Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 16-Dec-2020 | Report No: PIDC238855

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Poland	P174692		Supporting a Sustainable and Resilient Recovery from Covid-19 in Poland
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
EUROPE AND CENTRAL ASIA	28-Jan-2021	19-May-2021	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Ministry of Finance	Ministry of Economic Development and Technology	Finance, Competitiveness and Innovation

Proposed Program Development Objective(s)

The program development objective is to contribute to the sustainable and resilient recovery of micro, small and medium enterprises from the COVID-19 crisis.

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	21,000.00
Total Operation Cost	600.00
Total Program Cost	600.00
Total Financing	600.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Total Government Contribution	450.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

Poland entered the COVID-19 crisis from a position of strength, despite medium-term productivity concerns in the context of a rapidly aging population. The economy grew uninterruptedly for the past 28 years at an average annual rate of 4.2 percent, having proved to be one of the more resilient economies during the global financial crisis and the eurozone debt crisis. Reforms adopted for European Union membership have resulted in systematic liberalization of the economy and modern institution building. Nevertheless, even before the COVID-19 pandemic, there were growing concerns that Poland's economic growth model, given the rapidly aging population, will not deliver continuous and sustainable growth unless key structural and institutional challenges are addressed.

The COVID-19 crisis has pushed the economy into recession in 2020, with significant downside risks related to the intensity and duration of the pandemic. The government responded swiftly in March 2020 with containment and avoidance measures. While the initial lockdown successfully contained the pandemic, the country experienced a resurgence in COVID-19 infections in the last quarter of 2020, alongside other countries in the region, and GDP is expected to decline by 3.4 percent in 2020. Output is not expected to recover to pre-crisis levels before 2022, and downside risks remain considerable, raising uncertainty on the duration and depth of the COVID-19 crisis, and is likely to adversely and significantly impact firm investment decisions.

The government has successfully implemented a series of broad-based economic packages ("Shields") and the National Bank of Poland (NBP) has been easing monetary policy. The response comprised of fiscal spending, new credit guarantees, and micro-loans to entrepreneurs. The Polish Development Fund (PFR) launched a PLN 100 billion (4.5 percent of GDP) liquidity program for businesses, of which PLN 25 billion is for micro firms, PLN 50 billion to SMEs, and PLN 25 billion for large firms, and a second Financial Shield was announced extending this support. At the same time, the NBP brought its policy rate to close to zero in 2020 and engaged in quantitative easing in order to limit the increase in government bond yields and to provide additional liquidity.

The COVID-19 crisis has put pressure on public finances. The general government budget deficit has been revised from 0.6 percent of GDP to 12 percent of GDP in 2020 and to six percent of GDP in 2021, with large public financing needs emerging over this period. The government expects public debt (according to the EU definition) to increase above 60 percent of GDP in 2020.

Sectoral (or multi-sectoral) and Institutional Context of the Program

The COVID-19 crisis has negatively impacted the Micro Small and Medium Enterprises sector, whose resilience will be essential for an inclusive economic recovery, given their critical role in the Polish economy. MSMEs are critical for the economic recovery, as they account for 70 percent of employment, and over 50 percent of value-added. Poland's productivity gap between micro/small firms and medium/large firms, however, is among the highest in the EU. The MSMEs have more limited exposure to cutting-edge practices and technologies than larger Polish firms, which are more integrated into global supply chains and access export markets. Furthermore, only 10 percent of Polish firms export directly compared with over 20 percent in Czechia, Slovakia, and Hungary. According to the World Bank Business Pulse Survey, 69 percent of MSMEs reported a drop in sales in Q2 2020, with 20 percent expecting to fall into arrears within six months and 22 percent estimating that they would not survive beyond a single quarter under prevailing conditions. Notably, although 32 percent of Polish MSMEs increased the use of transactional technologies for business continuity via e-commerce, this lags digital adoption in other high-income EU countries.

The COVID-19 crisis has accentuated the need for Poland to address long-standing structural and institutional gaps that weigh on MSME productivity. Managerial skills, an important driver of firm productivity, are lagging those in aspirational peers, with potential returns to upgrading technical and managerial skills among the highest in Poland compared with 19 other European countries, according to OECD. The share of high-technology exports in total exports is 40 percent lower than compared with peers. Poland also lags on innovation and technology adoption, which is critical for firm productivity. Only 4 percent of Polish exporters leverage digital platforms, among the 36 percent of Polish firms that export. Only 9 percent of Polish companies use e-commerce in the domestic market. Notably, Poland ranks 23rd among 28 countries in the Digital Economy and Society Index (DESI 2020), and 25th in the Integration of Digital Technology sub-index. There is also sluggish uptake of green technologies, with Poland ranked fifth to last in the EU on the 2019 European Eco-innovation Scoreboard. Finally, there is ample room for greater efficiency in the provision of digital services to businesses by the public sector, with Poland ranking 25th in 28 countries on DESI 2020.

While Poland could receive significant EU funds, an effective absorption of these funds is critical to maximizing their impact. The funds could help support a recovery in investments, both public and private, as more than 80 percent of the Next Generation EU will be used to support public investment and key structural reforms. However, to best leverage such funding for a sustainable and resilient recovery, Poland will have to improve the design and implementation of its National Recovery Strategy (the basis for the designation and disbursement of the RRF funds), as well as carefully monitor and evaluate the implementation of these programs to maximize impact.

Relationship to CAS/CPF

The PforR is aligned with Focus Area 1 and 2 of the World Bank Group's 2019–2024 Country Partnership Framework (CPF), namely 'Human Capital and Entrepreneurship for the 21st century' and 'Advanced Policymaking for Growth and Inclusion'. It directly contributes to Objective 2 on the 'Promotion of Entrepreneurship' by addressing remaining gaps in business environment, removing inefficiencies and distortions that hold back entrepreneurship and hinder SME productivity. It also supports mobilizing market resources to finance investment, innovation, and research, and will strengthen policymaking by building capacity for informed policy design. Finally, the PforR will generate important knowledge spillovers, positioning Poland as a knowledge exporter in innovation and entrepreneurship, green and digital solutions, and distressed firm management.

The PforR addresses priorities outlined in the 2017 Systematic Country Diagnostic (SCD) by supporting a more strategic, efficient, and effective institutions. It supports efforts to advance entrepreneurship and innovation framework to harness rapid technological change and meet the challenge of a rapidly aging population, fostering productivity in Polish enterprises by supporting the transition to an innovation-led growth model. The CPF envisages World Bank support for this transformation through private sector leverage and strengthening public sector institutions, while addressing remaining institutional weaknesses to assist Poland in its trajectory towards sustainable IBRD graduation.

The PforR is aligned with the World Bank Group's COVID-19 Crisis Response Approach Paper by providing support for restructuring and building a resilient recovery. The PforR supported government program is fully aligned with Pilar 3 on 'Ensuring Sustainable Business Growth and Job Creation', by strengthening the medium-term insolvency framework and addressing gaps in the enabling environment. It aligns with Pillar 4 on 'Strengthening Policies, Institutions and Investments for Rebuilding Better' by supporting institutional reforms.

Rationale for Bank Engagement and Choice of Financing Instrument

This PforR aims to support Poland's institutions transition to a results-based system as an important element for a sustainable path to IBRD graduation. The World Bank brings cutting-edge knowledge and convening power, as well as results-oriented lending instruments (such as the PforR) to address key structural and institutional challenges. This PforR has a strong focus on results and incentivizes institutional capacity building especially in the area of monitoring and evaluation (M&E). Furthermore, the program supports innovative development solutions with high spillover potential for developing countries.

The World Bank aims to support effective leveraging of funds for a sustainable and resilient recovery. A key challenge in maximizing the impacts of EU funds is to transition from accountability-based to outcomes-based programming and evidence-driven policymaking. By contributing to the design and implementation of the National Recovery Strategy, the World Bank can advance the program's results-orientation.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

The program development objective is to contribute to the sustainable and resilient recovery of micro, small and medium enterprises from the COVID-19 crisis.

PDO Level Results Indicators

i) Share of green public procurement in the total value of awarded public contracts;
ii) Share of MSMEs that participate in public procurement;
iii) Number of distressed companies that received mentoring or financial restructuring support;
iv) Number of programs adopting results-based M&E frameworks.

D. Program Description

PforR Program Boundary

The PforR will support operationalization of key elements of the government's 'Strategy for Responsible Development'.[1] The strategy is implemented through the following government programs: the 'Productivity Strategy' (2021-2030), the 'New Opportunity Policy 2.0' (2021-2027), and the 'National Procurement Strategy' (2022-2025). The 'Productivity Strategy' seeks to increase productivity in a low-emission, circular, and data-driven economy. The 'New Opportunity Policy 2.0' seeks to increase the survival rate of companies in distress, especially in the COVID-19 context. The 'National Procurement Strategy' focuses on technological transformation (digital economy transition) and boosting demand for innovative and sustainable products and services.

Based on a preliminary technical, fiduciary, and environmental and social systems assessment, the PforR will support programs in two broad results are*as: strengthening firm capabilities* and the *enabling business environment.*

[1] The Strategy for Responsible Development for the period up to 2020, with the perspective up to 2030, was adopted in 2017 and is the key document for the medium- and long-term economic policy. The strategy addresses five development traps: i) middle income, ii) imbalance, iii) average product, iv) demographic, v) institutional weakness. The results frameworks and annual reporting are built around three objectives: i) sustainable economic growth increasingly driven by knowledge, data and organizational excellence, ii) socially sensitive and territorially sustainable development, iii) effective state and economic institutions contributing to growth as well as social and economic inclusion.

1. **Results Area 1: Strengthening firm capabilities**

The program will support MSME managerial capabilities for exports, innovation, greening, and technology adoption, as envisaged in the 'Productivity Strategy'. In order to close the productivity gap between MSMEs and large firms, the PforR will explore support for: i) the creation of results frameworks and M&E systems for the Digital Innovation Hubs to improve businesses, products, and services using digital technologies, and the creation of complementary M&E frameworks for instruments supporting innovation under the National Smart Specialization program; ii) the design and establishment of Green Innovation Hubs and their M&E frameworks; iii) the redesign of Innovation Academy/SME Manager Academy instruments; iv) the design of a new instrument to support the adoption of clean-tech and circular economy processes; v) the development and implementation of an E-exporter skills development and platform program.

2. **Results Area 2: Strengthening the enabling business environment**

The program will address challenges in the enabling business environment as envisaged in the 'New Opportunity Strategy 2.0' and the 'National Procurement Strategy'. In order to close gaps in the insolvency framework, national procurement framework, and the digitization of public services for the private sector, the PforR will explore support for: (i)Insolvency frameworks and support to distressed firm management. (ii) Public procurement and e-Government procurement platform. (iii) Digitization of construction-related government services.

E. Initial Environmental and Social Screening

At concept stage, the environmental risk is assessed as low. The limited environmental impact results from both project design, with intrinsically low risks and impacts, and a well-established and functional EU compliant E&S regulatory and institutional framework. Overall environmental outcomes are expected to be positive (e.g. greening of public procurement, more efficient resource use, and conversely less emissions and waste). The PforR envisages support to MSMEs through the design of new mechanisms, and redesign of existing public support instruments.

At concept stage, the program is assessed to have low social risk as program goals would improve economic conditions, that have been negatively affected by the COVID-19 pandemic. The PforR aims to enhance digitizing public services for firms and strengthen capacity to deliver improved services to the private sector.

An initial screening process was carried out based on the expected indicators, as well as a preliminary assessment of Polish and EU E&S institutional and regulating framework systems. A further assessment of the government's program and environmental institutional and regulating framework and systems to efficiently manage E&S risks, including any consultations required, will be conducted during program preparation, under ESSA. Arrangements for preliminary stakeholder engagement and required consultations for the program's ESSA, as well as final stakeholders' and public consultations of ESSA, will consider the COVID-19 developments and relevant national and WHO recommendations.

An ESSA will be prepared to inform the program's Disbursement-Linked Indicators. The PforR will be working with several agencies, including the Department of Innovation, Department of Trade and International Cooperation, Department of Economic Regulation Improvement, Polish Agency for Enterprise Development, and the Public Procurement Office, and cooperate with the Department of Architecture, Construction and Geodesy, and Department of Spatial Planning. The support to economic resilience of MSMEs will have benefit Polish citizens through improved opportunities.

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