



POLSKA AGENCJA ROZWOJU PRZEDSIĘBIORCZOŚCI

POLISH AGENCY FOR ENTERPRISE DEVELOPMENT

Financing for Innovative Development in Poland

Polish companies suffer from the lack of the financial resources to introduce major changes in production, product or production processes. The challenge is to improve the accessibility availability of external financing for companies that are willing to modernise their technological and product offer.

Poland's innovation performance continues to be very low. Poland is particularly lagging behind other EU Member States in the category of innovation finance, partly because of the limited availability of the venture capital for innovative but risky projects. The country is also outperformed by other countries in the category of knowledge creation, mainly due to low levels of R&D expenditure and patent applications. The Barcelona Summit of March 2002 quantified the Lisbon objective in the percentage of average European GDP dedicated to research to 3 percent by 2010. In 2003, total Poland R&D spending accounted for 0.56 percent of GDP. Business expenditure on R&D in Poland is particularly low compared to the EU25 average.

The most measures in favour of innovation are new (mainly financed via the EU Structural Funds). The **Sectoral Operational Programme "Improvement of the competitiveness of enterprises"** (SOP-ICE) of March 2004 was the key support programme for Polish companies during the period 2004-2006. Consequently, visible progress in improving the innovation performance cannot be expected to have materialised yet, after the very short period of time most measures have been running for.

The most important programme which is focused on innovation is the **Innovative Economy Operational Programme** which is financed mainly from Structural Funds for 2007-2013 perspective.

The Polish Agency for Enterprise Development (PAED) is a governmental agency established by law in 2001. It is responsible for implementation of economic development programmes, especially aimed at small and medium-sized enterprises (SMEs). The Agency is also the main body responsible for implementation of a large number of innovation support instruments designed within the framework of national and EU programmes (Phare and Structural Funds).

Financing of enterprises at early stages of development

Access to external sources of financing is one of the key factors for developing a knowledge-based economy since innovative undertakings are often capital consuming and involve high risk levels. Meanwhile, in Poland opportunities to obtain capital at the value from PLN 0.1-2 million to PLN 8-10 million are rather limited. Usually, entrepreneurs are able to gain financing below the lower limit of the above-mentioned range from private sources (savings, family and friends etc.), while the sums exceeding the upper limit are to certain degree easily available on the venture capital (VC)/private equity (PE) market¹.

¹ Innovative Economy Operational Programme 2007-2013, Ministry of Regional Development, p. 26

The main reasons for the VC/PE funds reluctance to invest within the equity gap range are:

- 1) high risks related to investments in undertakings with unclear market chances (lack of enterprise history, unknown products, etc.)
- 2) high costs of due diligence analysis and of development of legal documentation necessary to start investments (in comparison with the investment value),
- 3) high costs of fund management in comparison with the investment value.

The development of the venture capital market shows that investments tend to concentrate on later stages of enterprise development (expansion, buyout and replacement), and at the same time, the number of capital interventions in enterprises at early stage of their development decreases – in 2004 in Poland no intervention of this kind was reported. This trend is visible throughout Europe, but it is especially evident on the markets of Central and Eastern Europe, including Poland. In 2004, the Polish Private Equity Association (PSIK) grouped 28 VC funds, but in fact none of them invested in enterprises at the start-up or seed stage.

Due to the situation described above, it was decided to undertake public intervention in this area within **sub-measure 1.2.3 of the Sectoral Operational Programme Improvement of Competitiveness of Enterprises 2004-2006**. **Polish Agency for Enterprise Development** is the main institution responsible for preparation and implementation of this programme. Sub-measure 1.2.3 *Supporting the emergence of seed capital funds* is envisaged to provide capital to funds which invest in SMEs at the earliest stages of their development. As a pilot undertaking with a budget of around EUR 18 million it resulted in creation of 6 new venture capital funds which specialize in financing seed and start-up stages within the identified equity gap range.

The other potential source of financing within equity gap range (especially within the bottom part of the spectrum) are Business Angels. In Poland, organizations associating and supporting Business Angels have been developing intensely. These are the Polish Business Angel Network (PolBAN) which groups 43 investors ready to invest PLN 25-40 million and Lewiatan Business Angels grouping 50 investors with the capability of investing some PLN 300 million. Their activity has already brought about first positive results, such as contacts between investors and start-ups, as well as first investments. Establishing and developing networks of Business Angels and organizations supporting such investors, which will assure supplies of feasible projects, should allow for a rapid development of this market.

Polish Agency for Enterprise Development

The Polish Agency for Enterprise Development (PAED) is a governmental agency subordinate to the Minister of the Economy. It was established by the Act of 9 November 2000 on the establishment of the Polish Agency for Enterprise Development. Its task is the management of funds assigned from the State Budget and European Union for the support of entrepreneurship and the development of human resources, with particular consideration given to the needs of small and medium-sized enterprises (SMEs). PAED plays a crucial role as a institution responsible for the implementation of activities financed from the Structural Funds.

The objective of the Agency is the implementation of economy development programmes, in particular with respect to the support of:

- SME development,
- Export development,
- Regional development,
- Application of new techniques and technologies,
- Creation of new jobs, tackling unemployment and human resources development.

This objective is carried out through:

- The provision of grants to SME sector companies, institutions supporting the development of SMEs, training institutions and labour market institutions,
- The rendering of advisory and expert services,
- The facilitation of access to knowledge, economic information, studies and analyses to entrepreneurs,
- The organisation of undertakings of an informative and promotional nature.

PAED Programmes for Small and Medium-sized Enterprises.

The Polish Agency for Enterprise Development participates in the implementation of a policy entitled "Government Policy Guidelines for Small and Medium-sized Enterprises in the years 2003–2006", Sectoral Operational Programmes: Improvement of Enterprise Competitiveness and Human Resources Development, as well as preaccession Phare programmes. Within the scope of the above-mentioned programs, the Agency conducts numerous SME-oriented activities; inter alia, it provides support both to the development of the business environment and directly to companies. Direct assistance provided to small and medium-sized companies takes the form of grants allocated to information and advisory services as well as to investment (e.g. purchases of machinery and equipment). Entrepreneurs may obtain grants, inter alia, with respect to activities associated with the following:

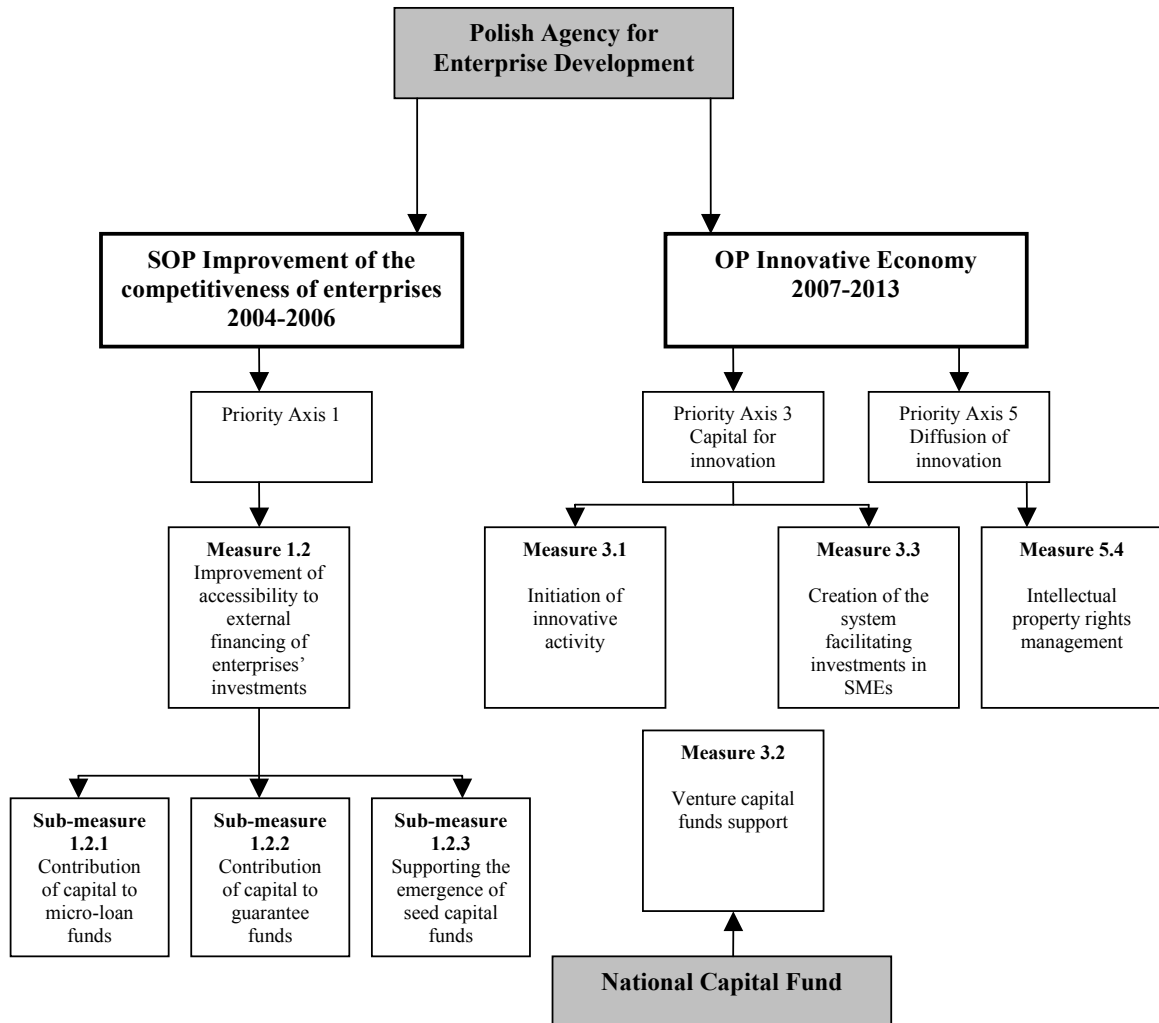
- Company development,
- Exports development,
- Implementation of quality systems,
- Introduction of new technologies and innovations,
- Acquisition of financing,
- Occupational safety and health.

In addition, PAED conducts intermediary activities seeking to match economic partners.

Of particular importance to the development of SMEs is the application of new technologies. Each year, PAED organises a contest under the auspices of the Prime Minister "Polish Product of the Future". The aim of the contest is the promotion and dissemination of information on the achievements of those who are conceivers of innovative technologies, as well as the provision of assistance in their implementation into industry. All interested parties are invited to join the Club of Innovative Enterprises, a forum for the exchange of information and the development of cooperation among entrepreneurs using innovative technologies and representatives of research, academic and administration circles, who support the implementation of innovative technological solutions in practice. PAED also manages the Bank of Technologies and Products (BTW). BTW makes available select information on innovative products and technologies from various areas of technical sciences, in order to promote them and to match potential partners. Use of the BTW database is free of charge. Indirect assistance for the SME sector comprises, above all, the following activities:

- the expansion and enhancement of the micro-loan system and guarantee and seed capital fund system for SMEs through the increase of the capital of these institutions;
- the provision of financing to the network of Consultation Centres, ensuring free access to information for entrepreneurs;
- cooperation with regional and local governments in the field of preparation and evaluation of programmes for the development of SME sector; and
- support of the existing and developing centres of technology transfer, science and technology parks and technology incubators and technology incubators.

PAED will also be responsible for **implementation of Innovative Economy Operational Programme (IE OP) 2007-2013.**



Scheme 1. PAED and programmes addressed at innovation financing financed from Structural Funds.

Detailed information on specific programmes, as well as application forms and other documents are available online from the Polish version of the PAED website: <http://www.parp.gov.pl>

Sectoral Operational Programme Improvement of the Competitiveness of Enterprises 2004-2006

The objective of the Measure 1.2 is to facilitate entrepreneurs' access to external sources of investment financing. The objective of the measure is being achieved by following sub-measures:

1.2.1 Contribution of capital to micro-loan funds

The subjects of this sub-measure are providing support to micro-loan funds. Support has the form of the non-refundable grant covering cost of loans and partially the costs of management of the fund. Completion of this sub-measure resulted in increasing the capital of loan funds in the amount of PLN 346 million. Additional financial resources supporting the loan funds are available for operating in Poland small and medium-sized enterprises, which will benefit from loans (up to PLN 120.000)

provided by supported loan funds. The minimum level of the interest rate is the EC reference rate which is now 5,94% p.a. for PLN.

1.2.2 Contribution of capital to guarantee funds

The subjects of this sub-measure are guarantee funds. Support has the form of the non-refundable grant covering granted guarantees and partially the costs of management of the fund. Completion of this sub-measure resulted in increasing the capital of guarantee funds in the amount of PLN 366,5 million. Additional financial resources supporting the guarantee funds are available for operating in Poland small and medium-sized enterprises, which will benefit from guarantees (up to 80% of credit or loan) provided by supported guarantee funds.

1.2.3. Supporting the emergence of seed capital funds.

The subjects of this sub-measure are newly emerged seed capital funds. Support in the form of the refundable grant covers cost of investment and management of the fund. Subordination of public money vs private money protects private investor in case of default of the investment.

Completion of this sub-measure resulted in establishment of six seed capital funds in Poland (total support granted amounts to PLN 65 million). Financial resources supporting the seed capital funds are available for operating in Poland small and medium-sized enterprises start-ups, which will benefit from the seed capital or other form of early stage financing provided by the seed capital funds.

This sub-measure will continue with much higher budget of EUR 180 million within the Innovation Economy Operational Programme and will be implemented by the National Capital Fund.

Innovative Economy Operational Programme

In connection with difficulties that potential and new entrepreneurs come up against while attempting to obtain finance for innovative undertakings, appropriate support measures have been developed. They cover establishment of new enterprises, including spin-offs, on the basis of innovative ideas through counseling, providing access to infrastructure and services necessary to newly establish companies and financial injections (Measure 3.1). The priority axis also provides financial support for SMEs at early stages of development through acquisition of shares and bonds by capital funds. In order to provide financing for innovative enterprises at early stages of development, a financial engineering instrument will be used in the form of a fund of funds supporting capital funds (Measure 3.2). At the same time, support will be provided for measures aimed at activation of the individual investor market, e.g. Business Angels (Measure 3.3). Within priority axis "Capital for innovation", measures will be introduced that are necessary for initiating innovative activity of SME and support for its early stages of development with use of capital funds and networks of private investors. These measures are addressed, in particular, to entrepreneurs whose undertakings are marked with a high level of innovativeness, relatively low value, high market potential and high risk.

Within the priority axis 3, the following measures will be supported:

Measure 3.1. Initiation of innovative activity

This one measure is two stages support for newly created innovative companies. The first stage is identification of the potential entrepreneurs by the business support institutions (incubators) and incubation of the projects by the support of the non-refundable grant. The second stage is the selection of the best projects from the first stage and investments made by seed capital funds operating within incubator (up to 200.000 EUR). Support will be granted within this measure to business support institutions, especially incubators. Programme budget is EUR 110 million.

Measure 3.2 Venture capital funds support

Measure 3.2 will be implemented by National Capital Fund (www.kfk.org.pl). Support will be granted by NCF to venture capital funds investing in seed, start-up and expansion phase of entrepreneurships. NCF operates as a fund of funds that invests in private equity / venture capital funds operating in Poland. NCF supplies financing to the selected funds either through equity investments or through

provision of long-term debt. As a fund of funds, NCF does not commit to companies directly. An important element of the NCF funding mechanism is preferential treatment of those private investors who co-invest in NCF's portfolio funds (the same mechanism of subordination of public money as it is implemented in sub-measure 1.2.3 SOP-ICE. Programme budget is EUR 180 million.

Measure 3.3 Creation of the system facilitating investments in SMEs

The programme assumes non-refundable grants for the operating and newly created business angel's networks. Most of the support should be directed to investment readiness programmes which will be operated by the business angel's networks. Within the measure there is also possibility to cover costs of cooperation between business angel's networks and universities, incubators and venture capital funds. Programme budget is EUR 50 million.

One of the measures within the priority axis 5 which one completes above mentioned measures is programme which supports protection of intellectual property rights.

Measure 5.4. Intellectual property rights management

Within the priority axis 5, the measure 5.4 envisages support for enterprises in the area of protection and use of intellectual property rights. The main aim of the measure is to increase the number of patent applications as well as designs and industrial designs application.



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