSI, able to provide its services via a competent group of consultants.

- Experience in providing consulting services to the SMEs;
- Minimum turnover for last year (e.g. 1 000 000 PLN);
- Experience in identifying SME needs;
- Ability to provide three to six experienced experts, fulfilling certain formal criteria.

#### **Technical criteria:**

The Scheme Administrator should select the IAs according to competitive tender. The following criteria and weightings could be used:

- Price (according to a standardized schedule of services provided by the IA) (30%);
- Proposed methodology of identifying SME needs (20%);
- Proposed rules of cooperation with the SME (how to provide effective communication, how to involve SME representatives in preparation of the necessary documents etc.) and of fulfilling its expectations (30%);
- Proposed methodology/scope of assessing quality of the outputs prepared by the service provider (20%).

### 5.2.3 Exclusions

**IAs will not be permitted to recommend service providers with whom they have any commercial, family, or other institutionalized relations.** That scenario would constitute a conflict of interest, where the IA recommends a service provider with whom they have a vested interest. The ECS Administrator will be responsible for preventing this conflict of interest, by maintaining a register of all service providers with whom each IA (or staff thereof) has a relationship, and ensuring that those service providers never feature in the IA’s recommendations. The register should be revised on the basis of any confirmed report from a member of the public or other source of information, should that happen.

**IAs will not be permitted to make any use of the commercial information they learn during the course of their work with an SME.** The IA and its experts should sign a confidentiality declaration, concerning utilization of information collected during their work with a given SME.

## 5.3 'ECS marketplace' website

**The objective of the 'ECS marketplace' website is to provide an efficient way for SMEs to find and procure the best service provider for their needs,** as specified in this section. It should be operational by the first day of the scheme, or before—preferably with at least 25 service providers pre-registered (by invitation) in order to demonstrate credibility of the program.<sup>48</sup>

**Creation of the website is likely to be procured from a website design firm.** The firm should be capable of producing a website that provides information; includes a searchable database (of service providers and of IAs); permits an interactive ratings system, including comments from SMEs that have utilized the services; and includes an online application system for SMEs and for service providers to be registered on the website and to manage transactions for using the vouchers.

**Ideally, there would be a single website for both regions.** This would be more efficient because it would streamline the sign up process for service providers and create a single, larger database of service providers. However, a single website is unlikely to be possible in practice: joint procurement of the website development and maintenance is complicated and there will be some differences between the ECS implemented by each region.

**If a single website is not possible, it is recommended that each region's website has reviews of service providers from the other regions' and the BUR<sup>49</sup> websites.** This feature would allow SMEs to see a greater number of reviews, and thus gather more information on service providers before making their choice.

The cost of design and maintenance of the 'ECS marketplace' is estimated to be between 120 000 and 160 000 PLN annually.

Draft specifications for the website are presented, below, for the TOR for the contractor:

**I. General description of the voucher program (welcome page).** Description of general goals and logic of the support delivery mechanism. Short description of roles of entities engaged in implementation of the program, especially the role of service providers and IAs.

Options available from the homepage:

(1) Become a beneficiary of the program:

↳ transfer box to *"Catalogue of documents for voucher beneficiaries"*

↳ transfer box to *"Catalogue of Independent Advisors"*

(2) Become a registered service provider:

↳ transfer box to *"Catalogue of documents for Service providers"*

↳ transfer box to *"Catalogue of Service providers"*

(3) Further information:

↳ transfer box to *"See how the program works"* - visualized, clear description showing the process to obtain and utilize the vouchers

↳ transfer box to *"Online Support"* - email and / or telephone

↳ transfer box to *"News"* section

<sup>48</sup>All BSIs could be invited to register beforehand, plus some commercial service providers.

<sup>49</sup>Baza Usług Rozwojowych.

**II. News** - short description of current events related to the voucher program ("What's new"), sorted by dates:

- information on inclusion of a new service provider / providers
- current number of service providers
- number and types of services offered
- other promotional documents / information

↳ transfer box to "**Regional Operational Program**" - "See what else is available"

**III. Catalogue of documents for voucher beneficiaries** - containing formats of documents required to become the voucher beneficiary:

(1) voucher application format

↳ transfer box to "**online application form**"

(2) standard contract

(3) standard reporting forms - format of service completion report

(4) voucher program regulations

(5) voucher program guidelines

**IV. Catalogue of Independent Advisors** - containing:

(1) list of Independent Advisors

↳ transfer box to "**individual characteristics**", containing:

- name
- communication contacts
- main fields of specialization
- ratings of the IAs by SMEs (service quality scale: very good, good, average, weak, very weak + window for comments)

(2) Rules and conditions for nominating IAs for the needs of the Program.

↳ transfer box to "**Online support**"

**V. Catalogue of documents for service providers** - including:

- application form and supporting documentation. If the service provider is already registered in the BUR database and/or on the 'ECS marketplace' website of another region, this information should be automatically ported into the ECS website, in order to save time for the service provider to register;
- service provider description form (description of the service provider and its offer - according to list of elements specified in the "**Catalogue of services.**"

**VI. Catalogue of services** - services divided into groups. Division according to types of services i.e.:

- legal advice
- management consulting
- access to public finance sources
- marketing services
- /.../ (etc.)?

Ineligible services should also be described, as per Section 3.2 of this document ('Eligible and ineligible expenditures').

**VII. Catalogue of service providers** - containing a list of service providers registered in the program. Each service provider listing should indicate the following information:

1. name of the service provider
2. service provider seat / headquarters
3. contact person and communication details
  - ↳ transfer box to communicate with the service provider **"Service provider email"**
4. general description of specialization and list of services offered
5. short description of experience - list of clients and services realized on their order
6. information describing consulting offer of the service provider - specific for the voucher scheme
  - ↳ types of services offered, according to "types" specified in the **"Catalogue of services"**
7. price list for standard services, specific elements of the service, e.g. duration, special conditions for implementation
8. date of inclusion of the service provider into the database
9. statistics - information on services implemented under the voucher program (types and numbers of services implemented, implementation dates)
10. Other specific information (if needed)
11. Rating (5-star system) and comments left by prior recipients clients of the service provider.

**VIII. Evidence on support services delivered and their results** - containing examples of advisory projects co-financed with vouchers. Section presenting positive influence / results of the advisory services on final beneficiaries.

**IX. Search engines, internal web-page mechanisms allowing to:**

- search for service providers by their:
  - name
  - location
- search for service providers by types of services - full list of services
- search for IAs by their:
  - names
  - fields of specialization
- general search mechanism: "search for [input word]"

**This list is provided for the convenience of the Marshal's Offices when procuring the website design. It should be regarded as a minimum specification.** The site should meet the Web Content Accessibility Guidelines 2.0 standard.

During the design of this scheme, a question was raised about the risk that the online 'ECS marketplace' might restrict the choice of service providers. Its objective is precisely the opposite by presenting a number of options and an easy method for comparing service providers without the SME having to engage in a costly search process that is limited by their own time and knowledge. If the SME favors a service provider that is not already registered in the 'ECS marketplace,' they would encourage that service provider to register in order to be considered eligible for procurement.

Another question was raised about the **sustainability** of the platform. The online 'ECS marketplace' would require some ongoing maintenance costs (in terms of web-hosting, curation, and updates), but this should be of marginal value compared to the initial costs of creating it. To reduce costs, there are enough common features that the website can be built for both Marshals' Offices at once.

## 5.4 Service providers

### (and transition arrangements for BSIs)

**Eligible service providers in the ECS scheme will not be limited to BSIs alone: commercial providers such as consulting firms will be able to bid for contracts, on the same terms as BSIs.** This decision is taken in pursuit of an efficient and effective market for business development services. The movement to demand-based vouchers, as envisaged by the ECS scheme, will be accompanied by more competition in the supply of services.

**This transition will not be easy for BSIs.** Our background research on BSIs in Podkarpackie and Świętokrzyskie (see Annex 3) shows that few BSIs are skilled in responding to market needs, according to demand from SMEs. In view of the large number of BSIs that already exist, and which are largely dependent on public funding, it can be anticipated that some will become insolvent.

#### 5.4.1 History and current situation

**BSIs have existed since the early 1990s, through publicly-funded initiatives supporting local economic development and entrepreneurship.** Their number has grown substantially since Poland acceded to the EU, and many of these institutions have evolved since that time, improving their capacity and skills. Another group of BSIs emerged in the 2000s to operate economic infrastructure investments, such as technological parks and enterprise incubators. The key role of BSIs was to help companies, especially SMEs, adapt to the rules of the market economy, the functioning of the EU single market, and growth and innovation opportunities.

**BSIs have become particularly adept at implementing projects financed by EU Funds.** Through recent ROPs, each BSI prepares its own project in response to a call for proposals, in which the Implementing Body defines the scope of work and services for SMEs that were expected from the BSI. The project defines the tasks, expected results, and budget of the project (i.e. the costs of individual tasks and cost of project management). Projects are not permitted to generate profit, and cover only the actual costs incurred (in accordance with the invoices, which had to be shown in final or midterm reports). BSI overheads are paid at a flat rate of 3-7%.

**Based on prior experiences, the scope and scale of most BSI activities depends heavily on public-financing, especially through European funds.** Incentives for BSIs to operate on a commercial basis are relatively limited, particularly for the following reasons:

- Broad access by SMEs to subsidized services
- Low demand by SMEs for business support services at market prices

Under the ECS scheme, SMEs could demand services from BSIs upon receipt of EU subsidies targeted at them. Indeed, owing to the high availability of EU subsidies, it is perceived that SMEs' demand for services is strongly determined by which ones are subsidized.

**As a result, most BSIs focus on these publicly-funded services, with relatively few offered on a commercial basis (usually those not offered under public programs).** Revenues generated by commercially-provided services constitute only a small part of general revenues. The main type of service providing a substantial share of revenues is the preparation of applications for EU funds.

BSIs' current service offering includes:

- Information publicly-funded support programs for SMEs;

- Preparation of applications for EU and other public funds;
- Training for SMEs' staff;
- Regional development services / elaboration of local development plans;
- Advisory services;
- Financial instruments – loans and guarantees;
- Provision of office and production space for SMEs;
- Assistance in entering foreign markets;
- Provision of book-keeping services.

**Most BSIs provide general services and do not specialize in any specific economic sector or type of service.** This helps the BSIs to diversify their offerings and strengthen their sustainability through economic declines, but can make it more difficult to achieve a comparative advantage on the market.

**This low-level of specialization also means that BSIs' services are rather basic, and only some of them are able to provide more advanced services.** Most BSIs declare a capacity to mobilize high-class experts, if such a need would arise. But interviews with SMEs reveal that they perceive BSIs' services of poor quality.

**Quality assurance mechanisms are not well developed.** Few BSIs monitor the satisfaction of their clients or evaluate the impact of their services on enterprises' economic outcomes. Hardly any BSIs interviewed for this project publish reports on their websites about their activities, based on monitoring or evaluation (e.g. information about the number of enterprises supported, or jobs created).

**Some prior projects have encouraged BSIs to develop commercial activities, but have not been widely successful.** Mostly because of increasing pressure from the European Commission, several attempts have been made to commercialize BSIs' services, but in general these have not been very successful. These attempts included piloting some services assumed to be realistic for future commercialization.<sup>50</sup> One explanation for the lack of success is that the servicemarketing component was somehow neglected; but a more convincing explanation seems to be the underdevelopment of a commercial market for such services, combined with the simultaneous access of SMEs to subsidized services.

**Implementation of a demand-driven approach to the financing of business support services would require a lot of effort and preparation on the side of existing BSIs.** These efforts should include building closer links with enterprises and capacity for tailored, accessible, services for enterprises. In the long term, this can help to build a more advanced market for such services and may have a positive impact on the regional economy; however, in the short term, it will be painful for many BSIs.

#### 5.4.2 Transition arrangements for BSIs

**In a relatively short space of time, BSIs will need to transform their operating model to be commercially viable.** Either they should become conventional enterprises—most likely specializing in business development services and other consultancy services—or they should become membership organizations providing shared services; or some combination of the two.

<sup>50</sup> For example, tested services included: (1) 'Consulting and training service concerning optimization of managing enterprise finance', (2) 'Consulting service concerning marketing and sales of products for firm operating in the food-processing branch; individual marketing plan for a firm', (3) 'Consulting and training service concerning managing the energy efficiency on the level of an enterprise, (4) 'Pilot service concerning application of information technologies for the enterprise management needs', (5) 'Planning enterprise development and utilizing repayable funding sources.' <https://www.parp.gov.pl/files/74/81/626/19707.pdf>

**Several models do exist for commercially viable industry support organizations.** Many such organizations have diversified their financing sources to a mix of public and private sources. Sources of private funding may include:

- **Membership fees.** Membership fees are paid by each enterprise covered by collective services. Fees can vary according to the turnover of each company, or according to numbers of employees, or some other method for categorizing members. The fee usually covers club services (close to public goods).
- **Service-related fees.** Service-related fees are paid by enterprises on a 'per service' basis—for example, for participation in trade missions or receipt of training. These types of fees are usually related to private services (i.e. those that can be provided to individual companies, rather than group services).
- **Other revenue-generating activities.** Such activities may include the leasing of office or commercial premises or venture capital (angel investments or other equity investments). Some BSIs in Podkarpackie and Świętokrzyskie already engage in such activities.

How can this transition be assisted?

- **In Świętokrzyskie, substantial funds are channeled towards BSIs in 2016.** This includes two calls for proposals for SW ROP measures 1.3 and 2.1 with the goal of professionalizing BSIs to deliver specialized services, tailored to the needs of firms. Grants under the measures cover up to 85% of costs, and BSIs are expected to contribute 15% of their own resources. BSIs prepare projects by presenting the competencies they need to acquire in order to generate value for businesses, together with a plan to acquire those new skills and the costs that are associated with it. In these activities, BSIs receive grants only if they specify clear objectives and expected results. BSIs are anticipated to specialize in provision of specific services.

**In order to assist the transition of BSIs towards a commercial approach, it is recommended that the Marshal's Offices inform BSIs about the substantial differences in subsequent calls for proposals after 2016.** The proposals should have initiatives that will offer financial support to help BSIs become more commercially viable by specializing in services demanded by SMEs. In 2017, if the ECS scheme elaborated in this document is put into practice, BSIs must be able to compete in the marketplace with commercial consultancy firms in winning contracts for service provision, and must be attractive enough that SMEs are willing to contribute some financial resources to the costs of services provision. It should be clear to BSIs that they need to use funding available this year to transform their organization in order to compete in that market.

- **In Podkarpackie, no BSI support schemes are currently financed within ROP.** Thus, BSIs should be ready for to move towards the commercialization of their services.

The region's authorities plan to build a regional system of service providers to support SMEs with high-quality advisory services. The system will concentrate on the fulfillment of SMEs' needs using a demand-driven approach (SMEs choose service providers and public financing will cover a portion of the costs). Existing BSIs are considered potential service providers, but will be in competition with other service providers present on the private market.

### 5.4.3 Accreditation of service providers

**During discussions with the Marshal's Offices and the European Commission, questions were raised about ensuring that service providers are accredited.**

Accreditation of BSIs aims to provide SMEs with access to high-quality services provided by institutions that demonstrate certain operating standards, and adequate potential and resources.

**However, there is a fundamental problem that mandatory accreditation will be (i) costly, and (ii) complex.** Preparing an accreditation system necessitates the development of minimum requirements for the delivery of certain services. In view of the broad range of consulting and advisory services available under this scheme, that process could be lengthy and difficult to specify.

**In view of these difficulties, it is proposed that accreditation requirements depend on existing schemes.** Pre-existing national accreditation schemes can be used, such as BUR, created by PAED, or the system of accreditation implemented by the Ministry of Development for those implementing pro-innovative services.

**It is recommended that quality accreditation requirements are optional rather than mandatory.** SMEs will make their own assessment of the most qualified service provider, based on their needs. Quality will be assured by three mechanisms:

1. The 'ECS marketplace' website, which includes reviews and basic information about the service provider.
2. The IA, which can be requested by the SME to provide quality control on provision of the services.
3. The SME will have a strong interest in monitoring quality of the services provided (owing to its own financial contributions), and would terminate the contract in case of unsatisfactory delivery.

**ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 6

# FINANCIAL MANAGEMENT AND PROCUREMENT

## 6.1 Flow of Funds

Two alternative models are presented here. Figure 4 shows the basic model, with some possible variations. **Overall, Model 1 is recommended for the scheme.**

- **Model 1 (basic model)**

The overall system is based on reimbursement of costs. An SME utilizing the voucher will be responsible for selecting the service provider, ordering the requested service, accepting its quality and paying the provider. The 'voucher' provides an agreement between the Marshal's Office and the SME that the MO will partially reimburse the SME for the costs of the services procured (subject to the thresholds, co-financing rate, and eligible services specified in the voucher).

The appointed IAs, acting as 'brokers,' to lubricate the transaction between the SME, service provider, and ECS Administrator, will support implementation of the service.

After delivery of the services, the SME will be reimbursed by the Marshal's Office, once delivery of the service is properly evidenced with accounting documents confirming the payment settlement. The SME will apply for the service costs reimbursement directly to the ECS Administrator or to the Managing Authority (depending on the configuration of financial responsibilities decided by the Marshal's Office before launching the scheme)

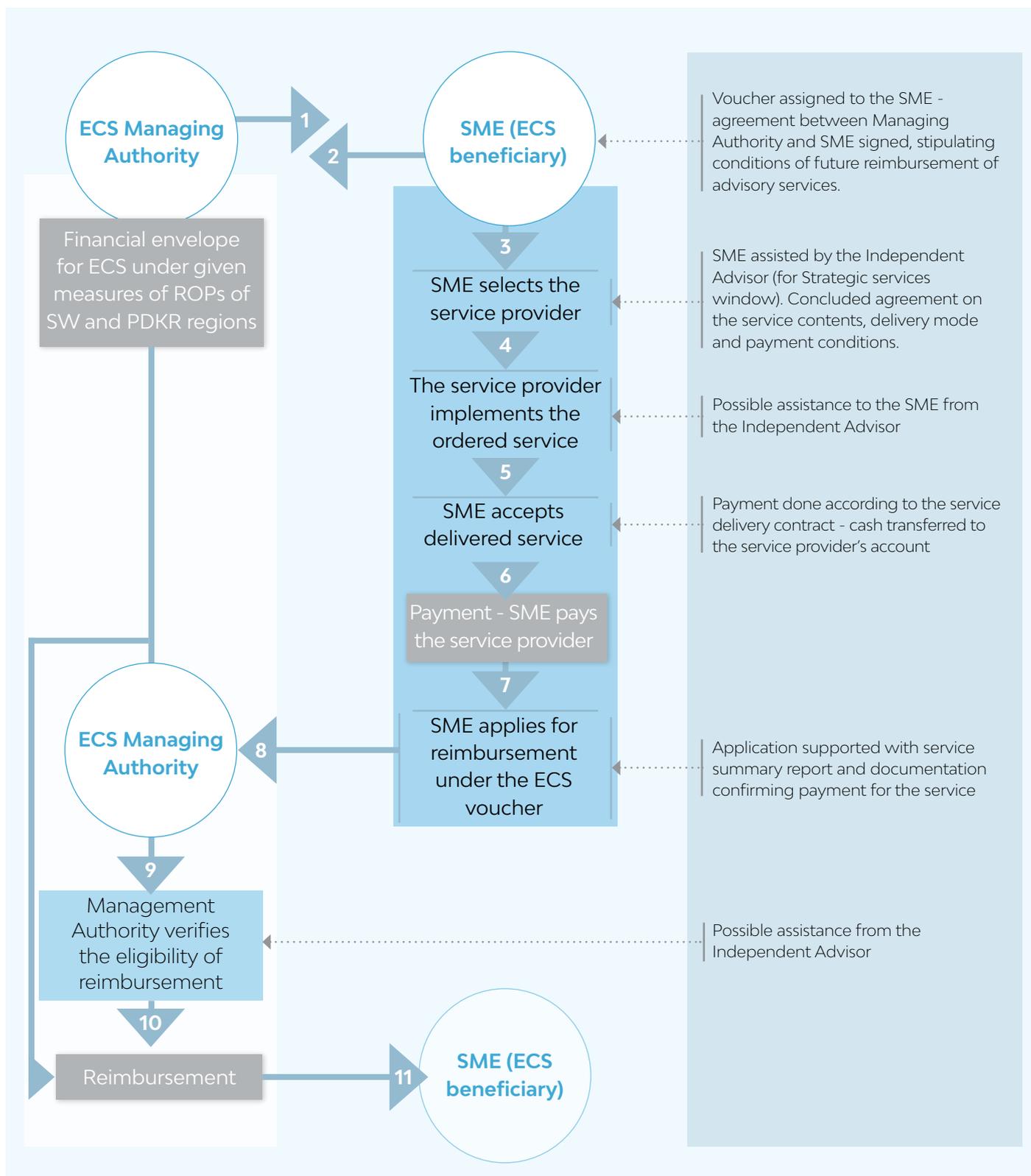
- **Model 2**

In this alternative model, the flow of financial support for the SME (as beneficiary of the ECS) is directed to the service provider. Services will be paid partially by the Managing Authority and partially by the SME (two transactions per service). The public contribution will be specified in the voucher. This solution implies the adoption of a tripartite agreement at the beginning of the process, stipulating rules and conditions of implementation of the supported advisory services. This also means that the service provider will have to be selected by an SME at the initial phase of the process.

Similar to the previous model, the IA, acting as a 'broker,' will assist the process.

The advantage of this scheme is that the ECS Administrator would have fewer payees to deal with (a smaller number of service providers than the number of SMEs). On the other hand, both the financial transactions (partial payment by two parties of a single contract), and verification (the ECS Administrator will still need to confirm with the SME and by other methods the full delivery of the service before issuing payment) will be more complex.

**Figure 4.** Flows of funds—a basic model, with possible variations



**Possible model variations:**

#2 Tripartite agreement for the service delivery (Managing Authority, SME and the service provider). Implies prior selection of the service provider by the SME; service cost payment

to the service provider conditioned to own contribution payments by the SME (quota not covered by the ECS).  
 #6 SME pays the service provider the portion of service costs not covered by the ECS

reimbursement,  
 #7 Service provider applies for the payment from the Managing Authority up-to the amount of the service cost covered by the voucher, presenting documents confirming the service

implementation and payment done by the service provider.  
 #8 Verification of service provider payment eligibility.  
 #9 Payment to for the service provider.

## 6.2 Procurement process

### **Procurements of service providers should be made according to the guidelines on selection of external service providers prepared by the relevant Managing Authority.<sup>51</sup>**

The relevant guidelines are formulated for procurements by entities (such as most SMEs) that are not obliged to use the Polish procurement law regulations (referred to as PZP). These guidelines describe the procurement procedures for selection of service providers and are rather similar to the PZP regulations, but are substantially simplified.

### **In summary, the following procedures are usually specified:**

- a) For contracts with a value exceeding 50 000 PLN: Tender Procedure (TP)<sup>52</sup>
- b) For contracts with a value between 10 000 PLN and 50 000 PLN: Simplified Tender Procedure (STP)
- c) For contracts with a value below 10 000 PLN: Call for Quotations (CQ)

### **If possible, the ECS scheme should utilize several revisions to the standard procedures:**

- **Selection of a service provider from those registered on the online 'ECS marketplace' website.** Technically, this may be a deviation from the guidelines, and the Managing Authority should confirm that it is possible. On the surface, it does not seem to be an important problem, although this issue has to be described in the respective guidelines, presenting rules of application and ways of taking part in the support scheme concerned.
- **Increasing the threshold for the CQ procedure,** up to a maximum of 20 000 PLN (instead of 10 000 PLN).

Several other standard features for the procurement procedures should be noted:

- **Publication of tenders.** According to the procurement guidelines the formation about the competition and about the process of selection of service provider has to be published on the dedicated website run by the Ministry of Economic Development (TP) or by the Marshal's Office (STP). Minimum time between the publication and deadline for submission of the proposals should take seven days. For CQ procurements, it is not necessary to provide elaborated selection procedures, besides written proof that the call for quotation was sent to at least of three potential service providers.
- **Conflict of interest.** Service providers taking part in the tender/competitive procedures have to sign a declaration that they are not related (legally or personally) to the SME and there is no threat of possible conflict of interest. Also the SME representative taking part in service provider selection has to sign impartiality declarations.
- **Scope of work / Terms of Reference.** The scope of work for the potential service provider should be clear and detailed and should not prefer (directly or indirectly) any potential service provider. For bigger projects, additional support for the preparation of the scope of work and selection criteria can be provided by the IA, selected by the Marshal's Office.

<sup>51</sup> „Wytyczne Instytucji Zarządzającej Regionalnym Programem Operacyjnym Województwa Podkarpackiego na lata 2014-2020 w sprawie udzielania zamówień współfinansowanych ze środków EFRR, w stosunku do których nie stosuje się ustawy prawo zamówień publicznych”. We have not managed to identify similar document for Świętokrzyskie region.

<sup>52</sup> A simplified version of the PZP regulations.

**SME representatives make the selection decision.** The guidelines do not require any specific procedure.<sup>53</sup>

The selection criteria should be proposed by the SME for each selection, and should be broken down into formal (entry) criteria and technical criteria:

*Formal ("entry") criteria:*<sup>54</sup>

- Experience within the last five years in the provision of consulting (or other) services in the area expected by the SME, proven by documents (e.g. references) issued by entities purchasing the given service from the service provider.
- Ability to provide experienced expert/s, proven by his/her CV attached.

*Technical criteria:*<sup>55</sup>

- Price (40-70%)<sup>56</sup>
- Short analysis of the area within which the service would be provided: given branch or market description, analysis of the given problem (20-30%)
- Proposed way of providing the given service (10-20%)
- Short description of contents of the final product - report, analysis – if applicable (10-20%)
- Experience of the service provider in the given area (10-20%)<sup>57</sup>
- Experience of the experts proposed in the given area (10-20%)<sup>58</sup>

**The contract will be signed between the SME and the service provider.** The ECS Administrator will pay the value of the voucher to the SME when the conditions for payment specified under each window have been fulfilled (these conditions are described in Sections 4.1.9, 4.2.9, and 4.3.12 respectively for Operational, Strategic, and Group vouchers).

<sup>53</sup> In public procurements, it is a relatively standard practice to take such procurement decisions by a committee of at least 3 persons, accompanied by written evidence (decision signed by the selection committee). However, as far as the team understand, this is not strictly required.

<sup>54</sup> Using formal criteria is recommended but not compulsory.

<sup>55</sup> The guidelines are not clear if it is possible to use criteria related to the experience of service provider and experts; such criteria are not allowed within PZP (except for training services).

<sup>56</sup> In principle, price can be the only criterion for services below 50 000 PLN, but this should not be recommended. In practice, the weighting assigned to a price criterion may depend on the intensity of the co-financing. A lower contribution from the ECS scheme would probably cause the SME to assign more importance to price, since the SME would benefit less from a subsidy.

<sup>57</sup> If allowed.

<sup>58</sup> If allowed.

**ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

# 7

# ECONOMIC AND FINANCIAL ANALYSIS

The proposed enterprise support scheme will finance vouchers for different types of business development services to SMEs producing tradable goods and services in the Podkarpackie and Swietokrzyskie regions of Poland, with the goal of enhancing the output of the businesses and their contribution to the economic growth in the two regions. The project is expected to disburse 10 million Euro between the two regions over two years, which will be awarded in the form of approximately 1,000 Operational vouchers, with expected rate of co-financing of 50%, and approximately 830 Strategic vouchers, with expected rate of co-financing of 60%.

In the economic analysis of this project, the Economic Rate of Return (ERR) is calculated over three years due to the project's short implementation timeline and the marginal improvements expected from the supported services (e.g. the program is not targeted at innovation). **The ERR in the model is expected to be 72% with an NPV of 13.3 million Euro at a 10% discount rate.** (This discount rate is set deliberately high in order to provide a conservative NPV). The overall income increase of beneficiary enterprises due to voucher support exceeds the cost of the program. The various assumptions underlying the model and analysis of their sensitivity is included, below.

The Economic and Financial Analysis focuses on Operational and Strategic vouchers. The gains from Group services should be tracked over time, but are less accurate to forecast upfront, and have not been included here.

### 7.1.1 Assumptions

- The data on turnover, value added, and growth rates are taken from the Euro Stat database. An average level of turnover, growth rate in turnover, and value added per firm, for each category of size of firm, is calculated based on the trend from 2010 to 2014 (last available data) and is then projected forward as the trend in the baseline scenario. Regional data on average turnover per size of firm was not readily available for the two regions of focus, so the sensitivity of the baseline average level of turnover is tested to highlight the potentially lower baseline average turnover in the two regions.
- Receiving business development services through the voucher scheme is expected to enhance the beneficiaries' average turnover. As different size firms have varying average growth rates, the impact of voucher support is estimated separately for each size of firm and is assumed to lead to a 50% increase in growth rates over the baseline trend.
- The program will include micro firms but will not target them disproportionately, so the initial model assumes that 244 vouchers will be received by firms with zero to nine employees, 566 by firms with 10 to 19 employees, 566 vouchers by firms with 20 to 49, and the remaining 456 by firms with 50 to 249 employees.
- The effect of the voucher on turnover growth is assumed to last two years, after which point the boost from the service received dissipates and their growth rate defaults back to the long term trend. 80% of vouchers are assumed to be successfully implemented and to lead to turnover growth above trend.

**Table 4.** Assumptions made in the economic and financial analysis

Assumptions, by size of enterprise (number of employees)				
	0 to 9	10 to 19	20 to 49	50 to 249
Average turnover per firm (Euro) at baseline	119,691	1,443,072	3,361,530	11,546,174
Average profit margin (%)	16.6%	18.8%	19.6%	21.1%
Average growth rate of turnover (%) at baseline	0.55%	2.82%	3.04%	2.95%

### Assumptions, by size of enterprise (number of employees)

	0 to 9	10 to 19	20 to 49	50 to 249
Average additional growth rate due to program (%) over trend	0.3%	1.4%	1.5%	1.5%
Number of years of increase due to project	2	2	2	2
Number of grants in first year	122	283	283	228
Number of grants in second year	122	283	283	228
Grants successfully implemented in first year	80%	80%	80%	80%
Grants successfully implemented in second year	80%	80%	80%	80%

#### 7.1.2 Costs

The costs of the program are a sum of investment costs, which include the cost of the vouchers (we assume 10 million Euro over two years),<sup>59</sup> as well as the matching contribution from the private sector, estimated at approximately 7.5 million Euro over two years, assuming a 50% co-financing rate for Operational services and 60% rate for Strategic services. In addition, the operating costs of the scheme are assumed to be equivalent to 20% of the voucher cost, the average operating cost of similar projects in Europe. This cost includes the administration of calls for proposal, reviews by expert judges, and regular monitoring, and will be 2 million Euro over two years. The overall costs also include implicit costs such as the opportunity costs of management time to prepare a proposal and to report regularly to the program administrator. They are estimated to be 5% of voucher costs, totaling 0.5 million Euro. In sum, the present value of all costs is 17.4 million Euro, using a 10% discount rate.

#### 7.1.3 Sensitivity analysis

- Starting average level of turnover. If the baseline average turnover per firm is 10% lower than assumed across all firm sizes, the ERR reduces to 58% and the NPV to 10.2 million Euro, and if the baseline average turnover is 30% lower, the ERR is further reduced to 30% and the NPV to 4.1 million Euro. The NPV turns negative if the baseline average turnover per firm is about 56% of the level assumed in the model.
- Growth rate of turnover. If the growth rate of turnover after the voucher is only 40% higher than it was at baseline, the ERR lowers to 44% and the NPV to 7.1 million Euro. The hurdle rate for the NPV to turn negative is a growth rate after the voucher that is 29% higher than the baseline growth rate.
- Average size of grants. If the average cost of Operational services (assumed to be 5,000 Euro in the base model) increases to 10,000 Euro, the ERR of the program becomes 52% and the NPV is 8.9 million Euro. If the average size of Strategic services (assumed to be 15,000 Euro in the base model) is instead increased to 20,000 Euro, the ERR becomes 47% and the NPV is 7.8 million Euro. The NPV of the program turns negative if the average size of Strategic services exceeds 38,000 Euro (keeping average for Operational services at 5,000 Euro). The NPV also turns negative if average size of Operational grant is increased to 9,000 Euro and average size of Strategic grant is increased to 26,000 Euro.

<sup>59</sup> The EFA examines only the Simple and Strategic vouchers (which are anticipated to account for approximately EUR 14 million of the EUR 18 million program). The benefits from Group services are less accurate to forecast upfront.

- d. Distribution of grants between different sizes of firms. If Operational services were heavily targeted at micro firms (zero to nine employees) and they received a total of 560 Operational service grants (instead of the 160 in the base model), the ERR of the scheme is still very positive at 56% with a NPV of 9.8 million Euro. If Strategic services were less heavily biased towards medium-size firms (50 to 249 employees), and they only received 167 grants (instead of the 416 in the base model), the ERR decreases to 27% and the NPV to 3.4 million Euro.
- e. Share of successfully implemented grants. Reducing the share of successfully implemented grants to 70% for each year of implementation, reduces the ERR to 55% and the NPV to 9.4 million Euro. A 60% rate of successful implementation further reduces the ERR to 37% and the NPV to 5.6 million Euro. The NPV of the scheme turns negative when only 45% of vouchers each year are successfully implemented, with all else remaining constant.
- f. Years of additionality. If the additional growth in average turnover, due to the use of the voucher service, lasts one year instead of the assumed two, the ERR of the projects is reduced to 40% and the NPV is 5.7 million Euro. As the size and growth rates of turnover are reported annually, we cannot calculate the hurdle rate of the additionality in terms of fractions of a year, but if it only lasts a year, the hurdle rate for the scheme to have negative NPV is a growth rate after the voucher that is 38% higher than the baseline growth rate.

# Research note 1: SMEs characteristics and needs in four poviats of Podkarpackie and Swietokrzyskie

## Introduction

This report constitutes the first of the following two milestones in Activity 2 of the Trust Fund named above, due at end-September 2016:

1. Short analysis of SMEs' characteristics in the selected areas based on available quantitative data as well as gathered qualitative information. This activity will have as a distinct output a short report prepared by the Bank on the characteristics and needs of SMEs in the two selected poviats. **(Research note 1)**
1. Analysis of the qualitative information gathered from a sample of SMEs in the region on entrepreneurial readiness and identification of measures to increase access to services to activate/enhance entrepreneurship in SMEs. In addition, the issue of accessing EU funds by SMEs in the regions will be analyzed. This activity will have as a distinct output a short report prepared by the Bank identifying key barriers to entrepreneurial activity and with recommendations for enhancing entrepreneurial activity in the region and for making the access to EU funds easier for SMEs. **(Research note 2)**

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

### **Research note 1:**

**SMEs characteristics and needs  
in four poviats of Podkarpackie and Swietokrzyskie**

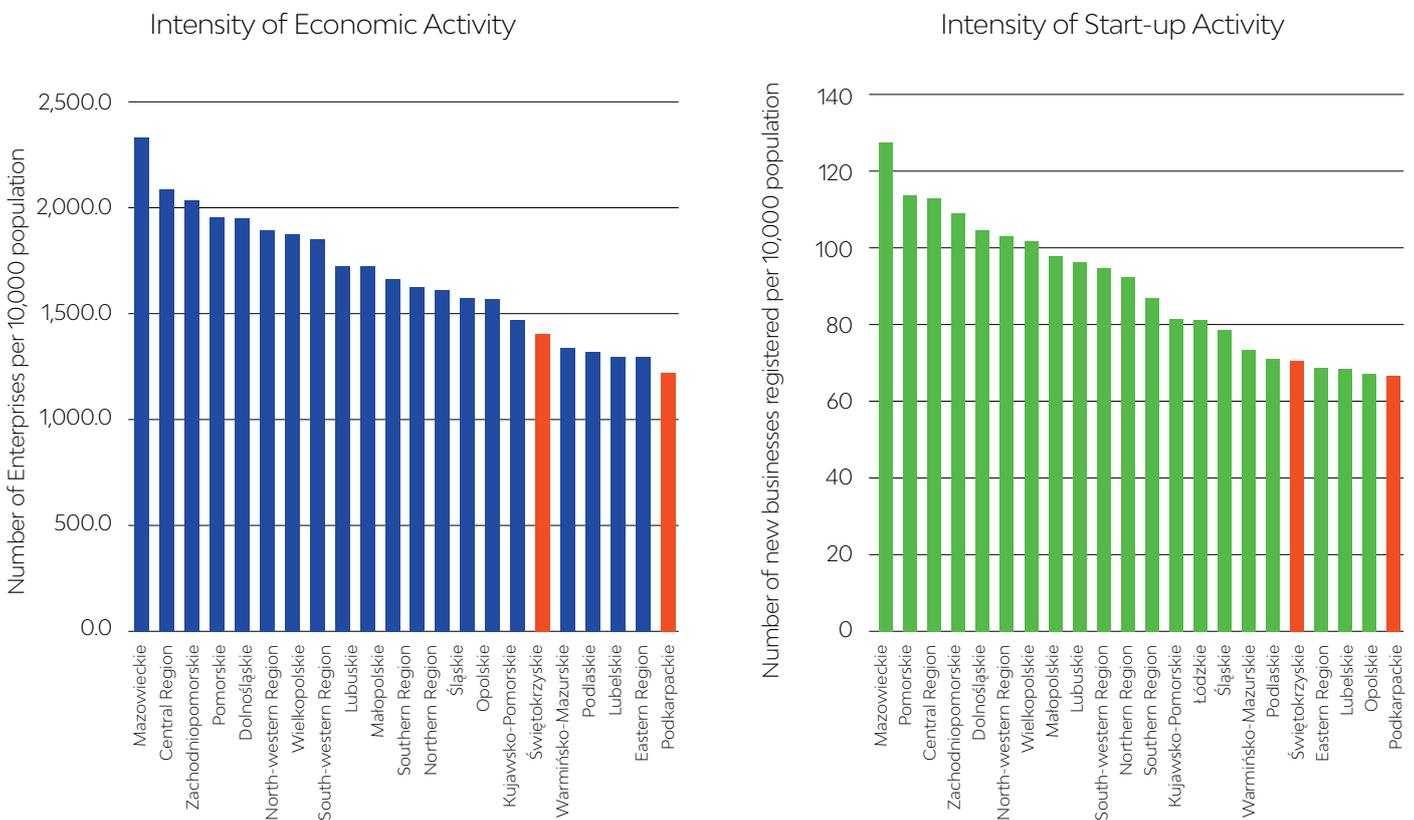
# SMEs in Podkarpackie and Swietokrzyskie: quantitative data

In this section, we use secondary data to summarize quantitatively the characteristics of firms, particularly SMEs, in the two regions.

## Intensity of entrepreneurial activity

**Overall, Podkarpackie and Swietokrzyskie exhibit a lower than average intensity of entrepreneurial activity.** Using Central Statistical Office of Poland (GUS) data, summarized in Figure 1, we can see that Podkarpackie region ranks last in Poland in terms of number of registered enterprises per capita and number of start-ups (in 2015). Swietokrzyskie ranks marginally better, being a few places from the bottom in two rankings respectively. In both regions roughly half as many new businesses are registered per capita as in Mazowieckie.

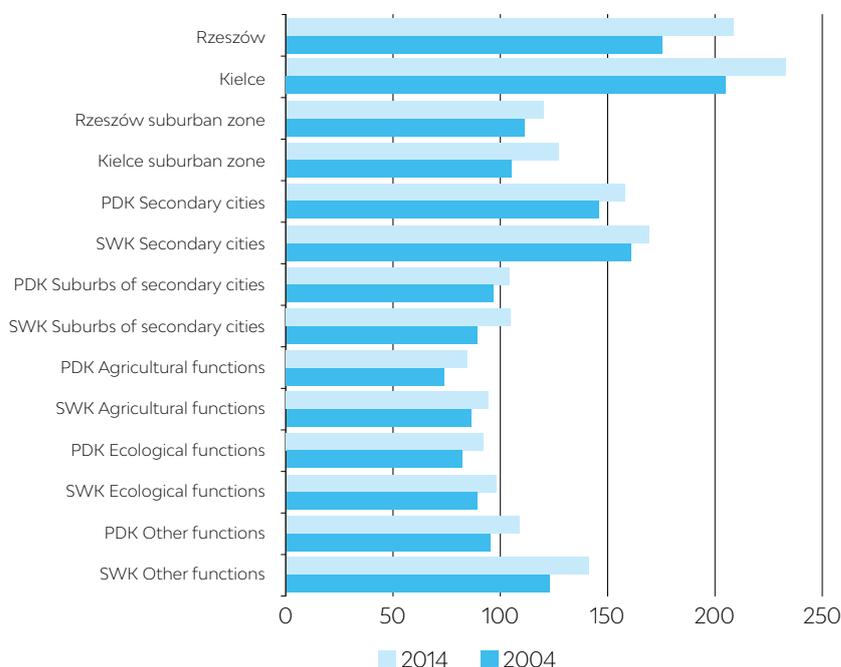
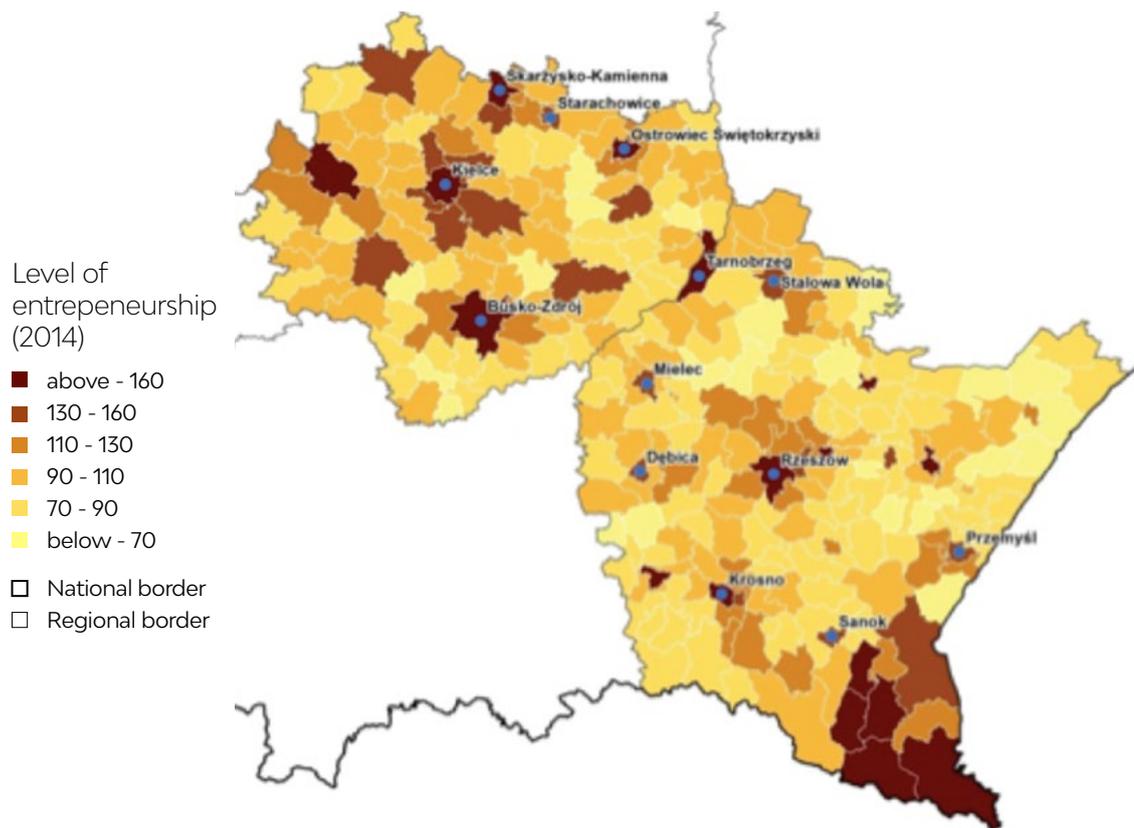
**Figure 1.** Per capita number of enterprises and number of start-ups



Source: Authors' elaboration based on GUS data.

**Entrepreneurial activity tends to concentrate in urban and peri-urban areas of the two regions.** As shown in Figure 2, Rzeszow and Kielce have the highest rate of start-ups in their regions, followed by secondary cities, and then the suburbs of the main urban areas. The only major exception to this rule among both regions is the Bieszczady Mountains region, where the concentration of start-ups is particularly high. We suppose this reflects the strong specialization of the area in tourism, which is a rapidly growing industry.

**Figure 2.** Geography of start-up activity in Podkarpackie and Swietokrzyskie



Source: Analysis of GUS data from Komornicki & Czapiewski, 2016.

**Size distribution of enterprises is similar to the national average.** In both regions micro enterprises (0-10) account for 95% of all of the registered enterprises, and more than 99% of enterprises fit the definition of SMEs, which is consistent with the national picture<sup>1</sup>. Data on employment by size of enterprise is not available, thus we cannot fully assess the contribution of businesses of different sizes to the local economy. Table 1 provides this data in summary form.

<sup>1</sup> Authors' analysis of GUS data.

**Table 1.** Enterprise sizes in Poland, the two regions, and the four poviats

Unit	Total Enterprises	Micro	Small	Medium	Non SMEs
Poland	4,119,671	95.6%	3.5%	0.7%	0.11%
Podkarpackie	162,556	95.5%	3.6%	0.8%	0.12%
Swietokrzyskie	110,130	95.5%	3.6%	0.8%	0.11%
Brzozow powiat	3,599	95.1%	4.2%	0.6%	0.03%
Lezajsk powiat	4,064	95.8%	3.2%	0.9%	0.1%
Sandomierz powiat	6,298	94.9%	4.1%	0.9%	0.09%
Staszow powiat	5,110	95.1%	3.7%	0.9%	0.16%

Source: Team analysis of GUS data.

## Structure of the economy by sector

### **Agriculture remains the predominant form of economic activity for the population of Podkarpackie and Swietokrzyskie—and even more so in the four poviats.**

Analysis of sectoral structure of employment (shown in Table 2) reveals that agriculture accounts for one-sixth of jobs nationwide, one-third in the two regions, and around half or more in the four poviats. Meanwhile, services accounts for a smaller share of employment than in the rest of the country, particularly in financial other high value services, where the four poviats show only a quarter of the national average employment in those fields.

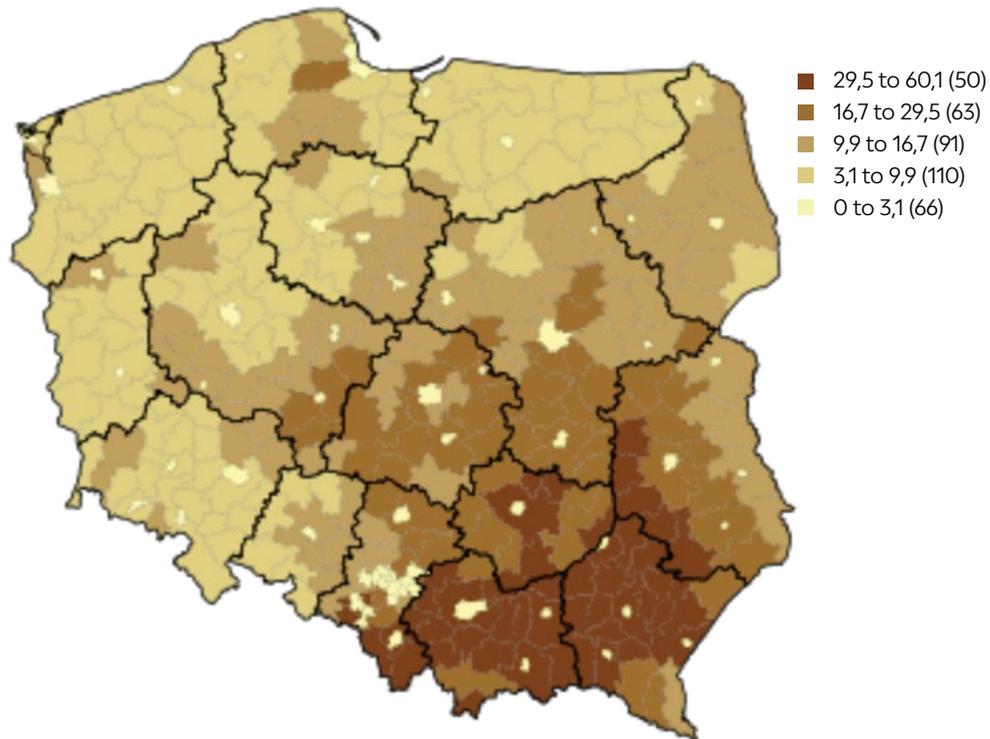
**Table 2.** Employment by sector (data is for 2014)

	Total	Agriculture, hunting and fishing	Industry and Construction	Trade; motor vehicle repair; transportation & storage; accommodation & catering; information & communication	Financial and insurance, real estate activities	Other services
		A	B,C,D,E,F	G,H,I,J	K,L	M, N, O, P, Q, R, S, T
POLAND	11,210,118	21.1%	26.9%	19.0%	3.9%	29.0%
PODKARPACKIE	685,185	37.7%	24.2%	12.9%	1.7%	23.6%
Powiat brzozowski	20,383	<b>60.9%</b>	<b>10.5%</b>	<b>7.4%</b>	<b>0.7%</b>	<b>20.5%</b>
Powiat lezajski	19,931	<b>51.1%</b>	<b>18.4%</b>	<b>8.7%</b>	<b>0.9%</b>	<b>20.9%</b>
ŚWIĘTOKRZYSKIE	379,922	39.2%	21.4%	12.6%	1.8%	25.0%
Powiat sandomierski	28,813	<b>54.8%</b>	<b>13.4%</b>	<b>10.1%</b>	<b>1.3%</b>	<b>20.5%</b>
Powiat staszowski	25,087	<b>44.7%</b>	<b>26.2%</b>	<b>7.1%</b>	<b>1.2%</b>	<b>20.8%</b>

Source: Team analysis of GUS data.

**The high share of agriculture in employment should be caveated, since this may represent hidden unemployment.** The southeast of Poland has the highest rates of employment per unit of farmland, as shown in Figure 3. This raises the possibility that a large proportion of the working age population maybe underemployed, or engaged in subsistence or small scale low productivity agriculture, due to lack of other economic opportunities.

**Figure 3.** Hidden unemployment in agriculture (number of employed in agriculture per 100 ha of farmland) in 2013



Source: Analysis of GUS data in Gorzelak, Płoszaj, & Smętkowski, 2016a & 2016b.

**Analyzing economic output by sector provides a more reliable picture, and indicates some areas of specialization.** Our analysis<sup>2</sup>—shown in Table 3—implies that Podkarpackie has a strong specialization in manufacturing of transport equipment and significant specialization in manufacturing of motor vehicles. Other areas of specialization in Podkarpackie regions (manufacturing of plastic and rubber and non-metallic products) may also benefit from the links with the aerospace supply chain. In Świętokrzyskie no sector reveals such a strong level of specialization. The most overrepresented industry, according to LQ ratios is wood products, which however only employs 5000 people. The largest industry of specialization is manufacturing of food products.

**Conversely it is notable that several sectors are substantially underrepresented in the two regions.** The same Table shows the relative absence of industrial sectors such as telecommunications, TV and film industries, architecture and engineering, scientific research and development, and computer programming. This is troubling, especially if such sectors are considered as a proxy for the level of innovation.

<sup>2</sup> Here we use Location Quotient (LQ) analysis using total output by 3-digit sectors. LQs help evaluate the structure of economic activity in a given geographical area compared to the rest of country. They are calculated as the ratio of the share of employment or output (in this case, we use output) that a given sector contributes in the regions and the share the same sector contributes nationwide. LQ values above "1" indicate that the industry is overrepresented, and can be considered an industry of specialization; values below 1 indicate the industry is underrepresented. The larger the LQ - the more pronounced is specialization of the region in a given industry; and vice versa.

**Table 3.** Five industries of specialization in Podkarpackie and Swietokrzyskie (according to LQ calculation based on total output)

Podkarpackie			Swietokrzyskie		
Industry	LQ	Employment	Industry	LQ	Employment
<b>Sectors of highest specialization</b>					
C30 - Manufacture of other transport equipment	5.36	9,352	C16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	2.53	5,863
C22 - Manufacture of rubber and plastic products	2.03	14,677	C28 - Manufacture of machinery and equipment n.e.c	2.18	5,065
C23 - Manufacture of other non-metallic mineral products	1.86	9,778	N77 - Rental and leasing activities	2.11	537
C29 - Manufacture of motor vehicles, trailers and semi-trailers	1.77	12,077	C11 - Manufacture of beverages	1.98	938
C16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	1.71	8,480	C10 - Manufacture of food products	1.86	13,290
<b>Selected non specialization sectors</b>					
J61 - Telecommunications	0.73	404	J61 - Telecommunications	0.98	253
J59 - Motion picture, video and television programme production, sound recording and music publishing activities	0.62	897	M71 - Architectural and engineering activities; technical testing and analysis	0.80	3,023
M71 - Architectural and engineering activities; technical testing and analysis	0.61	4,922	J60 - Programming and broadcasting activities	0.70	158
J63 - Information service activities	0.59	3,281	J63 - Information service activities	0.55	1,428
J62 - Computer programming, consultancy and related activities	0.50	1,176	J59 - Motion picture, video and television programme production, sound recording and music publishing activities	0.46	314
M72 - Scientific research and development	0.37	1,157	M72 - Scientific research and development	0.42	627
J60 - Programming and broadcasting activities	0.35	167	C26 - Manufacture of computer, electronic and optical products	0.40	466

Source: Team analysis of GUS data.

**Examining at a more detailed level, we find some variation between communes in the four poviats, but a general pattern of sectors consistent with the region-wide trends above.** This analysis is shown in Table 4. Key trends are for food and beverages, wood and furniture, metal production, chemicals, and repair of machines.

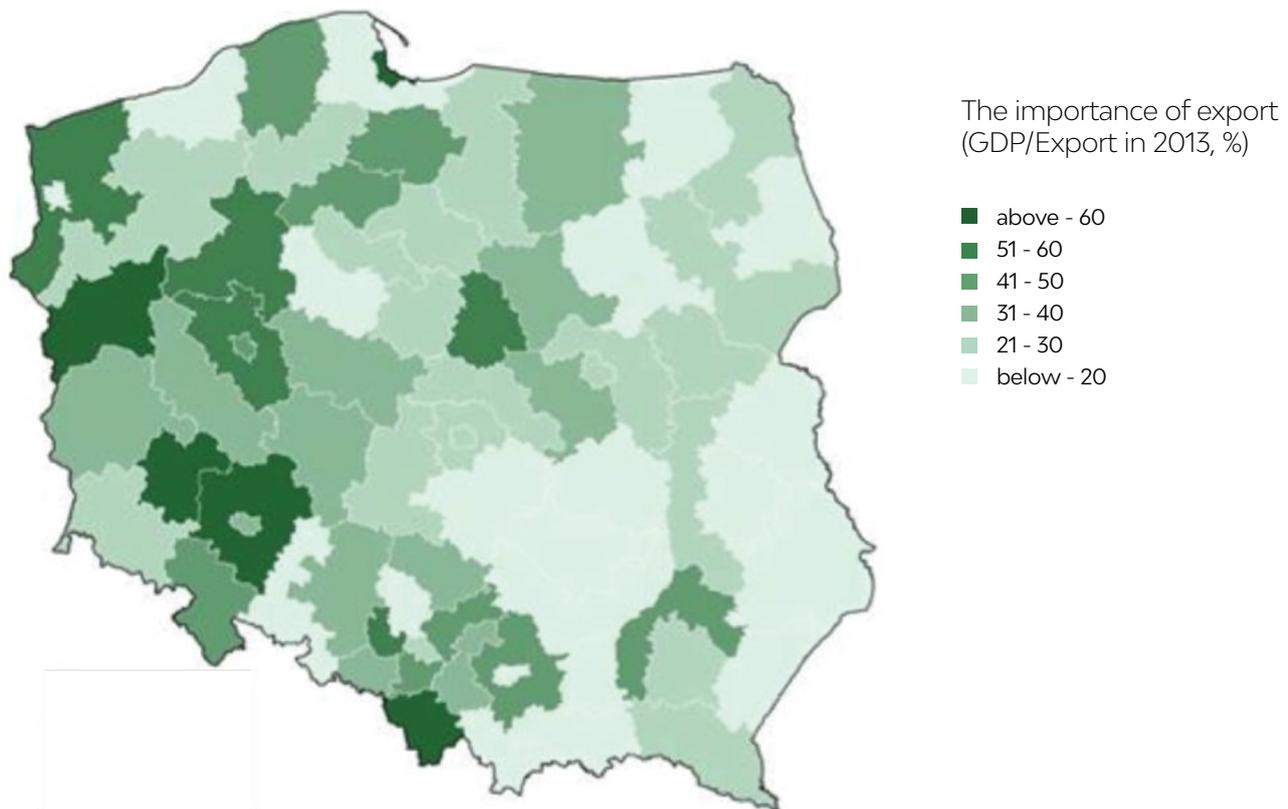
**Table 4.** Most overrepresented sector in the four poviats, using Location Quotient methodology

Commune	Specialization in goods production	Specialization in services
<b>Brzozowski powiat</b>		
Brzozów	Food and beverage prod.	Public services
Domaradz	Wood, paper and furniture prod.	Transportation
Dydnia	Printing industry	Transportation
Haczów	Metal prod.	Public services
Jasienica Rosielna	Textile prod.	Trade and repair of cars
Nozdrzec	Wood, paper and furniture prod.	Transportation
<b>Leżajski powiat</b>		
Grodzisko Dolne	Metal prod.	Public services
Kuryłówka	Wood, paper and furniture prod.	Transportation
Leżajsk	Wood, paper and furniture prod.	Public services
Nowa Sarzyna	Wood, paper and furniture prod.	Retail trade
<b>Sandomierski powiat</b>		
Dwikozy	Food and beverage prod.	Transportation
Klimontów	Food and beverage prod.	Retail trade
Koprzywnica	Food and beverage prod.	Retail trade
Łonów	Food and beverage prod.	Trade and repair of cars
Obrazów	Food and beverage prod.	Wholesale trade
Samborzec	Repair and maintenance of machines	Wholesale trade
Wilczyce	Repair and maintenance of machines	Public services
Zawichost	Textile prod.	Public services
<b>Staszowski powiat</b>		
Bogoria	Chemicals	Trade and repair of cars
Łubnice	Repair and maintenance of machines	Trade and repair of cars
Oleśnica	Printing industry	Retail trade
Osiek	Metal prod.	Transportation
Połaniec	Repair and maintenance of machines	Retail trade
Rytwiany	Chemicals	Trade and repair of cars
Staszów	Chemicals	Trade and repair of cars
Szydłów	Other	Public services

Source: Analysis of GUS data, in Komornicki & Czapiewski, 2016.

**Finally, we note the relative lack of exported output from Podkarpackie, and particularly from Swietokrzyskie.** As shown in Figure 4, exports form a relatively low share of GDP in both regions of interest. This is problematic, since exports have a symbiotic relationship with firm-level productivity and innovation—as has been well documented<sup>3</sup>. The lack of exports means that firms in those two regions are stuck in a catch-22 situation: they are missing out on opportunities to innovate and sustain their competitiveness, which further disadvantages them in export markets.

**Figure 4.** Exports as a share of GDP – lower in Podkarpackie and particularly in Swietokrzyskie than elsewhere in Poland



Source: Analysis of Chamber of duty data from Komornicki & Czapiewski, 2016.

**Nevertheless, it is impressive that Swietokrzyskie—and especially the two poviats of our focus—have been increasing exports at a faster rate than nationwide in Poland.**

In other words, exports in those poviats are ‘catching up’ with the rest of Poland (but from a very much lower level: there is a long way to go). This data is shown in the green column in Table 5. Unfortunately in Podkarpackie, exports are increasing, but at a slower rate than nationwide—hence the region is falling further behind national rates of exports. It must also be remarked that Sandomierz powiat has achieved a much higher level of exports per capita than Swietokrzyskie region on average. Given it is a relatively small powiat, we may presume this is from the influence of a relatively small number of successfully exporting firms.

<sup>3</sup> Expanding and diversifying exports is closely related with increasing productivity and fostering innovation. The fact that the more productive firms are more likely to export has now been confirmed in studies for a large number of countries by Wagner (2007). On the other hand, exporters tend to be more productive than non-exporters, as documented by Bernard and Jensen (1995, 1999, 2004a and 2004b). A robust, positive relationship between firm level innovation and productivity as well as some innovation inputs, such as R&D and productivity has been documented by Hall (2011) and Hall et al (2011), respectively. Product innovations such as the upgrading of the quality of existing goods or services allow companies to escape competition by differentiating their products as discussed by Cusolito (2009) and Bloom, et al. (2012). Product innovations, like the creation of new goods, also help firms diversify their portfolios, conquer new markets, and reduce the effects of external shocks (Klinger and Lederman, 2006).

**Table 5.** Exports from regions and poviats (2000-2013)

	Exports (millions USD)		Increase 2000-2013	Exports per capita		Exports/sold production ratio
	2000	2013	2000=100	2000	2013	2013
POLAND	31 587.3	203 606.7	645	826	5289	57.6
PODKARPACKIE	1 253.4	6 536.3	521	596	3070	57.9
<b>poviat Brzozów</b>	8.0	<b>38.8</b>	<b>486</b>	123	<b>585</b>	<b>36.6</b>
<b>poviat Leżajsk</b>	19.2	<b>79.9</b>	<b>416</b>	279	<b>1142</b>	<b>19.9</b>
ŚWIĘTOKRZYSKIE	314.6	2 315.0	736	242	1825	33.5
<b>poviat Sandomierz</b>	42.7	<b>291.3</b>	<b>682</b>	511	<b>3639</b>	<b>47.2</b>
<b>poviat Staszów</b>	4.8	<b>49.3</b>	<b>1028</b>	64	<b>671</b>	<b>4.9</b>

Source: Analysis of Chamber of duty data, in Komornicki & Czapiewski, 2016.

**We also note below the geographical destination of exports, and the sector share.**

This data is shown in Table 6 and Table 7. No obvious patterns can be observed across all four poviats of focus, but the data is noted for later reference for existing trends and potential opportunities.

**Table 6.** Destination of exports

	Destination (% of total exports)				
	European Union	Germany	Russia, Belarus and Ukraine	Ukraine	USA
POLAND	74,8	25,0	9,3	2,8	2,4
PODKARPACKIE	58,1	23,3	11,4	5,8	19,0
<b>poviat Brzozów</b>	<b>89,7</b>	<b>33,1</b>	<b>2,8</b>	<b>1,8</b>	<b>3,1</b>
<b>poviat Leżajsk</b>	<b>67,7</b>	<b>47,8</b>	<b>28,7</b>	<b>2,4</b>	<b>0,2</b>
ŚWIĘTOKRZYSKIE	77,3	19,8	12,3	4,9	0,9
<b>poviat Sandomierz</b>	<b>83,9</b>	<b>31,0</b>	<b>12,7</b>	<b>8,5</b>	<b>0,1</b>
<b>poviat Staszów</b>	<b>78,9</b>	<b>26,7</b>	<b>16,4</b>	<b>4,3</b>	<b>2,6</b>

Source: Analysis of Chamber of duty data, in Komornicki & Czapiewski, 2016.

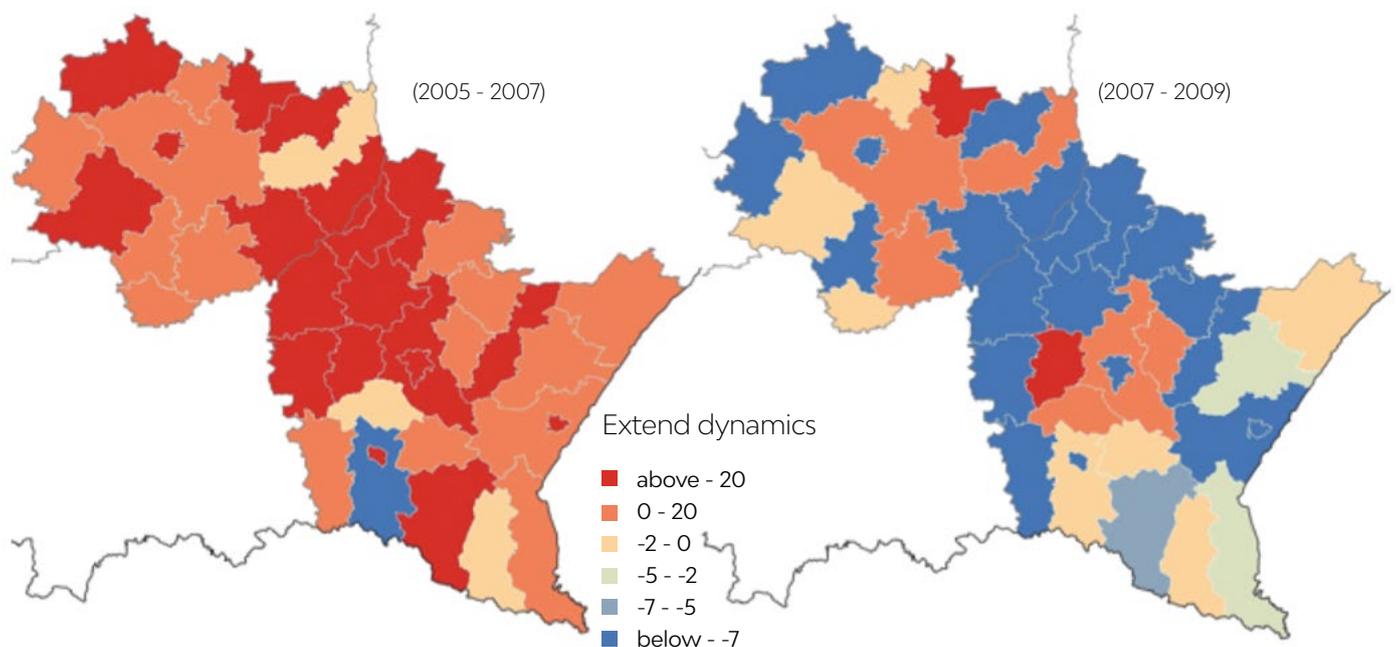
**Table 7.** Sector share in exports

	Sector (% of total exports)									
	Agri-Food	Minerals	Chemicals	Skins	Wood and paper	Light manufacturing	Ceramics	Metallurgy	Electro machinery	Other
POLAND	13,2	4,9	14,1	0,5	4,5	3,6	2,6	10,9	39,6	6,2
PODKARPACKIE	4,1	1,0	14,6	0,0	5,1	1,5	2,8	9,9	57,0	4,0
<b>powiat Brzozów</b>	<b>1,8</b>	<b>0,0</b>	<b>4,0</b>	<b>0,0</b>	<b>14,2</b>	<b>1,4</b>	<b>0,0</b>	<b>0,7</b>	<b>0,5</b>	<b>77,4</b>
<b>powiat Leżajsk</b>	<b>13,9</b>	<b>0,0</b>	<b>54,1</b>	<b>0,0</b>	<b>0,6</b>	<b>0,0</b>	<b>0,1</b>	<b>6,1</b>	<b>25,1</b>	<b>0,1</b>
ŚWIĘTOKRZYSKIE	10,0	1,0	2,8	0,4	10,8	5,3	17,7	21,9	27,8	2,4
<b>powiat Sandomierz</b>	<b>25,6</b>	<b>0,0</b>	<b>0,7</b>	<b>0,0</b>	<b>0,0</b>	<b>0,3</b>	<b>64,4</b>	<b>1,2</b>	<b>7,6</b>	<b>0,1</b>
<b>powiat Staszów</b>	<b>7,0</b>	<b>6,0</b>	<b>16,1</b>	<b>0,0</b>	<b>11,1</b>	<b>11,9</b>	<b>30,9</b>	<b>7,3</b>	<b>1,7</b>	<b>8,0</b>

Source: Analysis of Chamber of duty data, in Komornicki & Czapiewski, 2016.

**Unfortunately, exports were not resilient to economic shocks.** As can be seen in Figure 5, Staszowski and Sandomierski powiats experienced a fast increase in exports during the period 2005-07, but a sharp drop during 2007-09. Similar (though slightly less extreme) fluctuations were observed in Brzozowski and Lezajski powiats—as shown in the same Figure.

**Figure 5.** Changes in exports, 2005-2007 and 2007-2009



Source: Komornic

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

### **Research note 1:**

**SMEs characteristics and needs  
in four poviats of Podkarpackie and Swietokrzyskie**

# Insights from qualitative interviews with SMEs

In this section, we report the findings from our work under this intermediate stage of Activity 2, which aims to gain a more solid understanding of the characteristics and needs of SMEs. These findings will form the foundation for development of a menu of enterprise support services under the subsequent stage of Activity 2.

## Interview Methodology

**We developed a plan to interview 40 firms in the two voivodeships<sup>4</sup> (8-12 in each poviats).** As noted in the inception report, firms were to be selected through purposive sampling, to focus on firms that possess characteristics of most interest to this work. The selection criteria were:

- producing tradable goods or services<sup>5</sup>, in sectors in line with local specializations;
- being micro, small or medium-sized.

The focus on tradable goods and services is for three main reasons:

- firms engaged in producing tradable goods and services are **competing predominantly with firms outside the poviats and regions**: their market is by definition regional, national or even international. Hence support to such firms carries less danger of producing a win-lose situation where recipient firms gain at the expense of other firms in the same area;
- tradable goods and services, in being export-oriented, offer **a route to higher productivity and innovation**, as has been well-documented in research literature (see footnote 3);
- tradable goods and services **by definition either increase export revenue, or diminish leakage of income through imports**, hence contributing most directly to regional income growth. In other words, tradable goods and services offer a reliable pathway to regional catch-up

The interview guide is annexed to this document in Annex 1.

The distribution of interviews across the poviats and firm size categories is summarized in Table 8.

**Table 8.** Number of firms interviewed per poviat and per size category

Poviat	TOTAL	Micro	Small	Medium / Large
<b>Brzozow</b>	<b>11</b>	3	3	5
<b>Leżajsk</b>	<b>9</b>	2	5	2
<b>Sandomierz</b>	<b>8</b>	4	3	1
<b>Staszow</b>	<b>12</b>	2	5	5
<b>TOTAL</b>	<b>40</b>	<b>11</b>	<b>16</b>	<b>13</b>

<sup>4</sup> Four of these are pending at the time of writing.

<sup>5</sup> Tradable goods and services are those that can be traded across geography, rather than produced and consumed only in a local market.

- Examples of tradable goods and services would include: agricultural products, manufactured goods, ICT services, tourism, and others.
- Examples of non-tradable goods and services would include: hairdressing; household cleaning; plumbing.

**We wish to note that the process of obtaining interviews was not always easy.** Many firms approached refused a meeting. Reasons for refusal were mainly: they were too busy to meet; they did not anticipate any value from the meeting; they had committed time previously to interviews yet never saw anything in terms of follow-ups; they declared they do not need public assistance; and they do not experience problems accessing bank loans.

**Firms were selected through recommendations by poviats authorities according to their records on which firms were active in such industries.** Any remaining gaps were then filled through internet searches on appropriate companies.

In terms of industry, firms tended to be active in the following areas (consistent with the local economic specializations of the poviats):

- **Brzozow:** most companies interviewed were active in metal processing, furniture, wood products (including housing), food production, and packaging materials industries.
- **Leżajsk:** most companies interviewed were active in metal processing, furniture, and construction industries.
- **Sandomierz:** most companies interviewed were active either in the apple production industry (apple growing, sorting, and juices) or in tourism.
- **Staszow:** most companies interviewed were active in manufacturing and in construction services. We were unable to interview firms involved in food processing, despite this sector being part of the poviat strategy: such firms were located but refused to participate in the interviews.

**Detailed summaries of all interviews were prepared (3–4 pages per company, for all interviews) in order to ensure a rigorous analysis of the interview data.** These summaries include: the strategic direction of the company; the company's evolution over time; its main strategic and operational concerns; and its needs and desires for support services. In order to respect our assurance to companies that their views will be treated anonymously, these summaries are not annexed here, and will be kept confidential<sup>6</sup>. A list of firms interviewed is provided in Annex 2.

## Contextual observations on SME characteristics and needs

Based on these qualitative interviews, some observations can be made about the characteristics and needs of SMEs in the two regions. This qualitative data enriches and deepens the quantitative data presented in the first section of this document. Key insights are as follows.

**1 Firms in both regions do have some potential to increase their growth in tradable goods and services.** We were inspired by a number of remarkable and successful firms, such as the following:

- (a) a meat processing plant emphasizing traditional meat products produced in a traditional and high quality way—which has expanded regularly during its 17-year existence and sells to approximately 300 shops;

<sup>6</sup> In a larger study area it might be realistic to 'sanitize' the interview findings and remove company names, but in this small study area it would still be easy for readers to infer which firm gave which interview.

- (b) a processor of cabbages and cucumbers (producing approximately 5500 tonnes per year), employing 30 full-time employees, and exporting through commercial networks and across Europe;
- (c) a group of fruit producers specializing in dessert apples, harnessing approximately 940 hectares of orchards and selling to Eastern Europe and Central Asia;
- (d) a small firm producing natural, cloudy apple juice using an innovative method which does not require preservatives yet has a shelf-life of 12 months and stays fresh up to 14 days after opening;
- (e) a manufacturer of components for water filtration and separation, with applications in mining, chemical, food, and electricity generation, employing more than 240 people and having evolved since its establishment in 1982, most recently into architectural applications of wire mesh and welded wire.

## 2

**Many firms in the four poviats have already been attempting to expand, though their attempts have not always been successful.** For example:

- (a) a processed food manufacturer tried selling online, but customers were not accustomed to buying such products directly online, preferring shops instead;
- (b) a confectionary firm opened, then closed, a shop in Rzeszów because it could not adequately supervise quality handling of the goods by sales staff.

## 3

**Almost all interviewed firms noted how 'competitive' their sector was. However: usually that is because they have not sufficiently differentiated their product.** In many cases, firms are aiming to compete mainly on price, without fully differentiating their product from competitors. Occasionally companies have managed to demonstrate quality, but they remain in markets where only minimal quality standards are required, and competition is predominantly on costs and price. For example:

- (a) tourism operators compete downwards their price and aim to receive good reviews on booking.com, but have made only limited investigations to launch more attractive products, such as integrated hotel and niche tourism offerings (e.g. 'wellness' weekends; guided circuits; etc).
- (b) manufacturers of construction materials and components are competing predominantly on cost, since large construction firms have accumulated the power to set price for their suppliers;
- (c) manufacturers of furniture and household goods are competing in low-cost segments of those markets, producing products of a minimally acceptable quality for low price.

## 4

**Firms (especially smaller ones) are also tending to be 'price takers' from larger firms, because they have little market power.** A striking number of firms are stuck in subcontracting relationships with scant profit margins available. As examples:

- (a) a construction materials contractor noted how "the company has a weak negotiation position, especially with large companies, which often dictate unfair

contract terms and are trying to shift the risks associated with the implementation of the contract onto the contractee”.

- (b) a producer of packaging materials noted that their clients are predominantly international corporations, ordering massive amounts of goods, but having a very strong purchasing position resulting in a very low profit margin.

**5**

**However, a few firms have successfully differentiated their product and established a 'niche' or brand.** For example:

- (a) a producer of handmade glass decorations since 1995 has acquired both national and foreign buyers, and sells even in Harrods in London and Fifth Avenue in New York City. They are currently planning a new production plant, and to increase production capacity, while diversifying their offer to sell in less demanding markets where they can increase scale.
- (b) a manufacturer of mirrors has increased its production capacity by approximately 25 times within the last 10 years, and they now offer approximately 500 designs. Their competitiveness is boosted by being able to respond quickly to new orders, with flexible production processes and short production series.
- (c) a company constructing and installing roof systems has increased its margin owing to entering production of ventilating flaps and exposures. The firm's revenues are growing by 5-10 percent each year.

**6**

**Such firms rely on some distinctive skills or product.** This insight is actually one of basic economic theory: the more competition a firm has in its market, the lower its profit margin; conversely, if a firm finds a 'blue ocean' market (where it is unique or one of only a few suppliers relative to the market) then it can achieve positive margins. As examples in the two regions of focus:

- (a) the glass ornament manufacturer is dependent on their skilled designer—one person—who has generated the products with which they compete successfully.
- (b) the roofing system contractor is dependent on its own design studio, which generates new models and offers the firm a competitive edge.

**7**

**Some firms that had not yet successfully differentiated their product did have investment plans prepared in order to do so.** Many of these would allow the company to move into new and more differentiated product lines. Typical investment plans included:

- (a) equipment to allow production of new technological lines;
- (b) equipment to expand production capacity, including for buyers for which scale of production is a necessary condition to enter contracts;
- (c) construction works to expand hotels: building new facilities, rooms, conference center, leisure center.

## 8

Where companies had not implemented these investment plans, they were constrained either by:

- (a) **Lack of motivation on the part of firm owners to take risks and innovate.** Often these owners were aged in their 50s and 60s and were anticipating retirement. Their priority was to 'get by' until being able to retire, especially where there was no clear successor in their family or their staff. Hence there may be a demographic (and hence systemic) issue for a lack of innovation in these firms;
- (b) **Lack of willingness by lenders to finance investment projects** (focusing instead on working capital loans). Banks were prone to be relatively conservative in their decisions on long-term investment loans for SMEs. The reasons for this were unclear, but could either be rooted in a deficiency in techniques to assess risk in SMEs, or because of assumptions about the risk in particular industries (e.g. assuming that new products have uncertain markets), or because of some other reason;
- (c) **Low availability of production sites and land.** This problem seemed to afflict Brzozów county because of its hilly areas, and to some extent Sandomierz because of the lack of available land that is not already farmed or in use. New regulations on purchasing agricultural land were passed in mid-2016 have made it more difficult to rezone land from agricultural use to industrial/commercial use. This issue was observed to be more important for small and medium-sized family firms which are unwilling to relocate their production sites to other poviats, because of attachment to their home poviat and because of difficulties in retaining their employees after a move.

## 9

**Other firms had not prepared plans and did not know what to do to improve margins.**

## 10

The preceding observations allow us to present a typology of three main types of firms in the lagging regions:

- A. Rising champion.** These are firms that have successfully developed a differentiated product, and hence are able to generate a profit margin.
- B. Constrained potential.** These firms have become stuck in a price-taking rut of undifferentiated goods and/or a very competitive market, where they are often subcontractors. However they have recognized their problem, and in some cases even prepared an investment plan to fund product development and differentiation.
- C. Declining dipper.** These firms are stuck in a similar rut, but have not managed to identify a way out.

It should be noted that *all* of these firms are active in industries where it is *potentially* possible to develop a product and increase growth, since they are in tradable goods and services, with access to a large and open European market.

## References

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Gorzelał, Grzegorz, Adam Płoszaj, and Maciej Smętkowski (2016b), 'The Świętokrzyskie Voivodship – selected socio-economic problems from a structural and spatial perspective', Centre for European Regional and Local Studies (EUROREG), University of Warsaw

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Komornicki, Tomasz & Konrad Czapiewski (2016), 'Regional development in Świętokrzyskie and Podkarpackie Regions: Situation of the selected poviats', Companion Paper commissioned for this same project by the World Bank team.

# Annex 1: SMEs Interview Guide

## Introductions and guidelines:

Interview should be conducted with the CEO/owner or another representative of company management. As a rule the interview/s should not be recorded to increase the openness of the respondents. Interview can be conducted jointly with 2-3 persons from one company

The main goal of the interview is to discuss the main barriers in development of the company and to what extent the business support institutions can assist in its development and in which areas.

## Starting the interview:

- 1 Present the idea of the lagging regions project.
- 2 Present the institutions implementing the project – the World Bank, the European Commission and the Ministry of Economic Development.
- 3 Inform the interviewees that their responses to this questionnaire will inform our work to improve the services provided by business support institutions—and that we seek their open and comprehensive guidance to do this well.
- 4 Confirm, that the data and opinions collected during the interview will be used solely in relation to the implementation of the project and any of the collected opinions and statements will not be ever presented in connection with the given institution. Also, no data on the individual companies would be presented and analysed.

## Interview:

### General background of the company:

This section provides some basic background on the business, and is critical to set up the rest of the interview. Key issues to cover:

1. *Can you briefly describe your company and its ownerships structure? Do you have other branches in the region/outside of the region/abroad?*
2. *What is the size of the company (roughly, no detailed data are needed) in terms of annual sales and employment?*
3. *A brief history of the business: major events and turning points in the organization's history, especially the rationale behind changes in strategic direction (if any).*

### Product, markets, and strategy

This section focuses on understanding: the business strategy; where the firm competes in the market; and its opportunities for expanding and upgrading. Key issues to cover:

- Discussion on the business's products and services and strategic segmentation.
- Market channels.
- Opportunities for new market development and challenges to existing markets / segments.
- Growth plans.

## **Production structure**

This section particularly applies to businesses with manufacturing processes, but it is also relevant for agricultural producers. The focus here is to understand production structures and the use of capital and labor, but this is also the key discussion around costs, margins, and productivity. Key issues to cover include:

- Structure of production and main technologies used
- Potential areas of constraint to discuss:
  - Difficulties in fulfilling quality/ standards (national and global).
  - Nature of business – size, competitiveness.
  - Labor: skills, availability, cost.
  - Investment and working capital finance.
  - Business regulatory environment issues.
- What are the constraints impacting productivity (skills, energy, etc.)? How can these be addressed?

## **OPTIONAL – AND PROBABLY FOR MEDIUM AND LARGE SIZE BUSINESSES ONLY:**

### **Supply Chain**

This section focuses on understanding the sources of supply and in particular the current level and nature of purchases in the local supply chain, and the main constraints to expanding local sourcing. Key issues to cover include:

- Source of supply of key inputs and services.
- Main barriers to sourcing more from local suppliers, particularly small scale / microenterprises (e.g. scale, quality, standards, reliability, etc).
- Efforts to support suppliers through technical assistance / examples of success.
- What more can be done to support integration of small, local suppliers into the value chain?

### **Skills and workforce development**

This section is crucial to understand the current skill set of the different businesses in the local value system. Only then will next methodological steps be able to bridge the gap between the professional skills needed by the business fabric and training providers in the local labor market. Key issues to cover include:

- Current workforce
  - Recruiting: What types of workers do they recruit? From where? What are the constraints to finding staff?
  - Skills: current and future needs in terms of specific occupations and skills.
- Training
  - Nature and intensity of training programs.
  - Quality and availability of local training institutes.
  - What, if any, interaction do they have with local training institutes, universities / technical schools?

### **Access to finance**

**4. Do you use external financing to finance your activity – bank or non-bank loans, leasing, other sources or instruments facilitating access to finance – guarantees?**

**5. Do you experience any barriers in access to finance?**

6. *Is the offer of financial institutions adequate to the needs of your company? Which products or their parameters are not adequate to the needs of your company? Which actions should be taken to facilitate access to finance?*

### **Business environment (local / global) and industry collaboration**

This section aims to identify the main determinants of competitiveness and assess the perception on current / future competitiveness and the main constraints to be overcome. It also discusses the structure of current collaboration in the industry and dialogue both intra-industry and with government. Key issues to cover include:

- Main constraints
  - What are the main constraints in the local / national environment (business climate, structural issues, etc.)?
  - What could industry and government do to address these constraints?

### **Cooperation with business support organisations (BSI):**

7. *Is your company a member of any entrepreneur association/chamber of commerce? If so, which ones? Does this organisation provide any services for its members? If so, please describe them. Have you been using these services? Were they useful for your company?*
8. *Do you cooperate with another business support organisations like regional and local development agencies, loan funds, loan guarantee funds, seed and venture capital funds? If so, which services do you use? How do you evaluate their quality and price?*
9. *Is the range of services they offer adjusted to the needs of such companies as yours? What type of services are lacking?*
10. *What are the main weak and strong points of the regional business support system?*
11. *Which type of BSI services would be most useful for SMEs like your company?*
- a) *Basic advisory services (e.g. business planning; finance applications; etc);*
  - b) *Specialised advisory services (e.g. quality certification; industry trends; market intelligence; production process improvements);*
  - c) *Production services (e.g. testing facilities; equipment hire);*
  - d) *Specialised training (in which areas?)*
  - e) *Assistance in entering the foreign markets/searching for partners abroad?*
  - f) *Assistance in identifying sources of external financing and in general access to finance?*
  - g) *Other?*
12. *Which services will you be willing to pay for?*
13. *Would the voucher schemes (like regional or national 'Innovation Voucher') be a good mechanism to facilitate access to the BSI services?*
14. *Do you cooperate with the Marshall Office and local government (gmina and powiat level) – if so, in which areas (as regards the on-the-substance contents)?*
15. *Have you implemented any EU funded projects within last 3-5 years? If so, please describe them briefly and evaluate what were their results?*

Thank you very much for all the time and interesting information provided!

## Annex 2: List of companies interviewed

Leżajsk	Brzozów
1. Firma Techniczna AD Gramatyka	1. Gran-Pik Liwocz
2. Zakład Remontowo-Budowlany ORGANIKA Sp. z o.o.	2. Messe Polska Sp. z o.o.
3. BMF Sp. o.o.	3. Drewger, Agata Gerlach
4. EDMAG	4. Zakład Cukierniczy CIACHO, Renata Glazer
5. Galicja Sp. j. J. Pelc, A. Sidor	5. Sampol Sp. j. Stanisław Śnieżek, Anna Śnieżek-Król
6. Centrum Konstrukcji Stalowych Sp. z o.o.	6. Drew-Hat Bogdan Pleśniar
7. Brzost Sp. z o.o.	7. Polikat S.A.
8. Firma PEEM	8. Elan Sp. z o.o.
9. Concrete Leżajsk Sp. o.o.	9. Krusz-Bud Sp. o.o.
	10. Firma Transportowa SUWAŁA Sp. z o.o.
	11. ATA - Sieć Handlowa Sp. z o.o.
Staszów	Sandomierz
1. PBH ADMA Bis S.C. Józef Adamczyk Stanisław Adamczyk	1. Euro-Tour Sport MiM Tuszno S.J.
2. Balkar Technology Sp.z o.o.	2. ZPH Kilian
3. GMC Sp. Z o.o.	3. PPHU Kryształ
4. Intester Sp. z o.o.	4. Owoc Sandomierski Sp.z.o.
5. Progress Eco Sp. z o.o. S.K.A.	5. Rewera mgr inż. Zbigniew Rewera
6. Zespół Pałacowy Kurozwęki Sp. z o.o.	6. Sad Sandomierski Sp.z o.o.
7. FHU SKOWRON	7. SanExport Group Sp.z o.o.
8. PPHU SUBOR	8. Winnica Płochockich
9. Grasoft	9. Dwór Dwikozy
10. ALFA	
11. Solareko	

# Research note 2: Barriers to entrepreneurial activity and recommendations in four poviats of Podkarpackie and Swietokrzyskie

## Introduction

This report constitutes the second of the following two milestones in Activity 2 of the Trust Fund named above, due at end-September 2016:

1. Short analysis of SMEs' characteristics in the selected areas based on available quantitative data as well as gathered qualitative information. This activity will have as a distinct output a short report prepared by the Bank on the characteristics and needs of SMEs in the two selected poviats. **(Research note 1)**
2. Analysis of the qualitative information gathered from a sample of SMEs in the region on entrepreneurial readiness and identification of measures to increase access to services to activate/enhance entrepreneurship in SMEs. In addition, the issue of accessing EU funds by SMEs in the regions will be analyzed. This activity will have as a distinct output a short report prepared by the Bank identifying key barriers to entrepreneurial activity and with recommendations for enhancing entrepreneurial activity in the region and for making the access to EU funds easier for SMEs. **(Research note 2)**

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

### **Research note 2:**

**Barriers to entrepreneurial activity and recommendations  
in four poviats of Podkarpackie and Swietokrzyskie**

# Needs amongst SMEs for support services

**One of the main benefits of qualitative interviews is that it permits a rich understanding of a firm's predicament, strategic priorities, and its decision-making process.**

As noted in Research note 1, the interviews covered topics such as the strategic direction of the company, the company's evolution over time, its main strategic and operational concerns, and its needs and desires for support services.

**As such, we were able to assess the declared demand of SMEs for enterprise support services, and also to note the inferred demand,**

according to the interviewers' observations on the key constraints facing the firm. Both these sets of demands were noted at the end of each interview. A summary of these *declared* and *inferred* demands is presented in Table 1 below.

**Table 1.** Tabulated results of declared and inferred needs for support by SMEs – from 40 interviews

Enterprise support service	Total 'votes'	Declared need by the firm	Inferred by interviewer following qualitative interview
identifying sources of financing	26	16	10
industry trends	25	11	14
marketing strategy	24	8	16
collective services (collaboration)	24	13	11
technology trends	23	12	11
assistance in entering foreign markets	21	13	8
production process improvements	21	12	9
searching for partners abroad	20	12	8
managerial training	15	4	11
specialized training	15	10	5
website development	14	7	7
other strategic support (according to business need)	14	9	5
business planning	12	8	4
general access to finance	12	7	5
other operational support (mostly legal)	12	8	4
market intelligence	10	6	4
market intelligence	10	6	4
finance applications	10	10	0
quality certification	7	7	0
ICT skills	5	3	2
equipment hire	4	4	0

Several insights can be noted from the summary data in the Table:

- **Highly ranked services are often strategic services** (rather than operational services), which can help the firm change the way it does business, develop new products, and reach new markets.
- **Mid-ranked services are those often given by enterprise support programs** (e.g. business planning, specialized training, support in accessing finance), but it is notable that these may not be top priorities overall.
- **Very few firms ranked 'managerial training' as a priority, but this need was inferred by interviewers** after talking in depth to the firm's manager about strategic decision-making in the firm; division of labor in managing daily operations; and motivation levels amongst workers.

**We were alert to the extent to which needs differed between Medium, Small, and Micro firms<sup>1</sup>.** While a sample size of 40 is rather small to draw statistical conclusions (and firms were not selected on a random basis), we observed the following patterns:

- **Medium.** By definition, medium-size firms had general achieved considerable success already, having grown to the point where they employed over 50 employees. Their challenges arose from needing to identify how to expand the business further and enter new markets, or how to sustain their competitiveness edge given increased competition from other companies. They were more likely accustomed to using specialized consultancy services already, but faced a residual issue in finding it difficult to identify quality consultants and service providers.
- **Small & Micro:** Both these categories exhibited the three types of firms typologized on the previous page: Rising Champion; Constrained Potential; and Declining Dipper. No systematic differences were observed between the needs of Micro and Small firms, especially since the categories are rather blurred, with a firm of 9 employees counted as Micro and a firm of only one more employee counted as Small.

**What would the most highly-ranked services look like in practice?** On the basis of interviews with the companies, example services are presented in Table 2. We have retained a distinction between the sub-categories of services recognized readily by the SME versus services inferred by the interviewer at the end of the interview.

<sup>1</sup>We use the conventional European definition here of size categories: Micro is up to 10 employees; Small is up to 50; and Medium is up to 250.

**Table 2.** Main enterprise support services, on the basis of demands by firms

	Needs for services recognized by the SME	Additional needs for services recognized by the expert
<b>Operational support services</b>  <i>(i.e. to support the firm in doing its existing business more efficiently and effectively)</i>	<b>PRODUCTION PROCESS &amp; MANAGEMENT AND ADMINISTRATION</b> <ul style="list-style-type: none"> <li>• Skills for daily management: improvement of processes, improvement of staff management, project management, negotiation.</li> <li>• Support in introducing best production practices in that sector utilized in other European countries</li> <li>• Advisory in cashflow analysis and control, financial management and analysis.</li> <li>• Support in reduction of costs, particularly through improvement of energy efficiency.</li> <li>• Improve team-working, morale and productivity amongst the company's staff</li> </ul>	<b>PRODUCTION PROCESS &amp; MANAGEMENT AND ADMINISTRATION</b> <ul style="list-style-type: none"> <li>• Implementation of modern methods of project management</li> <li>• Improve team-working, morale and productivity amongst the company's staff</li> <li>• Improving management capacity, including communication and negotiation skills.</li> <li>• Guidance on moving from micro-type company management, where one manager performs all management functions including quality control, to small or medium firm structures where financial, production and other management functions are split.</li> </ul>
	<b>MARKETING OF EXISTING PRODUCTS</b> <ul style="list-style-type: none"> <li>• Web-site development (promotional business card of the firm).</li> <li>• Management of marketing functions of the firm (searching for new clients / opening new sales channels).</li> <li>• Marketing planning and implementation of new tools to increase market shares</li> </ul>	<b>MARKETING OF EXISTING PRODUCTS</b> <ul style="list-style-type: none"> <li>• Establish or modernize web-site, showing the offer and underlining its specific elements (e.g. home-made, regional and/or regional based recipes)</li> <li>• Strengthen the brand, especially through marketing on values such as traditional products, cooperation with local producers.</li> <li>• Market research, about the aspects of current products which are most valued by customers.</li> </ul>
	<b>LEGAL SERVICES</b> <ul style="list-style-type: none"> <li>• Assistance in preparation, revision and signing of delivery contracts.</li> <li>• Legal support in contracts with foreign partners</li> <li>• Support in fulfilling regulatory requirements, including environmental protection issues, and sector-specific quality standards.</li> </ul>	
<b>Strategic support services</b>  <i>(i.e. to support the firm in moving into new businesses— products or markets)</i>	<b>PRODUCT INNOVATION &amp; DIFFERENTIATION</b> <ul style="list-style-type: none"> <li>• Assistance in identifying new products and opportunities, which are within reach of the firm to product</li> <li>• Support in establishing cooperation with technology universities, scientists or business practitioners to create/develop new products</li> </ul>	<b>PRODUCT INNOVATION &amp; DIFFERENTIATION</b> <ul style="list-style-type: none"> <li>• Market segmentation to develop a narrower and more tailored offer, with the objective of focusing on specialized clients to generate better profit margins. Sometimes this can be done without additional capital investment; other times it will require new equipment.</li> <li>• Optimize use of current distribution network –e.g. credibility of the company allows for introducing external new products to increase its turnover</li> </ul>
	<b>EXPANSION OF MARKET (especially EXPORT ASSISTANCE)</b> <ul style="list-style-type: none"> <li>• Assistance in preparation and execution of an export plan, including finding partners, distributors, and clients abroad.</li> <li>• Introduction of an on-line ordering mechanism (justified only after new investments are in place).</li> <li>• Participation in trade-fairs, including repeat visits (to cement contacts and seal deals), and assistance from 'handlers' who can support attendees in making their participation most effective (choice of stands, meetings with potential customers, etc).</li> </ul>	<b>EXPANSION OF MARKET (especially EXPORT ASSISTANCE)</b> <ul style="list-style-type: none"> <li>• Analysis and appraisal of regional and international market opportunities specific to the company's capabilities and niche.</li> </ul>
	<b>FINANCING INVESTMENT AND INNOVATION</b> <ul style="list-style-type: none"> <li>• Identification of effective sources of finance from an overview / menu of those on offer.</li> </ul>	<b>FINANCING INVESTMENT AND INNOVATION</b> <ul style="list-style-type: none"> <li>• Assisting firm with financial analysis in order to assess the attractiveness of credit for investment projects. Currently firms are risk-averse, and consider that financial appraisals should be done by banks.</li> </ul>
	<b>COLLABORATIVE INITIATIVES</b> <ul style="list-style-type: none"> <li>• Building a local product (e.g. the collaboration of multiple local firms operating in the tourism sector to develop a joint, integrated / packaged offer; or developing a local brand of apples and apple tourism around it).</li> </ul>	<b>COLLABORATIVE INITIATIVES</b> <ul style="list-style-type: none"> <li>• Integration of local producers for products that can be offered at larger scale, in order to create a stronger position and negotiate joint contracts.</li> </ul>

**It should meanwhile be noted a few 'usual suspects' for enterprise support were not noted by firms particularly often**—or were specifically noted not to be problems. In particular:

- **Access to labour. Overall, human capital of workers is not usually a binding constraint on firm-level growth in the poviats.** In most firms in these two regions, required labor skills are still relatively basic and easy to learn. Most firms noted a need for low-skill labor rather than trained, skilled labor—and as such did not face technical labor scarcity. Hence new employees can be found and trained.

**The main labor constraint noted by firms was a lack of workers that were motivated to work hard.** Some firms noted a relatively high rate of labor turnover, as they discontinued contracts with workers who were not sufficiently committed and productive. Some firms reported that the better workers tend to go abroad in search of higher salaries, and the remaining workers seem to favor seasonal employment. In general, we would suggest this situation can often result from a deficiency in managerial skills, rather than an innate retardation of workers in these two regions of Poland.

**However, this is likely to change when firms begin to specialize, innovate, develop new products, or otherwise evolve to require specialized labor skills.** For example, some firms reported that “graduates of the vocational schools are not very well prepared to work, also because in schools they use only very simple and not very modern machines. The preparation of the new employee takes even 1-2 years.” A hotel noted that the local vocational school for hospitality does not produce graduates with sufficient skills to function well in a modern and competitive hotel. And two or three firms noted that they found it very hard to find skilled personnel in sales and marketing who can help firms respond to more demanding customers and innovate towards market demand.

- **Training.** While some firms have taken and benefited from training programs (for example, an IT software company that took Microsoft training in Kielce financed by the European Social Fund), the same firms noted that *training needs may sometimes be too specialized to be provided 'in region', and thus vouchers could be more suitable—to be used for specialized trainings in larger cities at specialized institutions, rather than trying to build the capacity of BSIs in the regions.* For example:
  - in the household sewage plant industry, the best innovation knowledge resides at the University of Poznań;
  - for the apparel manufacturer, there are no local vocational schools which prepare employees sufficiently for the apparel industry.

This topic is explored in greater depth under Activity 1, so we will not investigate further here.

- **Access to finance.** Many firms declared that they had built up trusted relationships with local banks and faced few if any problems securing credit for working capital. For investment loans, opinions differed, with some firms having managed to obtain credit, and others finding that banks were rather risk-averse for their projects. A number of firms said they were not seeking credit at all, since on principle they wished to run their business entirely with their own financing. Thus in the table of services above, we focus on (i) helping firms identify sources of financing which may be most suitable for their needs; and (ii) helping firms appraise such options. It seems plausible that firms would be more willing to invest if they receive fuller information on the options available and are able to assess the risks involved.

**We also asked firms to note which services they would most be willing to pay for.** The results are shown in Table 3. Two key observations can be made:

- Firms often caveated their declared willingness to pay with the condition “as long as it is of good quality. Sometimes it turns out we already know more than the ‘expert’”. So quality is a key concern.
- There is a broad correlation between declared need and willingness to pay, but with some exceptions—e.g. 13 companies identified a need for collaborative services, but only 2 were willing to pay for them (fearing the likelihood of free-riding by other firms); 23 companies in total would prioritize better knowledge on technology trends and industry trends relevant to their production, but only seven of those would pay for it. Both of these may suggest a role for publicly-provided services, rather than fee-based consultancies.

**Table 3.** Declared needs versus willingness to pay

	Declared need by SME (amongst 40 interviews)	Would be readily willing to pay (amongst 40 interviews)
<i>identifying sources of financing</i>	16	11
<i>assistance in entering foreign markets</i>	13	9
<i>collective services (collaboration)</i>	13	2
<i>technology trends</i>	12	4
<i>searching for partners abroad</i>	12	10
<i>production process improvements</i>	12	9
<i>industry trends</i>	11	3
<i>finance applications</i>	10	5
<i>specialized training</i>	10	7
<i>other strategic support</i>	9	7
<i>business planning</i>	8	2
<i>other operational support (mostly legal)</i>	8	8
<i>marketing strategy</i>	8	4
<i>general access to finance</i>	8	5
<i>website development</i>	7	5
<i>quality certification</i>	7	4
<i>market intelligence</i>	6	4
<i>managerial training</i>	4	2
<i>equipment hire</i>	4	4
<i>ICT skills</i>	3	3
<i>testing facilities (test houses)</i>	1	0

**Finally, a special need was observed amongst construction firms: for a revision of the current public procurement regime.** This is rather outside the scope of this project, but given that the poviats of interest have a substantial construction sector, and that so many construction firms mentioned it, it is worth noting. The main point made by firms is that the public procurement regime, even after some recent changes, has one dominant criterion for selecting contractees: price. Formally, price accounts for approximately 60 percent of a procurement decision, and other criteria account for 40 percent—particularly two criteria of a guarantee on contract performance, and a guarantee of quality for up to 8 years. But according to construction companies, those other criteria are fulfilled by virtually all companies (since they know they will definitely lose the tender if they do not fulfil them)—hence in practice there is only one real dimension for competition: price. That results in a lower quality of projects, since the focus of companies is on cost efficiency above all other considerations (innovation, product improvement, sustainable quality, etc). Further, in some firms' experiences, even bids with clearly unrealistic prices (e.g. 50 percent of estimated costs) have been accepted. This substantial obstacle to firms in the construction industry is thus worth noting, since it may be incentivizing cost efficiency, but it will not be contributing to a competitive industry in other dimensions, especially in innovation over time.

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

### **Research note 2:**

**Barriers to entrepreneurial activity and recommendations  
in four poviats of Podkarpackie and Swietokrzyskie**

# Initial observations on EU funds

Proposals for services and delivery mechanisms are the topic of the next report, rather than this one. However, the team was asked to note at this intermediate stage any insights obtained from the interviews about ease of access by enterprises to EU funds.

- (i) **Overall, several firms interviewed had benefited from EU funds and were happy with the results.** For example:
  - a. A specialized food processor had achieved a substantial expansion and modernization of its machinery thanks to EU grants from the 2007-2013 programming period. This had contributed to their successful growth and increase in employment;
  - b. A manufacturer in the metal industry received EU grant funding between 1998 to 2006 to increase its production capacity and upgrade its equipment. These contributed to the rapid development of the company, and triggered an upgrading in products towards more innovative solutions, including one patented product;
  - c. A package producer received a EU successfully utilized to implement computer-based management system automating some business processes concerning cooperation with suppliers and business clients;
  - d. A furniture producer was benefitting from several EU grants under pre-accession programmes (Phare) as well as from the Structural Funds and manage to upgrade substantially machines used in furniture production;
  - e. A company providing laser cutting services managed to finance purchase of specialist laser cutting equipment, which enables cutting big sizes of metal sheets. Possession of such equipment is a substantial competitive advantage for this company on both local and regional market.
  - f. A food producer had taken part in many EU funded programmes aimed at promoting export activities, which contributed to its substantial increase of exports (now accounting for 50 percent of its total sales).
  
- (ii) **Several firms also voiced their perception that accessing EU funds requires a lot of paperwork, is bureaucratic, and confusing.** For example:
  - a. One firm recounted its negative experience concerning delivery of a grant for improvement of workplace safety. The grant application was made in 2015, but transfer of money is expected only in early 2017.
  - b. One firm noted that training subsidies required so much paperwork that they decided to opt for commercially-provided training programs instead.
  
- (iii) **More fundamentally, several firms noted that they either decided not to apply for EU funds—or their applications were not successful—because such funds under the 2014-2020 OP are specifically oriented towards innovation.** For example:
  - a. One firm underlined that it considered applying for support under current regional operational program, but finally did not find a sound justification for “innovativeness” element, present as an important selection criterion. The would-be investment concerned purchase of new / modern technological

equipment that would raise production efficiency, production quality, and would lower energy consumption.

- b. Another manufacturing firm had previously benefited from EU funds in 2007-2013, which allowed it to modernize its equipment and become competitive in international markets; yet expressed a deep disappointment that the requirements for projects in the 2014-2020 round had excluded it from being eligible to participate.

(iv) **This is paradoxical since—as noted in the prior sections of this document—companies in the two regions show a critical need to innovate their products, processes and businesses.** As discussed above, we noticed a distinct need for firms to differentiate their products in order to be able to increase profitability and growth.

(v) **We may reconcile this paradox by observing that innovation in firms in the four *poviats* under study is most likely to be ‘pragmatic innovation’, rather than sophisticated innovation by dealing with R&D units of universities.** By ‘pragmatic innovation’, we mean product and process development that is marginal rather than dramatic, and is based on existing firm capabilities. Hence it is plausible that the criteria for innovation under the 2014-2020 OPs has become rather too restrictive for firms in catching-up regions and *poviats* to be able to use it.

## Next steps

As envisaged in the Terms of Reference, the team will now be engaged in developing and implementing a system to stimulate uptake of services in SMEs, and identifying ways for SMEs to more easily access relevant EU funds. This activity will have as a distinct output a report prepared by the Bank with proposals for how SMEs could better take advantage of services offered by public institutions in the selected *poviats* and recommendations regarding adjusting services provided to SMEs by the BSIs in the region.

# Research note 3:

## Observations on BSIs

### Introduction

This document provides an overview of the insights gained from interviews with 14 BSIs in Świętokrzyskie and Podkarpackie. It is produced in order to improve contextual understanding of the current landscape of enterprise support services provision in the two regions.

## **ACTIVITY 2**

Activating Entrepreneurship in Deprived Areas

**Research note 3:  
Observations on BSIs**

# Findings in Świętokrzyskie

## List of BSIs interviewed:

- *National Association of Supporting Entrepreneurship*
- *Foundation of Regional Development*
- *Świętokrzyskie Center Of Innovation And Technology Transfer*
- *Centre of Promotion of Entrepreneurship in Sandomierz*
- *Staropolska Chamber of Commerce*

## Evolution of BSIs over time

Majority of interviewed BSI were established in the first half of nineties, what was a consequence of political and economic transformation, economic crisis and the need for supporting local economies. Initiatives for establishing these institutions came from different groups or institutions:

- local entrepreneurs
- local self-government,
- senator and US consulting firm,
- regional self-government (at the beginning of the next decade).

New institutions operated mostly as non-governmental organisations (associations or foundations). At this initial phase they were supported mostly by US funds (US Aid) as well as European Funds (e.g. Program of Local Initiatives financed by PHARE). First programs were addressed mostly to unemployed, start-ups and small local enterprises. Some of them receive capital support and established loan or guarantee funds, easing local enterprises access to capital.

The first decade of the new century brought growing access to funds for such institutions, mostly from EU funds, but also others (e.g. US AID). These institutions became very effective beneficiaries of these funds, implementing numerous projects financing actions targeted toward unemployed, start-ups, local initiatives, enterprises, improving access to finance (in the form of loan or guarantee funds). Most of them became also a part of national networks of business support institutions, such as:

- National System of Services (KSU) for small and medium enterprises, offering information, basic advise services and more advanced,
- National Association of Loan/Guarantee Funds
- Network of regional centres of European Social Fund (providing information and advice on application for ESF funds).

The institutions were particularly active in the period 2007-2015, when plenty of resources were available both from ERDF and ESF. At this time new, representative offices were build, new branches in other cities were established etc. For example the Konskie Assotiation of Supporting Enterpreunership in the peak period implemented 19 projects. Currently, due to the gap between the previous and the current financial perspective the level activity of all

institutions is much lower, limited to existing sources of financing and economic activity. Some of interviewed institutions developed significantly through these years from very small, local organisation to important players at regional and even national level (e.g. Konsense Association for Supporting Entrepreneurship changed its name to National Association for Supporting Entrepreneurship). Some of them as an indicator of growth present information on the size of their office. One institution present on its web page proudly information on the growth from the small office of 100 m<sup>2</sup> to new, representative building with the space of 1200 m<sup>2</sup>.

Another institution decided to act mostly locally, but adapted interesting business model, building fancy hotel, generating additional funds for its activities.

Any of interviewed organisation does not publish on its web site reports on its activities, neither monitoring nor evaluation. The website does not also provide any information on number of enterprises supported, results of support such as number of job places created, improved economic situation etc.

IT should be underlined, that institutions playing the role of BSI often simultaneously play also other functions, e.g. training centres, providing activation services to unemployed, supporting social enterprises etc. In fact these functions are often implemented by the same staff members, therefore different spheres of activities

## Financing

The most important source of financing of BSI are European funds. Therefore the scope of activities and model of financing is strongly influenced by the scope and rules of European Funds. On the other hand BSI try to recognise and understand needs of enterprises and plan services accordingly, in order to avoid problems at the stage of recruitment (which is often assessed by project providers as the most risky).

Good examples of services with strong influence of the European Funds are trainings. Several respondents underlined, that due to a plenty of European Funds this market is spoilt, which means that enterprises do not want to pay full market prices for trainings. And although the BSI has the wide range of experts available, in practise about 80% of offered training is offered in the frame of projects financed by European Fund (mostly European Social Fund). 20% of training is offered on the commercial basis, usually on specific demand of local enterprises (e.g. wood producer, planning development of services, asked for specific training for its staff). (However this observation is not confirmed by researches. According to available data, 79% of employers financed training of their employees using their own resources and only 15% of enterprises used public finance. More important may be very low demand for investment in skills, which in świętokrzyskie is one of the lowest in Poland. (BKL, 2015)).

Another type of service, heavily financed by the European Funds (ESF) is support for start-ups (including mostly grants or loans for start-ups). In practise this service is fully financed by European Funds (ESF) and there is limited space for commercial services for this group. However during consultations it was underlined, that in some cases more specialised, specific for the sector, advise services would be needed.

The main rule of European Funds is reimbursement only actual costs of projects (staff, office, equipment etc). Any fee for project providers is not eligible (however project providers often are able to hide fees in the actual costs – but this was not discussed during interviews).

The only type of service in which case the fee is eligible are financial services: loans and guarantees. Two of interviewed BSIs in fact work as operators of such instruments and according to their declaration, this seems to be very popular form of support among small and medium enterprises. BSIs have their own capital, but also received additional capital from European Funds. As operators they receive a fee.

Most of BSI supports firms in the investment processes: initial assessment of investment plans, identification of sources of financing and support in preparation of application. This service is usually offered at least partially for free for enterprises (particularly first, initial phase of assessment and identification) and partially commercially (preparation of application form). For the latter part of the service BSIs usually charge the success fee (flat rate or percentage of grant). One of the interviewed BSIs estimated, that 7,5% of their revenue comes from such commercial services.

One of BSI indicated as source of revenues simple advise services (taxes, social contributions, marketing, creation of www), however the firms are mostly interested in rather basic services and are ready to pay rather limited prices (according to BSIs 1 thousands PLN is acceptable price for the service). According to the interviewer, in this case about 80% of services is offered commercially and 20% co-finance by public funds.

Other sources of finance are fully commercial services, offered to enterprises. The most common are:

- Accounting and HR services (one of BSIs offers such services for enterprises which were created with its support),
- Storage of documents for firms (one BSI adapted available space for this purpose),
- Energetic audits (however BSIs assess, that this market is too competitive and prices offered by their competitors are too low),

## Current offer for SMEs

### Information services

Most of information services provided by interviewed BSIs can be assessed as basic information. However there are a few groups of clients of such services and particular BSIs have their own specialisation.

One group are persons planning start their own business. Mostly they are interested in availability of grants or at least preferential loans for start-ups. If they are not eligible (see services for start-ups) they are interested in basic information on rules of setting-up a business (taxes, legal issues, marketing etc.).

Existing enterprises are much less interesting in information services and demand is practically restricted to information on existing sources of finance. Demand for such services occurs when a firm has a liquidity problems or development plans. Demand for more advance information services, such as market or product analysis -- industry trends; market intelligence and attractiveness; industry cost structure was not identified. This is not clear whether such services are not provided because BSIs have limited capacity to offer them, or there is lack of demand for such services (at least conscious demand). It can also be a case, that more advanced firms (medium) searching more "professional" services providers and are ready to pay for such services on the market.

## **Advice services**

This type of service is often closely linked to information services. As it was mentioned in the previous chapter, often information services (on sources of financing) is continuing as advice service, focused on preparation of grants.

There is a common observation, that demand for advice services is rather limited. Firms are not expressing the need for such services, which may be linked with common belief that firms owners have high skills in firms management as well as with image of BSI rather as a distributor / facilitator in access to the European Fund then the source of expertise.

One BIS opened in 2012 a special unit specialising in advice services, however now this is assessed rather as failure due to limited demand.

Demand for advice services is linked with two common situation:

- Difficult situation of company (problems with liquidity) – in such cases firms are looking for additional sources of financing and often are offering additional services, aiming at improving condition of firm)
- FDevelopment plans – in such cases firms are looking form financing opportunities and advise services related to specific investment.

On the basis of interviews a hypothesis can be formulated, that BSIs located in smaller cities are more often offering basic advice services, while BSIs located in Kielce are prepared to offer more advanced services. Examples of such services were identified:

- Optimisation of management and production process (on of BSI specialises in such service, however usually it requires a lot of preparation effort to convince the firm for such service)
- Support in entering new markets and internalisation of the firm.

If such more specialised services are successful, the firm often is willing to use services of BSI in following years.

## **Trainings**

Some of interviewed BSI develop offer of trainings, mostly financed by ESF and recently national source (National Training Fund – KFS).

Trainings are offered to persons starting their own business (foundation of running a business).

In case of employees of firms the most popular trainings are vocational, finished with officially acknowledged certificate allowing conduct specific occupation (e.g. transport of danger substances, computer driving licence). Training are usually short (about 100 hours) and relatively chip, therefore their quality can be also rather low.

One example of more advance and longer training was identified: a postgraduate study on management for entrepreneurs and managers. The course was offered for 25 persons from 4 poviats, a year-long and implemented in close cooperation with the Denmark School of Management. The quality of the course was very high, however the cost of the training was covered by project (finance by Swiss Funds). The BSI considered continuation of the training in future on the commercial basis.

### **Support for start-ups.**

One common service, particularly offered by BSI in smaller cities, is support for start-ups, consisting of three types of services:

- Training on entrepreneurship,
- Advice,
- Grants.

This package of services is usually financed by ESF rather as part of active labour market policy than support for entrepreneurship. Therefore the services are usually targeted to specific target groups, in more difficult situation on the labour market, such as youth, older, unemployed, living in rural areas etc.

The scope of services is usually highly standardised and some interviewers underlined the need for more specialised services, particularly in more regulated fields of business (e.g. health services). Due to limited amount of grants, most of start-ups are created in low-cost services (e.g. hairdresser, trade, mechanics). On the other hand the available studies show, that survivability of these firms is higher than average on the market.

### **Financial support**

Financial support for firms is offered in two forms:

- Grants – distributed directly by the Marshal Office (in this case BSIs can play supportive role, helping preparing applications for grants)
- Loans and guarantees – distributed by BSI experienced in such services (usually managing their own loans or guarantee funds).

This type of service is assessed as very successful in terms of the pace of distribution of funds. One of the interviewed BSI managed to distribute in relatively short period of time 20 million PLN of loans to firms.

### **Lobbing / representation**

Some BSIs are also an important actor at the regional or even national level, participating in many committees, working groups, meetings etc., representing interests of firms and BSIs (however the distinction between these two functions is not always clear), influencing regional and national policies supporting enterprises.

However the challenge is low capacity of some BSIs, particularly currently in the gap between two financial perspective and lack of financial sources. For some of them fulfilling these functions is very time consuming and without public support (in form of grants or financing services) this is difficult to manage. One example are consortia for smart specialisations on the request of the Marshal Office. The regional authorities are expecting that consortia will play an active role in integration of enterprises in the specific sector, but members of consortia are not able to play such a role without financial support.

### **Development and assessment of services**

Most of interviewed BSIs do not conduct any formal process of needs assessment. Usually it is based on informal consultation with firms, ideas of BSIs management and staff. Some of BSIs are present relatively long on the market and therefore they express strong conviction that they have good understanding of needs of firms.

Only one BSI collects and analyse information from clients on their needs (as part of evaluation form). This institution also developed a formalised note on contact with clients, containing the most important information on client's situation and its needs in terms of services. Development of such procedures may be a result of more advance approach to quality of services and implementation of appropriate ISO norms.

The relevance of assessments of needs of enterprises may heavily depend on the skills and capacity of BSIs consultants and time spend on analyses of firm's situation and needs. The first and directly expressed needs of firms are often very basic and intuitive, but not always correct. In some cases the staff of BSIs is more experienced in managing EU projects than understanding business, managing and production processes and identification of potential gaps or needs.

This may be caused by low level of trust of firms to BSIs (firms do not willing to uncover their internal processes, problems and challenges, treating BSI's consultants as competitors). Most of interviewed BSIs do not also conduct evaluation of clients satisfaction. In fact one such institution was identified, which conduct surveys, produce on that basis reports and introduce changes in their offer. However the BSI do not publish these reports and did not agree to give the example of report to consultant. This shows clearly that there is a lack of transparency and sufficient supervision of public funds (there is no obligation to conduct and publish reports on clients satisfaction).

Any of interviewed BSIs do not conduct a rigorous evaluation of results of their support and its impact on firms conditions. Such evaluation is also not conducted by the regional authorities.

## Perceptions of SMEs

The BSI's perception of SMEs seems to be rather negative. During interviews it was many times mentioned that SMEs are not aware their needs, not interesting in buying support services and representing low level of trust. Such opinions were formulated mostly in the case of micro and small enterprises. Medium enterprises are assessed as more aware of their development needs and ready to invest in supporting services, however some of them have internal units able to provide some of services (e.g. training) and some of them are buying such services in bigger cities, like Warsaw or Cracow, from national consulting firms.

BSIs acknowledged also needs for supporting collective services, particularly to firms operating in smart specialisation, e.g. metal-cast sector. However interviewers underlined huge diversification of potential of firms in this sector, from very small, family owned, traditional firms offering rather simple and not competitive products to bigger, very innovative companies, cooperating with the biggest firm in the Europe, offering highly specialised and high quality products. Therefore needs of such diversified sector varies significantly.

## **ACTIVITY 2**

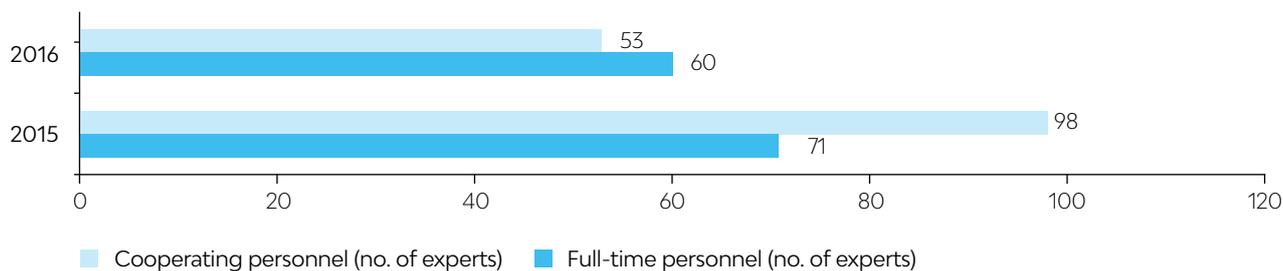
Activating Entrepreneurship in Deprived Areas

**Research note 3:  
Observations on BSIs**

# Findings in Podkarpackie

# Overview of BSIs

**Figure 1.** Number of experts' staff of BSIs in Podkarpackie region



Source: Internet questionnaire, n=23 (data for 6 effective questionnaires)

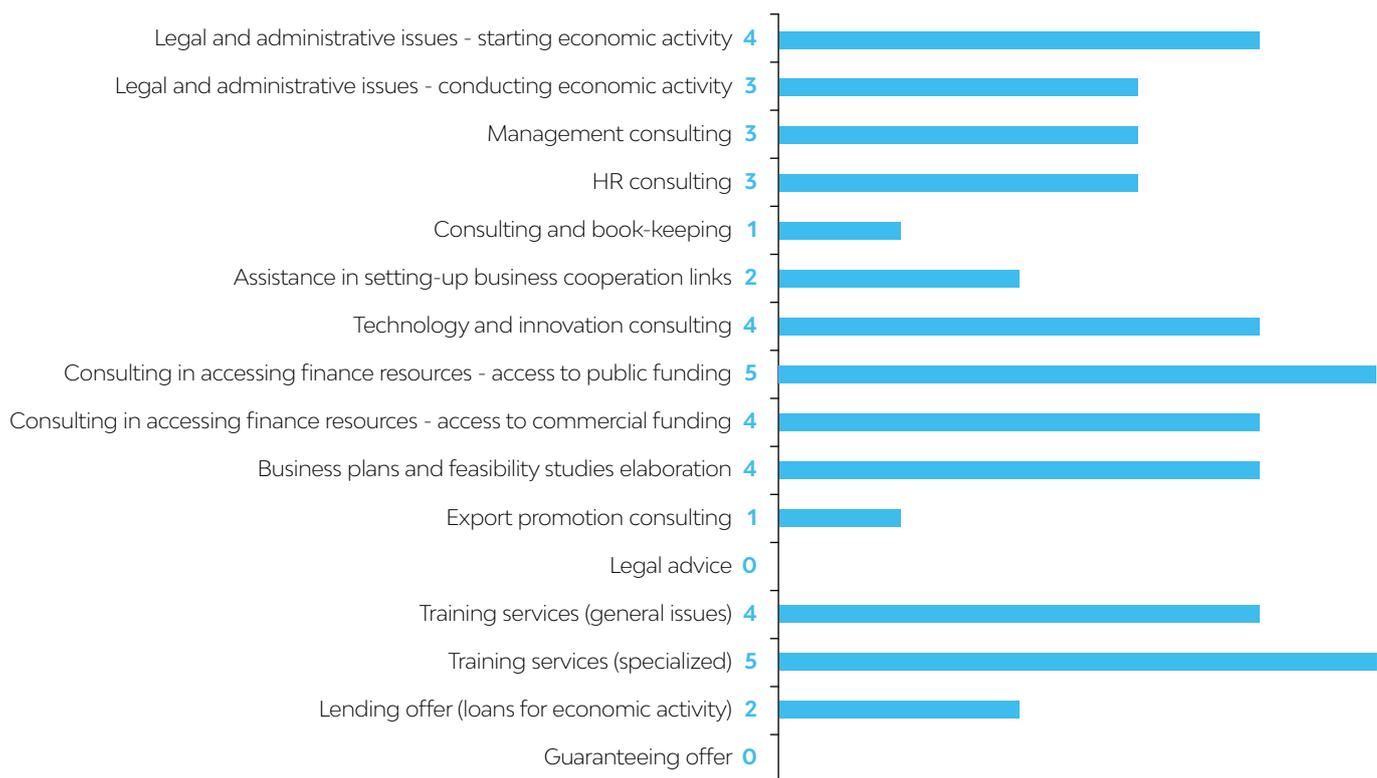
**Figure 2.** Number of services delivered by BSIs from Podkarpackie region (in 2015 and 2016\*)



Source: Internet questionnaire, n=23 (data for 6 effective questionnaires)

\*2016 - data as of end-October

**Figure 3.** Fields of specialization of BSIs from Podkarpackie region



Source: Internet questionnaire, n=23 (data for 6 effective questionnaires)

## List of BSIs interviewed:

- *Bieszczadzka Agencja Rozwoju Regionalnego Sp. z o.o., Ustrzyki Dolne (Regional Development Agency Ltd in Ustrzyki Dolne),*
- *Leżajskie Stowarzyszenie Rozwoju, Leżajsk (Development Association of Leżajsk),*
- *Mielecka Agencja Rozwoju Regionalnego IN-MARR S.A., Mielec (Regional Development Agency in Mielec, Inc.),*
- *Regionalna Izba Gospodarcza, Sanok (Regional Chamber of Commerce in Sanok),*
- *Regionalna Izba Gospodarcza, Stalowa Wola (Regional Chamber of Commerce in Stalowa Wola),*
- *Rzeszowska Agencja Rozwoju Regionalnego S.A., Rzeszów (Regional Development Agency in Rzeszów, Inc.),*
- *Stowarzyszenie na Rzecz Rozwoju i Promocji Podkarpacia PRO CARPATHIA, Rzeszów (Association for Development and Promotion of Podkarpackie Region)*
- *Tarnobrzaska Agencja Rozwoju Regionalnego S.A., Tarnobrzeg (Regional Development Agency in Tarnobrzeg, Inc.).*

- *Wyższa Szkoła Informatyki i Zarządzania, Rzeszów (University of Information Technology and Management)*

## Evolution of BSIs over time

The BSIs in podkarpackie region were evolving overtime. The majority of key BSIs were established long time ago: Regional Development Agency (RDA) IN-MARR in Mielec in 1991, Rzeszów RDA and the Regional Chamber of Commerce in Sanok in 1993, Bieszczadzka RDA in 1994. At the moment of their creation they were usually projected as local / regional organizations put in place to support general local development, including implementing of various measures to support entrepreneurship and (mostly) micro and small firms. Then, throughout last 20 years, there were implemented many (mostly EU funded) programs supporting BSIs, both in podkarpackie and other Polish regions, allowing for steady development of all this kind of organizations. The programs were mostly aimed at:

- Stimulating international cooperation, especially with neighbouring countries (in case of podkarpackie: Ukraine and Slovakia);
- Training BSI staff to enable them to provide the SMEs sphere with general as well as specialized consulting services;
- Development of financial instruments (microloan funds and loan guarantee funds), in order to limit finance access barriers typically encountered by the lower end of the SME sector, especially within underdeveloped territories;
- Assistance in implementation within the region of various national development programmes (the BSIs to take care for local / regional promotion of such programs, in some cases the BSIs were also playing the role of the representative of the national agency in the region and in this respect being responsible of some kind of "middleman services" respective to the programs / projects' scopes, for instance: collecting funding applications, executing formal evaluation; sometimes the BSIs were also engaged in supporting the programs' implementation phase: offering day-to-day hands-on administrative assistance to the programs' beneficiaries, monitoring of projects' implementation and timelines, controlling projects' expenditures, undertaking evaluation of applications to amend the grant contracts etc.).
- Stimulation of training for SMEs employees / owners – provision of specialised training and offering / servicing training grants.

In general most of the BSIs, both in Poland and in the region, have not been concentrated on any specific branches of economy (therefore dominate general scopes of activity), however with few exceptions - for example the Chamber of Commerce in Stalowa Wola has been developing so-called welding cluster, the Aviation Valley Association (not interviewed BSI, because in Brzozów and Leżajsk poviats aviation industry is almost non-existent) concentrated its activity on aviation industry (building it on the basis of the fact that in podkarpackie region there are placed many aviation companies, mostly in within the area of Rzeszów and Mielec) and the RDA in Tarnobrzeg being a co-organizer of a cluster uniting automotive industry firms from South-Eastern Poland. In general such BSIs were relatively the most successful ones, since they had close links with the SMEs and other enterprises.

Most of the BSIs took part in various national networks. The most important one (so called National Service Network) was managed by the national governmental agency - the Polish Agency of Enterprise Development<sup>1</sup>. Participation in this network brought many positive results in terms of BSIs human and organizational development - the PAED sponsored many projects, including training and human development, allowing the participating BSIs to gather many, earlier not present, skills and competencies. At the moment, however, the network is not operating and most probably - sooner or later - it will probably stop its activity.

There were also (however not many) projects stimulating BSIs to develop fully commercial activities. There were several attempts, but in general not very successful, mostly implemented in 2010-2013 period. This happened because of increasing pressure from the European Commission to commercialise BSIs services. This tries included testing of some SMEs directed services, assumed as adequate for future commercialization<sup>2</sup>. This however, so far, have not been converted into practice. The service marketing component was somehow put aside.

The most successful period for the Polish BSIs took place within the years 2006-2011 when there were many support programs available, especially funded from the European Social Fund resources. On the other hand, however, some of these projects, probably quite many, were not very efficient and their results were not worth money spent (at least at the moment such assessment opinions completely prevail). For that, since 2011-2012 access to money for BSIs became much more difficult and after completion of projects financed within 2007-2013 financial perspective, situation of many institutions both in the region and nationwide have become quite difficult, resulting in reducing of employment and limiting typical range of activities. Those BSIs which had stable sources of income (even limited) such as rents from the incubator or technology park tenants or interest rate from the loans issued were in a much better situation than all the others, which sources of income were mostly generated from the projects' related activity.



## Financing

Most of the BSIs depend strongly on the EU funded projects and if the amount of funding available still decreases they might experience further substantial problems. The key source of funding for many BSIs was the reimbursement of costs within implemented grant projects. In such cases the BSI (usually after taking part in a competitive procedure) within the given project was obliged to organise certain number of training events, study visits, audits on site etc. and for that it was eligible to receive reimbursement of the agreed amount of expenditures incurred (salaries, office rent, transportation costs etc.). Usually the scope of services was decided by the Contracting Authority, so the BSI was looked upon rather as a typical project managing unit, responsible for implementing it and for settling financial accounts.

Many BSIs were also providing training services for SMEs. In most cases these training events were substantially (or totally) financed by the EU funds and share of private funding was usually very limited.

<sup>1</sup> <http://ksu.parp.gov.pl/pl>

<sup>2</sup> <https://www.parp.gov.pl/files/74/81/626/19707.pdf> (for example, tested services included: (1) 'Consulting and training service concerning optimization of managing enterprise finance', (2) 'Consulting service concerning marketing and sales of products for firm operating in the food-processing branch; individual marketing plan for a firm', (3) 'Consulting and training service concerning managing the energy efficiency on the level of an enterprise, (4) 'Pilot service concerning application of information technologies for the enterprise management needs', (5) 'Planning enterprise development and utilizing repayable funding sources'.

Very many BSIs were also engaged (on a fully commercial basis) in preparation of applications for EU funds for the other institutions (local government entities, NGOs and enterprises). Some of BSIs were excluded from this, because they played an important role in the implementation system of the EU funds (e.g. RDAs in Rzeszów and Mielec, depending on the period). In this area, however, there was also strong competition from the fully private consulting companies sector (in some cases established by the former BSIs employees).

In some areas local or regional authorities decided to entrust the BSIs with the management of business incubators or technology parks. In some cases the BSIs were also playing the role of real estate developers. In this respect they were responsible for the supervision of the building of the buildings and preparation of the necessary utility infrastructure (water, electricity, gas etc.) - they played a temporary role of a general construction-site supervising body. Some BSIs benefited also from income of rented offices and production space as well as other services for the firms located in a given building or on a given area.

For some BSIs also one of the sources of income were fees and interest rate from operating of financial instruments such as loan and loan guarantee funds and (if they were still implementing projects to establish such instruments) reimbursement of costs of managing of these instruments. In general the income from such source of activity, especially after completing the respective projects and stopping covering management fees, was not that high. It applies especially to the guarantee funds, which charge only very limited guarantee fees (because of competing EU and national schemes). In case of loan funds the situation was more complicated, but again many BSIs were implementing the easiest strategy, limiting fees charged and also charging very low interest rate.

In general in the Podkarpackie region the sector of loan funds is quite developed: 3 the largest (in terms of capitalisation) loan funds were run by: Mielec Regional Development Agency (loan capital amounting to 52,2 mln PLN, 350 loans granted in 2015 for the total value of 22,7 mln PLN), Regional Chamber of Commerce in Stalowa Wola (loan capital of 31,1 mln PLN, 81 loans granted in 2015 for the total value of 8,8 mln PLN and the Leżajsk Development Association (fund's capital amounting to 17,5 mln PLN, 74 loans granted in 2015 for the total value of 7,7 mln PLN)<sup>3</sup>. The guarantee funds were much less active (as is the also the case of most of other Polish regions). There are only 2 guarantee funds in the region of which the bigger one, Podkarpacki Regional Guarantee Fund operates the amount of 20,4 mln PLN of guarantee capital and in 2015 issued 61 guarantees for the total value of 14 mln PLN<sup>4</sup>.

## Current offer for SMEs

Most of the BSIs provide several types of services for the SMEs in the region. They include the following, presented in the table below.

<sup>3</sup> Data from the report 'Loan Funds Market in Poland. 2015 Report', the Polish Union of Loan Funds, Warsaw 2016.

<sup>4</sup> Data from the report 'Loan Guarantee Funds in Poland as for 31st December 2015', National Loan Guarantee Association, Warsaw 2016.

**Table 1.** Types of services and funding sources of BSIs in Podkarpackie region

Service	Description	Funding	Number of BSIs providing such service (podkarpackie region)
Information on the available public aid programmes for SMEs	Provision of basic information on the availability of support funding offered by various programs: description of support available, issues concerning eligibility of projects, eligibility of industries and types of SMEs.	Usually for free or for a small fee.	Most of the BSIs – 10-20.
Preparation of applications for EU and other public funds	Elaborating applications as well as completion of all necessary formal documents. Assistance in managing the funds application process.	Usually fully commercial service, sometimes remuneration success fee mechanism is used.	Most of the BSIs – 10-20.
Training for SMEs staff	Various types of training: management, marketing, HR development. Most of the training projects are usually delivered basing on the external trainers (The BSIs take a role of a training program managing body).	Some fully commercial, but most of them subsidised.	Many BSIs 10-15.
Regional development services / elaboration of local development plans	Preparation of local economic development planning documents - local development strategies / other programming documents (mostly of commune level)	Fully commercial, however very limited market size (up-to the needs of local authorities) and very competitive due to public procurement conditions.	Many BSIs 10-15.
Advisory services	Mostly concerning starting-up of individual economic activity, including assistance in setting-up formal organization of a new business entity <sup>5</sup> .	Commercial, but on a limited level of fees.	Many BSIs 10-15.
Financial instruments – loans and guarantees	Provision of subsidised loans and loan guarantees. Instruments based on public funds made available for implementing in the form of financial instruments. BSIs possess also some own capital, but usually to a limited amount.	Loans offered as instruments usually much cheaper than market offer - bank loans; guarantees are not available commercially on similar conditions.	Few BSIs – 5-6.
Provision of office and production space for SMEs	Provision of space in incubators and technology parks also management of technology parks / incubators.	In business incubators usually is offered preferential rent for the first 2-3 years presence, in case of technology parks in place are various arrangements.	Few BSIs – 3-4.
Assistance in entering foreign markets	Usually quite basic consulting services on rules of starting economic activity on the foreign markets.	Depends, in some cases commercial, in some cases subsidised.	Very few BSIs – 2-3.
Provision of book-keeping services	Typical services of business book-keeping / taxation office <sup>6</sup> .	Commercial, however service operated on a very competitive market (strong price based competition -law level of fees).	Very few BSIs – 2-3.

<sup>5</sup> This line of activity used to be one of the most important in case of most of the BSIs participating in the National System of Services organized / managed by Polish Agency of Enterprise Development. For many years such services (“Legal and administrative issues of economic activity”) were co-financed by the Agency. In fact, this allowed to set-up quite high competencies of BSIs as regards servicing needs concerning individual economic activity development. In case of the BSIs that manage financial instruments (maintain loan funds / lending activity), this became also a kind of clients (borrowers) supply mechanism - a BSI could offer a full path of business development assistance, starting from advisory on micro business establishment issues and ending on offering initial debt finance.

<sup>6</sup> A service well supplementing lending / guaranteeing services of those BSIs managing financial instruments. Also extending the services concerning establishment of a business (the recipient may be offered not only advice, but also a concrete services indispensable for any legal economic activity).

## Perceptions of SMEs

The vast majority of interviewed representatives of BSIs in Podkarpackie region underline a big difficulty in implementing advisory services on commercial basis. This conclusion concerns especially the case of SMEs representing the lower size end of the regional SME sector, definitely dominating the population of enterprises in Podkarpackie. The interviewees tend to underline three the most important barriers, concerning:

1. Lack of financial resources, available for 'investing' in receiving consulting assistance, especially of a strategic dimension,
2. Lack of knowledge on needs for consulting assistance
3. Limited potential of the most of micro and small size businesses to up-take the consulting process and to properly utilize its results.

In case of microenterprises and a quite large fraction of small firms such services are - in the most cases - unaffordable by the majority of potential recipients. According to BSIs representatives the 'financial' factor ranks as the most important barrier to deliver any services against fees, even if set-up on a moderate level. Since the positive economic / financial result of a consulting offer may not be guaranteed (such is the nature of most consulting services), it is of extreme difficulty to convince a micro / small firm to invest its - by the rule - limited resources. This in fact means that to market any consulting offer one (the entity offering it) must invest and implement at least a part of a service for free. And in this way building a room to continue the service against payments, provided the initial result will be assessed positively. The representatives of BSIs point out that the BSIs limited resources practically do not allow to adopt this kind of approach.

According to interviewed BSIs representatives, besides the 'finance' capability factor there are two other reasons strongly limiting readiness to up-take consulting services by small and micro enterprises in the podkarpackie region.

The first very often underlined factor concerns the lack of knowledge on consulting needs on the side of the most micro and small enterprises. Being completely engaged in day-to-day firms' operation management their owners are not able to recognize areas of required serviceable assistance, especially of a strategic (long-term) importance. The owners usually underline their needs concerning assistance in the sphere of book-keeping, pay-rolls and taxation, that is a very tangible and practical issues in case of each economic entity. In fact, according to the interviewees, there are examples of assistance projects in which their business participants were offered initial screening of the firms development needs, then used to set-up a concrete block of consulting services, that were finally welcomed and - in many cases - occurred efficient for the firms after implementation. But these were sponsored actions - in fact offered for free or for a very limited (symbolic fees). Summarizing the issue here is how a BSI may convince the recipients on usefulness of up-taking external assistance and in what fields in case of a given enterprise such services may be beneficial. According to BSIs representatives, this kind of a 'screening' will always be extremely difficult to be delivered on commercial basis, because of its results uncertainty (the screening - being costly - may however conclude that there is no space for any feasible consulting assistance). This kind of actions should rather be perceived as a sort of an investment required to be financed by the service provider. This however is very much dependant on financial and operational capabilities of BSIs that are in a way put in a position to invest in building the market, and - as described at the beginning - possess very limited resources to invest.

The next reason importantly limiting interest in acquiring consulting services relates to micro and small firms capability to up-take the consulting service, both, during its delivery period and later on in the business practice of the service beneficiary. In fact, this is an important limitation, very much justified by the size and therefore firms' capability to in-take the whole consulting process and - later on - even its outcomes. The result of this factor is - in (rare) cases of firms that are ready to accept consulting assistance - that the entrepreneur expects external consultant to deliver the service without special engagement of the firms human resources. Of course, in most of consulting cases it is not possible - it undermines efficiency of a consulting process. Therefore, the only way to deliver such assistance is to implement it in a format of a day-to-day co-work of the consultant within the structures of the recipient. According to BSIs' representatives, such model would be workable, but on the other hand will always be expensive and very much demanding as regards availability of experts working directly in the premises of the service beneficiary.

## Potential new services and funding models

Many BSIs are looking for the new market niches, but at the competitive market it is not so easy to identify such areas. Moreover, some BSIs are still used to the 'traditional' model of operation, mostly based on the implementation of the publicly funded projects.

The areas in which BSIs can develop their services (with partial public support) is the general and specialised support for start-ups. Many BSIs have long and rich experience in providing services concerning setting-up and initial phase of business development. Some of them also take part in consortia implementing projects within Sub-measure 1.1.1 of the Operational Programme Eastern Poland aimed at support and development of innovative start-ups.

Podkarpackie region has also strong links with neighbouring Ukraine. Many Ukrainians work or study in the region. Some of them might need targeted assistance in setting up companies or (for the ones possessing so called Pole card, certifying Polish origin) in starting economic activity as sole trader (individual economic activity of a physical person - dominating in Poland form of conducting micro size businesses).

The BSIs closely linked to the specific group of firms, operating in a given industry (some Chambers of Commerce and Aviation Valley) are also providing and developing specific services adjusted to the needs of those companies. This is very promising area of activity, but limited to few BSIs having strong links with concrete branch of industry. In this respect, at least some of them, could be capable of promoting and organizing groups / networks of firms (micro-clusters) preparing common product / service offer based on local / regional unique assets<sup>7</sup>. The core role of BSIs within such projects could be identification of market potentials, organizing the common products / services delivery and taking care its marketing issues.

<sup>7</sup> There are present experiences of planning / executing similar actions, for instance see:

# Appendix: Interview guide for discussions with BSIs in Podkarpackie and Swietokrzyskie

## Introduction and guidelines:

The interview should be conducted with the person/s responsible for SME support within the given organisation or – in case of the smaller organisations – with the managing person/s. If the interview is conducted with the managing person it would be good to conduct also (even if short) interview with the person responsible for direct cooperation with SMEs. As a rule, the interview/s should not be recorded to increase the openness of the respondents.

The interview can be conducted jointly with 2-3 persons from one organisation.

Starting the interview:

- Present the idea of the lagging regions project.
- Present the institutions implementing the project – the World Bank, the European Commission and the Ministry of Economic Development.
- Confirm, that the data and opinions collected during the interview will be used solely in relation to the implementation of the project and any of the collected opinions and statements will not be presented in connection with the given institution.

## Interview:

### General presentation of the organisation:

- 1) *Can you briefly describe your organization, its structure and its history (5-10 minutes maximally)?*
- 2) *General description of the staff employed:*
  - α) Total number of employees;
  - β) Breakdown by areas of activity;
  - χ) Key qualifications.
- 3) *Has the number of employees changed over last 3 years?*
- 4) *Description of the key EU projects implemented, targeted to SMEs during last 3-5<sup>8</sup> years. Ask for self-evaluation of their results – which were the most successful and best adapted to the needs of SMEs?*
- 5) *Description of other projects implemented, targeted to SMEs throughout last 3-5 years.*
- 6) *Do you cooperate with the Marshall Office and other BSIs – if so, in which areas (territorially and as regards the on-the-substance contents)?*
- 7) *To what extent do you cooperate with other BSIs and to what extent you compete? Do you (individual organisation or group of organisations) plan to apply for a grant within Regional Operational Programme 2014-2020?*

<sup>8</sup> Depending on the number of projects described

## **Financing of your organization**

8. *What is the breakdown of your revenue (in %) for the last (2015 or 2014) financial year<sup>9</sup>:*

- δ) Fees for implementing the EU financed and other aid projects;
- ε) Revenue from advisory and training services for SMEs;
- φ) Revenue from advisory and training services for other companies and other sectors (non enterprises);
- γ) Revenue from financial products (both fees and interest);
- η) Other

## **Current offer for the SME<sup>10</sup> sector:**

9. *What is your SME target group in terms of area (poviat, region), branch of activity, size? Is your current offer quite general or more specialised – if so, in which areas?*

10. *Can you describe your current offer for the SMEs in the region in the following areas and rules of its provision (commercial, subsidised, for free) :*

- Type of service
  - a) Information services;
  - b) Advisory services;
  - c) Training (business skills; technical/vocational skills);
  - d) Specialized goods (e.g. equipment hire; testing facilities);
  - e) Financial support (grants, financial instruments);
  - f) Lobbying (national government; regional government; other bodies);
  - g) Industry action plans (e.g. strategic development of particular sub-sectors);
  - h) Other.

11. *What process did you use to design this offer?*

12. *How do you communicate with your clients and how do you promote your services?*

13. *Do you regularly evaluate your clients' satisfaction? How and what are the results?*

14. *Do you conduct SME needs assessments? If so, how and how often it is prepared, what are the results and how does it influence your activity?*

15. *Do you change it regularly and on what basis? In particular, have you recently (during last 2-3 years) introduced new services for SMEs? What are the results of such actions – was it successful?*

16. *Do you plan to introduce new services for SMEs within the next year? If so, can you describe them shortly? What justifies introduction of new services? Is it market demand and/or other factors?*

17. *Do you have a long term strategy for your organisation? How often it is updated and what are its key directions?*

<sup>9</sup> Please obtain financial report if it is available.

<sup>10</sup> The questions should be concentrated on the small and micro enterprises, but support and cooperation with the medium sized enterprises should be also taken into account.

### **SME sector in the region/subregion:**

18. *Is the SME sector in your region different from the neighbouring regions? If so, what are the key differences?*
19. *Which SMEs subsectors in the region are developing quite quickly? Does it reflect regional smart specialisations<sup>11</sup>? Do they need external support and in what areas?*
20. *To what extent do you perceive your SMEs having shared (similar) needs or distinctive (different) needs by sector, region, size of the company or its age? Please give some examples.*
21. *Would the SMEs in the region be willing to pay for the BSI services? Are some types of SMEs more willing to pay? What are the most important conditions causing reluctance or eagerness to pay for external services?*
22. *Which type of services (or for which types of SMEs) should be provided for free?*
23. *Which type of services could be commercially viable for the SME sector in case of your BSI / region?*
  - ι) Specialised advisory services (in which topics?)
  - φ) Specialised training (in which topics?)
  - κ) Access to specialized goods (e.g. equipment hire; testing facilities);
  - λ) Assistance in entering new or foreign markets;
  - μ) Assistance in searching for partners abroad;
  - ν) Assistance in identifying sources of external financing and in general access to finance;
  - ο) Start up of new ventures;
  - π) Other?
24. *Would voucher schemes (e.g. a regional or national 'Innovation Voucher') be a realistic mechanism to promote BSI services / activate a new offer from your organization? If so, how it should be designed?*
25. *What kind of support would your organization need to develop and implement new services, well-tailored to the needs of SMEs in the area of your operations?*
26. *Do you have any other comments as far as SME needs and your SME targeted activity are concerned*

**Thank you very much for all the time and interesting information provided!**

<sup>11</sup> Podkarpackie: aerospace and aviation industry, quality of life and ICT, swietokrzyskie: resource-efficient construction, metallurgy and foundry, modern agriculture and food processing, health tourism, ICT, fair and congress industry, sustainable energy development.