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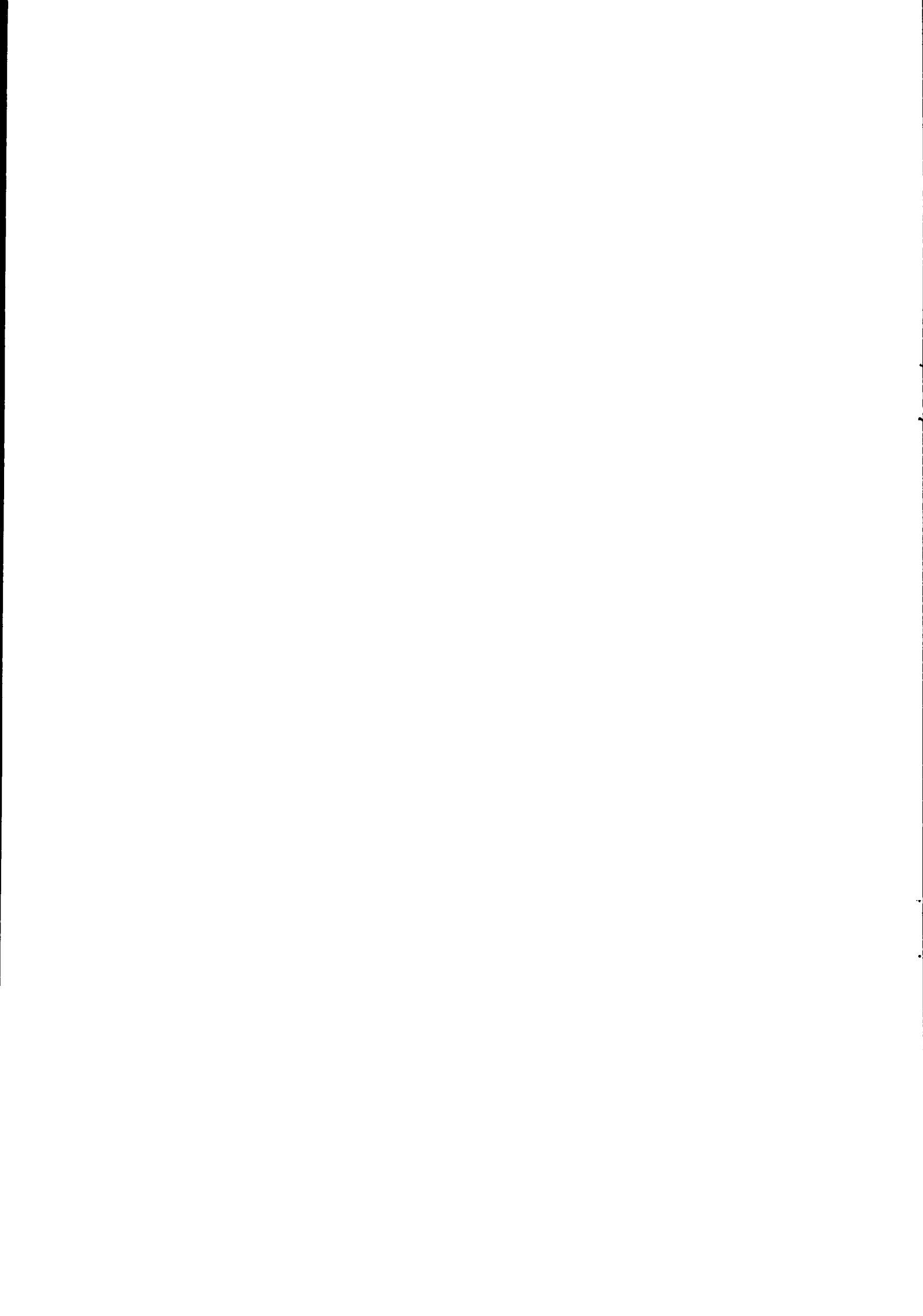
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United Nations Industrial Development Organization

A Comparative Analysis of  
SME Strategies, Policies and Programmes  
in Central European Initiative Countries





**A COMPARATIVE ANALYSIS OF  
SME STRATEGIES, POLICIES AND PROGRAMMES IN  
CENTRAL EUROPEAN INITIATIVE COUNTRIES**

**PART III**

**POLAND**

This country report represents the basic background material covering policy, institutions, assistance and perceived needs relating to SME development. It has been compiled by The Polish Foundation for SME Promotion and Development within a framework developed by the UNIDO project. Together with the results of the follow-up discussions, interviews and workshops involving key institutions and personnel, this report has provided the basis for the comparative analysis in Part I.

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## *CONTENTS*

<b>EXECUTIVE SUMMARY.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>2</b>
<b>BROAD ECONOMIC AND SOCIAL POLICIES.....</b>	<b>3</b>
<b>The ministries responsible for SME policy .....</b>	<b>3</b>
<b>The degree of coherence and cooperation between government departments .....</b>	<b>4</b>
<b>Government socio-economic strategies and SMEs .....</b>	<b>5</b>
<b>Industrial development policies and the role of SMEs .....</b>	<b>5</b>
<b>Regional development policy .....</b>	<b>8</b>
<b>Overall Policy for SMEs.....</b>	<b>9</b>
<b>The process by which policy and SME development goals are set.....</b>	<b>10</b>
<b>Information on the health of the SME population: .....</b>	<b>12</b>
<b>REGULATORY POLICY .....</b>	<b>13</b>
<b>Priorities in the regulatory environment.....</b>	<b>13</b>
<b>SME advocacy.....</b>	<b>14</b>
<b>Research studies.....</b>	<b>15</b>
<b>SPECIFIC SUPPORT PROGRAMMES FOR SMES AND THEIR RATIONALE.....</b>	<b>17</b>
<b>The definition of SMEs .....</b>	<b>17</b>
<b>SME Support programmes.....</b>	<b>18</b>
<b>Resources and powers of regional and local authorities.....</b>	<b>29</b>
<b>Programmes focused on particular stages of SME development .....</b>	<b>31</b>
<b>INSTITUTIONS.....</b>	<b>33</b>
<b>Major variations by region.....</b>	<b>33</b>
<b>The key SME associations .....</b>	<b>36</b>
<b>Integration, coherence and sustainability of different services .....</b>	<b>36</b>
<b>Involvement of SMEs.....</b>	<b>40</b>
<b>Evaluation procedures .....</b>	<b>41</b>
<b>Key future players in SME support .....</b>	<b>41</b>
<b>ASSISTANCE .....</b>	<b>43</b>
<b>Training of trainers.....</b>	<b>43</b>
<b>Outstanding models and manuals for SME training.....</b>	<b>44</b>

<b>CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>45</b>
<b>Conclusions .....</b>	<b>45</b>
<b>Summary of key recommendations.....</b>	<b>46</b>
<b>Bibliography .....</b>	<b>48</b>

*ANNEXES*

<b>Annex I.....</b>	<b>49</b>
<b>List of constraints that impede SMEs growth in Poland according to the G-24 SME Task Force report 'Investing in the future' (1993)</b>	
<b>Annex II .....</b>	<b>53</b>
<b>List of key SME support institutions</b>	

## EXECUTIVE SUMMARY

The report begins by setting out the broad policy context for Poland including the relevant Government ministries and socio-economic strategies. A number of ministries are involved in SME support, the main one being the Ministry of Industry and Trade (MIT) under which the SME department was recently re-established. From 1996, it is planned that a new Ministry of Economy will replace MIT and a number of other ministries and will have responsibility for SME policy. Government strategies have been set down in a number of documents covering overall strategy ('Strategy for Poland'), industrial development, regional policy and policy towards SMEs ('SMEs in the National Economy'). The latter sets out a policy programme for 1995-97 encompassing legal, financial, organizational and information and training instruments which are intended to create a conducive environment for SME development.

The regulatory environment is then discussed in further detail focusing on areas where legislative changes are in progress, on mechanisms for advocacy and lobbying by SME representative bodies and on relevant reports and research studies focusing on SME problems and needs.

Specific support programmes for SMEs are described covering financial support (grants, loans, venture capital, guarantees), premises (incubators), training, consulting/counselling, information and export promotion. The 14 main programmes are reviewed. Most of these are donor-funded from sources such as PHARE (EU), EBRD, USAID, the World Bank, British Know-How Fund and GTZ (Germany). The regional and local perspective is also discussed, in particular the involvement of the *voivod* (regional) and *gmina* (local) authorities. Finally, segmentation by stage of development (start-up, growth, exporting, etc.) is related to the programmes currently on offer. Such segmentation proves to be problematic in the absence of coherent policies focused on particular stages of SME development. While existing programmes aim to address needs 'across the board', a particular gap is identified for technology support.

The main institutions supporting SMEs are discussed both from the viewpoint of regional variation (using Lodz as a specific example) and in relation to overall integration, coherence and sustainability. There is a particular need for better integration and coordination which it is hoped the new Polish Foundation for SME Promotion and Development will be able to influence. The roles of other 'key players' such as Regional Development Agencies, Chambers of Commerce and Entrepreneurs Associations are also reviewed. In future, there may be less external donor support and therefore more emphasis on Polish Government support and on projects finding



ways to achieve sustainability (e.g. charging for some services to 'premium' customers, levying membership fees). Institutions would also need to become less bureaucratic and more market driven.

Specific areas of assistance including training of trainers are then discussed to illustrate the evolving professionalism of the SME support network in Poland. Some 'outstanding examples' of materials, models and initiatives are provided which could form the basis for future programmes to support SMEs.

The report concludes with a summary of the main problems, challenges and tasks in the field of SME policy in Poland. Many of these had been set out in the G24 SME Task Force Report 'Investing in the Future' (1993) and still remain to be addressed. Three levels of intervention are recommended: at customer level (i.e. ensuring that programmes and policies aimed at the SME create genuine 'added value'); at network level (i.e. networking and learning between organizations and projects involved in SME support); and at policy level (i.e. need for an over-arching vision to inform policy and better communication between government and SME-representative bodies). The role of external donors is discussed in relation to each level of intervention.

## **INTRODUCTION**

A major aim of the restructuring effort in Poland is to replace its centrally controlled economy with competitive and decentralized market mechanisms for resource allocation. A significant element in this transformation is the replacement of the structure of production and service enterprises, which are relatively large in size and few in number, with a network of small- and medium-scale enterprises. Since 1990 the small- and medium-sized private enterprise sector has been playing a dynamic role in the new market-oriented Polish economy. The growth in the Polish economy (5% in 1994) is primarily due to the existence of hundreds of small firms all over the country. The rate of creation of small firms has been impressive in Poland and is a very positive sign that a market economy is taking root. At present, however, the number of SMEs is not growing as rapidly as in the early phase of Poland's economic transformation.

## **BROAD ECONOMIC AND SOCIAL POLICIES**

### **The ministries responsible for SME policy**

SME promotion is an important issue for many government departments and central offices.

The Ministry of Industry and Trade has the prime responsibility for SME policy. The Ministry is responsible for creation and coordination of government policy towards the SME sector and for monitoring the implementation of the policy. The Ministry's activities in the field of policy formulation are concentrated on the following areas:

- Preparation of government documents on policy towards SMEs;
- Drafting relevant laws and regulations;
- Development of the business environment.

From 1990 to 1994 the SME Department existed within the Ministry. In 1994, due to the reorganization of the Ministry, the SME Department was replaced by the new Department of Economic Strategy and Policy. Policy towards SMEs constituted only one of the components of the Department's activities. In November 1995 the SME Department was re-established within the Ministry.

It is planned that in 1996, the Ministry of Industry and Trade together with a number of other ministries, will be replaced by the Ministry of Economy. Its responsibilities will probably include SME policy.

The Ministry of Labour and Social Policy also plays an important role in the field of SME support. The Ministry of Labour is responsible for shaping the labour market policy of the state. The Polish labour market is undergoing deep and fast changes as a consequence of economic reforms. Unfortunately, one of the results of the reforms has been the growing number of unemployed. Therefore, counteracting unemployment has become one of the crucial social and political issues. Promoting the development of the SME sector has been recognized as a means of achieving this.

The Labour Fund was established in 1990. The resources from the Labour Fund are allocated to the local labour offices and spent on passive (unemployment benefits) and active measures of labour market policy. The active measures consist of vocational training programmes, active job-broking measures as well as loans and training programmes addressed to the unemployed who want to establish their own small businesses. In addition, the Ministry of Labour cooperates with many foreign donor

institutions. The Ministry implements the Enterprise Development Programme (known also as the 'TOR 10' Programme) which is co-financed from a World Bank loan. TOR 10 is providing support to the creation of micro-enterprises. The Ministry is also involved in the implementation of PHARE-funded programmes.

The Ministry of Privatization also has a role in small business development. This Ministry is responsible for privatization of Polish State-owned enterprises - including small- and medium-scale State-owned enterprises. The Department of SME Privatization has been established within the Ministry of Privatization. Since 1990 two basic techniques for privatizing State-owned enterprises have been implemented: capital privatization (so-called 'indirect privatization') and direct privatization. Organizations eligible for direct privatization are in principle small- and medium-sized State-owned enterprises with employment below 500 persons, sales lower than 8 million ECU and capital base ('own funds') lower than 5 million ECU. The sale of enterprises is public and at first is orientated towards Polish businessSMEn.

Other sectoral ministries (such as the Ministry of Physical Planning and Construction, the Ministry of Environmental Protection, Natural Resources and Forestry, the Ministry of Agriculture and Food Economy, the Ministry of Transport and Maritime Economy) also influence SME policy (e.g. through the system of import and export licences).

### **The degree of coherence and cooperation between government departments**

The Ministry of Industry and Trade is responsible for the coordination of the policy towards SMEs. Cross-departmental consultations, resulting in the preparation of the strategic document 'SMEs in the National Economy: Policy Towards SMEs' in April 1995, can be given as an example of such coordination. The document will be summarized later in this report. Nevertheless it is important to mention here that it describes SME policy to date as uncoordinated and ineffective, and furthermore, imposes precisely defined tasks on the following institutions:

- The Ministry of Industry and Trade;
- The Ministry of Finance;
- The Ministry of Justice;
- The Ministry of Education;
- Central Statistical Office;
- Newly established Polish Foundation for SME Promotion and Development;
- Agency of Technology, (which will facilitate SMEs' access to modern technology).

## **Government socio-economic strategies and SMEs**

In June 1994, the Polish Government issued its strategy of socio-economic development. The 'Strategy for Poland' defined Government goals and priorities. The document consists of the following key programmes:

- Partnership labour relations;
- Reform of social security system;
- Prevention of unemployment;
- Development of rural areas;
- Investment in human resources;
- Management of State property/ ownership transformation;
- Financial strategy;
- Reform of financial sector;
- Absorption of the 'grey zone';
- International competitiveness of the Polish economy.

Several of these programmes indirectly influence the situation of Polish SMEs. SMEs can be influenced through the planned changes in labour law, financial law, export regulations, banking system regulations, tax regulation etc. In the third section (Prevention of unemployment) the 'Strategy' directly refers to the problems of SMEs, for example, it mentions loan guarantees for SMEs. The sixth chapter of the 'Strategy' (Ownership transformation) addresses the need to facilitate the privatization of small- and medium-sized State-owned enterprises.

## **Industrial development policies and the role of SMEs**

One of the key programmes of the 'Strategy for Poland' - 'International competitiveness of the Polish economy' has been elaborated by the Ministry of Industry and Trade. 'Industrial Policy Programme for 1995 - 1997' was prepared in January 1995. The programme was based on the 'Strategy for Poland' as well as on the industrial policy planning framework which was developed in September 1993. The successful implementation of the programme will lead to maintaining economic growth at a minimum 5% level. The programme indicated the following key areas of Government activities:

- i. **Export policy.** To accelerate the pace of economic growth through development of exporting;
- ii. **Policy of technology modernization.** To increase the technological level of Polish industry;
- iii. **Structural changes:**
  - Privatization of enterprises;
  - Structural changes in industrial sector;
  - Policy towards regions with traditional industries;
  - Internal restructuring of companies;

The Industrial Policy Programme repeatedly refers to the issue of SMEs:

- In Part i. (export policy) the Government committed itself to provide exporting SMEs with advisory services (responsibility of the newly established Polish Foundation for SME Promotion and Development and the Regional Development Agencies);
- In Part ii. (technological policy) the Government committed itself to provide SMEs with access to new technologies by developing suitable programmes, organizations and procedures (responsibility of the Ministry of Industry and Trade, the Ministry of Finance and the National Scientific Research Committee);
- In Part iii. (structural changes) the Government addressed SME problems several times. According to this part of the programme the Government's policy should lead to the following results:
  - Rate of sales increase of the SME sector will be higher than rate of sales increase of the economy as a whole;
  - Significant growth of employment in the SME sector.

The Government decided that:

- The Ministry of Industry and Trade will review the laws taking into account the needs of SMEs;
- The Ministry of Industry and Trade will submit the proposal of a new industrial law (which will include a definition of SMEs);

- The Ministry of Industry and Trade and the Polish Foundation for SME Promotion and Development are responsible for supporting regional and local institutions established to promote SMEs;
- The Ministry of Finance will adjust the system of taxation to SMEs' needs;
- The Ministry of Industry and Trade and the Ministry of Finance will develop a model of local mutual guarantee funds;
- The Ministry of Industry and Trade is responsible for institutional assistance to SMEs that will facilitate their access to knowledge on management, finance and marketing;
- The Ministry of Industry and Trade and the Polish Foundation for SME Promotion and Development are responsible for the development of subcontracting systems;
- The Ministry of Industry and Trade and the Ministry of Finance are responsible for creation and implementation of the law on commodity exchanges;
- The Ministry of Finance will develop a legal framework for creation and future functioning of local guarantee funds;
- The Ministry of Industry and Trade will establish the Polish Foundation for SME Promotion and Development. One of the tasks of the new Foundation will be to facilitate a coordinated use of foreign assistance resources;
- The Agency for Industrial Development, Polish Agency for Regional Development and the Agency for Technological Development will be responsible for supporting the Regional Development Agencies in their activities to support SMEs in implementing modern technologies.

Tasks related to the SME policy listed in the 'Industrial Policy Programme' were repeated in the Government document 'SME's in the National Economy: Policy Towards SMEs'.

## **Regional development policy**

In July 1994 the Central Planning Office prepared the document on regional policy 'The Principles of the Regional Policy'. The authors of the document noted that:

- Past regional policy was highly centralized and focused on the macroeconomic dimension;
- Regional policy was reduced to a policy of counteracting unemployment in poor regions;
- Resources available for implementation of a regional policy were very modest;
- Reform of the regional administration was halted and the top-down structure of the state administration was strengthened.

Taking into account all these negative facts the Central Planning Office recommended the following actions to be taken:

- A proper regional policy should be formulated;
- Cooperation and coordination between different government departments in the field of regional policy should be strengthened;
- An efficient and decentralized regional administration should be established.

In order to address these goals the Central Planning Office recommends the following actions to be taken:

- The Central Planning Office should be responsible for the coordination of regional policy of the Government;
- The role of the *voivods* should be strengthened as well as the role of the Polish Agency for Regional Development (which at present acts only as an institution that implements the STRUDER PHARE Programme and the Polish-Swiss Regional Programme);
- The *voivods* should develop regional restructuring programmes.

One of the Central Planning Office's recommendations was to establish a special Regional Fund similar to the EU Regional Fund. The Regional Fund would be based on government, local and private capital.

The document emphasizes the need to support a conducive business environment in the regions. It regards SME promotion as a priority of regional policy.

## **Overall Policy for SMEs**

In April 1995 the Ministry of Industry and Trade prepared the document 'Small- and Medium-Size Enterprises in the National Economy: Policy Towards SMEs'. The document was accepted by the Council of Ministers. The Ministry issued this document after undertaking cross-departmental consultations. The work on the document was based on the Industrial Policy Programme for 1995-1997.

This policy is intended to lead to the creation of a conducive environment for SME development. It should also reduce the risks related to the running of small businesses and increase the investment ratio.

Such a policy will result in the following:

- Modern environment of services and subcontracting companies emerging from large enterprises in the restructuring process will be created;
- The level of efficiency of the entire economy will be increased;
- The level of unemployment will be reduced;
- The state budget will be further supported.

The programme 'SMEs in the National Economy: Policy Towards SMEs' includes also the list of constraints impeding the growth of Polish SMEs. It sets out the following major constraints:

- The system of taxation is not adjusted to the nature of SMEs activities;
- High interest rates;
- Unclear legal system;
- Insufficient competitiveness of Polish SMEs due to low demand, lack of skilled workers and obsolete technologies.



## **The process by which policy and SME development goals are set**

The SME Policy concentrates on the following four types of instruments: legal, financial, organizational and information and training.

### **Legal instruments**

- The Ministry of Industry and Trade will review and amend the laws (particularly civil and commercial law, the Public Procurement Act) taking into account SME needs;
- The Ministry of Industry and Trade will draft the new Industrial Law addressing the issue of SME definition, economic self-government and entrepreneurs' associations;
- The Ministry of Industry and Trade and the Ministry of Finance will establish the legal framework for establishment and future functioning of local guarantee funds;
- The Ministry of Justice will draft a law on court business registration and will complete the works on the draft collateral law and collateral register;
- The Ministry of Industry and Trade and Securities Commission will draft a law on commercial exchanges.

### **Financial instruments**

- The Ministry of Finance will complete the business taxation law;
- The Ministry of Finance will develop a system of credit guarantees on the basis of the existing Loan Guarantee Fund (in Bank Gospodarstwa Krajowego);
- The Ministry of Finance will develop a model of local guarantee funds;
- The Ministry of Industry and Trade will develop criteria for providing SMEs with various forms of public assistance;
- The Ministry of Agriculture and Food Economy will support SME development in rural areas through providing them with preferential credits extended by the Agency for Restructuring and Modernization of Agriculture.

### **Organizational instruments**

- The Ministry of Finance and the Ministry of Industry and Trade will support the establishment of local guarantee funds;
- The Ministry of Finance and the Ministry of Industry and Trade will support the establishment of local mutual insurance companies and local investment funds;

- The Ministry of Industry and Trade will develop subcontracting systems for SMEs. The Government is going to expand the Network of Subcontracting Agencies;
- The Ministry of Industry and Trade established the Polish Foundation for SME Promotion and Development (registered in September 1995);
- The Ministry of Industry and Trade will prepare a report on accessibility, level of implementation and efficiency in the utilization of foreign assistance resources allocated for institutions supporting SMEs.

#### **Information and training instruments**

- The Ministry of Industry and Trade and the Ministry of Labour and Social Policy will support regional and local SME promotion institutions;
- The Ministry of Industry and Trade and the new Agency for Technology will facilitate SMEs access to new technologies;
- The Ministry of Industry and Trade will promote productivity and export capabilities of SMEs;
- The Ministry of Industry and Trade and the Ministry of Labour and Social Policy will facilitate SMEs access to knowledge of finance, marketing, quality and general management;
- The Ministry of National Education will develop appropriate educational programmes promoting entrepreneurship;
- The Central Statistical Office and the Ministry of Industry and Trade will develop a system of monitoring SMEs' 'health' and their sensitivity to changes in economic and financial instruments.

Most of the activities mentioned above include assistance in the creation of a network of institutions stimulating the growth of SMEs. These institutions cover Regional Development Agencies, Business Support Centres, Chambers of Commerce and a number of other organizations which are established as an initiative of local communities. The basic tasks of these institutions are non-profit training, consulting/counselling and information-provision.

### **Information on the health of the SME population:**

The following sources of information on SMEs are available in Poland:

- Statistical data collected and published by the Main Statistical Office (GUS) (aggregated according to such criteria as the ownership structure of enterprises and number of employees i.e. less than 5, 6 - 50, more than 50);
- Statistical data collected by the Ministry of Finance on sole proprietorship companies (number of employees, sector etc);
- Annual Central Planning Office socio-economic reports;
- Annual reports on the situation of Polish industry prepared by the Ministry of Industry and Trade;
- Results of research on the situation of industry regularly conducted by the Industrial Development Institute of the Warsaw School of Economics;
- Reports and studies prepared by the GEMINI Programme experts (the GEMINI Small Business Project is the USAID-funded initiative established to assist the Government of Poland to create and sustain an environment conducive to the formation and successful operation of small private businesses in Poland).

The document 'SMEs in the National Economy: Policy Towards SMEs' was based on the SME sector needs assessment studies and documents presented by business organizations (for example the document of the first National SME Forum held in November 1994). The authors of the Programme also used other sources of information and advice, i.e. the report of the SME Task Force 'Investing in the future' (see Annex 1), Expert's Report on the Conditions of SMEs Development (*Ekspertyza warunków intensyfikacji działalności gospodarczej MSP, Promasz, 1993*) and the GEMINI report Stimulating the Growth and Development of SME through Financial Sector Policy Reform.

## **REGULATORY POLICY**

### **Priorities in the regulatory environment**

The Industrial Policy Programme for 1995-1997 described earlier in this report lists the legal regulations that need to be formulated or amended. The list consists of the following proposals:

- Law on privatization (passed, August 1995);
- Consumers' protection law (draft);
- Law on commodity exchanges (draft);
- Industrial law (draft);
- Law on export contracts guaranteed by the State Treasury (passed, July 1994);
- Law on the creation of Special Economic Zones (passed, November 1994);
- Legislation act on prices (draft);
- The Ministry of Industry regulation on adjusting Polish standards to EU norms (draft);
- Bankruptcy law (amendment);
- Customs law (amendment);
- Law on VAT (amendment);
- Regulation on conditions and procedures of the guarantee schemes (amendment);
- Regulation on income tax exemptions for investment purposes (amendment).

The Programme SMEs in the National Economy: Policy Towards SMEs contains the list of legal tools that will be used to improve the situation of SMEs in Poland. It also stressed that the existing Commercial Code is not adjusted to economic reality in Poland and must be changed and correlated with the Civil Code. The Government has decided to formulate an official SME definition, and to establish a legal framework for creation of local guarantee funds and other local financial institutions. There will be new legislation which will accelerate the establishment of a business register and commodity exchange. The associations of entrepreneurs and organizations that support SMEs have been asking the Government to change the taxation system and reduce the number of contradicting taxation rules. The Government has decided to draft a new coherent Taxation Law which will enable SMEs to introduce long-term planning mechanisms.

## **SME advocacy**

In developing its policy towards SMEs, the Government consulted with various business organizations and also took into consideration a number of survey results and economic reports.

The following groups, institutions and associations represent the interests of the SME sector:

- A group of SME sector representatives in Parliament;
- Polish Chamber of Commerce (and the Committee for SMEs within the Chamber) and Regional and Sectoral Chambers;
- CraftSMEn organizations: Polish Union of Crafts; Chambers of Crafts;
- Private Trade and Services Association; Private Transport Association;
- Entrepreneurs associations: Polish Federation of Independent Entrepreneurs; Business Centre Club; Convention of Polish Entrepreneurs, TradeSMEn and Food Producers; Confederation of Polish Employers;
- Research centres: Adam Smith Research Centre; Market Economy Research Institute;
- GEMINI Project (one of the Project's tasks is to promote SME advocacy initiatives).

In accordance with the Industrial Development Programme and the Policy towards SMEs the Polish Foundation for SME Promotion and Development was established and officially registered on 5 September 1995. The Foundation will be the key agency for the support and development of the Polish SME sector. The mission of the Foundation is to support the development of SMEs and to participate in the creation of a business environment and conditions conducive to this development. The Foundation will be involved in initiating, creating and implementing programmes targeted at SMEs. The Foundation, mainly through its Council, will serve as a channel of communication between the Government and the SME sector.

## Research studies

Reports and sectoral studies on SMEs' needs were mentioned in a previous chapter. These include the following reports:

- *Investing in the Future* Final report of the G-24 SME Task Force (the working group consisting of the representatives of the Government, key public and private institutions and the G-24 countries) prepared in 1993 (see Annex 1); the report examines both the achievements of the SME sector as well as the policy and operational constraints that impede its further growth;
- *Stimulating the Growth and Development of Small- and Medium-Sized Enterprises through Financial Sector Policy Reform* The USAID GEMINI Project advisers report prepared in February 1995. This report identifies the major problems that small firms face in the process of conforming with regulations. The report states that:
  - An unclear regulatory environment is limiting the growth, development and acceptance of second-tier financial institutions, which typically are the implementers of SME-related financial instruments such as loan guarantee funds;
  - The current National Bank of Poland tendency to withhold approval of foreign bank licensing applications to establish operations in Poland, designed to encourage strategic foreign investments in existing Polish banks, is limiting competition in the sector.

The report recommended the following actions:

- To clarify the regulatory environment under which second-tier financial institutions are allowed to operate, and SME financial instruments can be introduced, establish specific regulations governing the functioning of such institutions;
- To establish the institutional framework for new non-bank financial institutions and to supervise their activities;
- To amend the National Bank of Poland's foreign bank application policy to encourage the selective licensing of foreign banks to induce greater competition into the banking sector.

- *Lessons Learned from Small- and Medium-Sized Enterprise-Related Regional Development Programmes in Poland* The GEMINI report prepared in September 1995. The report emphasizes the need to take into account particular regions' situation and constraints in designing regional development programmes;
- *The SMEs in Poland* Issued by Adam Smith Research Centre in Warsaw in 1994. The report analyses the dynamics and institutional environment of SMEs;
- Report on the admissible public assistance to enterprises prepared by the Department of Economic Strategies and Policies of the Ministry of Industry and Trade.

Several reports and needs assessment studies have been prepared in order to support the implementation of the PHARE Programmes and other foreign donors programmes (SME Support Programme/ Private Sector Development Programme, Local Initiatives Programme etc.).

The Ministry of Industry and Trade has conducted a number of sectoral studies in order to assess the situation of different sectors of industry. Several of these reports contain information on SMEs representing various sectors of the economy.

## **SPECIFIC SUPPORT PROGRAMMES FOR SMES AND THEIR RATIONALE**

### **The definition of SMEs**

The official definition of the SME does not exist in Polish law. Polish institutions that support SMEs have been using different definitions of SME for different purposes. Banks, guarantee funds and foreign assistance programmes have established their own eligibility criteria that might be regarded as their definitions of SME. For example, Bank Gospodarstwa Krajowego offers credit guarantees to companies employing up to 250 workers and having an annual income not higher than 20 million ECU. Venture capital company CARESBAC defined its clients as firms employing 15-100 workers with an annual turn-over lower than 1.5 million ECU. The Central Statistical Office, for its reporting purposes, has defined the small firm as a company employing less than 6 workers, and the medium-scale firm with 6-50 employees.

According to the document 'SMEs in National Economy: Policy Towards SMEs' the new definition of SME will be based on the existing EU definition, however, the Government will be using different definitions of SMEs in order to implement specific schemes and programmes. These definitions will depend on current economic trends, specific needs of various groups of SMEs and the type of assistance (qualitative criteria, quantitative criteria and the mixture of both. Using these criteria the Government will employ the European Union's patterns of admissible subsidies.



## **SME Support programmes**

Abbreviations: G = grants; L = loans; VC = venture capital; LG = loan guarantees; I = incubators; T = training; C = consulting/counselling; Inf = information; E = export promotion.

### **Leading SME Support Programmes or Components:**

- |  |                     |
|--|---------------------|
| i. SME Support Programme (Phare)<br>Private Sector Development (Phare) | LG, T, C, Inf       |
| ii. Local Initiatives Programme (Phare)                                | L, VC, LG, I, T, C  |
| iii. STRUDER Programme   | G, L, VC, LG, T, C, |
| iv. EXPROM   | E, C                |
| v. Polish-American Enterprise Fund                                     | VC, L, T, Inf       |
| vi. CARESBAC - Polska  | VC                  |
| vii. Polish Business Advisory Service                                  | T, C                |
| viii. Micro Fund   | L                   |
| ix. Polish-British Enterprise Programme                                | L, LG, T, C, Inf    |
| x. Coaching Programme  | T, C                |
| xi. Micro-Enterprise Development Programme (TOR 10)                    | L, I, T, C, Inf     |
| xii. Loan Guarantee Fund (BGK)   | LG                  |
| xiii. Privatization Initiatives Support Programme                      | T, C, G             |
| xiv. Credits available through various Polish banks                    | L                   |

i. SME Support programme/private sector development programme

PHARE Programmes (EU): budget of 8 million ECU (SME) and 6 million ECU (PSD).

Both programmes are implemented by the Cooperation Fund. The assistance of the Programmes is directed at intermediary organizations involved in supporting SMEs at the national and regional levels (Chambers of commerce and industry, regional development agencies, and management training centres).

In order to be considered for assistance, the intermediary organizations should have the status of a legal entity, be non-governmental, non-commercial and have up-to-date and separate financial statements. Support takes the form of:

- Advice and consultancy;
- Training concerning the private sector or SME management;
- Financial assistance, provision of office equipment.

Technical assistance is often extended in the form of institutionalized cooperation, for example the establishment and co-financing of Business Support Centres (BSCs) affiliated with the above mentioned intermediary organizations. The Programme supports the activities of over 30 BSCs and three Business Information Centres (BICs) located in several regions of Poland.

The SME and PSD Programmes include four main areas of activity:

- Business Support Centres Programme;
- Regional Chambers of Commerce Development Programme;
- Training Programme;
- Private Sector Development Programme - The Ministry Component.

*Business Support Centres* act as advisory centres for entrepreneurs. They provide services in the areas of business plan development, loan applications, marketing, financial and trade matters, complex economic advisory services, information and training courses. BSCs have their information bases at the Business Information Centres in Łódź, Gdańsk and Gliwice. BSCs and BICs provide all information necessary to establish, run and develop a business. Since the end of 1991 some 14,000 clients have been provided with almost 20,000 services.

*The Regional Chambers of Commerce Development Programme* is implemented in cooperation with the Polish Chamber of Commerce. It is designed to assist Regional Chambers (12 selected Chambers) as organizations which represent entrepreneurs and

help the National Chamber of Commerce in its task of acting as an umbrella organization for regional chambers.

The *Training Programme* provides funding and participates in the organization of training courses in the following areas: entrepreneurship development, management in SMEs, and specific courses for SME counsellors, advisors, consultants and trainers.

Training courses include the following areas:

- Training courses for SME
- Training courses for advisors working in enterprise development
- Training of trainers
- Programmes for Polish consultants

*The Private Sector Development Programme - the Ministry of Industry and Trade Component* encompasses support for the Ministry in legal, fiscal and regulatory areas, information dissemination and institutional development. Under the PSD Ministry Component Programme the following initiatives and pilot projects are financed:

- Consultancy support for the Ministry of Industry and Trade;
- A Pilot Mutual Guarantee Scheme: the project is implemented with a local institution which is assisted to draft appropriate regulations and establish a proper legal structure for the scheme. In addition initial capital for the scheme and technical assistance will be funded;
- The development of a National Business Register;
- SME Awareness Promotion (co-financing conferences, promotion of the agencies supporting the SME sector);
- Business Development Training Programme (training Polish consultants in the skills of modern accounting);
- Consultancy for medium-sized enterprises (technical assistance to medium-sized enterprises through cooperation with the Polish Business Advisory Service);
- Strengthening Regional Development Agencies: working with the National Association of Regional Development Agencies (NARDA) and the Polish Agency for Regional Development (PARDA), the project aims at enhancing capabilities of selected Regional Development Agencies in providing services to SMEs.

The Polish Foundation for SME Promotion and Development, as of 1996, is responsible for new activities resulting from these Programmes.

## ii. Local Initiatives Programme

PHARE Programme (EU): budget of 7.3 million ECU. The Programme is implemented by the Cooperation Fund. The fundamental long-term goal of the Local Initiatives Programme is to develop the capacity of local communities to independently take advantage of the opportunities created by the economic changes currently taking

place. The Ministry of Labour selected 15 communities for participation in the Programme, after which the communities prepared local development programmes. At the beginning of 1994 the implementation of the nine best plans commenced. The nine plans contain a total of 60 separate projects. Many of them address SMEs' needs:

- SME support:
  - Credits and guarantee funds (8 guarantee funds have been established - 150 SMEs took advantage of the scheme) and equity schemes;
  - Business support centres;
  - Business incubators;
- Regional promotion;
- Training and advisory services (for the unemployed and business people);

Regional (Local) Development Agencies are responsible for the supervision of plan implementation. Initial phases of implementation are funded by the Programme which awarded each community a grant of 650,000 ECU. After depletion of funding each community is expected to continue the project, begin new projects and seek new sources of funding for other such joint projects.

The Programme implementation will be finalized in June 1996. The process of its evaluation has been started.

### iii. STRUDER Programme

The STRUDER (Structural Development in Selected Regions) PHARE Programme (EU), with a budget of 76.7 million ECU, is implemented by the Polish Agency for Regional Development (a foundation established by the State Treasury). Locally it is implemented by the Regional Development Agencies. The Programme is intended to assist in the restructuring of the economies of regions dominated by obsolete industries and agriculture to better function in the new conditions created by the developing market economy and modern technologies.

The Programme encompasses five regions of Poland which were selected on the basis of economic indicators: their economies are dominated by a high concentration of outmoded sectors and a higher than average unemployment. They are the regions of Łódź, Walbrzych, Suwalki, Olsztyn, Rzeszów and Katowice.

Programme resources are focused on:

- Direct financial support for SMEs and small infrastructure projects;
- Training, consultancy and strengthening regional institutions.

The major subprogrammes are the following:

#### *Grant Fund for Supporting SMEs*

The Grant Fund is the primary tool for supporting investment by the private sector. Support is granted to newly established or already existing companies employing no more than 100 workers. Private companies can apply for grants not exceeding 25% of the value of an investment valued from 5,000 to 400,000 ECU. Grants are available to private producers and providers of services for the production sector. The only requirement is that the contribution of the private business must amount to at least 20% of the total value of the investment; the remaining 55% of funds can come from other sources (bank, company's own sources).

Up to January 1995, 600 projects were supported by the scheme (18,000,000 ECU was spent).

#### *Guarantee Fund*

This Fund partially compensates banks for the risk involved in financing SME investments for companies participating in the grant scheme. The Fund has already begun its activities.

#### *Regional Investment Funds*

The RIFs provide financing for already existing SMEs, and are also involved in an equity programme and in granting subordinate loans and loan guarantees. Because of limited resources provided for a project by STRUDER, the Polish Agency for Regional Development decided to set up only two Regional Investment Companies in Łódź and Katowice. Katowice Investment Fund is also accessible for SMEs from Walbrzych voivodship.

#### *Small infrastructure projects*

Up to the end of 1995, 71 Small Infrastructure Projects received in total 6.7 million ECU from the STRUDER Programme. There were two types of supported infrastructure projects:

- Small business infrastructure projects (establishment of business incubators and technology centres);
- Local infrastructure development (roads, telecommunication and electric networks, sewage treatment plants).

### *Training and Consultancy*

This involves specialized training in selected sectors and training programmes for the unemployed. Up to 1995 over 8, 000 people were trained.

#### *iv. EXPROM*

The Programme (with a budget of 10 million ECU financed under the EU PHARE Programme) aims to promote the export of Polish products on foreign markets. The Programme implemented in cooperation with the Polish Chamber of Commerce includes:

- Organizational and financial assistance to the Polish Chamber of Commerce and selected Regional Chambers;
- Direct assistance to 200 firms (for export related activities - this concerns the search for new markets, market expansion and product adjustment to market specificity); the assistance is in the form of a non-repayable grant to be offered on a cost-sharing basis. The value of aid to be received by every company is determined according to the company requirements as reflected in its export development plan.

#### *v. Polish-American Enterprise Fund*

The Fund was established in May 1990 by the President and Congress of the United States of America in order to support the development of the Polish private sector. The Fund has already disbursed US\$ 180 million. There are three specialized branches of the Fund:

##### *The Enterprise Credit Corporation*

The Corporation works through a series of windows in eight banks providing loans to SMEs. The participating banks receive 25% of the interest. At the beginning the maximum loan available was US\$ 20,000. Currently the top loan limit is US\$ 500,000, at 11% interest. Loans are still mostly on investment, but some loans are made for working capital. The Corporation has made about 2,700 loans and has a repayment rate of 97%.

##### *Polish Private Equity Fund*

In 1992 the Polish American Enterprise Fund started an equity investment programme which works with private sector and companies in the public sector which are in the process of privatization. Initial capital of the Fund was provided by PAEF (US\$ 50

million), EBRD (US\$ 50 million) and other institutions (US\$ 50 million). The Fund will invest over US\$ 500,000 in thoroughly vetted companies with good management and prospects. The Fund plans to exist for 3 to 7 years and will reinvest all profits during the first 2 to 3 years. The Fund has invested in about 30 companies, 5 of which have been State owned and in the process of privatization.

### *Educational Enterprise Foundation*

The Foundation was established in Łódź by PAEF and the Government of Poland. The goal of the Foundation is to promote business knowledge in Poland. The Foundation finances training programmes and supports business schools. In cooperation with the Polish Foundation in Support of Local Democracy PAEF established the network of Polish American Enterprise Clubs. There are 13 clubs located in various parts of Poland. The clubs offer their members (1,000 permanent members) the following forms of services and activities:

- Meetings designed as promotion/ information and education - attended by local and central officials, representatives of banks and marketing firms;
- Training workshops, discussion and exchange of experiences;
- Participation in international trade and promotion events;
- Arranging cooperation networks between businessSMEn, associations and organizations.

### *vi. CARESBAC - Polska*

The CARE Small Business Assistance Corporation (CARESBAC) began operations in Poland in 1992 as a developmental venture capital fund. With funding from the Cooperation Fund, European Bank for Reconstruction and Development, US Agency for International Development (USAID) and the Foundation for the Development of Polish Agriculture, the organization seeks to promote economic development and encourage entrepreneurship in Poland's emerging free market economy. To this end CARESBAC provides long-term risk capital financing and technical assistance to Polish SMEs. As of January 1996, CARESBAC had made 20 investments and disbursed US\$ 4.5 million. Investments are generally made in accordance with the following guidelines:

- Total investment per business ranges from US\$ 50 000 to 400 000;
- Investment is normally in equity or quasi-equity for 25% to 49% of the total equity of the company (CARESBAC seeks to support existing management, not supplant it);
- Investment structures and instruments are customized to the particular situation;
- Priority sectors include agri-business, non-traditional export, light manufacturing, business support activities and residential housing.

CARESBAC further assists its partners by arranging low-cost training and technical assistance from local and international providers to further develop and nurture the businesses, accounting and legal advice and counselling assistance.

*vii. Polish Business Advisory Service*

The Polish Business Advisory Service was established in 1991 by the International Finance Corporation and the European Bank for Reconstruction and Development at the request of the Government of Poland. PBAS assists Polish entrepreneurs and companies in developing business plans and marketing outlets, selecting project and investment partners. It works as a low-cost consulting firm. PBAS consists of a team of financial experts and engineers from Poland and abroad. It operates through a network of five local offices (Warszawa, Poznań, Katowice, Wrocław and Gdańsk). The budget of the programme amounts to US\$ 10 million.

*viii. Micro Fund*

The Programme is financed by the American Government. It is addressed to already existing companies which are not able to obtain credits from Polish banks. The current, pilot stage of the Programme is implemented in seven locations. The local representatives who are acting in seven Polish cities recommend potential loans to the Fund.

Eligibility criteria and credit terms are the following:

- Firms employing up to 10 workers, existing for a minimum of 3 months;
- First loan up to 5,000 new zlotys (1,600 ecu), next up to 30,000 new zlotys (9,700 ecu);
- Interest rate: 36% annually.

*ix. Polish-British Enterprise Programme*

In January 1994 the British Foreign and Commonwealth Office (United Kingdom of Great Britain and Northern Ireland) and their Polish partners agreed to support depressed east Poland regions of Białystok and Lublin. There are four programmes.

*Business Development Programme*

The Programme provides support for networks of business service organizations and business incubators.



### *Marketing Development Programme*

The Programme objective is to enhance the Polish SME presence in new markets. It provides two forms of assistance: a low cost marketing consultancy service and development of trade links with SMEs and business support organizations in the UK.

### *Loan Guarantee Fund*

In selected regions SMEs find it difficult to obtain loans from banks. One of the most difficult constraints is lack of security; banks feel it necessary to ask for high security. The Loan Guarantee Fund aims to fill this gap.

### *Equity Investment Fund*

The Programme will provide medium- and long-term equity investment finance to private Polish companies. The Programme will be open to almost all businesses (manufacturing, construction, tourism and exporting are priorities). The equity participation will not exceed 25% of each new investment.

The Polish-British Enterprise Programme has recently established a number of Business Advisory Centres in both voivodships (Lublin and Bialystok).

### *x. Coaching Programme*

The Coaching Programme has been implemented jointly by GTZ (Deutsche Gesellschaft fuer Technische Zusammenarbeit) and the Polish Chamber of Commerce since April 1992. It is operating on the basis of a bilateral agreement of the Polish Government with the German Government (the German Government allocated 9.5 million DM). Having been evaluated by both sides with a positive result, the Coaching Programme has been extended for a further two years, until March 1997. The Programme offers training, advice and coaching to SMEs, Polish business advisors and chambers of commerce and business associations.

The Programme is implemented in six regions: Koszalin, Suwalki/Bialystok, Warszawa/Lódz, Wroclaw, Zielona Góra/Jelenia Góra, Katowice/Kraków. One hundred and thirty-five Polish companies have already been assisted.

xi. Micro Enterprise Development Project (TOR 10)

The Programme Micro Enterprise Development Project, also known as the TOR 10 Project, is implemented by the Ministry of Labour and Social Policy. It is financed from the World Bank loan (in the framework of a US\$ 100 million loan for the Employment Promotion Programme) and Polish public resources. The Programme consists of the three following components.

*Enterprise Development Funds*

The goal of the scheme is to establish a network of local credit funds. The local funds provide credits to entrepreneurs who contribute to the creation of new jobs. Credits are also available to the unemployed who want to establish their own businesses.

*Small Business Support Centres*

The goal of this component is to establish the network of local Small Business Support Centres. Twenty-seven Centres have been established since January 1994. The Centres provide their clients with counselling and consulting services, training courses and information on markets, credit lines, technology).

The Centres cooperate closely with the local labour offices (employment service).

*Business Incubators*

The Programme supports the development of business incubators throughout Poland. It co-finances existing and newly established incubators. There are 30 incubators in Poland which obtain TOR 10 support.

xii. Loan Guarantee Fund (BGK)

The Ministry of Finance allocated 25 million new zlotys (8 million ECU) for a Credit Guarantee Fund for SMEs. This is the largest single Government financial initiative in support of SMEs in Poland. The programme is managed by Bank Gospodarstwa Krajowego (BGK) and involves 11 participating banks throughout the country. The Ministry of Finance has declared that an additional 20 million new zlotys (6.5 million ECU) will be made available depending on the degree of utilization of the first 25 million.

The terms of the Guarantee are the following:

- The guarantee covers up to 60% of principal and interest;
- A maximum term of 5 years;
- Collateral requirements: BGK will require collateral of the guaranteed portion of the loan in a proportion not less than 50%;
- Eligible SMEs: firms employing up to 250 people, that have annual sales not higher than 20 million ecu and have capital not higher than 10 million ECU.

In July 1995 eleven Polish banks agreed to participate, which involved about 200 individual bank branches. To date, the Fund has met with little interest from potential beneficiaries. BGK is in the process of revising the terms of the guarantee.

#### *xiii. Privatization Initiatives Support Programme*

The Programme is implemented by the Ministry of Privatization. It is addressed to small and medium State-owned enterprises undergoing privatization. The Ministry offers the following services:

- Training courses for managers and workers;
- Technical assistance, legal and financial advice, market analyses;
- Financial support (PHARE and USAID financial assistance);
- National and international promotion.

Since April 1993, 198 SMEs undergoing privatization have been supported.

#### *xiv. Credits available through various Polish banks*

The majority of Polish banks offer their credit services for SMEs. They have met with little interest from entrepreneurs because of high interest rates, high collateral requirements and complicated procedures.

## **Resources and powers of regional and local authorities**

Poland is divided into 49 administrative regions voivodships. Regional Offices (voivodship offices) play a significant role in regional economies especially with respect to State-owned enterprises located in the voivodship. The voivodship offices are also responsible for regional development plans and preparation of strategies. The voivodship offices have been playing a very important role in the process of establishing Regional Development Agencies throughout Poland. The agencies were usually founded at the initiative of the voivodship offices.

There are special units which are responsible for regional economic policy within the structures of the voivodship offices. These units (Economic Development Units) cooperate with other authorities and agencies undertaking tasks related to the privatization process. The units provide regional enterprises with information and promotion. Many of them have developed their own data bases consisting of information on potential business partners, accessible premises, Polish and foreign trade offers and cooperation opportunities.

Local authorities (local community level, *gmina*) also see their role as promoters of economic development in their areas, both as a means of improving the local communities' income and as a means of creating economic employment opportunities for people previously engaged in State enterprises and administrations. In order to achieve these objectives local governments see marketing, negotiation of favourable agreements with major private economic concerns and efficient use of property as priorities in this area. Information and advice is needed on the sale and lease-hold arrangements, the potential of sale and lease-back, equity-sharing agreements, concessionary rents, conditions of sale and other matters affecting transactions between developers and the local authorities acting as land owners and/or regulatory bodies.

Local governments support local and regional development agencies (financial and technical assistance), play a crucial role in developing local economic strategies, cooperate with foundations and agencies engaged in SME promotion and provide SMEs with loans.

Most local governments want to engage in activities which will promote the economic development of their area. According to K. Mularczyk (author of the report *The Rebirth of Local Government in Poland, 1992, London.*):

“Local governments encounter difficulties in conducting negotiations with prospective developers and investors and in assisting small and medium business development. The difficulties they are encountering do not relate

purely to inadequate legislation, resourcing or the lack of skills at the local level. They are also related to the lack of opportunities for sources of funding for physical infrastructure building programmes. The link between economic development capacity and the actual state of the infrastructure is one which even the best forms of public relations and promotion cannot ignore. Without adequate physical infrastructure the opportunities for significant extension of the tax base of the local economy and employment creation through business growth will inevitably be constrained.”

Local governments are and will continue to be challenged by the ongoing reform of public administration which is most likely to result in increasing responsibilities and budget allocations being transferred from the central to local level.

### **Programmes focused on particular stages of SME development**

There are no coherent policies focused on particular stages of SME development at the national level. There are no tax incentive measures addressed to start-ups or exporting SMEs. However, the programmes described above might be regarded as support initiatives focused on various stages of SME development. For example, the needs of start-up enterprises are addressed by:

- SME/ PSD Programmes;
- Local Initiatives Programme;
- STRUDER;
- Educational Enterprise Foundation (part of PAEF Programme);
- Services offered by the Local Initiatives Agencies (the network run by the Foundation for Social and Economic Initiatives);
- Enterprise Development Program (TOR 10);
- Polish-British Enterprise Programme;
- Micro Fund.

These programmes offer training, information, advice, workspace (incubators) and in some cases (e.g. TOR 10), access to finance.

Programmes focused on development and growth are the following:

- SME/ PSD Programmes;
- Local Initiatives Programme;
- CARESBAC;
- STRUDER;
- Polish Business Advisory Service;
- Polish-American Enterprise Fund (including Polish-American Enterprise Clubs);
- Loan Guarantee Fund;
- Micro Fund;
- Polish-British Enterprise Programme;
- Coaching Programme; These programmes provide entrepreneurs with advice, information, training, credits and venture capital.

As far as export promotion is concerned the EXPROM Programme is the most significant. Some of the other programmes can also be regarded as means of SMEs' export promotion. They provide entrepreneurs with information on potential foreign partners and establish international business networks (American Enterprise Clubs, Marketing Development Programme of the Polish-British Enterprise Programme).

There is a need to develop programmes that support transfer of technology. There are almost 30 business and innovation incubators operating now in Poland and more than 40 initiative groups, supported by the Polish Business and Innovation Centres Association. The Foundation for Polish Science (FPS) has just started two new initiatives:

- The Technology Acquisition Scheme aimed at developing a technological audit methodology (in collaboration with the Polish Foundation for SME Promotion and Development)
- A Project aimed at setting up Centres of Technology Transfer whose role will be to identify high-tech spin-off firms and projects for FPS grants.

The Polish Foundation for SME Promotion and Development has also started another TT-oriented project aimed at supporting SMEs in achieving the necessary technological standards to increase their commitment in Polish Motorways Contracting Programme as subcontractors.

## **INSTITUTIONS**

A list of key institutions is attached as Annex II.

### **Major variations by region**

Polish structural reforms have helped to strengthen economic diversification of the regions. Polish regions vary in terms of general wealth, pace of privatization, level of unemployment, number of foreign investments, development of the private sector and development of the business environment. Diversification is caused by the different capabilities of the regions to adjust their socio-economic structures to market economy conditions.

The national level of unemployment was 16% in 1994. In Warsaw, Krakow and Poznań voivodships that level was lower than 10%. At the same time the level of unemployment in Slupsk voivodship (north-west of Poland) reached 30%. Similar variations were evident in the area of private sector development. According to the Central Planning Office report (Regional Differences in Poland - 1990-1994) the lowest growth rate in the number of private enterprises was noted in mainly agricultural, Eastern and Central Poland voivodships (Biala Podlaska, Chelm, Ciechanów, Krosno, Lomza, Przemyśl). The largest increase in the number of private firms was achieved in the regions with large cities: Warsaw, Gdańsk and Poznań voivodships. The highest share of private sector in total employment was noted in Warsaw, Poznań and Gdańsk regions (more than 40%) and in western Poland (Legnica, Gorzów - more than 30%). The lowest share was registered in Chelm, Przemyśl, Zamosc and Lomza (less than 20%). There are also significant differences in terms of development of business support institutions in Poland. Over 50% of such institutions (banks, consulting agencies, leasing companies etc.) were established in large cities such as Warsaw, Krakow, Poznań and Gdańsk.

There are significant regional variations in the programmes and institutions providing SMEs with assistance. An early characteristic of regional programmes initiated by the Government or foreign donors was to focus on extremely disadvantaged areas. The most problematic regions, such as Suwalki, Walbrzych, Katowice, Olsztyn, Łódz and Rzeszów voivodships suffered from a high level of unemployment and their economies needed structural changes. These regions were selected for the PHARE STRUDER Programme in 1993. Several other programmes also established their training and advisory centres there. According to the GEMINI 1995 report (Lessons Learned from SME-related Regional Development Programmes in Poland) recent regional



programmes are attempting to introduce other elements into the process of regional selection (e.g. competition of projects based on demonstrated strengths and resources of each region). A similar approach has been employed by the SME/PSD Programmes of the Cooperation Fund. Despite these different approaches, there still appears to be a bipolar approach to allocating resources for regional development; assistance tends to focus on either the most disadvantaged regions or the country's leading economic centres (for example Gdańsk).

SME support programmes tend to pass by the regions of western Poland such as Slupsk, Koszalin, Elblag and Gorzów voivodships and regions of central and eastern Poland (Lomza, Ciechanów). Some of the regions mentioned above are of significant development potential because of their location and trade possibilities (Elblag, Gorzów).

One example of regional level SME support in Poland is the Łódź region. It is located in the central part of Poland, 130 km south west of Warsaw. It is an industrial region which is currently undergoing major restructuring of its dominant (textile) industries. In area, it is the smallest of the 49 voivodships in Poland but one of the largest in population terms - 1.1 million. The population is highly urbanized, with 93% living in the city of Łódź (846,000) which is Poland's second largest city. The current rate of unemployment in the Łódź region is 18% (1994).

There is a range of organizations in existence which are involved in promoting and supporting SMEs in Łódź. These include public, non-profit-making, mixed and private bodies and often involve local partnership, as well as linkage with foreign institutions and networks.

- The Łódź Regional Development Agency was established on the initiative of the City Council and the *voivod*. It has been in operation since January 1992. The Agency is structured as a joint stock company. The largest shareholder is the Industrial Development Agency (more than 25%), City Council (20%) nine Warsaw and Łódź banks (20%) and private entrepreneurs in the region (10%). A number of other organizations have nominal shareholdings, including the *voivod* (2%). In addition to performing specific executive functions in promoting regional restructuring and economic development, the Agency was established in response to the need articulated by many organizations to provide an overview or strategic focus for the region, coordinate activities and fill gaps in action. The Agency is the principal implementing body at the regional level of the STRUDER programme (implemented at the national level by the Polish Agency for Regional Development);
- Łódź Business Support Centre and Business Information Centre, which are based within the Chamber of Commerce and Industry, are supported by PHARE via the Cooperation Fund (SME and PSD Programmes). The Centres offer a range of services to start-ups and existing SMEs;

- **Lódz Chamber of Commerce;**
- **Foundation for Enterprise Development, which was founded on the initiative of the Chamber of Commerce, the City Council and a leading Lódz University professor. Its main activity relates to business training and counselling. This includes training of trainers and business counsellors as well as training of existing and potential entrepreneurs. The Foundation has also established a club for entrepreneurs. It has good facilities and has received significant resources and support from foreign donors (the British Know-How Fund, Programme of the Four Regional Management Centres);**
- **Local Initiatives Agency, the branch agency of the national level Foundation for Social and Economic Initiatives (FISE). The role of the Agency is to offer advisory services to assist enterprise start-ups. It works in cooperation with the Bank for Socio-Economic Initiatives;**
- **Business Incubator, around which various organizations have mobilized their efforts (including the Lódz Regional Development Agency, City Council, Foundation for Enterprise Development and International Women's Foundation). A second incubator is being established. The first incubator obtained support from the World Bank TOR 10 Project;**
- **Business Consultancy Organizations (including private consultancies) which offer services to SMEs mainly in the spheres of legal advice, financial advice, economic assesSMEnt, help with accessing credit and identifying trading and business opportunities. In 1991 the Polish-American Enterprise Fund established the Educational Enterprise Foundation in Lódz. The Foundation finances and organises management training courses. The Polish-American Small Business Advisory Foundation has also established its Small Business Advisory Centre in Lódz. It ended its activities in September 1995.**

## **The key SME associations**

The relatively recent legitimacy of the private sector is reflected in the weakness of the private business community at political levels. Nonetheless, there are a number of dynamic business associations operating throughout the main cities of the country. The main institutions and associations are the following:

- Polish Chamber of Commerce;
- Regional and Sectoral Chambers;
- Union of Polish Crafts (representing 26 regional chambers of crafts);
- Confederation of Polish Employers;
- Polish Federation of Independent Entrepreneurs (association - lobbying);
- Business Centre Club (union of leading businessSMEn);
- Convention of Entrepreneurs, TradeSMEn and Food Producers (association - SME lobbying);
- Local entrepreneurs unions and associations.

## **Integration, coherence and sustainability of different services**

The report of the G-24 SME Task Force 'Investing in the Future' described SME development activities in Poland as dispersed, uncoordinated, often incidental and in some cases provided in competition to one another.

One of the report's recommendations was to integrate the efforts of various institutions and departments and coordinate foreign donors programmes. The Task Force advice was also to establish a Coordinating Committee with representatives of different departments.

Based on this recommendation, and in accordance with Government strategies and other documents, the Polish Foundation for SME Promotion and Development was established. It was officially registered on 5 September 1995. The Foundation is being created on the basis of the already existing SME/PSD PHARE Programmes' team working in the Cooperation Fund since 1991.

The Foundation will form the key agency for the support and development of the Polish SME sector. The creation of the Foundation is intended to result in coordination of SME support programmes and to increase the degree of integration of different services (finance, training, counselling). It is also intended to strengthen the institutions that represent SME interests. The mission of the Foundation will be to

support the development of the SME and to participate in the creation of a business environment and conditions conducive to this development. The Foundation will be involved in initiating, creating and implementing programmes targeted at the SME; will facilitate the implementation of government SME policy; gain support from business, government and funding organizations; select partner organizations; and monitor and implement joint programmes providing technical and financial assistance.

The Council of the Foundation is established as a supervisory and policy-making body for the Foundation. It will consist of the following members:

- A representative of the Ministry of Industry and Trade;
- A representative of the Government Plenipotentiary Office for European Integration and Foreign Assistance;
- Representatives of the Ministry of Labour and the Ministry of Finance;
- Representatives of non-governmental organizations (NGOs): Polish Chamber of Commerce, Chamber of Crafts and Small Business, National Association of Regional Development Agencies, Polish Agency for Regional Development, Business Centre Club (an organization of leading business SMEs);
- Representatives of the Association of Polish Banks and one of the leading Polish banks (Powszechny Bank Kredytowy).

The outline of the Foundation's strategy was developed in response to the needs of Polish SMEs. The Foundation's activities will facilitate SMEs' access to:

- Lobbying (representation, legal and political regulations);
- Know how (advice, training, standards);
- Information (information on markets, technology, support programmes, certification);
- Financing (grants, credits, other financial instruments);
- Infrastructure (facilities, equipment, buildings).

The Foundation, implementing Polish and international programmes, will support institutions which represent SMEs' interests and provide SMEs with services. The main partners of the Foundation and beneficiaries of its activities will be the following:

- Business and entrepreneurs' organizations such as the Chambers of Commerce, entrepreneurs' associations and unions, business organizations;
- Support and service providing organizations: regional development agencies, the network of business support centres, other foundations supporting SME development, business schools.

The Foundation will cooperate with the key government departments such as the Ministry of Industry and Trade, the Ministry of Labour, the Ministry of Finance and the Ministry of Justice as well as with the European Commission (PHARE Programme), the World Bank, EBRD, USAID, British Know-How Fund and other donors.

There were 1,000 organizations and institutions acting in the field of SME promotion in 1994. There were 120 regional and local development agencies and foundations, 50 centres of innovation and enterprise promotion (including 20 incubators), 110 advising, information and training institutions, 180 Chambers of Commerce, 26 chambers of crafts and 130 various economic associations. Some of the most important institutions in the field of SME support are listed below.

*Regional Development Agencies* Institutions that represent many local stakeholders interested in regional development; they are financed by local institutions as well as supported by the Agency for Industrial Development (foreign donors assistance and from the Treasury: according to the Central Planning Office's plans the Regional Development Fund will be established in the near future). They have several activities:

- Organization of the process of privatization of state owned firms;
- Promotion of the region and particular firms;
- Granting of loans to SMEs etc.

In some regions they are involved in the STRUDER Programme. They moreover have engaged in setting up (in cooperation with agencies and foundations operating at the national level) new institutions supporting SMEs such as Business Support Centres, training centres, Enterprise Clubs and Local Initiatives Clubs and they also offer legal advice and develop business data bases.

Regional Development Agencies were usually founded at the initiative of regional institutions (*voivods*, local governments). The Agency for Industrial Development (governmental agency) contributed between 1.2 and 48% to the establishment of the agencies. Whatever their financial connections, Regional Development Agencies make up an independent structure subject to shared functioning rules. They operate as joint stock companies or foundations. Stock companies are usually profit-seeking organizations, and so their statutory aims are often eclipsed by commercial activities. On the other hand foundations as organizations focusing above all on their statutory goals may quickly run out of money. Regional Development Agencies are facing a number of problems. Here are the most important ones according to the 1994 National Association of Regional Development Agencies Report:

- Shortage of capital;
- An inflated list of uncoordinated aims;
- Lack of systematically designed strategy of their work;
- Difficulties in cooperating with local 'actors';
- No preferences (e.g. in tax regulations) for regional development agencies.

*Chambers of Commerce* Most of the Chambers in Poland are strengthening their structures, although they have limited human and financial resources. In the future their development and strengthening could be achieved as a consequence of legal changes. The issue of mandatory/voluntary membership and registers as of December 1995 remains undecided and controversial. The Polish Chamber of Commerce is the biggest and the broadest-ranging institution of corporate self-governance in Poland. Through the intermediary of its members - regional, sectoral and bilateral chambers of commerce and industry, business associations and economic organizations, the Polish Chamber of Commerce brings together more than 500,000 companies active in Poland. It promotes new legal regulations for economic activity and represents the interests of Polish entrepreneurs *vis-à-vis* the Government.

*Polish Foundation for SME Promotion and Development* Acting at the national level.

*Entrepreneurs' Associations* It is difficult to predict which association will form the future key entrepreneurs organization in Poland. The major existing associations are: Business Centre Club (which represents only leading businessSMEN), Convention of Polish Entrepreneurs, TradeSMEN and Food Producers, Polish Federation of Independent Entrepreneurs and Confederation of Polish Employers.

*The network of Business Support Centres, the Local Initiatives Agencies etc.* At the end of 1995 there were 31 Business Support Centres (co-financed by the Cooperation Fund - the PHARE Programmes SME/PSD). In January to September 1995 BSCs had 3,721 clients, 60% of them were micro enterprises (up to five employees). The BSCs have to plan their activities with the medium-term goal of finding additional and new financial sources. They have various alternatives to solve this situation:

- To find other domestic or foreign financial supporters (Polish Foundation for the Promotion and Development of SMEs);
- To raise prices for more specific services, while maintaining price levels for the general type of services;
- To increase the number of services or the number of clients.

As a strategy for 1995 and 1996 most BSCs have planned both to increase the number of specific services and to raise their prices. As a consequence of this decision BSCs will provide more services than at present to medium-sized enterprises.

The cooperation between institutions at the national level has not been effective. At the local level cooperation between different support institutions is much closer and is still growing. The Ministry of Industry and Trade strategy document 'SMEs in the National Economy: Policy Towards SMEs' provides an example of the action which was undertaken in order to improve cooperation at the national level. The creation of the Polish Foundation for SME Promotion and Development is also expected to contribute to better coordination of the efforts of different partners.

### **Involvement of SMEs**

The organizations representing SMEs are arguably not sufficiently involved in the Government economic decision-making process. However, they are involved in establishing the provision of entrepreneurial services. In cooperation with central institutions and foreign donors they implement SME support programmes.

- The SME/PSD Programmes of the Cooperation Fund have been modelled as bottom-up driven schemes, with, for example, Business Support Centres being created not on the basis of a central service distribution model, but in response to projects forwarded by local SME membership organizations (Chambers of commerce, business associations);
- Polish Chamber of Commerce implements EC PHARE EXPROM Programme;
- One of the major goals of the recently established Polish Foundation for SME Promotion and Development is to cooperate with organizations which represent entrepreneurs. These organizations are represented in the Council of the Foundation. The Council consists of the representatives of the Polish Chamber of Commerce, Chamber of CraftSMEn and other organizations. Representatives of SMEs will be able to influence the policy of the Foundation and participate in the decision-making process.

## **Evaluation procedures**

The SME Support Programmes are monitored and evaluated by the implementing organizations. The criteria to measure progress against the objectives of the schemes are established by the EU (PHARE-funded Programmes), USAID and other donor institutions at the strategic level and programme management at the operational level. There were no attempts to evaluate all programmes and their social and economic impact at the national level. The Polish Foundation for SME Promotion and Development will be responsible for this area in the future. The first programmes' evaluation (impact study) report will be issued at the end of 1996.

## **Key future players in SME support**

The Polish institutional environment in the area of SME development will probably remain differentiated, although elements of standardization may begin to be more prominent. The institutions are better networked and cooperate more closely than at the beginning of the 1990s. There is a move to standardize quality criteria and the range of services provided by different and decentralized institutions. The same range of services (advice, training and credits) could as a result be available to SMEs from all parts of the country meeting prescribed quality standards. Some of the existing programmes might be used as models for wider dissemination. As far as a local/regional specialization is concerned, the same nationwide range of services need to be adjusted to the specific needs and problems of the particular region. For example, if there is a weak and inefficient financial infrastructure in a region the emphasis should be put on financial programmes. A balance between regional differentiation and standardized service provision (including sectoral and subsectoral issues) will have to be reached.

The role of foreign donors in the field of supporting Polish institutions will still be crucial. Foreign assistance constitutes an important source of programme financing for many institutions. However, it is widely recognized that these institutions will have to begin to adopt models of public-private partnerships and obtain private support in combination with public resources. The not-for-profit local organizations supported by donors will have to respond to the problem of their future sustainability. Many of them will have to raise their prices and, as a consequence of this, provide more services for medium to large companies.

There is a need to develop Polish, publicly funded programmes in the field of SME support. There are only two examples of such programmes: the labour offices' loan



scheme addressed to the unemployed who want to establish their own businesses and the new Guarantee Fund established by the Ministry of Finance.

The number of profit-oriented institutions working for business development, such as private consulting firms, is continuously growing in Poland. At present only large enterprises can afford to buy commercial consultants' services with their own resources. There could be a growing tendency for the not-for-profit SME support institutions to buy services for SMEs from the private Polish consulting sector.

Both types of institutions - the membership and quasi-autonomous institutions - will play an important role in the future. The membership institutions will try to establish close cooperation linkages with their European counterparts. The role of the quasi-autonomous non-governmental organizations will be to respond to the specific and current problems and needs.

Regional development policy and SME promotion are closely related. Polish regional development institutions focus on the creation of a conducive environment for establishing new businesses, in order to develop the regions and improve their employment situation. Institutions that support SMEs focus on stimulation of competitiveness of SMEs assuming that SME sector development eliminates monopolistic practices and contributes to the health of the national economy. Therefore, their roles are different but they complement each other.

The institutions are still too bureaucratic. Significant effort has been made to adopt market driven methods in their management in order to improve their effectiveness. For example, elements of performance management have been employed by the Cooperation Fund for the purpose of financing Business Support Centres. The Centres are financed not on the basis of their operational budgets, but on the basis of the specific services bought.

## **ASSISTANCE**

### **Training of trainers**

Several programmes provide training for consultants, trainers and business counsellors on a larger or smaller scale. The most important include:

- Training Programme addressed to Polish consultants, business counsellors and trainers provided by the SME/PSD Programmes of the Cooperation Fund. In the early stages of the Programme training was provided directly by foreign experts from various consulting firms. The training courses addressed the issues of free market economy and private functioning of companies. The attention was put also on communication skills and training methodologies. At a later stage Polish trainers were used. In 1993 the SME/PSD Programmes started cooperation with the Polish Business Advisory Service. Training courses organized and provided by PBAS include lectures and active training schemes organized in selected enterprises. Over 1,000 Polish trainers, consultants and advisers have been trained through the Training Component of SME/PSD Programmes;
- The training component of the 'Coaching Programme';
- Trainers and consultants (as well as entrepreneurs) are trained by Polish public and private business schools. Amongst them are the schools supported by the British Know-How Fund (Regional Management Centres in Poznań, Łódz, Gdańsk and Lublin);
- Training provided by the Entrepreneurship Counsellors Association based in Gdańsk; the Association is a nationwide network of trainers established in 1993 under a British Know-How Fund project and provides its services to counsellors, trainers and entrepreneurs;
- There are also programmes addressed to employment service staff intended to provide the staff with the knowledge needed for SME promotion (for example the ILO Programme 'Small Enterprises Development through the Employment Service').

At the time of writing there were no particular training programmes in SME issues targeted at bankers.

### **Outstanding models and manuals for SME training**

There are very few models and manuals for small business or business support training which are widely used throughout the country. Each institution tends to develop its own models and manuals which are not shared or disseminated widely to other institutions. The following should be mentioned:

- Manuals prepared by the 'Solidarnosc' Economic Foundation (for example: 'My Small Company');
- Manual prepared for the Business Support Centres staff by the Cooperation Fund (SME/PSD Programmes);
- Manuals on local guarantee funds issued by the Cooperation Fund (Local Initiatives Programme);
- Manuals for business counsellor training prepared by the Entrepreneurship Counsellors Association.

Such models and manuals could be disseminated and popularized more widely in the future. In the early stages of SME promotion in Poland the majority of manuals were making simple blueprints from foreign models. The new ones are adjusted to the Polish reality and address particular Polish problems.

The Majority of the institutions and programmes supporting SMEs claim to have a good track record over several years and to be well thought of by small business. This refers to the Cooperation Fund and its Business Support Centres Programme and Regional Chambers of Commerce Programme implemented within the PHARE SME/PSD Programmes. Centres established and financed by the Cooperation Fund provide a wide but integrated range of services and employ innovative methods as well as highly competent and trained staff. Local Initiatives Agencies (run by the Foundation for Socio-Economic Initiatives) and Polish-American Enterprise Clubs play a similar role. The evaluation studies of Business Support Centre Programme and Polish-American Enterprise Clubs Programme have been published.

The PHARE STRUDER Programme and Polish Agency for Regional Development provides financial, advisory and training services impacting directly on the business environment in the five selected regions. The PHARE Local Initiatives Programme approach to local development has elements of SME support activities at the local level, which present a good model for replication in the future. The Polish-American Enterprise Fund should be quoted for its very effective approach to financial services (credits repayment rate of 97%) and business education.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

The transition to a market economy in Poland has been accompanied by a great deal of activity in the area of SME support including funding schemes, training, advisory and information services, incubators, technology support, representation and advocacy structures. Much of this activity has stemmed from external donor involvement, resulting in a plethora of programmes, schemes, initiatives and representative bodies as evidenced in the Country Report. Some questions remain, however.

- What has been the overall impact of all this SME support activity on the SME sector itself (i.e. where is the 'added value')?
- How well are the various projects and organizations involved in SME support connected to each other so that they can learn from each other and more effectively meet the needs of the SME (e.g. by a 'gap-filling' referral process)?
- What policies are needed to 'underpin' the activities of the SME support network and ensure that they are moving in the right direction (i.e. towards a clearly articulated vision which is informed by an in-depth knowledge of the requirements for a healthy SME sector)?

These questions relate to different levels of intervention, namely, the client level, the network level and the policy level.

At the level of the client, it is not clear to what extent the various support organizations and programmes have been influencing the development of the SME sector in Poland or whether this has occurred irrespective of the existence of such support. While there is some anecdotal evidence of benefit to clients, there is a dearth of systematic analysis of impact of SME support on the basis of which decisions could be made about the type of support required, how it would need to be delivered etc. An area of donor involvement could therefore be in creating the capability and motivation in Poland to carry out effective evaluation and impact studies which clearly demonstrate the 'added value' supplied by programmes of support for SMEs to the development of SMEs themselves.

At the network level, there seems to be a problem of fragmentation and possibly even unproductive rivalry and protectionism instead of coordination, integration, mutual-sharing and cooperation with the aim of maximum benefit to the client. At this level the main challenge appears to be to create effective networking arrangements between SME support organizations both at local/regional and national levels. Again, donors can help by ensuring that support to specific projects is conditional on their specifying their 'network policy'; and perhaps by being prepared to invest more in network-building (i.e. relationships between projects) rather than in the projects themselves. It is also important to encourage and support 'dissemination' of good practice around the network.

At the policy level, there is some confusion about how high a priority the SME sector is in the eyes of the Government and what is the overriding vision or goal which can inform policy towards this sector. While there may be a generally supportive stance towards SMEs, there are some aspects of Government behaviour (regulations, for example) which are having a negative effect on SMEs and are the subject of vigorous lobbying by SME representative groups. There is a palpable lack of trust between the latter groups and Government representatives, although the recently formed SME Foundation may go some way to improving this situation. The role of donors in this context could be to facilitate communications between policy-makers and SMEs and also to provide strategic advice to Government on formulating and implementing a coherent SME policy. The latter might involve updating the 'Investing in the Future' study (see Annex I) and identifying the major gaps and deficiencies which still remain and which might be remedied by Government interventions.

### **Summary of key recommendations**

The following is a summary of the key problems, challenges and tasks in the field of Polish SME policy which have been discussed in the earlier chapters of this report.

#### **Part I of the Report**

- The issue of future coordination of SME policy after the reorganization of the Polish government structure (future establishment of the Ministry of Economy);
- The need to implement the tasks listed in the document 'SMEs in the National Economy: Policy Towards SMEs';
- The need to monitor and evaluate implementation of these tasks;
- The issue of the impact of the future reform of regional and local administration on SME policies and the situation of SMEs (strengthening of the role of the *voivods*);

- The need to develop effective methods of statistical data gathering and research on the SME sector (e.g. reform of the SME data aggregation procedures of the Main Statistical Office).

#### **Part II of the Report**

- Implementation of the tasks related to legal changes listed and described in the document 'SMEs in the National Economy: Policy Towards SMEs'.

#### **Parts III and IV of the Report**

- The need to coordinate various SME support programmes and improve communication between organizations and donors. The need to identify gaps in the programmes and priority areas (support to start-ups, legal changes, export promotion and technology updating);
- The need to strengthen the capacity of the organizations that represent the SME sector (lobbying). The SME sector participation in the process of formulation of laws needs to be strengthened;
- The need to develop programmes which would assist Polish SMEs in the process of economic integration with the EU (this includes support in standards related matters);
- The problem of sustainability of the organizations and programmes supported by foreign donors. The following factors need to be considered:
  - trends in donors policy;
  - local organizations' capacity;
  - the nature of SME support organizations and programmes (problem of achieving full financial independence);
- The lack of sufficient evaluation and impact studies of the support programmes;
- The need to develop Polish publicly funded SME support programmes;
- The need to undertake further research with respect to the way in which development assistance has been allocated among regions and institutions, as well as analyzing the similarities and differences in development among regions of different economic and social character;
- The issue of the future shape of the SME sector representation with respect to mandatory/voluntary membership in Chambers of Commerce.

#### **Part V of the Report**

- The need to disseminate models and outstanding examples more widely;
- The need to disseminate manuals.

## **Bibliography**

‘SMEs in the National Economy: Policy Towards SMEs’

‘Strategy for Poland’

‘Industrial Policy Programme for 1995-1997’

‘The Principles of the Regional Policy’

SME Task Force: ‘Investing in the Future’

‘Expert's Report on the Conditions of SMEs Development’

‘Stimulating the Growth and Development of SME through Financial Sector Policy Reform’

‘Lessons Learned from Small and Medium Size Enterprise-Related Regional Development Programmes in Poland’

‘The SMEs in Poland’

## **Annex I**

List of constraints that impede SMEs growth in Poland according to the G-24 SME Task Force report 'Investing in the future' (1993).

### *General Constraints*

(a) Macro-economic factors:

- High inflation;
- Recession (national and international);
- Large government budget deficit;
- High interest rates;
- High taxes.

(b) Undeveloped infrastructure:

- Telecommunication;
- Market information systems;
- Transportation system;
- Distribution systems;
- Business space availability.

(c) Business climate:

- Suspicion and negative attitude towards successful entrepreneurs;
- Weak business ethics;
- Limited entrepreneurial tradition;
- Lack of favourable government policy.

(d) Informal sector:

- Unfair competition;
- Tax evasion;
- Massive illegal imports.

### *Enabling environment*

(a) Regulatory environment:

- No formal government policy or action plan for the private sector;
- Insufficient quantitative and qualitative policy-related information on SMEs;



- Unsatisfactory and inadequate influence of private business on the policy making process;
- Legal and regulatory framework is often not clear and transparent, changes too often and leaves wide discretion for arbitrary civil administration and court decision;
- Government administration and juridical system is not compatible with the creation of a private sector market driven economy;
- Legislators, administrators and courts lack experience and guidance in fostering the free market economy;
- Insufficient communication and coordination between various government institutions and ministries;
- Serious gaps and imperfections in laws.

(b) Fiscal policy:

- Inadequate tax enforcement and collection capabilities which lead to an excessive administrative burden on private business;
- Business perceive taxes as too high;
- Tax legislation is changing too often;
- No tax incentive for investment;
- Unequal tax treatment of dividend and interest on personal income;
- High custom duties on imported equipment and raw materials.

*Entrepreneurship promotion*

(a) External factors:

- Difficulties with start-up finance/insufficient equity investment;
- Growing necessary minimum initial capital;
- Insufficient information, technical assistance and training for start-ups;
- Limited entrepreneurship promotion.

(b) Internal factors:

- Lack of knowledge and experience on running business in a competitive market;
- Limited entrepreneurial tradition;
- Limited personal assets and savings.

*Financing*

(a) Equity capital:

- Unavailability of domestic capital (lack of venture capital institutions and instruments);
- No tax incentive for business investment;

- Limited flow of foreign investment;
- Too much reliance on debt financing to capitalize business;
- Low profitability of many businesses;
- BusinessMEN are reluctant to put their own capital in fixed assets;
- Entrepreneurs are reluctant to jointly invest.

(b) Credits:

- High collateral and/or guarantee requirements
- High interest rates
- Banking services underdeveloped and time-consuming
- Low risk investment alternatives (government bills and bonds)
- Difficult access to long-term financing
- Minimum loan size requirements are too high for most SMEs
- Risk aversion by banks
- Entrepreneurs' problems with preparation of application forms and other credit documents including a business plan;
- Focus on 'low cost' foreign exchange loans and without understanding of foreign exchange risk.

*Information and counselling*

(a) External:

- Insufficient development of a business assistance support network;
- Limited availability of information necessary for good business decision-making;
- Private advisory and consulting firms are too expensive for SMEs;
- Big differences in the quality of information and advisory services available.

(b) Internal:

- Insufficient awareness of the importance of information and advice sharing among entrepreneurs;
- Lack of knowledge among entrepreneurs of how to collect and use information.

*Technology*

(a) External:

- Undeveloped institutions and mechanisms for technology commercialization and transfer;
- Unavailable financing for R&D and technology upgrading.

(b) Internal:

- Adaptation to international market norms and standards;
- Technological backwardness of SMEs affects quality and limits flexible reaction to market signals;
- Insufficient awareness of the necessity of technological and quality improvement;
- Lack of knowledge on technological developments;
- Lack of financial means for R&D and modernization of the production processes;
- High custom duties on modern equipment.

#### *Privatization*

- No policy or programme which integrates SME development with State-owned enterprises privatization;
- Limited SME access to assets of State-owned enterprises being privatized;
- Problems of State-owned enterprises affecting SMEs;
- Insufficient information on privatization process;
- Monopoly situation of some public sector enterprises, especially in regional markets.

#### *Trade, export, import*

- Difficulties in adaptation to world norms and standards;
- Lack of market information on foreign markets;
- Lack of information on foreign regulations;
- Relatively high costs for SMEs to access foreign markets;
- High customs duties on import equipment and raw materials;
- Foreign import quotas on various products;
- Unfair competition due to illegal import;
- Developing/ transforming industries are threatened by competitive imports.

#### *Foreign assistance*

- Insufficient coordination;
- Insufficient information on foreign assistance;
- Assistance perceived as not based on the priority needs of the private sector and tends to be inflexible;
- Private business and the government have little or no influence in shaping foreign assistance for private business;
- Business unsatisfied with significant part of foreign assistance spent on foreign consultancies and privatization;
- Limited implementation of the results of foreign studies;
- Inadequate monitoring of implementation of foreign assistance;
- No coordination and linkage between financial and technical assistance;
- Foreign credits (credit lines) do not reach SMEs.

**Annex II**  
**List of key SME support institutions**

Name	Description
<b>Regional Agencies</b>	
Regional Development Agencies (RDA)	Foundations and companies created by voivodship offices, Industrial Development Agency, local governments, majority of them associated (National Association of RDA), selected agencies supported by the Cooperation Fund (Business Support Centres, Local Development Agencies), other foundations and donors (Phare STRUDER Programme, World Bank - TOR10)
Business Support Centres (BSC), Business Information Centres	Advisory centres (over 30) created by Regional Development Agencies and local chambers of commerce, located in various parts of the country, financed by the Cooperation Fund (SME/PSD Programmes), three Information Centres
<b>Chambers/Associations</b>	
Convention of Polish Entrepreneurs, TradeSMEn and Food Producers	Entrepreneurs association (cross-sectoral)
<b>Sectoral Chambers</b>	
Polish Chamber of Commerce	Association of 500,000 companies and 60 regional chambers of commerce; business lobbying; international cooperation promotion; fairs
Union of Polish CraftSMEn	Organization of Polish craftSMEn (traditional)
Business Centre Club	Entrepreneurs association (leading Polish entrepreneurs)
Polish Federation of Independent Entrepreneurs	Association of entrepreneurs; representing entrepreneurs to government, collecting suggestions and views on legal changes (free-market)
Regional Chambers of Industry and Commerce	Over 60 throughout Poland
<b>Financial Institutions</b>	
Bank Gospodarstwa Krajowego	Bank operating at the national level
Caresbac - Polska	Venture capital company founded by CARESBAC (United States of America), the Cooperation Fund and USAID
Bank of Socio-Economic Initiatives (BISE)	Bank established by Caisse centrale de crédit coopératif, FISE partner
The Enterprise Credit Corporation	see: Polish-American Enterprise Fund

Name	Description
<b>Government Advisers</b>	
<b>Voivodship Offices</b>	<b>Regional administration offices</b>
<b>Central Labour Office</b>	Central administration office reporting to the Ministry of Labour; managing the network of voivodship and local labour offices in Poland; allocation of the Labour Fund which is partly used for start-up loans for the unemployed
<b>Ministry of Labour and Social Policy</b>	The Ministry responsible for labour market policy; SME development regarded as a means of unemployment counteraction; implementation of the World Bank Programme TOR 10 ('Micro Enterprise Development')
<b>Ministry of Industry and Trade</b>	The Ministry responsible for SME policy (Department of Industrial Strategy and Policy); coordination of SME support programmes (Phare-SME/PSD)
<b>Ministry of Privatization</b>	Department of SME Privatization - direct privatization of small and medium sized State-owned enterprises (through liquidation)
<b>Non-governmental organizations</b>	
<b>Centre for the Advancement of Women</b>	Foundation supported by the Governments of Norway, Canada, Switzerland, Batory Foundation
<b>Foundation in Support of Local Democracy</b>	Foundation established in order to promote local democracy and SMEs
<b>NSZZ 'Solidarność' Economic Foundation</b>	Foundation supports SMEs through training, counselling, business data base
<b>Polish-American Small Business Advisory Foundation</b>	Foundation created by the Polish Chamber of Commerce and the Scientex Corp. (appointed by the US Congress)
<b>Association of Organizers of Innovation and Enterprise Centres</b>	Association established in 1992, promotion and support to Business incubators and Science Parks, cooperation with other institutions and donors (World Bank, EU)
<b>Foundation for Social and Economic Initiatives (FISE)</b>	Foundation established to support SME development, runs the network of the 14 Local Initiatives Agencies
<b>Entrepreneurship Association</b> <b>Counsellors</b>	Association of Polish trainers providing courses for SME support networks

Name	Description
<b>Other</b>	
MBA Enterprise Corps	Agency financed by USAID providing SMEs with consultancy (volunteers - American graduates of business schools)
Polish-American Enterprise Fund	Fund supported by the American Government and Congress (initial capital US\$240,000) - credits and education programmes for SMEs
Polish Business Advisory Service	Organization created and supported by the International Finance Corporation, EBRD, USAID and the Governments of Canada, Denmark and other countries
Citizen's Democracy Corps	Agency financed by USAID providing SMEs with consultancy (volunteers - senior business experts)
Polish-British Enterprise Project	British Know-How Fund Project (US\$19,500,000) cooperation with Lublin-Chelm Development Foundation and Bialystok Development Foundation.
Micro Fund	Credit programme financed by USAID
Regional Management Centres	Business schools supported by the British Know-How Fund
<b>QUANGOs</b>	
Cooperation Fund -Euro info	Information Centre financed by Phare (Cooperation Fund)
Polish Agency for Regional Development	Government agency established in order to support 'risk' regions; implementation of STRUDER Programme and the Polish-Swiss Regional Programme
Agency for Industrial Development	Joint stock company created by the Government (State Treasury), Scientific Research Committee (KBN), supervised by the Ministry of Industry and Trade
Cooperation Fund Programmes, Local Initiatives Programme (LIP)	Foundation - assists the minister responsible for coordination of foreign assistance - implementation of Phare programmes (SME, PSD, LIP)
Polish Foundation for SME Promotion and Development	The foundation (registered on 5 September 1995) will form the key agency for the support and development of the Polish SME sector, policy towards the SME sector, lobbying; continuation of the SME/PSD PHARE Programmes, PSD Programme - Ministry Component (local mutual guarantee funds and other schemes), designing new programmes
Agency for Development of SME	Company established by Industrial Development Agency, managing Subcontracting Agencies Network (SAKK)