

Chapter 4

The Local Dimension to SME and Entrepreneurship Policy in Poland

There is a significant local dimension to small and medium-sized enterprise (SME) and entrepreneurship policy in Poland, reflecting the need to respond to significant regional disparities in incomes and employment opportunities. This can be done by strengthening SME and entrepreneurship performance in less favoured regions and tailoring policies to varying local economic structures. Approximately one-quarter of EU Operational Programme financing is allocated directly to the 16 regions, for programmes that are designed and delivered at the regional level. There is a strong need at the local level to increase the visibility, accessibility, branding and quality standards of policy support. National government and agencies can play an important part by helping build delivery capacity for regional support actions. There should be a clearly branded and limited number of publicly supported organisations which can provide a set of support schemes to all target groups where private organisations cannot do the job. Better vertical dialogue across government levels and horizontal dialogue across and within regions would also help increase policy visibility and coherence.

This chapter summarises the findings of the local component of this review, based on an investigation at the regional (*voivodship*) level.¹ The primary objective of the chapter is to assess the capacity of policy to adapt to varying regional needs and the coherence between national and regional level policies for small and medium-sized enterprises (SMEs) and entrepreneurship. Before addressing these two issues, we examine the context for regional level policies in terms of regional institutional arrangements and in light of the regional variations in SME and entrepreneurship activity and performance highlighted in Chapter 1.

The local context for SME and entrepreneurship policy

Regional institutional arrangements

In the late 1990s, Poland implemented administrative reforms that created 16 new regions called *voivodships*, replacing the 49 regions that had existed since 1975. The administrative functions of the *voivodships* are shared between a central government appointed governor (*Voivod*) on the one hand and an elected regional assembly (*Sejmik*) served by an executive called the Marshalls' Office (MO) on the other. The assembly and MO are autonomous of central government. Together with national government, they are important actors in SME and entrepreneurship policies.

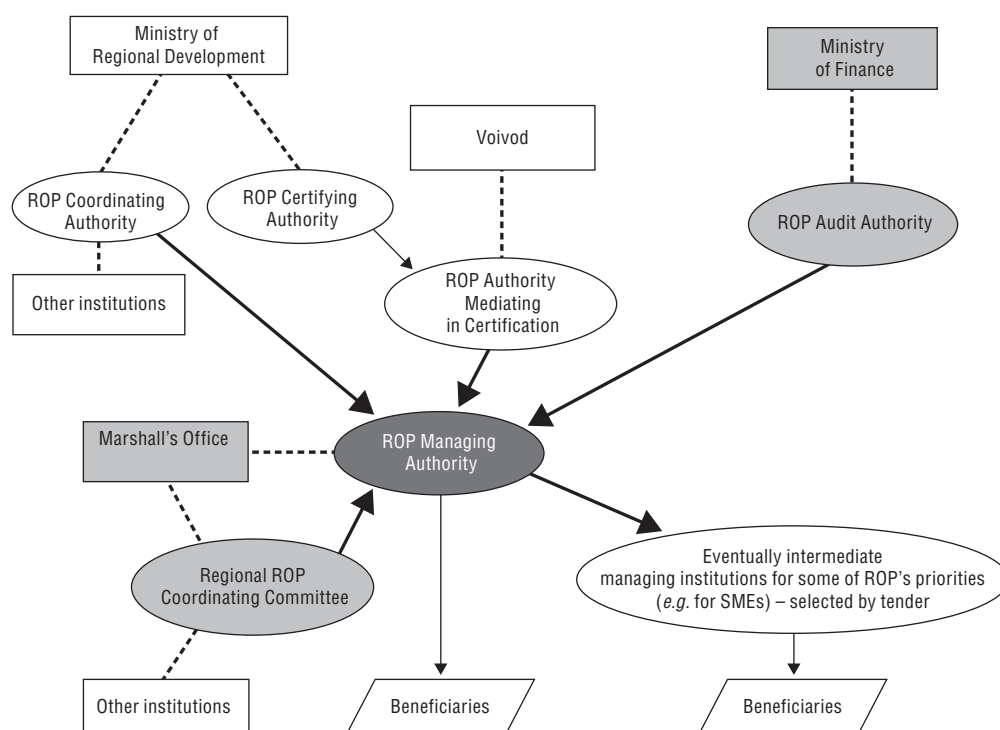
Poland's status as a new member state of the European Union (EU) also has important implications for SME and entrepreneurship policies in the country because of the availability of significant resources from the EU Structural and Cohesion Funds to support national and local objectives. This inevitably means, however, that policy priorities and the orientation of policy are influenced by criteria and requirements established at the EU level.

EU funding in Poland is organised through a combination of National Operational Programmes (NOPs), which primarily address national needs and policy priorities, and are managed centrally, and Regional Operational Programmes (ROPs), which are designed and managed in the regions under the responsibility of the MO. All of the 16 *voivodships* have "Objective 1" status for the EU Structural and Cohesion Funds (the "Convergence" objective), affording maximum regional-level funding possibilities. There are 16 ROPs, one for each region of Poland.

The Ministry of Regional Development (MRD) is the main co-ordinating ministry for all the National and Regional Operational Programmes, working in partnership with the relevant ministries and government levels. It ensures that policy follows the guiding document for use of all EU Structural and Cohesion Funds in Poland, namely the National Strategic Reference Framework (NRSF). The Marshalls' Offices have the main responsibility for designing and implementing the ROPs, in co-ordination with the MRD. Although the NOPs are intended to address national issues, one of them, the Operational Programme (OP) for Eastern Poland, nonetheless has the explicit regional objective of supporting the convergence of the eastern regions to national and EU levels of income and employment, providing additional support to the six ROPs in the east.

The MRD has established a NSRF Co-ordinating Committee and Monitoring Committees for each NOP and ROP, enabling co-ordination of national and regional level goals. In the case of the ROPs, in addition to the MRD, Monitoring Committee membership comprises representatives of other central government departments, including the Ministry of Economy, which organises entrepreneurship and innovation policy, as well as representatives of SMEs and employer's organisations. The structure allows the MRD to participate in project selection and influence the selection criteria for projects at regional level. Figure 4.1 shows the principal organisations involved in delivering support from the ROPs to the beneficiaries on the ground.

Figure 4.1. **Institutions involved in the management of Poland's Regional Operational Programmes**



Source: Authors, based on the "Regional Operational Programme for Śląskie voivodship 2007-13".

Table 4.1 and Figure 4.2 show that there is an uneven distribution of ROP funding per capita across the voivodships with higher expenditures in the eastern regions. In addition to the ROPs, there is also a separate development OP for Eastern Poland. The greater levels of funding support for the eastern regions are intended to recognise their special development needs as remote, rural regions. The OP for Eastern Poland seeks to complement the ROPs in addressing their problems, but contains little recognition of the potential role of entrepreneurship in developing these rural areas.

Regional differences

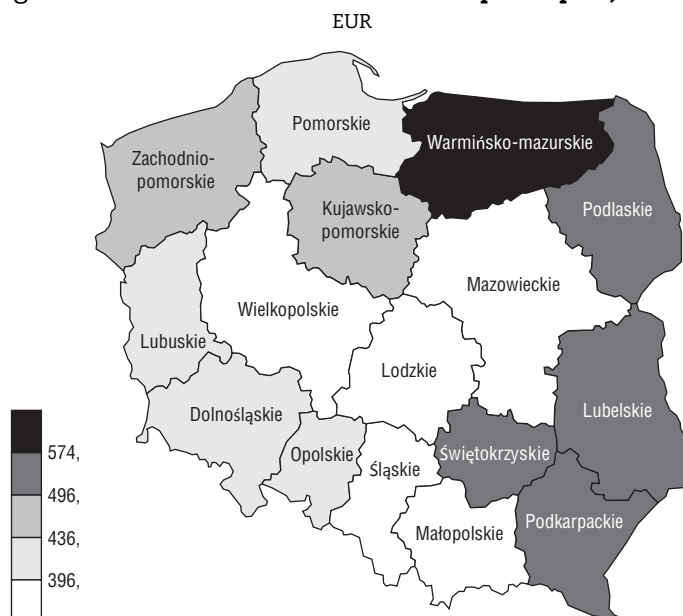
A consistently observed feature of entrepreneurship development in both mature market and emerging market economies is the existence of spatial variations in rates of

Table 4.1. **Regional variation in ROP resources in Poland**

Voivodships	EU funds 2007-13 (EUR billion)	EU funds per capita (EUR)
Dolnośląskie	1.21	421 (9)
Kujawsko-pomorskie	0.95	459 (7)
Lubelskie	1.16	537 (5)
Lubuskie	0.44	436 (8)
Łódzkie	1.01	396 (12)
Małopolskie	1.29	392 (13)
Mazowieckie	1.83	352 (16)
Opolskie	0.43	416 (10)
Podkarpackie	1.14	543 (3)
Podlaskie	0.64	537 (4)
Pomorskie	0.89	401 (11)
Śląskie	1.79	368 (15)
Świętokrzyskie	0.73	574 (2)
Warmińsko-mazurskie	1.04	729 (1)
Wielkopolskie	1.27	374 (14)
Zachodniopomorskie	0.84	496 (6)
Total: 16 regional OPs	16.58	

Note: The development OP for Eastern Poland is excluded. Numbers in brackets indicate rank order.

Source: Ministry of Regional Development; National cohesion Strategy; Central Statistical Office, www.stat.gov.pl/english/.

Figure 4.2. **EU ROP resources 2007-13 per capita, Poland**

Note: The development OP for Eastern Poland is excluded.

Source: Central Statistical Office, www.stat.gov.pl/english/.

new venture creation and the performance of established businesses. This is reflected in variations between regions, as well as between urban and rural areas.

Regional variations in the distribution and performance of SMEs and entrepreneurship in Poland were summarised in Chapter 1 through two key indicators: firstly, the number of

active SMEs per 1 000 inhabitants, reflecting the total stock of SMEs, and secondly, the number of newly registered entities² per 1 000 inhabitants by *voivodship* (2007), to reflect rates of new business start-ups (Figure 1.16). These summary indicators represent a major part of the entrepreneurship vitality of the regions. They were supplemented by two further performance measures: per enterprise sales revenue and investment expenditures (Table 1.17). Table 1.18 in Chapter 1 also illustrated growth performance in the number of SMEs and their investment outlays over 2003-07.

The data in Chapter 1 show marked regional variations in SME and entrepreneurship activity in Poland. For example, the density of SMEs per 1 000 inhabitants is greatest in Mazowieckie and Zachodniopomorskie, and lowest in the eastern regions, whilst the rate of new business registration per 1 000 inhabitants in the most entrepreneurial *voivodships* in 2007 (Zachodniopomorskie and Pomorskie) was almost double that of the least entrepreneurial *voivodship* (Podkarpackie). The regional pattern of new firm formation shows a clear east-west contrast, with those *voivodships* with the highest rates of new business registration tending to be located in the west of the country (apart from Mazowieckie, which is dominated by Warsaw, the capital city) and the least entrepreneurial *voivodships* in terms of new firm formation rates lying in the south and east of the country.

Previous research suggests that such variations typically reflect regional differences in both demand and supply conditions, with the latter influenced by factors including the economic structure; the propensity of the population towards entrepreneurship; the resources available to support entrepreneurship; and institutional factors (Mason, 1991). In this context, the low levels of new business registrations in the eastern *voivodships* of Podlaskie, Lubelskie and Podkarpackie would appear to be associated with relatively unfavourable supply conditions for SME and entrepreneurship activity in remote rural areas and areas with an agricultural economic base. An additional constraint is the “hard” external border these *voivodships* share with Belarus, which affects the extent of local markets. Furthermore, Poland’s accession to the EU has reinforced the western locus of economic activity in the country.

Voivodships with high start-up rates also tend to be those with high existing SME stocks per 1 000 inhabitants (as presented in Chapter 1). This demonstrates the cumulative nature of the processes of new venture creation and draws attention to the importance of structural factors. The effect is to contribute to strong forces of inertia, which can take a major policy effort to change as the experience in other OECD countries demonstrates.

Regional variations in the share of employment in SMEs, the average sales revenue generated and average investment expenditure per enterprise, also presented in Chapter 1, show broad correlation with the east-west pattern detected for start-up rates and SME stocks. Further regional differences can be observed in average turnover and investment rates, which mainly reflect variations in economic structure among *voivodships* and the relative role of large enterprises. However, the pattern of SME investment outlays from 2003-07 indicate some degree of regional convergence.

Urban-rural contrasts

Spatial variations in SME and entrepreneurship activity in Poland also show marked urban-rural contrasts. In Poland, villages and rural areas account for more than 90% of the total land area of the country and contain some 40% of the total population, whilst agricultural employees represent approximately 16% of the total Polish workforce. Rural

development issues are particularly challenging in those areas located in proximity to the country's eastern borders because of the combination of rural and regional disadvantages that exist there. Job losses are expected to be most severe in regions with the greatest existing shares of agricultural employment and stimulating new employment through entrepreneurship is likely to be particularly challenging in these areas.

Outside agriculture, enterprise activity in rural areas is mainly focused on food processing, together with some small-scale manufacturing and services. This includes activities connected to agriculture, which often results in seasonal variations in the level of activity. Entrepreneurship in rural areas involves mainly self-employment and micro-enterprise activity, driven by the need to boost household incomes rather than by a desire to establish long-term economic activity (Piasecki and Rogut, 1994). This type of motivation for business ownership is associated with what some writers have described as "proprietorship" rather than entrepreneurship because of an emphasis on the use of any surplus for current consumption rather than for capital accumulation (Scase, 2003), affecting the dynamism and entrepreneurial potential of these regions.

Developing entrepreneurship in Poland's rural areas is a challenging prospect, particularly in peripheral, traditional villages with small populations because of a number of structural weaknesses. Previous research suggests that the main barriers include: i) a low capacity for capital accumulation; ii) a high proportion of farms that lack the capacity to adapt to changing market conditions; iii) underdeveloped supply chain linkages between agricultural producers, wholesale firms and food processing firms; and iv) the education level of the rural population, which is significantly lower than that of their urban counterparts (Piasecki and Rogut, 1994).

In combination, these factors constrain the development of SME and entrepreneurship activity in Poland's rural areas, which increases the need to generate opportunities for diversification into non-farming economic activity as an alternative source of employment. It is difficult to see how the situation can be changed radically without policy interventions that lead to substantial investment of external capital in activities that will provide new business opportunities for local entrepreneurs.

The overall conclusion reached by Piasecki and Rogut, together with other studies, was that SME and entrepreneurship activity in rural areas is still in the early stages of development. This is mainly because of the lack of an enabling environment, in terms of technical infrastructure, poor access to markets and a lack of a business-support infrastructure. This is supported by evidence from their survey of existing enterprises, which showed that only a handful of firms had either sought or received external support of any kind, including external sources of business information and advice. The results have important implications for the economic development priorities of these rural regions and suggest a need for a co-ordinated policy response.

This analysis of SME and entrepreneurship development in Poland's rural areas emphasises that spatial imbalances involve urban-rural as well as regional contrasts. Whilst recognising the diversity of experience in Poland's rural areas, accession to the EU is likely to reinforce and perhaps widen existing disparities, in the absence of strong policy intervention. Such policy intervention will need to include institutional development and capacity building to enable local and regional authorities to adopt a proactive and effective role in promoting entrepreneurship as a driver of economic development in rural Poland. The nature and extent of the task makes this a national as well as a regional priority.

The regional and urban-rural variations described suggest that there are differences in the priority needs of regions with respect to SME and entrepreneurship development, which one might expect to see reflected in the content and orientation of regional development plans. This particularly applies to the priority that needs to be given to raising the level of SME and entrepreneurship activity, as well as influencing the nature of the policy response.

Meeting local policy needs

The great spatial variations in SME and entrepreneurship activity, business climates and business performance among Poland's 16 regions, as well as between the predominantly urban and rural areas of the country, pose a special challenge to policy makers in charge of designing SME and entrepreneurship policies. Out of these local variations stem different needs for policy intervention, for example in terms of the degree to which new job creation is required, the nature of the untapped and high-potential sectors for SME and entrepreneurship activity and the nature of the target groups. The territorial nature of innovation and the degree to which new and small firms are influenced in their innovation behaviour by local assets and partners is a further reason to have a strong local dimension to SME and entrepreneurship policies. The main implication is that the portfolio of policies should adapt to these differences and provide the support that reflects the challenges and needs of specific regions. National policy makers should have a clear understanding of the existing diversity in terms of economic structures and SME and entrepreneurship potentials in order to understand to what extent customised services can be delivered from the national level or by delegating the design and delivery to regional levels. The key question is thus whether national policies in Poland take into account local differences and/or whether national efforts are complemented by specific local policy efforts that are more adapted to varying needs.

In order to assess whether Polish SME and entrepreneurship policies are appropriately tailored to local needs, a starting point is to set out an underlying set of principles and "good practices" in SME and entrepreneurship policies, and to assess the Polish situation against these principles.

Policy support: Visibility, accessibility, branding and quality standards for delivery

In order for policy support to deliver efficiently, entrepreneurs should be enabled to easily find the appropriate SME support providers. Support structures should thus be transparent and visible. Transparency means it should be clear to entrepreneurs who delivers what service and has which expertise, and this should not be dispersed over too many organisations. Visibility means that providers must be well known and have a good reputation in order to facilitate and increase the use of their services. Visibility can also be enhanced by establishing a clear brand that is recognisable to firms and individuals. A strong brand is connected to a good quality standard of the service providers, which are stimulated to train suppliers and counsellors, monitor and evaluate delivered services, and take into account user feedback. Also the proximity of support service organisation to firms helps to increase visibility.

In OECD countries, there is not one "best practice" model on how to organise the national-regional delivery of SME and entrepreneurship policies and services. The appropriate framework for Poland could however share some common elements with frameworks in other large European countries, such as France, Germany and the United Kingdom. In the United Kingdom for instance, the network of Business Links, the single

entry for SMEs, is a central government initiative with strong partnership with regional development agencies and service providers. The learning model example of the Business Link network is described in Box 4.1. In Germany, on the other hand, the organisations that provide SME innovation services are organised differently from region to region and this is the responsibility of the regional (Land) rather than the Federal government, with various federal programmes backing the regional organisations. It is nonetheless important to take into account the historical and political contexts and the geographic characteristics of Poland if these models are to be used as benchmarks.

Box 4.1. Learning model: Combining national branding with locally delivered business support – Business Link (United Kingdom)

Description of the approach

Business Link is the English business-support service, making up a network that covers the entire country. Business Link provides free business advice and support services, which are available on line and through local advisers. Online access to information is provided through a single national portal (www.businesslink.gov.uk). This contains a self-help tool for new business start-ups and SMEs to access information, with links to all relevant ministries and departments. By entering a postcode into the national Business Link portal, enquirers may find out about the specific help available within their region and request a call from the local Business Link. Basic information is freely available to enquirers, whilst more intensive support is available from local Business Link advisers.

Business Link is a service brand, which describes the services that government wishes to see delivered under the brand. The current Business Link service offer focuses on the nationally agreed Information, Diagnosis and Brokerage (IDB) model. The information aspect provides non-competitive access to all information that is relevant to any business on the basis of need; thereby demonstrating a single gateway approach to business support. Diagnosis examines customer needs as a precursor to Business Link brokering external expertise to actually provide the services. Brokerage is an attempt to move away from a “one-size-fits-all” approach. In a brokerage model, the role of the business adviser is to assess needs and direct the client to those sources of advice best able to fulfil that need.

As a government-branded service, Business Link is able to demonstrate impartiality, putting customers in touch with the most appropriate sources of assistance. The introduction of the IDB model changed the role of business advisers in Business Link, by separating out the delivery of business support to third-party providers from the provision of information, impartial advice and signposting to external business service suppliers. Following a series of regional pilots, in April 2005 the management of Business Link Operators (BLOs) was devolved to the regional development agencies (RDAs), which are responsible for contracting with the BLOs. Devolving Business Link services to the regions was intended to offer a service that is more responsive to local needs and RDAs were tasked with tailoring business support to the key challenges of local areas (HM Treasury, 2004). It is the RDAs that select and manage Business Link service providers (the BLOs).

The new Department of Business, Innovation and Skills (BIS)* is the owner of the Business Link brand and provides approximately GBP 150 million a year to the regions for Business Link services, although the RDAs may draw on additional sources of support (including EU funding in some cases) to meet local needs. This means that the range of services offered will vary between regions.

Box 4.1. Learning model: Combining national branding with locally delivered business support – Business Link (United Kingdom) (cont.)

Rationale for policy intervention

The rationale for providing public funding to Business Link is based on a combination of demand and supply-side failure in the market for business information and advice. On the demand side, this reflects information asymmetry, associated with confusion in the minds of small business owners about where to go to access business support. On the supply side it reflects a lack of co-ordination of business-support providers resulting in a duplication of services. As a result, part of the rationale for developing Business Link is to help SMEs navigate their way through the mass of support available.

Strengths

The Business Link system has evolved considerably since it was launched in 1992, offering a national network of local business advice centres. Various adjustments have been made over the years, linked to a series of evaluation studies and policy learning. Four specific strengths are highlighted here, as being particularly relevant to the Polish case:

1. Business Link is a national network which makes it easier to promote and establish a national brand. The national brand is now widely recognised across the country, with growing market penetration.
2. The decentralisation of responsibility for managing Business Link Operators to the RDAs enables the support provided to existing and potential business owners to be responsive to local and regional needs. It also allows performance targets to vary between regions according to local conditions.
3. The reporting requirements that are part of the contractual arrangements between the BLOs and RDAs provide a mechanism for performance monitoring. The reporting requirements placed on the RDAs by BIS provide a mechanism for maintaining quality control across the country.
4. Value for money estimates based on robust evaluation methodologies show that every GBP 1 of public money spent (from all public sources) generates over GBP 2.26 of value for the economy.

Weaknesses

Various criticisms have been made of the Business Link system at different stages of its development, although adjustments have been made to address some of them. Nevertheless, they are important potential learning points for countries interested in learning from the Business Link model. Four main weaknesses can be identified:

1. There are low penetration levels of certain target groups, including women (Bennett, 2008) and members of ethnic minorities. However, penetration levels among these groups are now part of the targets and reporting process, which means that BLOs need to take steps to ensure that they are met.
2. Prior to the introduction of the IDB model, referral to non-public agents was limited (Bennett, 2006). This led to the criticism that public money may crowd out market-based provision of business advice.
3. Earlier targets for raising fee income from clients proved unrealistic, contributing to a distortion of both client and adviser behaviour. This aspect has now been modified by providing core services free of charge.
4. The difficulty of recruiting sufficient high-quality advisers reduced the effectiveness of the public system in the early days. It also contributed to considerable variation in performance between BLOs.

Box 4.1. Learning model: Combining national branding with locally delivered business support – Business Link (United Kingdom) (cont.)

Considerations for successful adoption in Poland

One of the weaknesses identified in the evolving business-support system in Poland is its fragmentation, which is likely to be exacerbated unless there is a high level of co-ordination between national and regional provision. The Business Link model is an example of a national approach to business support, with national branding and quality control, which is also sensitive to local needs. The principle of a single gateway for entrepreneurs (both potential and existing entrepreneurs) to access business services helps to reduce the uncertainty in their minds about where to go to access support. In addition, the brokerage system offers a means of publicly funded business support contributing to rather than crowding out the development of local markets for business information and advice.

Contact details and website for further information

For further information about the help available to businesses, see www.businesslink.gov.uk.

* The Department of Business Innovation and Skills (BIS) was created in June 2009, combining the Department of Innovation, Universities and Skills and the Department of Business, Enterprise and Regulatory Reform.

Finally, policy makers at the national level must ensure that business support in Poland responds to a demand-side failure of small business owners to find the right support services. Publicly funded business services should not crowd out what can be offered on a commercial basis; and it should be ensured that publicly funded services help businesses upgrade their performance and not make them dependent on external publicly funded support.

In the last decade, Poland has shown a proliferation of innovation and enterprise support organisations providing SME and entrepreneurship services. As a result, the system lacks transparency as well as a homogeneous structure with national coverage. This review has shown that business support organisations do not have an institutional set up that is strongly branded. For example, the National SME Services Network (KSU) has mobilised over 188 organisations (an average of more than ten per region) offering services in 195 local offices. These organisations vary in size and legal status and by law they should be not-for-profit organisations. Therefore, from a user perspective there is little clarity on which organisations represent the KSU network. In addition little thought has been given on how these publicly provided services interact with services that could be provided by private sector consultancies. With the implementation of the Regional Operational Programmes, there is a risk of further proliferation of services and organisations delivering these services.

The Polish Agency for Enterprise Development (PARP) has developed an accreditation process to evaluate the intermediaries who will provide business support. The organisation also sets standards for the organisations and consultants delivering the services. However, due to a lack of a clear division of labour and co-ordination between national and regional policy levels, as well as between the different types of support (financial, general business, innovation and technology, etc.), the delivery of SME and entrepreneurship support policies in the Polish regions is not transparent to the potential users. The ambition is to work towards a one-stop-shop function in Poland. PARP is in the

process of dialoguing with several regions to use the KSU network as the central business support organisation in the region. The main challenge that will need to be overcome is to build a model that takes into account transparency, quality and regional specificities. This will require the rationalisation and central branding of support institutions, which should be located in the voivodships given the size of the country. However, the branding and quality assurance should be co-ordinated from the national level, while the packages of support provided should be geared to regional needs.

Adjusting to different needs, proximity and dialogue with the business community

Policies and programmes should be tailored to the needs of the different target groups of SMEs and entrepreneurs. In order to identify different policy needs, it is first necessary to categorise the different types of SMEs and entrepreneurs. By doing this, it becomes clear that entrepreneurs who want to start a high-technology-based firm will have different needs than entrepreneurs wanting to start a company in more traditional sectors; or that SMEs might in some cases need simple advice in general business matters and in others might be looking for specialised support for growth and innovation.

Thus, the balance of service provision to these various types of firms and entrepreneurs should differ from region to region, depending on the characteristics of the economic structure of the region and the potential for innovation and technology based on growth. Designing a package of SME and entrepreneurship policies should therefore be based on a thorough analysis of the strengths and weaknesses of the region and fine-tuned to the specific economic and sector structure.

Some types of SME and entrepreneurship support ask for proximity and low access barriers in order to ensure efficiency. The barriers for making use of support should be low in relation to the complexity of the type of support needed. Typical barriers that occur or are perceived are cultural distance, cost barriers and geographical barriers. If the support needed is highly specialised, complex and dependent on unique expertise, however, there are also good arguments from a cost-effectiveness principle, to provide that centrally rather than at local or regional level.

Spatial proximity is of particular importance for two reasons. Firstly, proximity is a prerequisite for many business development and innovation processes and most business-support services require proximity for delivery as they need to be in close contact with individual firms. Secondly, spatial proximity plays an important role in the implementation of cluster policies and the development of science and technology parks. In both cases, spatial proximity allows for the building of links and trust between firms and support service suppliers.

Finally, user-oriented policies require a constant dialogue with the business community and members of the policy target groups. Policies which are designed in consultation with potential users are more likely to be relevant and taken up by the target community. As a result, tailoring policies to regional needs requires various forms of dialogue with the business community, and perhaps pilot programmes at the regional level.

In Poland, the portfolio of services provided is to an important extent defined and financed by PARP through the KSU network. Regional intermediaries and additional services have limited resources at their disposal, which in turn limits their capacity to offer complementary services. Some policies such as technology park and cluster development

policies are delivered from both the national and the regional level. However, the concepts of clusters and science parks are relatively new in Poland and levels of collaboration amongst companies still appear to be very low. In addition, regions lack the capacities and institutional structures to efficiently develop these kinds of activities.

In Poland, cluster mapping exercises show that there is great potential for clustering in the country. The main question, however, is how far the national government should co-ordinate the development of clusters, and what should be done at the regional level. Interviews with regional authorities show that regions are taking an increasingly proactive stance to cluster development. However, these authorities also mentioned the difficulties they have encountered in the implementation of cluster development policies. Funding that should come from the central OP is completely locked and there is not a detailed definition of what a cluster should consist of. In addition, in the opinion of many regional authorities, there is too strict a definition of the type of cluster activities that can be funded. This does not match the “softer” trust-building phases that the regions feel they need to initiate in most emerging clusters, particularly as the business community is still weakly organised.

Policy makers at the national and regional levels must be aware of one of the likely pitfalls of cluster development initiatives. If such initiatives include direct funding to firms for their cluster activities, this could lead to perverse behaviour such as firms engaging in activities that are commercially not beneficial or where no situation of market failure is present. Good practice examples in cluster policies target the facilitation of networking activities rather than funding firms to take part in clusters. The role of the national government is to oversee that regional cluster policies remain in the sphere of facilitation rather than offering direct funding. The national government should also ensure a close dialogue with regions in order to eliminate diverging perceptions of what cluster policies should entail, as well as to develop a clear but flexible framework to align regional and national concepts of cluster policy. Box 4.2 presents a learning model cluster initiative, the *Kompetenznetze.de* in Germany, which may prove useful for the development of cluster initiatives in Poland.

Box 4.2. Learning model: Improving the visibility and quality of regional clusters with national policy initiatives in Germany: *Kompetenznetze.de*

Description of the approach

The support and development of clusters in Germany is mostly the responsibility of the German regions (*Länder*) and each region has a different approach to deciding which clusters are selected for support, what type of support is offered to them and which actors take the lead. Thus the German cluster landscape is quite dispersed and multiple regional initiatives exist within a particular sector. At the same time, the Federal government, and also the *Länder*, have the ambition that the regional and local clusters and networks should become more visible in Germany, but also internationally. In 1999, the Ministry of Education and Research (BMBF) launched an initiative to start a “club of best clusters” which was to present itself on a German-wide cluster portal called *Kompetenznetze.de* (see www.kompetenzenetze.de). Thus the initiative was to provide a quality label to clusters, or more precisely inter-firm networks, mostly for promotional reasons, and not to provide

Box 4.2. Learning model: Improving the visibility and quality of regional clusters with national policy initiatives in Germany: *Kompetenznetze.de* (cont.)

any financial support. The philosophy is that the selected networks should be focused on innovative activities, not just direct commercial benefits (e.g. joint purchasing). This implies that in addition to a strong membership from the business side, it is also expected that higher education or research technology centres are included for innovation and training activities.

The initiative, now ten years old, still has quite a strong reputation in Germany. It is now led by the Ministry for Industry and Technology (BMWI), which is responsible for SME and innovation policy.

In order to provide the quality label, *Kompetenzenetze.de* has provided a set of criteria to define what makes a good cluster. In this context, a cluster is relatively narrowly defined as a network of actors that interact closely to achieve common goals. Each cluster is free to apply to be represented by *Kompetenznetze.de* and twice a year new entrants are admitted to the “club of best clusters”. In addition, clusters that no longer fulfil the criteria are removed and over the years that has happened frequently. On the portal, visitors can search for certain clusters by thematic priority, by geographical location and on the site of each individual cluster by partner organisations and specific fields of expertise.

A Scientific Advisory Board decides whether the applying networks fulfil the criteria for entry. The criteria are:

- The history and development of the network: is it sufficiently robust and mature in terms of organisation, membership, network activities and future sustainability?
- Clear thematic focus and visions for the future direction and goals of the cluster.
- The organisational structure of the cluster and a sense of identification with the cluster by its members.
- The collective activities undertaken as a network and the financial commitments of the members.
- The composition of the partners in the network.
- The activities to support internationalisation of the network.

In recent years, the *Kompetenznetze.de* initiative has broadened its scope of activities and is more than just a “passive” representation of the clusters on a national Internet portal. Annually there is a “Prize” competition between clusters on a specific topic such as technology transfer or internationalisation activities. The prize is a relatively small financial reward but raises large publicity for the cluster, with the award being made by the Minister or the Secretary of State. More and more practical workshops are organised for specific cluster management teams using a selection of cluster management organisations. The office that runs *Kompetenznetze.de* offers a quality benchmark to individual clusters, comparing their performance with other clusters in a similar thematic area. In addition, an overview on the current state-of-play in certain thematic clusters is available in publications and brochures, which can be used for further promotional purposes.

Rationale for the approach

The rationale behind the relatively “hands-off” approach was that in order for clusters to be competitive and attract attention from potential investors from abroad, they have to be visible, their competences have to become more transparent, they need a branding for the outsiders who seek to come into contact with the network and finally they need an

Box 4.2. Learning model: Improving the visibility and quality of regional clusters with national policy initiatives in Germany: *Kompetenznetze.de* (cont.)

incentive to remain ambitious and active, not only internally but also in their publicity actions. As the Federal government has a more distant role in supporting clusters and the regions have the primary responsibility, providing a national “brand” was a value-added role for the national government. As the decisions were completely bottom-up, there was no political ambition to represent all regions equally.

Impact and available evaluation evidence

The *Kompetenznetze.de* initiative has been evaluated externally twice, but none of the reports have been made public. The interest in regional clusters to be presented through the brand is still strong. It is slowly becoming a “club” of networks where meetings between clusters are now set up more frequently. To what degree it improves the visibility and access to certain clusters is more difficult to measure. In order to be represented, the network managers have to ensure that their publicity work through the portal remains up to date and is accessible to the outside world. It is encouraged to present the cluster not only in German but also in English.

Strengths

As the initiative does not provide financial support to the clusters, this implies that in order to take part, the cluster management must demonstrate a strong commitment in their application to *Kompetenznetze.de*. Being accepted in the “club of the best” also requires them to define their thematic focus much more clearly or to work towards strengthening elements that could be approved, for example, improving their public presentation on the portal. In the application process, the clusters receive an external opinion from the Scientific Board to see if improvements in the cluster structure or management are required for membership of the “club of best”. Even those that are not accepted immediately receive feedback on how they could improve their network. Thus the initiative is a relatively cost-effective way to change the behaviour of cluster managers.

Weaknesses

As the initiative has no other instruments than publicity and voluntary participation in additional services and events, the influence on how the networks actually perform is limited. The performance of networks is generally the responsibility of regional actors (mostly sponsored by regional governments) and this is not a major concern for the national government. There could therefore be a mismatch between the quality label given by the national level and the importance given to a particular cluster by the regional or local governments. In addition, the initiative can lose momentum if there are no additional activities and services that significantly interest the networks and outsiders.

Considerations for successful adoption in Poland

Poland is gradually building up cluster policies at the national and regional level, and some of the regional clusters are still quite small and in the emergence phase. However there are some networks that already have some critical mass, track record and collective activities. In order to stimulate the identity of the cluster and to increase the visibility of the cluster to outsiders, a *Kompetenznetze.de*-type portal and back office could be useful. PARP could be the organisation to host this portal and the network-management activities could be subcontracted to an outside organisation.

Box 4.2. Learning model: Improving the visibility and quality of regional clusters with national policy initiatives in Germany: *Kompetenznetze.de* (cont.)

Key considerations for successful implementation of this type of approach are:

- Ensure that quality standards on the expected performance of clusters are outlined and applied before providing clusters with publicity.
- Develop the provision of a quality label at a slow pace, as allowing too many initiatives that are sub-critical or non-sustainable damages the reputation of the portal/quality label.
- Develop measures to support the exchange of experiences between network managers.
- Refrain from allowing government-led cluster initiatives on such a portal as these often have poor sustainability rates once public funding stops. This can be avoided by ensuring commitment from the business sector and other key stakeholders in the networks.

Contact details

The portal can be found at: www.kompetenznetze.de. The organisation contracted to manage the initiative can be contacted at: VDI/VDE-IT in Berlin, kompetenznetze@vdi-vde-it.de.

During the review, two additional factors that currently limit entrepreneurship and SME growth were identified: i) unequal distribution of financing available for SME and entrepreneurship development across Polish regions; ii) low levels of organisation of the business community. There are multiple public and private sources of finance for SME and entrepreneurship development in each region. However, these sources are not equally spread amongst the regions and fewer funds are available in the poorer regions. With regard to the business community, local authorities and practitioners often expressed the view that it is not well organised and that self-organisation models are weakly developed. Overall, the perception was that self-government of the business sector is not well developed and hampers business-oriented policy making and public-private partnerships.

Thus in Poland, dialogues with the business communities on appropriate policy support structures should take place at national, regional, and local levels. This calls for good co-ordination between national and regional authorities on the outcomes of these public-private dialogues in order to develop a coherent framework of generic and specific support policies.

Areas for improvement

When comparing the principles for locally-tailored and delivered SME and entrepreneurship policies with the assessment of how the Polish national and regional actors address these principles, the following conclusions can be drawn:

- The delivery of SME and entrepreneurship policies in Poland needs a more coherent framework of regional business service organisations with fewer publicly funded not-for-profit organisations involved, less overlap between national and regional actors and greater accessibility and visibility from the viewpoint of potential users.
- The national Innovative Economy Operational Programme should provide the general framework (e.g. within state aid rules and other general rules of good governance) for the

development of regional initiatives, but not set too detailed rules for their implementation, so that regions can adapt their initiatives to local needs.

- An important role for the national government and agencies is to help build capacity and expertise in regions to improve the quality and effectiveness of regional business support actions.

Recommendations

The recommendations that follow from this assessment are:

- Streamline the current fragmented publicly funded business support sector to create a strong network with fewer organisations, more institutional capacity and more regional branches of larger entities.
- Develop a number of modules of business support that need a form of standard quality and expertise and that can be applied to various target groups.
- Define areas of business support that need a degree of flexibility to adapt to local situations (e.g. cluster development) with clear “rules of the game” (e.g. state-aid rules) that have to be adhered to.
- Consider which services could be delivered by private sector organisations, if necessary through a system of certification and accreditation. Limit the degree of subsidised advice that these private organisations can deliver.
- Create a clear virtual portal recognised and branded in all regions that can help firms with their first entry into the support network. Develop the portal from a user perspective, not from the perspective of the supply side.
- Review the “demarcation lines” for the actions in the Innovative Economy Operational Programme in a constant dialogue between the voivodships and the national authorities and agencies. Define the legislative acts that underpin the programmes in a broad manner, setting out the rules of the game, without defining the detailed contents of those actions that could be best delivered regionally.
- Shift the balance from delivering national SME and entrepreneurship policies in the regions in favour of building capacity in the regions to implement the regional and national Operational Programmes.

Coherence between national and local policies

Effective co-ordination of policies originating in different parts and levels of government is essential if policies are to be efficient and effective in achieving their objectives and reaching their target groups. Co-ordination is necessary if policies originating from different parts of government and associated agencies are to be coherent and united rather than overlapping, and comprehensive rather than leaving gaps. Since it is at a local and regional level that entrepreneurs are most likely to come into contact with and experience government policies and programmes, it is important that institutions involved in national policy formulation and delivery work closely with their regional counterparts and *vice versa*. A lack of co-ordination is likely to contribute to increased fragmentation of policies in the eyes of entrepreneurs, rather than the simplification that makes it easier for them to find and access the support they need.

The mechanisms and processes by which central government attempts to co-ordinate national with regional level policies vary across SME and entrepreneurship policy areas. In

most cases, some form of co-ordination mechanisms exist, although it would appear that their effectiveness could generally be improved. Most informants recognise that the co-ordination of national and regional level policies in Poland is challenging, outside the confines of specific projects. This is a reflection of the high degree of autonomy which *voivodships* have from central government, combined with the relatively short period of time that has elapsed for the different levels of government to establish a *modus operandi* for working together in what is a relatively new policy field in Poland.

The recent establishment of the National Co-ordinating Committee for Development Policy is in recognition of the need to improve co-ordination within the system. Although at the time of writing this new committee has yet to meet, it is chaired by a minister who is a member of the Council of Ministers and includes representatives of each of the main ministries. Its future agenda includes issuing opinions and giving advice to the Prime Minister.

In the rest of this section, the mechanisms and processes for co-ordinating national and regional level policies are discussed in relation to NOPs and ROPs; the KSU network; innovation policy; loan and loan guarantee funds; cluster policy and policy for social enterprises.

Co-ordinating National and Regional Operational Programmes

Since the current approach to SME and entrepreneurship policy in Poland is heavily dependent on EU funds, the co-ordination of NOPs and ROPs is a priority for achieving policy efficiency and effectiveness in this area. The guiding principle for co-ordination is that NOPs are concerned with national-level needs and policy priorities, whereas ROPs seek to address regional needs. In practical terms, national and regional programmes differ in the scale, specialisation and sophistication of their support instruments, as well as the size of the budgets allocated to them. For example, a majority of innovation-support instruments in the NOP for Innovative Economy focus on high-technology and/or more advanced companies using sophisticated instruments, such as venture capital and financial packages. This contrasts with instruments in ROPs which typically focus on addressing the needs of low- and medium-technology firms, with less sophisticated financial instruments.

As the main co-ordinating ministry for the EU Structural Funds, the MRD is responsible for co-ordinating NOPs and ROPs. It achieves this co-ordination by participating in the Monitoring Committees of each NOP and ROP and influencing the selection criteria for projects and their funding. In the case of the national Human Capital Operational Programme (HC OP), which organises European Social Fund (ESF) support for small firm development and entrepreneurship including skills development in SMEs, regional innovation systems and co-operation between higher education institutions and industry there is further co-ordination with ROPS working through annual action plans between the MRD and each of the 16 regions. These action plans set out the main priorities and mechanisms to be used for entrepreneurship and SME development in the ROPS in each year, building on assessments of activities undertaken to date and the fit with the objectives and activities of the national programme.

The managing authorities for the ROPs are the boards of the *voivodships*. They prepare and implement the ROPs. Regional monitoring committees govern the activities. They include representatives from central government ministries (including the Ministry of Economy and the Ministry of Regional Development) as well as representatives from SME organisations and employers' organisations. Together with the regional development

strategies, the ROPS must be in line with the medium-term national development strategy. The Ministry of Regional Development seeks to co-ordinate the ROPS horizontally, with each other, and vertically, with national programmes. The responsibility of the MRD includes verifying whether the ROPS are in line with the NSRF; monitoring the results of implementation; participating in the Task Force on Entrepreneurship and other thematic groups established in the structure of the NSRF Coordinating Committee; participating in the monitoring committee sessions for the ROPS; approving management and control systems; and preparing state aid regulations for the ROPS.

Although some differentiation between ROPS is to be expected, reflecting regional specificities in their development needs and capabilities, in practice, the ROPS were reported to vary little, suggesting a certain lack of tailoring to local needs. Part of the explanation for this is that the regions share many priority needs, such as a need for infrastructural improvements, although the limited capacity and experience of most regional authorities with respect to entrepreneurship policy may be another contributing factor. Furthermore, it was reported that in practice most discussion between the MRD and the regional authorities takes place at the time of preparation of the programme documents (which occurs every seven years according to the EU's programming period), rather than at the delivery stage, although it needs to be recognised that the implementation of the current ROPS is still in the early stages. In addition, the focus of current co-ordination appears to be on budget ceilings for instruments and/or on applying the demarcation line principle to avoid the risk of dual financing, rather than on the content and types of instrument contained in the programmes.

Overall there is a need to strengthen co-ordination at the operational level, which may be illustrated with reference to the fact that after one year of implementation experience with OPs, overlap can be observed between national- and regional-level instruments. Support for industrial parks was mentioned as one example. A further example relates to networks of business-support agencies, which can gain support under both national and regional OPs. This means that a single institution can benefit from double funding.

Co-ordinating the KSU network

It is widely accepted that the markets for business information, advice, training and finance often operate imperfectly as far as small firms are concerned, which is commonly used internationally as a justification for public intervention in these markets. Since entrepreneurship and SME development are increasingly recognised as potentially important contributors to an economy's growth performance, intervention to address deficiencies in the markets for the business services that they need may be justified in terms of potential welfare gains to the economy as a whole.

In this context, the KSU network in Poland, managed by PARP, is a key element in the central government's response to this issue. The main areas where PARP consider publicly funded support necessary are: information, pro-innovation advice, loans and loan guarantees. At the same time, the support needs of businesses vary between different regions, which means that a "one size fits all" approach is unlikely to be effective. In addition, other national and regional actors (both public and private sector) are involved in delivering business support to SMEs. As a consequence, effective policy co-ordination of the business-support system is essential if entrepreneurs are to readily access the business services they need. The one-stop shop (or single window) should be the guiding principle in this respect, emphasising the need for having a single entry point into the support system.

This may involve the provision of a variety of business services at a single site but more importantly, a single entry point (e.g. telephone number, website) with an efficient system of referral to a comprehensive range of service providers. This principle should be applied to the provision of services to established SMEs as well as to start-ups. This is the guiding principle behind the EU's Enterprise Europe Network initiative, launched in February 2008.³

As far as co-ordination is concerned, the priorities of PARP for the network have changed over time. In 2004, PARP invested funds to build the capacity of institutions that are part of the network, but since 2008, the focus has been on issuing and managing contracts for service provision. These contracts are allocated following responses to published calls, which specify the minimum requirement for service providers in terms of the number of clients and the services offered. Aspects of co-ordination include the requirement that all KSU centres must meet general competence criteria, as well as specific criteria in order to deliver specific services. These steps are designed to co-ordinate what is a national network, with partner institutions contracted to deliver services. This co-ordination is achieved from Warsaw since PARP does not currently have its own regional offices.

In terms of co-ordination mechanisms, there is a Co-ordination Board for the KSU system as a whole, supported by a secretariat. PARP has also established boards to co-ordinate specific services. These boards provide a mechanism for sharing good practice between partner institutions, as well as working together to improve the effectiveness of the network. The process of continuous improvement in the system currently includes increasing co-operation with regional authorities. PARP considers that the main task of KSU is to meet local needs, using funds from the central state budget according to the subsidiarity principle.⁴ Regionally differentiated services should be the focus of regional-level policies.

In short, co-ordination of the KSU network focuses on quality control and the sharing and dissemination of good practice. Whilst these are appropriate co-ordinating functions, they are arguably not sufficient. Most regions are seeking to establish their own consultation points, funded through the ROPs. PARP is in the process of seeking to establish closer co-operation with the Marshalls' Offices and has already signed co-operation agreements with some, to exchange good and bad policy practice and experience and to develop a common system of information points for entrepreneurs. This is certainly a positive step towards improving co-operation between nationally and regionally funded support provision, although it remains to be seen whether or not it is sufficient to avoid fragmentation of the support system and confusion in the minds of entrepreneurs about where to go for support.

Co-ordinating national and regional innovation policies

Innovation policy in Poland is co-ordinated at two levels. At the national level, the Council of Ministers is responsible for co-ordinating policies of the Ministry of Economy and Ministry of Science and Higher Education. However, some view this process as insufficient, suggesting it represents little more than a bilateral exchange of views. Co-ordination between the national and regional levels only exists with respect to the EU Structural Funds (as described above). However, a proposal is currently under discussion to create a Science and Innovation Council under the Prime Minister's office. This council would co-ordinate with the regions as well as horizontally (since the five dimensions of national innovation policy are implemented through the NOPs for Human Capital and Innovative Economy).

In practice, co-operation between regional and national levels with respect to innovation policy is said to be greatest when ROPs are drafted, since some negotiation between central

government and the regions is necessary at this stage. However, it was reported that in practice, these discussions tend to focus on two main issues: eliminating competition between instruments; and co-ordinating beneficiary impact to avoid overly focusing on a limited number of institutions. In other words, co-ordination appears to be based more on administrative than strategic considerations. However, the real problem is that there is no ongoing co-ordination process with a designated co-ordination body. Consequently, where co-ordination exists, it is typically on a case-by-case basis for a specific purpose.

Co-ordinating loan funds and loan guarantee funds

The network of loan funds across the country raises some specific issues with respect to the relationship between national- and regional-level policies. There are currently 72 loan funds in Poland, varying in scale and resources. In terms of co-ordination, the procedures and quality of these funds has been harmonised. At the same time, the multiplicity of small and medium-sized loan funds is viewed by some as a problem because the lack of sufficient revolving money limits their ability to lend. Even medium-sized funds were reported to be allocating just one or two loans per month because of this constraint. Since there are benefits in loan funds being close to enterprises, there is limited scope for a national approach. However, in Lublin *voivodship*, for example, there is a single loan fund but with local branches in six major towns, suggesting that scale may be combined with local access. The Polish Association of Loan Funds is a national organisation, with most loan funds among its membership. Although it does not have a co-coordinating role, the association has a lobbying function, and advises regions on about how loan funds can grow. Performance of all loan funds are analysed at six-monthly intervals.

The Economic Bank of Poland (BGK) supervises the loan guarantee system, based on a combination of bank and local authority funds. Initially, BGK provided services across the country, adding their investment to the capital of local guarantee funds, where they were invited to. BGK believes that banks know best where to develop commercial lending, which means that their investment is directly related to the level of economic development in a region. The National Association of Guarantee Funds lobbies to create a friendly environment for funds in the country, as well as publishing a biannual report. Members include 60 of the regional and local guarantee funds operating in Poland.

Cluster policy

Cluster policy is a good example of a policy field where there are clear potential benefits from co-operation between national and regional authorities, since support for cluster development is currently available from both national and regional sources. Once clusters are identified, PARP provides support for cluster development; in the Innovative Economy OP at the national level, which has supported ten clusters from the state budget on a pilot basis since 2008; and also through a European Union 7th Research Framework Programme project, which includes clusters in nine countries in 16 regions and focuses on best practice policy transfer. Support for cluster development is also available through the 16 ROPs.

Social enterprises

The promotion of social enterprises is a further field in which national-local co-ordination and partnerships across different actors is important. Social enterprise is generally understood as an innovative business model that meets both social and economic objectives, contributing to labour-market integration, social inclusion and

economic development. In many OECD countries recent growth of the social enterprise sector has occurred in response to a decline in the capacity of the welfare state to deliver solutions to social problems and a gradual move away from traditional conceptions of civil society organisations. Social enterprises are also taking on increasing importance in transition economies such as Poland, where they are increasing the offer of welfare services beyond that provided by the government sector and giving birth to a stronger civil society sector. Key contributions of social enterprises have proven to be: reducing social exclusion by reintegrating difficult groups into the labour market and delivering well-being services (not only welfare services) to the underprivileged; creating jobs at the local level; and increasing social capital and citizens' participation, thereby creating more sustainable communities (OECD, 2009a; OECD, 2007).

Poland has probably gone farther than any of the recent OECD members to assist and promote the development of the social economy, including social enterprises, in various parts of the country and indeed, there has already been notable progress in acknowledging their importance and potential for addressing difficult social problems. This involves actions both at national and local levels. The national government plays the crucial role of creating appropriate institutional structures in which social enterprises can operate, whilst regional and local governments play a key role in providing support structures and tools specifically aimed at social enterprises (OECD, 2009b).

Nevertheless, much still remains to be done to fully harness the potential of the sector. In particular, there has been a relatively narrow focus on social enterprises as instruments for work integration rather than as entities providing goods and services of public benefit with a wider remit. This narrow focus and recognition of only one particular segment of social enterprises has important consequences for the ability of social enterprises to fulfil their potential to play a significant role in society, such as by improving social inclusion, enhancing social capital and through the provision of goods and services. This suggests that the development of greater understanding of both the broad concept and full potential role of social enterprises is required.

There is also a pressing need to address the fragmentation which exists in the Polish support system for social inclusion, and the resulting difficulties which emerge for social enterprises. Co-operation among social authorities and other local actors is critical to the success of social inclusion and social enterprise initiatives and a more inclusive and collaborative institutional framework must be developed. The legal basis for strategic planning presents an important challenge in this respect, particularly because of overly restrictive requirements to build social strategy uniquely based on social assistance. There is also a need to support mechanisms which will promote greater collaboration and co-ordination both horizontally and vertically across all levels of government with social enterprises. This will help ensure that current policy gaps and the needs of the social economy are addressed. Intermediary support bodies for the social economy would be an important contribution to engendering greater horizontal and vertical partnerships among social enterprises, wider social economy actors and local authorities.

Areas for improvement

There are a number of areas for possible improvement in the co-ordination of national- and regional-level policies:

- i) **Greater clarity is needed in the relationship between national and regional authorities** with respect to economic development policy. The administrative reforms

which led to the creation of new *voivodships* in 1999 provided an opportunity for a decentralised approach to regional development. Unfortunately, the current arrangements appear to involve a lack of clarity in the division of responsibilities, a lack of co-ordination of policies and limited co-operation, beyond an administrative level (e.g. budget ceilings for policy measures). The administrative reforms appear to have allocated the *voivodships* a strategic role in economic development but without either a budget or the powers to establish regulations to implement policy measures, which means they must rely instead on national regulations. It would appear that each instrument must be specified as a regulation and only national government is currently able to propose new regulations. Currently funds for Marshalls' Offices (MOs) for economic development come from the ROPs. There is no allocation from regional budgets, which seriously limits the ability of MOs to promote entrepreneurship. At the same time, business representatives suggested that since part of corporation tax goes to *voivodships*, this could provide a resource for economic development.

- ii) **A co-ordination gap exists** at the operational level, both horizontally between ministries and vertically between central government and the regions. This is mainly because of weak co-ordination mechanisms. Co-ordination between government ministries (i.e. Ministry of Economy, Ministry of Labour, Ministry of Science and Higher Education and Ministry of Regional Development) is said to be greatest when policy documents are being prepared and circulated for comment. By contrast, there appears to be very little co-ordination at the implementation stage, at either the national or regional levels. Part of this may be associated with timing since there is more experience of strategy formulation in Poland than there is of policy implementation, particularly at the regional level. As a consequence, it needs to be recognised that policy co-operation between central government and the regions is still in its early stages and more experience will be gathered in coming months as new projects (such as the foreign investors project) are operationalised.

Whilst a rationale exists to guide the co-ordination of national and regional programmes (and to some extent the mechanisms), it is clear that the MRD experiences difficulties in achieving operational co-ordination between national and regional programmes, even when they are funded from the EU Structural Funds. This is because Marshalls' Offices, which are responsible for disbursing EU funds in the *voivodships*, are independent bodies and not under central government control. As a result, even if the MRD seeks to co-ordinate national and regional level policies, its influence over the regional authorities is either through persuasion or through the project selection criteria adopted by the MRD under the HC OP. For example, faced with proposals to set up seed capital funds at the regional level, the MRD might try to persuade regions that seed funds are best left to the national level, because of the potential scale economies in establishing, managing and operating such funds. In practice, some regions will choose to ignore such advice, if for example they have a technology park, and the MRD cannot prevent a region from including such a fund in its ROP, because it does not have the legal authority to do so.

At the same time, it should be noted that the MRD is currently working on a National Regional Development Strategy (NRDS), the principles of which were approved by the Council of Ministers in April 2009. The NRDS includes improving co-ordination between the national and regional levels as one of its objectives, as part of a new strategic programming system. Based on the principle that the present duality needs to

be replaced by a national strategy with common national and regional level goals, this would appear to be a positive step towards providing a foundation for a co-ordination system for national and regional level regional development policies, although the details are still to be published.

- iii) **Capacity to develop and deliver SME and entrepreneurship policy** needs to be strengthened at the regional level. Although a growing number of *voivodships* have established an economic development function, there is a need to build their technical capacity to fulfil this function. There is also an alleged lack of political commitment to SME and entrepreneurship development in some regions. In both respects, a co-ordinated response is justified.
- iv) **Lack of an explicit SME and entrepreneurship strategy.** Whilst the aim of applying the principle of “Think Small First” across government is laudable, this does not negate the value of having an explicit written SME/entrepreneurship strategy. Without this, there is a risk that entrepreneurship is not given sufficient policy priority, as well as making it more difficult to co-ordinate national and regional policies in this area. In addition, it is unclear if and how the “Think Small First” policy is being implemented at the regional level, which is an essential complement to the national initiative.
- v) **A need to strengthen the network of loan and loan guarantee funds.** The current network of loan and guarantee funds needs strengthening, whilst retaining its local/regional orientation. There may be some scope for consolidating funds, whilst retaining local access, based on the Lublin model. At the same time, regional/local authorities need to commit funds to loan and loan guarantee schemes if the needs of start-ups and local entrepreneurs for finance across the country are to be met. Strengthening the loan and guarantee fund network requires stronger national-regional co-operation, with BGK a key player. The new portfolio line that BGK is to offer banks, with simplified procedures for evaluating the loan credibility of SMEs, should help, together with the suggested increase in flexibility with regards to the valuation of guarantees. Closer co-operation between the national and regional levels can help to build the non-bank financial system in other ways, such as by raising the competence of advisers working on loan funds and improving the promotion of loan and guarantee funds to entrepreneurs.
- vi) **Apparent fragmentation in the business-support system.** A key underlying issue in this review is the extent to which the national policy framework is sensitive to and able to accommodate local needs. A current weakness in this regard is the fragmentation of the business-support system, which must contribute to entrepreneurs being uncertain about where to go to access specific types of support. This may be illustrated with reference to the network of new investor centres, which although a good idea in many respects, is likely to add to this fragmentation. Funded through the NOP for Innovative Economy, the network of regional investor and exporter service centres aims to support foreign investors, exporters, and Polish companies interested in investing abroad. The national network element to these centres focuses on the co-ordination and capacity building activities of the Ministry of Economy, which expects the new centres to feed back local data on, for example, the support needs of exporters. The apparent weakness is that these trade centres will not be linked to the PARP contact/information points, thereby contributing to a greater fragmentation of business support when viewed through the eyes of potential business users. Fragmentation also appears to exist

with respect to the provision of non-bank sources of finance, with the PARP system of financial institutions supporting SME and entrepreneurship existing alongside the network managed by BGK. Fragmentation of the provision of business support is a wider issue, and one faced in some other EU countries. Although PARP is in the process of developing co-operation agreements with MOs, which is a positive development, closer integration of the support provided through KSU and the regions would make it easier for entrepreneurs to find their way through the business-support system.

- vii) **The relationship between publicly funded and market-based business support.** It is difficult to see how the current policy approach to business support is contributing positively to the development of the market for consultancy services for SMEs throughout the country. It is always important to assess the potential effects of policy interventions on the supply and demand side of the market and the current approach may have a crowding out effect on advice and consultancy delivered through private sector institutions, rather than stimulating it. This is a particular issue in those regions where the consultancy market for SMEs is most underdeveloped.
- viii) **Limited availability of sub-national data on SMEs and entrepreneurship** to policy makers at the national and regional levels. Although there appears to be recognition of the need to adopt an evidence-based approach to policy making at the national level, there is limited detailed sub-national data available to policy makers on which to base policies that are sensitive to local needs. At the regional level, evidence gathering appears less systematic and formalised. In this context, there is scope for co-operation between national and regional authorities to improve the evidence base available to policy makers on both levels, based on sharing resources and skills.
- ix) **There is little apparent recognition of the distinctive needs of rural areas** in terms of SME and entrepreneurship policy. With 40% of Poland's population living in rural areas, rural development is an important policy issue affecting a significant proportion of the country's population. In view of the distinctive development challenges facing Poland's rural regions, there is a need for a more explicit strategy for promoting entrepreneurship in rural areas. Whilst it may be argued that this should be reflected in the ROPs, the shared nature of the challenges facing rural regions suggests a need for co-operation. In regions such as Podkarpackie the Marshal's Office is not entirely responsible for providing the resources for entrepreneurship development, since the Ministry of Agriculture is responsible for the development of settlements of less than 5 000 inhabitants. In practice, the OP Development of Eastern Poland 2007-13 contains little recognition of the potential role of entrepreneurship in developing these rural areas or the difficulties that need to be addressed to achieve this. In addition, the specific SME-related measures incorporated show little recognition of the distinctive needs of rural areas. In view of the fact that this OP is managed by central government, it represents a good opportunity for national policy actors to take a lead in developing and promoting policies for rural entrepreneurship, which extend beyond the scope of individual regions.
- x) **Limited higher education-business linkages.** Higher education institutions have an important potential role to play in contributing to an improved innovative performance of Polish SMEs through a variety of types of linkage with the business sector. At the same time, as in other former socialist countries, and indeed some mature market economies, achieving this requires a culture change in the mission of higher education

institutions in Poland and in the career incentives and criteria by which academic staff are assessed. This applies to leading edge researchers in institutions of national excellence as well as in regional universities, where the knowledge transfer involved may be less advanced. Both organisations and individuals need to be incentivised to prioritise developing links with businesses, in which both national and regional policy actors have a part to play.

Recommendations

The recommendations that follow from this assessment are:

- i) **Clarify the relationship between national and regional authorities** with respect to economic development and entrepreneurship policy, to include the specification of the respective responsibilities; establishing effective co-ordination mechanisms; and actively promoting deeper co-operation. This should include reviewing the adequacy of existing legislation, particularly with respect to the ability of the *voivodships* to implement their regional development strategies. This might be facilitated if existing national regulations were broadened to include wider types of measures, to enable the *voivodships* to have a greater degree of flexibility.
- ii) It is essential that **effective co-ordination mechanisms** are established for co-ordinating national and regional level policies, operationally as well as strategically. This should include the MoE, MRD, PARP, the MOs and other stakeholders. Strengthening co-operation between the MoE/PARP and the Marshal's Offices is a high priority, although it is important that this involves more than an exchange of documents. A short-term focus on specific fields of common need would seem to be a good way of facilitating improved dialogue, focused on joint interests and specific needs. It is recommended that this co-operation be initially focused on the following areas:
 - ❖ **Improving the evidence base for policy making:** A Task Force for co-ordinating and sharing regional and national data on SMEs and entrepreneurship would be of benefit to policy actors at both levels. This should include comprehensive analysis of regional variations in the nature and extent of SME and entrepreneurship development in the country, based on a combination of statistical and other data systematically gathered and analysed at the regional level.
 - ❖ **Strengthening the capacity of the MOs for formulating and delivering policy:** Steps to build the capacity of the MOs through the provision of training programmes for economic development staff are needed if a profession of economic development officers is to be developed in the country. A common training need exists for staff which could be addressed by creating a professional institute and/or vocational training courses for economic development professionals. These should be nationally accredited to facilitate the job mobility and career development of staff.
 - ❖ **A leadership programme:** A programme of leaders' workshops or seminars aimed at regional politicians could contribute to raising the profile of entrepreneurship policy at the *voivodship* level, by increasing the knowledge of political leaders of the key policy issues.
 - ❖ **Exchange of policy practice and experience:** A forum should be created involving the MoE, PARP and the *voivodships* to identify and exchange good SME and entrepreneurship policy practice and the lessons that can be learned from this.

- iii) **Reintroduce a written entrepreneurship strategy document and encourage all regions to do the same.** This should involve linking strategy to action plans to agreed targets, which are discussed and negotiated between national and regional governments and other key stakeholders. Specific SME and entrepreneurship policy documents which are consulted on, published and implemented are more transparent than inclusion of entrepreneurship and SME support in various policies and programmes. The development of a new SME and entrepreneurship policy should complement the new National Regional Development Strategy.
- iv) **Establish a champion for small business** within government along the lines of the Office of Advocacy in the United States, with regional advocates. This could be used to give greater impetus to the current Project SIGMA, enabling it to be effectively applied at the regional as well as at the national level.
- v) **The national and regional business-support systems need to be better integrated with improved customer orientation.** This particularly applies to the relationship between national KSU and regional consultation points, where co-ordination of provision would appear essential if the network is to be easily understood by and accessible to SMEs. The principle of one-stop shops and single windows should be applied to access to business services for all types of SMEs, and not just start-ups. This process would be helped considerably if there were joint branding of nationally and regionally funded business-support services. It is important that the system appears coherent to business users as well as service providers.
- vi) **Establish a Task Force on Finance** to include the MoE, PARP, the *voivodships*, NCF, the Polish Financial Supervision Authority, representatives of the Loan and Guarantee Fund Associations and the banks to examine ways of strengthening the non-bank financial system for entrepreneurs. The aim should be to include all the main stakeholders in order to make the system as comprehensive as possible. Loan and loan guarantee funds are potential tools for regional development, which could be enhanced by combining national and regional resources. Effective co-ordination between the national and regional levels is essential, not least because the provision of some types of finance (venture capital funds) can benefit from economies of scale.
- vii) **Take steps to improve the co-ordination of the implementation of regional innovation strategies with national innovation policy.** A variety of government bodies are involved in promoting and supporting innovation, in recognition of the need to improve Poland's performance in this regard. It is important that these activities are well co-ordinated and appear integrated from an entrepreneur's perspective.
- viii) **Establish a national forum for entrepreneurship development in rural areas.** This could take the form of a national centre of excellence in this field to exchange good policy practice and an attempt to co-ordinate efforts to promote rural entrepreneurship in different regions. In addition to MRD, MoE, PARP and the five eastern MOs, this should include the Ministry of Agriculture, which has responsibility for development in settlements of less than 5 000 inhabitants. Relevant experience in rural parts of other former socialist economies (*e.g.* East Germany) is potentially useful in this regard (OECD, 2009b).
- ix) **Actively promote the role of higher education institutions in promoting and supporting entrepreneurship and regional development.** One approach for achieving this involves establishing a national fund to promote higher education-business

linkages, accessed through a process of competitive bidding by local consortia including higher education institutions, entrepreneurs and other local stakeholders, which are invited to bid for funds. The UK Higher Education Innovation Fund (HEIF) is a good model for this.

Conclusions

Although Poland has faced an extended decentralisation process, the 16 regions, which were created in 1999, still suffer from a lack of institutional capacity. The learning process in creating a regional development policy framework has been quite rapid. However, the strong focus devoted to the absorption of EU funds has been to the detriment strategic thinking, institution building, and market making.

Public policies have a role to play in leveraging the dynamic nature of entrepreneurship, devising programmes that support market mechanisms that may not be well adapted to entrepreneurship and promoting entrepreneurship in the population at large. Such policies are often more effective when they contain an important local component, enabling them to respond more closely to realities on the ground, and benefitting from local competitive advantages. Therefore, regional and local level institutions are in a better position to understand regional and local level needs and are more able to develop policy effectively to address them. Both the national and the regional/local level in Poland recognise the need and importance to address problems at the local level and to develop policies that are designed to meet local needs. Voivodships are increasingly performing as strong strategic partners in defining strategies and implementation tools with the central and local governments. However, the national ministry and the Polish Agency for Enterprise Development have expressed the need for more co-operation with the local level and delivery of more locally-tailored services by local bodies.

This chapter has examined the strengths and weaknesses of Poland's current regional and local entrepreneurship environment and policy frameworks, and has provided recommendations on how co-ordinated policies could further promote entrepreneurship. A number of policy development issues were identified and are summarised in Box 4.3.

Box 4.3. Summary of key recommendations concerning the local dimension to SME and entrepreneurship policy in Poland

Tailoring to local needs

- Adjust the balance of service provision to various types of firms, the characteristics of the economic structure of each region and each region's potential for innovation and technology-based growth. Base the design of the regional SME and entrepreneurship policy package on a rigorous analysis of the strengths and weaknesses of the region.
- Define areas of business support for local design and delivery based on a need for flexibility to adapt to local situations (*e.g.* cluster development). Establish clear "rules of the game" that have to be adhered to at local level in these areas of business support.
- Review the "demarcation lines" for the actions in the Innovative Economy OP in a dialogue between the regional and national authorities and agencies. Define the legislative acts that underpin the programmes in a broad manner, setting the rules of the game, without defining the detailed contents of those actions that could be best delivered regionally.

Box 4.3. Summary of key recommendations concerning the local dimension to SME and entrepreneurship policy in Poland (cont.)

- Shift the balance from delivering national SME and entrepreneurship policies in the region in favour of building capacity in the regions to implement the regional and national OPs.
- Establish a national forum for entrepreneurship development in rural areas. This could take the form of a national centre of excellence in this field to exchange good policy practice and an attempt to co-ordinate efforts to promote rural entrepreneurship in different regions. In addition to MRD, MoE, PARP and the five MOs, this should include the Ministry of Agriculture.

Improving the quality of services locally

- Streamline the publicly funded business-support sector at the local level to create a stronger network with fewer organisations and more institutional capacity. There should be a clearly branded and limited number of publicly funded support organisations which can provide a set of support schemes to all target groups (e.g. established businesses, high-tech, micro-firms, start-ups) which cannot be provided by private sector organisations. While there is a need for nationally set quality standards and performance criteria, at the regional level there should be sufficient room for manoeuvre to adapt the package of support and information services to local needs.
- Create a clear virtual portal recognised and branded in all regions that can help firms with their first entry into the support network. Develop the portal from a user perspective, not from the perspective of the supply side. The principle of one-stop shops and single windows should be applied to access to business services for all types of SMEs, and not just start-ups. It is important that the system appears coherent to business users as well as service providers.
- Undertake capability building in the design, implementation and evaluation of SME and entrepreneurship policies at local level. The national government agencies should play a role in supporting the regional development organisations with training, coaching and exchange of experience. The regional authorities should exchange their experiences with other (Polish) regions and national agencies, as all are going through a steep learning curve to implement the operational programmes fast.
- Actively promote the role of higher education institutions in promoting and supporting entrepreneurship and regional development. One approach for achieving this involves establishing a national fund to promote higher education-business linkages, which is accessed through a process of competitive bidding for funds by local consortia including higher education institutions, entrepreneurs and other local stakeholders. The UK Higher Education Innovation Fund (HEIF) is a good model for this.

Securing coherence between national and local policies and programmes

- Organise more systematically the dialogue between regions and national authorities to define the role of each level in SME and entrepreneurship policies. Rather than having discussions in terms of demarcation lines, a culture of partnership needs to be built up between the regional and national authorities. The implementation of cluster policies could be a good starting point as this policy area does not have strong legacies in either the regions or national policy domains.
- Clarify the respective roles of national and regional level governments in economic development. This may require a review of the adequacy of existing legislation in order to give the voivodships greater ability to implement their regional development plans.

Box 4.3. Summary of key recommendations concerning the local dimension to SME and entrepreneurship policy in Poland (cont.)

- Integrate the publicly funded business services systems, including those funded from both national and regional sources. Fragmentation of business support contributes to entrepreneurs being uncertain about where to go to access specific types of business services. Although the co-operation agreements that PARP is currently making with a number of MOs is a positive step, it may not be sufficient for the network to be easily understood and accessed by SMEs and entrepreneurs, which have a wide range of support needs at different stages of their development.
- Strengthen co-operation between the MoE, PARP and the Marshalls' offices as a high priority. Start by focusing on short-term issues of joint interest and common need. It is recommended that this co-operation is initially focused on improving the evidence base for policy making, strengthening the capacity of the MOs for formulating and delivering policy, establishing a leadership programme and supporting the exchange of policy practice and experience.
- Establish an SME and Entrepreneurship Finance Task Force to include the MoE, PARP, the *voivodships*, NCF, the Polish Financial Supervision Authority, representatives of the Loan and Guarantee Fund Associations and the banks to examine ways of strengthening the non-bank financial system for entrepreneurs, including by combining national and regional resources.
- Take steps to improve the co-ordination of the implementation of the regional innovation strategies with national innovation policy. A variety of government bodies are involved in promoting and supporting innovation, recognising the need to improve Poland's performance in this regard. It is important that these activities are well co-ordinated and appear integrated from an entrepreneur's perspective.
- Address the fragmentation in the support system for social inclusion, and the resulting difficulties which emerge for social enterprises. Enable the support of broad social inclusion initiatives in the strategic planning process, going beyond social assistance. Develop mechanisms to promote greater collaboration and co-ordination both horizontally and vertically across all levels of government with social enterprises. Introduce intermediary support bodies for the social economy to engender greater horizontal and vertical partnerships among social enterprises, wider social economy actors and local authorities.

Increasing the visibility of entrepreneurship policies locally

- Develop written entrepreneurship strategy documents at the regional level. Explicit entrepreneurship strategy documents will contribute to a higher profile for entrepreneurship activities, as well as guiding the various actors involved in implementing policy in this field. Regional entrepreneurship strategies should involve linking strategy to action plans to agreed targets, which are discussed and negotiated between national and regional governments and other key stakeholders. The regional entrepreneurship strategies would complement the existing regional development strategies and regional innovation strategies and complement the national entrepreneurship strategy.
- Establish a champion for small business within government along the lines of the Office of Advocacy in the United States, with regional advocates. This could be used to give greater impetus to the current Project SIGMA, enabling it to be effectively applied at the regional, as well as at the national, level.

Notes

1. This chapter is a summary of a full report called “OECD Review of Entrepreneurship and SME Issues and Policies at National and Local Levels in Poland: Report on the Local Dimension” prepared by Jonathan Potter and Alessandra Proto of the OECD CFE/LEED Division Secretariat with the collaboration of three external consultants: Patries Boekholt, David Smallbone and Andrew Pike.
2. Entities includes all newly registered companies, civil law partnerships, co-operatives and “natural persons” conducting economic activity.
3. See www.enterprise-europe-network.ec.europa.eu/index_en.htm.
4. The subsidiarity principle is that policy-making decisions should be made at the most decentralised level. Central government acts only where its actions are more effective than actions taken at a lower government level.

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