

GOOD PRACTICE

Financial instruments for the support of SME's internationalization

ORGANISATION: Wielkopolska Agency for Enterprise Development Ltd.; the Development and Promotion Fund of the Wielkopolska Region

TOPIC: Penetration of territories, attraction of investments, creating and sustain of cross regional/international partnerships

TOPIC OF THE GOOD PRACTICE

Financial instruments for support of SME's internationalization: in areas of penetration of territories, attraction of investment and creating and sustaining of cross regional/international partnerships

DETAILED DESCRIPTION OF THE GOOD PRACTICE

JOSEFIN "JOINT SME Finance for INnovation" was an initiative to improve companies' access to the financing of innovative and international business projects that was implemented by 24 partners from the Baltic Sea Region in 2009-2012. In the project SMEs could use free counseling, professional coaching (but not very well-known at the time in Poland), which would result in financially supporting the introduced innovations.

The project was an opportunity for innovative micro, small and medium sized companies development, also for those who wanted to develop themselves through international cooperation to improve their competitiveness in the areas of: individual consultancy for SMEs, preparation and maintenance of transnational innovation projects, as well as help in creating business plans and applying for external financing for innovative projects.

The JOSEFIN service model was developed, which was based on combining funding with coaching for innovative SMEs. The aim of the model and its implementation was to reduce the risk of financing innovative SMEs and to facilitate access to finance for SMEs.

The JOSEFIN service model consisted of two parts: a coaching model and a loan guarantee model for innovation. The coaching model was organized to provide support for SMEs in 3 stages (E): E I., the 0-informational and promotional phase; E II-phase 1- JOSEFIN development coaching; E III. JOSEFIN implementation coaching.

Stage I, Phase 0 - informational and promotional, was provided by Enterprise Europe Network (EEN) partners or JOSEFIN partners. They provided the JOSEFIN project offer - general information (websites, brochures and seminars) as well as personal advice to innovative SMEs who were interested in raising funds for their projects. The aim of Phase I. was to decide on the overall feasibility of the project and the need for its implementation. The instrument used to inform and promote the JOSEFIN offer was provided as 4 hours of advice within 1 to 4 weeks by presenting the basic information on the JOSEFIN offer in short and extended form, presenting the JOSEFIN project, what an SME received with coaching, eligibility criteria for SMEs, places where they could receive support, and how and to whom they could apply.

Phase I financing: this stage was financed by internal funds of EEN partners and JOSEFIN partners.

Stage II - Phase 1 - JOSEFIN development coaching

Coaching is an interactive process that helps individuals or organizations to accelerate their growth and improve their performance. Coaches work with clients on issues related to business, career development,

finance, health and interpersonal relationships. With coaching, customers set more specific goals, optimize their actions, make better decisions, and enjoy more of their natural skills. An innovative company is one that can create, absorb and dispose of new products (services), and one that is characterized by the ability to continually adapt to changes in its environment. Coaching: initiates positive changes, inspires you to set ambitious goals, and develops interpersonal skills, contributing to organizational growth, creating an unrivaled organizational culture, and thus achieving above average results.

JOSEFIN coaching was carried out by external coaches, own human resources of JOSEFIN partners or EEN partners. It involved associating applying SMEs and searching for partners to cooperate with. It was characterized by detailed identification of the needs and problems of SMEs. Entrepreneurs received contacts to foreign advisory agencies, other SMEs and Research and Development (R & D) institutions. JOSEFIN partners presented SMEs with adequate coaches from the coaches database., financial institutions and coaches signed an agreement on how to develop and implement a supported project. Individual coaching was one of the components of the contract and it has already started in Phase 1.

Phase 0 and 1 lasted in total from 0 to 6 months and ended in the funding phase. Phase 1 was based on 32 hours of training / support for SMEs, which was at least in 80% financed by public funds (JOSEFIN budget in the pilot phase and from internal resources of some institutions). The role of the coach in phase 1 and in particular in phase 2 was based on the classic definition of business coaching. Coaching the entrepreneur was to strengthen it by creation and compliance, as well as stimulating motivation causing better performance, leading to better changes. It unlocked the potential of a person to maximize his or her performance. As Tim Gallway put it in *The Inner Game of Work*, "it helped them learn rather than teach them." The definition of coaching had to be both detailed and expanded since its objectives were the clear development and financial growth of companies (coaching participants) as well as securing investments covered by financial instruments. That's why the JOSEFIN coach mainly acted as a representative of the organization involved in the JOSEFIN project. Work was based on the clear development goals that were set before the start of coaching. At this stage, the coach reported on integrated tools between SMEs and the involved institutions. Coach also checked the expectations and presented all the benefits of coaching to SMEs. Having identified the specific needs of SMEs, coach deepened the project of innovation or internationalization and introduced standardized JOSEFIN coaching tools for JOSEFIN..

Stage III - Phase 2 - JOSEFIN implementation coaching

was based on further implementation coaching, which was mandatory for SMEs using a regional loan / loan guarantee plan. It led to the successful implementation of the innovation project or internationalization of the company. The number of coaching hours was individually adjusted and was flexible and based on a preliminary evaluation of the project. In case of problems, the coach did not interfere directly, but by using the alert system signaled problems to financial intermediaries based on clear and transparent regulations on confidentiality issues. The coaching support offered to SMEs was as practical as possible and based on the entrepreneur's needs. In order to achieve this, JOSEFIN approach took into account the combination of traditional coaching with elements of mentoring and counseling. A distinctive element of JOSEFIN coaching, based on several key principles, was that the coach had to know everything by monitoring the overall organization of the trained company. He/She developed solutions with entrepreneurs and established behavioral patterns that were financially independent.

At the beginning of the project, coaching was not a common tool for business support. Not all project partners have seen the definition of coaching in the same way. During the project a common definition of coaching was developed, which was to be a tool that minimized the risk of financing business ventures. The innovation was the combination of soft tools with a financial instrument (repayable instrument).

The JOSEFIN project, guaranteeing the EU JEREMIE loan, security against incurred capital and EU-funded coaching were to be a valuable guide to the creation of the European Union's financial tools for 2014-2020 (Horizon 2020). The future of SME financing was to hybridize grant procedures (such as financed coaching) with loan and guarantee products. The obtained results were intended as guidelines for business

environment institutions throughout Europe, a signpost to which to follow. After the project was completed, the coaching tool was still promoted and used as support for Wielkopolska SMEs.

JOSEFIN's financial model assumed a reduction in the financing of innovative SMEs for all participating parties. Models had different options due to regional policies and the ability of institutions to fund innovative and international projects. They were designed for regions. The combination of coaching and funding was structured in a variety of ways, including specific elements such as low requirements for additional collateral, guarantees, sureties, and renewable use of European funds that enabled involved brokers to reduce risk. Risk has always been an inherent part of innovative or international projects in SME ventures.

The JOSEFIN loan guarantee / innovation loan model defined the terms of a loan product to meet the need for better access to innovative funding for SMEs. Regional market research has shown that innovative SMEs have had difficulty in finding available financial instruments that set sufficient flexibility in financing their plans for innovation or internationalization. Existing credit / loan instruments were and are often too bureaucratic and rigid in terms of their limits and maturity. The requirements for additional collateral are in most cases too high for young and small companies with innovative ideas. JOSEFIN Financial Model / Loan Guarantee for Innovation has included loan / credit instruments tailored to the needs of such companies. The instrument offered to SMEs should be flexible in terms of value limits and repayment periods to provide short-term loans of lesser value as well as medium- and long-term loans up to EUR 5 million.

Key elements of the financial model were:

1. type of instrument: guarantee covering the risk of default on loans granted to SMEs by regional loan funds or commercial banks;
2. Qualified Final Beneficiary: SMEs in accordance with EU Definition (<250 employees, up to € 50 million per year);
3. approved types and funding targets: investments and working capital on innovative activities extending and developing the activities of SMEs, such as technological development, product and process innovation, internationalization.
4. value: usually less than EUR 1 million, max. EUR 5 million for the loan;
5. repayment period: 18 months to 10 years;
6. guarantee amount: up to 80% of the value of the loan;
7. additional collateral: additional collateral of 20% of the value of the loan or an additional 20% of the own contribution for the investment;
8. risk premium (total for all risk takers): 4-5% per annum (for further calculation);
9. added value: a guarantee combined with coaching for SMEs.

The export advisory service for SMEs, combined with the financial instrument (export guarantee)

The export advisory service for SMEs, combined with the financial instrument offered by Fund for Development & Promotion of the Wielkopolska Region, is a pioneering service in Wielkopolska, complete and enabling a tailor-made service for an enterprise wishing to introduce its offer on foreign markets.

In connection with the role that the Fund fulfills as the Export Development Fund for entrepreneurs from the Wielkopolska Region, its character fosters all the specified priorities, which good practice should aim for.

This service enables both penetration of markets through participation in trade fairs and economic missions organized by the Self-Government of the Wielkopolska Region, by increasing the investment attractiveness

of the region and the exporting enterprises themselves to the process of creating, and sustaining regional and international partnerships.

The activity of the Development and Promotion Fund of the Wielkopolska Region is the development and promotion of the Wielkopolska Region as a region attractive to investors and favorable to economic activity. It is done through the provision of assistance to micro, small and medium entrepreneurs operating in the Wielkopolska Region in the form of granting loans, loans or guarantees for liabilities. The advice provided led to the creation of a comprehensive service - a new advisory service called export consulting. Improved qualifications of employees by broadening their knowledge of exports from the Wielkopolska region and the possibility of foreign expansion ultimately strengthened the relatively new product offered by the Fund, namely: export guarantee. This instrument contributes to the visible growth of the importance of Wielkopolska companies in the export market and satisfies the need to expand to additional markets.

Export consulting, combined with export guarantees, gives the desired synergy effect, thus providing a comprehensive service to support company's growth, productivity and foreign expansion, and ultimately the country's steady growth.

Advisory export service is to be one of the tools to support the foreign expansion of Polish companies in order to multiply the domestic capital. In addition to the important European markets, activity on the prospective markets is also strongly supported: Asian, African and North American and South American. The proposed advisory service would not be able to fulfill its full role and exploit the full potential of its capabilities without the appropriate financial support experience that the Fund can offer as a specialized creator of the region's economic development.

The knowledge acquired during the export consultancy is used for export-oriented actions taken against entrepreneurs from the SME sector. As part of the support received, the Fund has enriched the existing services with advice during the process of entering the company into foreign markets, and the knowledge gained through consulting is used by the employees in the implementation of the export-oriented service in order to support SMEs. The service provided not only meets the needs of entrepreneurs who are well on the market - they also support the incubation process of SMEs, whose goods will be introduced into the international market at a later date. The proposed undertaking does not appear in any Business Support Institution in the region. Significantly - its activities remain in line with the Priorities and Development Strategy of the Wielkopolska Voivodship until 2020. Increased use of innovation in the SME sector by enhancing investment activity, and the projects set up coincide with strategic objectives such as:

- strengthening the region's economic potential,
- increasing the innovativeness of enterprises,
- development of networks and cooperation in the region's economy
- expansion of business support institutions
- creating conditions for the development of smart specialization, including the promotion of creative industries in the economy
- development of financial instruments for the economy
- creating conditions for the expansion of the economy of the region into external markets.

With the introduction of this service, the Business Support Institution is able to meet the requirements of SMEs both for expansion into European markets and non-European markets such as Asian, African, North and South American.

The implementation of the project affects the policy of sustainable development through actions supporting the development of SMEs, and thus economic development on a broader scale. Access to international markets and development financing will be facilitated. It responds to the development needs of entrepreneurs, to increase the efficiency of SMEs, prepares to compete in the world markets and improves

the business environment. Proper preparing employees for high-quality & tailor-made services is a response to the challenges that modern businesses have to face, and in the longer term, such actions affect SMEs' awareness of their potential and allow the creation of a multi-product financial system that supports companies..

The consultancy includes the following components:

1. Preliminary analysis - recognition of the needs of SMEs, under which the following actions are performed:

- analysis of the product offer of the company in terms of export opportunities,
- searching for potential export markets according to customer demand, eg. in trade, production, services,
- analysis of foreign markets.

2. Strategic Diagnosis of SMEs:

- selection of target export market,
- searching for potential customers,
- distribution channels,
- strategic market counselling,
- entry requirements and conducting business on a specific market,
- financing of export undertakings,
- creation of an export strategy.

3. Consulting related to financing in international trade:

- information on potential risks in foreign transactions and ways of securing international transactions,
- forms of payment in international trade on various foreign markets, including deferred payment and the concept of timely payment,
- safeguards in international trade,
- ways of recovering export receivables,
- examples of how to enter into a transaction.

4. Supporting the creation and creation of the image of SMEs abroad:

- marketing in foreign trade,
- organization of missions and exhibition and promotion stands,
- international negotiations.

5. Legal aspects of export:

- International public law and international export law,
- entering into international agreements.

The regional authority of the Wielkopolska Region has taken up the challenge of working out an image that will positively distinguish it from other regions. Works on investment promotion and construction of the Wielkopolska brand are a way of identifying and promoting products, services and events that build a modern image of Wielkopolska as a place of knowledge, innovation and economic creation. The aim is to increase

the economic potential of the region, resulting from the challenges of an economy based on the transfer of experience and knowledge, and the recognition of Wielkopolska in the world is to facilitate the functioning of all actors of the Wielkopolska economic scene. The Fund, acting as the Export Development Fund, in order to support those actions, achieve the increase of Polish companies' internationalization level and disseminate comprehensive advisory services, cooperates with the Marshal Office of the Wielkopolska Region and the Wielkopolska Investors and Exporters' Service Center. It also participates in organized Export Forums, promoting the practice of expansion into foreign markets, together with entities such as the Polish Information and Foreign Investment Agency, Ministry of Development and the Chambers of Commerce and Industry, involved in promoting pro-export attitudes among entrepreneurs. As a result of the cooperation of the above institutions and organizations associating entrepreneurs, access to complex, high quality and free services is significantly expanded to the extent necessary for the planning, organization and implementation of export and / or investment outside Poland. Joint work in the region is moving to a large extent at the international level, where the parties involved in the development of networking are also Embassies, Ministries, Chambers of Commerce and Commerce. The main directions of economic missions are Germany, Croatia, the Netherlands, Romania, Australia, New Zealand, India, USA, United Kingdom, France, United Arab Emirates, Argentina, Spain, South Africa, Sweden. The main directions of trade fairs are Spain, South Africa, Sweden, Czech Republic, Italy, Ukraine, Brazil, Qatar, Saudi Arabia, China, Finland, Norway, Switzerland, Japan, Israel.

The main recipients and beneficiaries of the undertaking are micro, small and medium-sized enterprises having their registered office or conducting business activities in Wielkopolska. In addition, it is important to have SMEs being interested in introducing their offer / service / commodity into the foreign markets, including those considered as strategic for the Wielkopolska Region. In addition, recipients of the project may be named recipients in the territories of countries to which regional entrepreneurs will export. The aim of the above activity is to create, establish and maintain a network of contacts and to create a solid brand that supports both the entrepreneurs themselves as well as the promotion of the entire Wielkopolska Region, which is attractive in terms of investment and economy.

ROLE OF ACTORS

In implementing the JOSEFIN service model, project partners, state institutions, entrepreneurship agencies, regional loan and guarantee funds and regional self-governments, as well as technology parks, participated. Without the cooperation of regional institutions, local governments, commercial banks and other SME financing institutions, it would not be possible to develop cost-effective financial models that reduce the risk of entrepreneurs undertaking innovative and / or international projects.

Under the financing model, agreements were signed between credit / loan institutions and financial hedging and coaching. In some regions the agreements were bilateral or tripartite. The cooperation between Wielkopolska Agency for Enterprise Development and Fund for Development & Promotion of the Wielkopolska Region aimed to build a complete model of support for SMEs from the region, which after the end of the project was to be adapted to market changes. Both companies signed a cooperation agreement on the above mentioned model. Marshal Office of the Wielkopolska Region (regional authority) has been monitoring the implementation of the model after the end of the project to ensure that it was realistic to implement on the market and consistent with the policy of the region. Project partners have jointly developed a JOSEFIN service implementation strategy, taking into account the financial, economic and social conditions in their regions. The JOSEFIN service model has been developed as a model for integrating and available financial instruments and coaching services to provide support to innovative SMEs in the development, financing and implementation of innovative projects and those related to internationalization. Partner institutions have implemented a concrete way of integrating coaching services and financial instruments, which vary from one region to another. JOSEFIN's application of EIF instruments in three Polish regions was not feasible because the JEREMIE initiative was ongoing. Thus, new regional JEREMIE funds managed by the state bank (Bank Gospodarstwa Krajowego) and regional authorities were used in the regions. The implementation of financial instruments required involvement of regional

authorities in Poland. The financing model has been successfully promoted as an opportunity to create financial instruments to reduce the risks associated with financing innovative SMEs. Each partner region in the JOSEFIN project participated with a designated financial partner. Final financing offers in the regions can be divided into three main groups:

1. Loans provided by commercial banks, guaranteed by public guarantee institutions with the re-guarantee of the European Investment Fund EFI / CIP SMEs.
2. loans provided by commercial banks or public loan funds with a guarantee from a public guarantee institution and with the re-guarantee of the JEREMIE fund.
3. loans provided by commercial banks or public loan funds with a surety from public guarantee institutions.

This distinction makes the emphasis placed on the common features of individual regional offers and tradable experiences of JOSEFIN partners throughout the various implementation processes. For each of the three groups, you can identify some specific added values that are the goal of the JOSEFIN project, which is included in the offer for the involved participants and SMEs. Loans provided by commercial banks, guaranteed by public guarantee institutions with the re-guarantee of the European Investment Fund EIF / CIP for SMEs. Regional offers that fall into this category of risk-sharing arrangements include three different funding actors, linking private and state-owned institutions. They are able to integrate European funds in a renewable way. As an innovative example of financial engineering in SME funds, this structure allows public guarantee institutions to share risk with the European Investment Fund and therefore reduces the requirements for guarantees, thus encouraging commercial banks to finance more innovative projects and / or companies with insufficient or no additional collateral

BENEFICIARIES

Final beneficiaries of the JOSEFIN model were innovative companies from the SME sector.

The following criteria have been developed for the selection of companies:

LOCATION - a company registered or operating in Wielkopolska.

COMPANY IS SME - criterion checked by SME qualifier.

SECTOR - the company does not belong to the sector or produces products excluded from financing.

DE MINIMIS PUBLIC AID - the company qualifies for de minimis aid (it has not exceeded the limit of EUR 200,000 de minimis aid within 3 years).

Additional criteria for innovation and internationalization in the company:

LEVEL OF INNOVATIVENESS

LEVEL OF INTERNATIONALIZATION - international expansion (internationalization) could involve the establishment of a branch office in another country participating in the project or developing new services, products and technologies in cooperation with a foreign company.

Exclusions within the project:

- processing and trading of agricultural products, basic production of agricultural products
- activities directly related to export
- use of national products instead of imported ones
- coal sector

- vehicles used for road haulage
- fisheries and aquaculture, arms production
- nuclear technologies
- cloning people
- pornography and derivatives
- trading organ
- stimulants
- other activities that are considered undesirable in your country / region.

In Wielkopolska the following companies were qualified: Norson, Salus Sp. z o.o., Internetowykantor.pl, Verus Sp. z o.o., Dizgut s.c., JIT Support Sp. z o.o.

Fund for Development & Promotion of the Wielkopolska Region conducted coaching among 5 companies covering over 70 hours. The Fund provided financial guarantees by financing a producer group (20 companies) with a total amount of PLN 1,960,000.00.

CULTURAL ASPECTS: POSSIBLE KEY LEVERAGES FOR INTERNATIONALISATION PROCESSES

Cultural and social connections are an essential part of the whole process of internationalization and corporate co-operation. Taking into consideration the importance of these aspects, the representatives of the Fund actively participate in economic missions and study visits organized by the Marshal Office of the Wielkopolska Region, aimed at establishing the contacts and relations necessary for the whole process of introducing Wielkopolska SMEs to foreign markets. It is also noteworthy that representatives of other institutions supporting broadly understood exports and entrepreneurs themselves are invited to participate in the events promoting this good practice. Mutual recognition of cultural and social conditions that are closely related to the economic environment allows for a full picture of the opportunities for cooperation and the development of business links between stakeholders. This scheme allows to know, evaluate and recommend specific pathways that a potential exporter may follow. Sample study visits: 2014 - Brazil, Sao Paulo; 2016 - Argentina, Chile, United Kingdom - Cambridge, Angola, China - Beijing; 2017 - Cuba, Angola.

INNOVATION OF THE GOOD PRACTICE, POTENTIAL FOR IMPROVEMENT AND REPLICABILITY

The adaptation and implementation of the loan guarantee model for JOSEFIN innovations have developed in different ways in different regions. Partner institutions in the JOSEFIN regions involved in the development and adaptation of models were also diverse. Each region participated with a designated financial partner, which could be a state structural development bank or a regional loan and guarantee fund. As a result, different approaches have emerged for the implementation of new financial engineering instruments in these regions. With this in mind, the loan guarantee model for JOSEFIN has been established as a common strategy covering various options for regional financial instruments. Certain deviations from the model were possible as long as the instruments offered improved risk sharing and risk management for the participants involved and, as a result, easier access to finance for innovative companies.

Good practice presented by Fund (export advisory service for SMEs) can be fully replicated wherever there is a need and willingness to support pro-entrepreneurial and pro-export attitudes. Any local authority may be interested in co-operating with the Fund to promote its internationalization activities, in view of the Fund's openness to the dissemination of good practice, with a view to broadening the SME business. The Fund is also interested in cooperation with other countries or regions, which can be discussed at the

multilateral international meeting. The main innovation of good practice is the fact that the undertaking is focused on complex action - providing both an advisory and financial component for the industries identified as future and strategic.

The combination of these components leads to the search for new knowledge applications and the resulting synergies between sectors to maximize the resulting benefits.

In a nutshell, it is a network of co-operation with established channels of information exchange and acquisition of resources for partners, suppliers and customers in all regions. To this end, there is a chance to invite public and private institutions (universities, science and technology parks, chambers of commerce, etc.) and others to interact in a variety of ways in the social and economic environment in which they operate. Paths for the development of the service are the potential extension of the offer, according to the needs of SMEs, defined at a later stage, and the establishment of a network of contacts between entrepreneurs, aimed at facilitating integration between participants from different countries (simultaneous seminars and thematic working groups, additionally involving international experts and availability on-line materials).

In the initial phase of good practice, initial indicators were set up to monitor measurable effects. Up to now, several contracts have been concluded, while others are still in progress. There is also no doubt about the need and adequacy of action taken, as evidenced by market research, surveys conducted by entrepreneurs, and the challenges facing the current economy - both at regional and national levels. Such actions have a significant impact on the activation of entrepreneurship in specific areas. They have a positive impact on the development of specific industries. In addition, the demand for returnable financial instruments is increasing, which is constantly gaining popularity among entrepreneurs. All these actions, in the longer perspective, will find their reflection in creating new jobs, greater flexibility of companies and openness to new paths of development.

CONTACT DETAILS

Name	Mr Jarosław Nowak, Member of the Board Mr Krzysztof Leń, President of the Board
Organisation	Wielkopolska Agency for Enterprise Development Ltd. The Development and Promotion Fund of the Wielkopolska Region
E-mail	jnowak@warp.org.pl krzysztof.len@fripww.pl
Website	www.warp.org.pl www.fripww.pl