OECD Studies on SMEs and Entrepreneurship

POLAND

KEY ISSUES AND POLICIES



OECD

OECD Studies on SMEs and Entrepreneurship

SMEs and Entrepreneurship Poland 2010

KEY ISSUES AND POLICIES



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

ISBN 978-92-64-08186-4 (print)
ISBN 978-92-64-08191-8 (PDF)

DOI 10.1787/9789264081918-en

Series: OECD Studies on SMEs and Entrepreneurship
ISSN 2078-0982 (print)
ISSN 2078-0990 (online)

Photo credits: Cover illustrations: © PhotoAlto/Getty Images, © David Wasserman/Brand X Pictures/Getty Images, © Tim Pannell/Corbis, © Andersen Ross/Photodisc/Getty Images.

Corrigenda to OECD publications may be found on line at: *www.oecd.org/publishing/corrigenda*.

© OECD 2010

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to *rights@oecd.org*. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at *info@copyright.com* or the Centre français d'exploitation du droit de copie (CFC) at *contact@cfcopies.com*.

Foreword

This book is the result of an OECD review at national and local levels of small and medium-sized enterprise (SME) and entrepreneurship issues and policies in Poland, undertaken as part of the 2009-2010 programmes of work of the Working Party on SMEs and Entrepreneurship (WPSMEE) of the Committee on Industry, Innovation an and Entrepreneurship (CIIE) and of the Local Economic and Employment Development Committee (LEED). These independent reviews are undertaken by the OECD Secretariat at the request of OECD member and non-member country governments, and the analysis and recommendations are agreed by Working Party and Committee delegates.

This book's purpose is to set out the main analysis and recommendations of the SME and entrepreneurship policy review of Poland, requested by the Polish Ministry of Economy. It presents the OECD's assessments of the current state of SME and entrepreneurship performance in Poland, its framework conditions and business environment, the existing set of SME and entrepreneurship policies and programmes, the role of local tailoring of policies and programmes and the coherence between policies and programmes at national and local levels, and discusses the policy recommendations that follow. It is intended both to support policy and programme development in Poland in order to further strengthen the critical SME and entrepreneurship sector and to provide inspiration to policy makers in other countries faced with similar challenges.

A Steering-Group comprised of Austria, Denmark, New Zealand and the United States guided the preparation of the Review. A Draft Report was submitted for peer-review to the Working Party on SMEs and Entrepreneurship (WPSMEE) on 28 October 2009 at its 36th Session. The two countries playing the role of examiners were: Spain (Mrs. Paloma Fernández Peña, Ministry of Industry, Tourism and Trade) and the Unites States (Mr. Randy Mitchell, US Department of Commerce).

The publication was prepared under the supervision of Marie-Florence Estimé, Deputy Director of the OECD Centre for Entrepreneurship, SMEs and Local Development (CFE). The main authors are Paul Atkinson (Senior Research Fellow at Groupe d'Économie Mondiale de Sciences-Po, Paris, France), Lois Stevenson (Visiting Research Fellow in Cairo for Canada's International Development Research Centre [IDRC]) and Jonathan Potter (Senior Economist, Local Economic and Employment Development Division, CFE, OECD). The following consultants provided material for the local dimension chapter: Dr. Patries Boekholt (Technopolis BV, Amsterdam, Netherlands), Professor Andy Pike (University of Newcastle upon Tyne, United Kingdom), and Professor David Smallbone (Kingston University, United Kingdom). Alessandra Proto, Policy Analyst, CFE, OECD, also provided material and participated in the management of the local component of the review. Helpful assistance on the enterprise performance diagnostic information and policy information was provided by Dr. Karolina Nessel (European School, Kraków, Poland). Jorge Gálvez Méndez (Policy Analyst, OECD) provided research assistance for the publication.

The OECD Secretariat would like to express its sincere thanks to the Polish authorities, in particular the Ministry of Economy and the Polish Agency for Enterprise Development, for their active, intense and fruitful co-operation and support, all of which led to the successful preparation of this book.



Sergio Arzeni
Director, OECD Centre for Entrepreneurship
Head, OECD LEED Programme

Table of Contents

Executive Summary 11

Chapter 1. **SME and Entrepreneurship Performance in Poland Today** 19
Introduction 20
Size and structure of the SME sector 22
SME sector performance 28
Entrepreneurship in Poland 37
Regional and local variations 45
Fundamental structural and enterprise-level challenges in Poland 53
Notes 55
References 57

Chapter 2. **SME Framework Conditions and the Business Environment in Poland** 61
From transition to convergence: strategic framework 62
Overview and barriers to SMEs and entrepreneurship 63
Human resources and entrepreneurial capabilities 70
Access to financing 79
Social security and tax systems 82
Product market conditions 87
Business law and horizontal regulatory issues 92
Research, development and technology 99
Conclusion 105
Notes 107
References 109

Chapter 3. **SME and Entrepreneurship Policies and Programmes in Poland** 111
Introduction 112
The SME and entrepreneurship policy agenda 113
The SME and entrepreneurship policy structure 116
The SME and entrepreneurship-related support structure 118
Policies, programmes and measures in support of SMEs and entrepreneurship . . . 124
Conclusion 158
Notes 169
References 171

Chapter 4. **The Local Dimension to SME and Entrepreneurship Policy in Poland** 175
The local context for SME and entrepreneurship policy 176
Meeting local policy needs 181
Coherence between national and local policies 190

Conclusions 201
Notes 204
References 204

Chapter 5. **SME and Entrepreneurship Policy Assessment and Recommendations for Poland** 205
Successful national development requires strong enterprises 206
Bring back an explicit framework for policy action 208
Reduce the main barriers to growth and development of SMEs and entrepreneurship 210
Use the EU Structural Funds wisely to build capacity 211
Streamline policy and support-delivery processes wherever possible 212
Better co-ordinate policy support at all levels 213
Reinforce the Polish Agency for Enterprise Development's focus on supporting enterprise development 215
Make programme design and delivery of support more effective 216
Further strengthen evaluation of SME and entrepreneurship policies and programmes 218
Notes 218
References 219

Annex A. Chronology of Major SME and Entrepreneurship Policy Events and Initiatives in Poland 221
Annex B. Main Strategic Documents and SME and Entrepreneurship-Related Policies Since 2003 227

Tables

1.1. Distribution of active enterprises and employment by size class, Poland, 2007 . . . 24
1.2. Distribution of enterprises and employment by size class in the EU27, 2007 24
1.3. Sectoral distribution of non-agricultural SMEs, Poland, 2007. 27
1.4. Legal forms of SMEs in Poland, 2007 28
1.5. Enterprise entry and exit dynamics, Poland, 2001-07 31
1.6. New firm survival rates, Poland, 2008 32
1.7. Job creation impacts of new and surviving enterprises, Poland, 2003-08. 32
1.8. Growth in employment, turnover and value added, Poland, 2003-07 33
1.9. Value-added per employee by enterprise size class, Poland, 2003-07 34
1.10. Export performance by size of firm, Poland, 2001-07 35
1.11. Comparison of selected innovation indicators for Poland and the EU27, 2007-08. . . 36
1.12. SME contribution to innovation by size of enterprise, Poland, 2006-07 37
1.13. Employed persons by employment status, Poland, 1997, 2002 and 2007 39
1.14. Poland's performance on entrepreneurial activity indicators, 2007 43
1.15. Poland's image of entrepreneurs 44
1.16. Incidence of high-growth in Polish manufacturing firms, 2003-06 46
1.17. Regional variation in the performance of SMEs in Poland 50
1.18. Changes in number of SMEs and SME investment outlays by region, Poland, 2003-07 51
2.1. Financial overview of Poland's National Cohesion Strategy 63
2.2. Selected economic performance indicators, 2008 64

2.3. Barriers to Polish enterprise development by size of enterprise in order of priority, 2007 68
2.4. Human Capital Operational Programme for Poland: Financial overview, 2006 71
2.5. Expenditure on education, Poland and selected countries, 2006 71
2.6. Participation in adult learning, Poland and selected countries, 2002 75
2.7. Continuing vocational training, Poland and selected countries, 2005 77
2.8. Main European destinations for migrating Polish labour, 2005-07 77
2.9. Evolution of the structure of the Polish financial system, 1998-2008 79
2.10. Stocks and holders of financial instruments, Poland, end 2007 81
2.11. The Warsaw Stock Exchange, 2000-07 82
2.12. Doing Business in Poland, 2007-09 94
2.13. Innovative Economy Operational Programme: Financial overview, 2007-13 104
3.1. Summary of national-level SME and entrepreneurship policies, programmes and measures in Poland, 2009 125
4.1. Regional variation in ROP resources in Poland 178
5.1. Government spending on support for SMEs, Poland, 2005 and 2007-13 207

Figures

1.1. Registered and active enterprises, Poland, 2007 23
1.2. Distribution of enterprises by employment size class, OECD member countries, 2006 25
1.3. Distribution of employment by enterprise size class, OECD member countries, 2006 25
1.4. SME contribution to Polish GDP, 2007 26
1.5. Density of SMEs in the non-financial business economy, 2006 26
1.6. Sector distribution of non-agricultural SME employment, Poland, 2006 27
1.7. Growth in number of SMEs and SME employment, Poland, 2002-07 29
1.8. Annual growth rates in SMEs and SME employment, Poland, 2003-07 29
1.9. Growth in SME employment by size of enterprise, Poland, 2003-07 30
1.10. Annual enterprise entries and exits, Poland, 2001-07 31
1.11. SME contribution to employment, turnover and value added, Poland, 2003 and 2007 33
1.12. Ranking of countries on the European Innovation Scoreboard 2008 36
1.13. Female and male shares of employment and non-agricultural self-employment, Poland, 1997, 2002 and 2007 40
1.14. Male and female self-employment rates, Poland, 1997, 2002 and 2007 41
1.15. Regional distribution of SMEs, employment, revenue, investment outlays, Poland, 2007 47
1.16. Density of SMEs and newly registered enterprises per 1 000 inhabitants by region, Poland, 2007 48
1.17. Newly-started enterprises and exits by region, Poland, 2007 49
1.18. Employees per enterprise by region, Poland, 2006 49
1.19. Private sector share of registered enterprises by size and by region, Poland, 2006 . . 52
2.1. Employment rates by educational level, Poland and selected countries, 2007 66
2.2. Employment rates by age, Poland and OECD countries, 2008 66
2.3. Barriers to enterprise development according to Polish SMEs, 2007 68
2.4. Factors that positively affect the development of Polish SMEs 69
2.5. Factors that negatively affect the development of Polish SMEs 69

2.6. Comparative educational performance, Poland and selected countries, 2006 72
2.7. Adult learning participation rate by socio-economic characteristics, 2002 76
2.8. Employed professional and technical migrants by country of residence, 2000 or 2001 78
2.9. Credit to households and corporates, Poland, 2003-08 80
2.10. Venture capital investment, Poland and selected countries, 2008 83
2.11. Tax wedge across OECD countries, 2008 84
2.12. Taxes by level of government, Poland and OECD countries, 2006 85
2.13. The taxation of corporate profits, Poland and selected countries, 2006..... 86
2.14. Trade integration: Total exports and imports, Poland and selected countries, 2007 88
2.15. FDI inflows to OECD countries, average 2003-08 88
2.16. Activity of affiliates under foreign control, Poland and selected countries, 2004 and 2006 89
2.17. Product market regulation scores by domain, Poland and selected countries, 2008 90
2.18. Main components of the Competition Law Indicator, Poland and OECD countries, 2007 92
2.19. The minimum wage relative to the median wage, Poland and selected countries, 2008 96
2.20. Strictness of employment protection legislation, Poland and OECD countries, 2008 96
2.21. Time required to comply with VAT obligations, OECD countries, 2006..... 97
2.22. R&D intensity, Poland and selected countries, 2007 99
2.23. R&D expenditure, OECD and selected countries, 2007 100
2.24. Human resources in science and technology occupations, OECD and selected countries, 2008..... 101
2.25. Researchers, Poland and selected countries, 2007..... 101
2.26. Firms collaborating in innovation with higher education institutions by size, Poland and selected countries, 2004-06..... 102
2.27. Business funded R&D in the higher education and government sectors, Poland and OECD countries, 2007..... 102
2.28. Broadband subscribers per 100 inhabitants, Poland and OECD countries, 2008 ... 103
2.29. Broadband penetration by size class, Poland and selected countries, 2006..... 103
3.1. SME, entrepreneurship and innovation support structure in Poland at the national level, 2009 119
3.2. Intersection of SME, entrepreneurship and innovation policy..... 159
4.1. Institutions involved in the management of Poland's Regional Operational Programmes..... 177
4.2. EU ROP resources 2007-13 per capita, Poland 178

BASIC STATISTICS ABOUT POLAND (2008)

LAND AND PEOPLE

Area (sq. km)	322 575	Distribution of the national population (in % of total population, 2005)	
Arable land (% of total area) (2007)	59		
Population (thousands, 2009)	38 135	Urban regions	22.77
Population growth rate (2009)	–0.17	Intermediate regions	39.47
Unemployment rate (Aug. 2009)	10.8	Rural regions	37.76

GOVERNMENT AND PUBLIC FINANCES

Bicameral Parliamentary System		General government balance (% GDP)	–3.9
Sejm membership (lower house)	460	Gross general government debt (% GDP)	47.2
Senate membership (upper house)	100		
Number of political parties in Sejm (2009)	5		

ECONOMY

GDP (PLN billion, current prices)	1 271.7	Value added by activity (as % of total value added)	
GDP (USD billion, at PPP)	673.1	Agriculture, hunting, forestry and fishing	3.7
GDP per capita (USD at PPP)	17 660	Industry and construction	32.0
Gross fixed capital formation (%GDP)	22.0	Trade and services	45.4
Inflation rate 2000-08	2.7	Government and other activities	18.9

FOREIGN TRADE

Current account (USD billion)	–29	Trade balance (USD billion) (2007)	–20.67
Current account (% GDP)	–5.5	Goods	–25.38
		Services	4.71

SMES AND INNOVATION

Share of SMEs in total firm population (2006)	99.8	Product innovators (2006)	
Industry	99.5	SMEs	10.1
Services	99.9	Large firms	34.2
Share of SME employment in total empl. (2006)	68.9	Process innovators (2006)	
Industry	60.3	SMEs	9.9
Services	68.9	Large firms	29.5
Share of SME value added (2006)	48.4	Non-technological innovators (2006)	
Industry	36.5	SMEs	14.7
Services	64.5	Large firms	53.4

Sources: OECD databases; OECD (2008), *OECD Economic Surveys: Poland 2008*, OECD Publishing: *http://dx.doi.org/10.1787/eco_surveys-pol-2008-en*; and Eurostat.

Executive Summary

Main findings

The rapid growth of small, private companies over the past 20 years has been one of the greatest successes of the post-Communist transformation in Poland. The small and medium-sized enterprise (SME) sector today contributes 69% of employment, nearly 60% of turnover and 56% of value added in the Polish economy. As in most countries, SMEs allocate relatively little, less than 5% of revenues, to fixed investment and their productivity is less than in large enterprises. But productivity in the sector, especially in micro-enterprises, has nevertheless risen more rapidly than in large enterprises. Both entry and exit rates for enterprises, almost entirely small ones, are higher in Poland than on average in the EU. This indicates considerable dynamism in the sector which has contributed to the progressive diversification of the Polish economy since the end of central planning.

However, the sector remains weak. It is disproportionately represented by micro-enterprises (those with fewer than ten employees). A significant number of large firms exist in the Polish economy, but there are relatively few firms in the intermediate size classes, especially the 10-49 employee class. This suggests important barriers to the establishment or growth of small firms beyond the micro-enterprise class. Survey evidence indicates that the lack of critical mass is often reflected in a lack of operational sophistication and too little attention to strategy development, record-keeping, marketing and innovation. A majority of SMEs have problems with management quality and two-thirds are focused on survival and maintaining their current position, rather than on development or growth.

As a result, SMEs in Poland often lack the resources or willingness to invest in new technology. Innovation expenditures, especially on research and development (R&D), are low. SMEs are disadvantaged in terms of capital relative to EU counterparts and are more likely to report difficulties due to: lack of skilled labour; a bureaucratic regulatory and procedural environment; poor infrastructure; and high labour costs. Only 8% of new enterprises started in 2007 raised bank funding to support their activity. The resulting low quality of their products or processes makes them generally uncompetitive in EU or global markets. Few SMEs in Poland are involved in export activity, and participation in public procurement, especially by younger micro- and small enterprises, is low.

Many elements of the transformation of the business environment in Poland to make it supportive of SMEs and entrepreneurship have been accomplished during the course of Poland's accession to the World Trade Organization (WTO) and to the European Union (EU). But key barriers remain, notably: *i)* regulatory complexities and administrative costs;

ii) high tax rates; *iii)* inadequate access to financing; *iv)* lack of qualified labour; and *v)* deficiencies in knowledge, management and competitiveness.

The strategic policy framework for pursuing structural reform and economic development in Poland is built around the *Lisbon Strategy*, at the EU level, and the *National Development Strategy*, at the national level. Implementation takes place through the Operational Programmes (OPs) of the *National Cohesion Strategy*, which determines the allocation and distribution of the EU Structural Funds. High priorities of these OPs, as reflected in the allocation of funds for nationally administered programmes (around three-quarters of the total), are building physical infrastructure, investing in human capital and developing an innovative economy. With this horizontal approach to public policy, there is no explicit policy framework for SMEs or entrepreneurship, leaving policies in these areas embedded in other policy domains. A large number of programmes and projects included in the OPs directly or indirectly benefit SMEs and entrepreneurship and cover a wide range of targets, including: *i)* improving access to financing; *ii)* facilitating access to markets; *iii)* boosting innovation among SMEs and entrepreneurs; *iv)* promoting entrepreneurial attitudes and culture; *v)* strengthening SME skills and management capacity; and *vi)* supporting under-represented groups. But what emerges is a collection of projects and programmes put together with no clear design or necessarily any overall coherence. At best, gaps are likely and there is a high risk of inconsistency and incoherence.

Significant variations across regions in Poland in terms of per capita income, poverty, education, and the quality of physical and human capital are reflected in variations in rates of new venture creation and the performance of SMEs. The more rural southern and eastern regions, or *voivodships*, display lower rates of new business registration and numbers of active SMEs than do Mazowieckie, which contains Warsaw, and the western regions. To some degree this reflects the advantages that SMEs have in the larger cities, in terms of infrastructure and qualifications of the workforce, compared to rural areas. Poland's external border with Belarus has also worked to limit the extent of local markets in the eastern regions while accession to the EU has reinforced the western locus of activity in the country.

In view of these disparities, there is a significant regional dimension to policy design in Poland. The OPs allocate approximately 25% of the EU Structural Funds to the 16 regions, to be administered at the regional level. While the eastern regions receive relatively more than their share on a per capita basis, these funds are distributed in a way which ensures that no region is neglected. Furthermore, just over 3% of the Structural Funds are allocated to a nationally administered OP for the development of eastern Poland. A significant part of these funds will directly or indirectly benefit enterprises, including SMEs. Since delivery of most policy support to SMEs ultimately takes place at the local or regional level, even when centrally administered, there is a strong need for clarity and coherence in the relationship between various organisations engaged in delivering support to enterprises. At present this is a serious problem in Poland. Collectively, the number of entities, including publicly funded not-for-profit organisations, serving some aspect of the SME sector in Poland, has more than doubled since 2001 and now stands at more than 700. The result is too much overlap between national and regional actors and poor accessibility and visibility from the point of view of beneficiaries.

The way forward

Both the policy and support structure for SMEs and entrepreneurship need to be streamlined and strengthened. This would enable the authorities to reinforce the current framework towards economic development in Poland with more focused efforts to strengthen the enterprise sector, especially at the smaller end. Priority should be given to encouraging larger numbers of micro-enterprises to acquire the organisational coherence, productivity and customer bases which allow them to expand into larger size classes.

The starting point should be the affirmation of the lead and co-ordinating role of a single, appropriately resourced, ministry responsible for SME and entrepreneurship policies. At the same time the number of organisations engaged in programme design and, especially, support delivery should be reduced. Having more than 700 entities participating in some aspect of SME policy design and implementation leads to excessive complexity, lack of clarity and fragmented policy/programme initiatives too small or narrowly conceived to be effective in achieving their purposes. Institutional capacity of the institutions remaining after streamlining should be strengthened and, where appropriate, more reliance should be placed on regional branches to ensure local accessibility of service locations.

This should be accompanied by the reconstitution of an explicit strategic framework for SMEs and entrepreneurship to ensure coherence, consistency and comprehensive coverage of a broader set of innovation and entrepreneurship issues. It could involve a horizontal policy document of the same status as the Strategy for Increasing the Innovativeness of the Economy. Even without a dedicated OP in a future National Cohesion Strategy, which would presumably begin in 2014, such a document would be designed to increase the coherence of the various dispersed actions carried out as part of implementation of policies in other domains. It would provide an overall framework for integration of SME and general entrepreneurship considerations into policy formulation and delivery in these other domains. This would create a political mandate to officials charged with pressing for such integration to be achieved. It would also provide a good starting point for authorities at lower levels of government responsible for delivery of support to articulate their own strategies to ensure that local and regional policies are complementary to, and reinforce, the national ones.

The process of developing a strategic framework for SMEs and entrepreneurship also requires better co-ordination among policy-making bodies. At the national level, an inter-ministerial council, under the Prime Minister, is needed to co-ordinate policy formulation. At the regional and local levels, where authorities have more limited capacity and experience with both formulation and implementation of relevant policies, it is essential that complementary mechanisms are put into place to build capacity through the transfer of knowledge, information, and sharing of good practices. The national-regional working group consisting of representatives of Marshal's Offices and the Polish Agency for Enterprise Development (PARP) created in 2008 is primarily a forum for discussion of technical issues and does not serve this purpose well. The inter-ministerial council suggested above should provide guidance to regional and local entities in the implementation of appropriate measures and activities.

Better co-ordination is also needed among support-delivery bodies to strengthen their effectiveness at the point of delivery. 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. Business service provision should be adapted to the characteristics of local economic structures and to each region's potential for innovation and technology-based growth. Finally, better dialogue among the various actors would be helpful at all levels. In particular, this would work to clarify the respective responsibilities of national and regional authorities under the Innovative Economy OP. For rural areas, a national forum for entrepreneurship development, involving the Ministry of Regional Development, the Ministry of Economy, PARP, and including the Ministry of Agriculture and the Marshal's Offices would offer an opportunity to exchange good policy practices and to co-ordinate efforts to promote entrepreneurship in these regions.

PARP, the primary agency charged with co-ordinating and delivering support services provided by the central government to SMEs, plays a central role in implementing Poland's National Development and Cohesion Strategies. Its mandate has been interpreted broadly and, since its establishment in 2001, it has acquired new roles, activities and ministries for whom it implements policies. It is important that it remains focused on well-defined core activities of delivering business support to enterprises and entrepreneurial firms and that it carries them out well. Given these considerations, it would be useful to clarify PARP's role, mandate and reporting responsibilities to reinforce this focus. Its staffing and resources, which should include an improved capacity to provide a strong and well-researched analytical underpinning for its operations, should be commensurate with its role and mandate.

In terms of substantive support, the framework conditions in the economy as a whole should be strengthened to address the barriers to SME growth and development cited above. Most importantly, the Better Regulations framework should be reinforced in areas such as taxation, inspections and reporting requirements with a view to reducing compliance costs and administrative burdens. But addressing some of these barriers will involve institution building and longer term reform, notably in areas such as adapting the educational and vocational training systems better to the needs of the economy and strengthening the capacity of the financial sector to meet the needs of SMEs and growing firms. There are also useful forms of business support that the market has failed to provide which create a potential role for SME-specific policies and programmes in areas cited above. A significant part of the large financial support Poland is receiving in the form of EU Structural Funds, of the order of 3% of gross domestic product (GDP) over the period 2007-13, should be available to provide support in these areas. It is important that these be used wisely.

At this stage it is too early to provide an assessment of the overall content of SME and entrepreneurship support policies and programmes funded by the 2007-13 National Cohesion Strategy since there has not yet been much experience with them. However, discussions will begin soon about the broad allocation of resources in the next Cohesion Strategy and an issue will be whether the high level of support for SMEs should be maintained, reduced or increased. Targeted SME-specific programmes should be funded generously but only as long as they are cost-effective and deliver identifiable benefits. This points to the need to strengthen the capacity to evaluate SME and entrepreneurship policies and programmes further and to make early use of that capacity as experience with programmes accumulates.

Policy priorities and recommendations

Bring back an explicit framework for policy action

- Reconstitute an explicit strategic framework for SMEs and entrepreneurship to ensure coherence, consistency and comprehensive coverage of the range of SME, entrepreneurship and innovation issues.
- Prepare a horizontal policy document with the same status as the *Strategy for Increasing the Innovativeness of the Economy*, prepared by the Ministry of Economy, to increase the coherence of the various dispersed actions carried out as part of implementation of policies in other domains. This should incorporate the "Think Small First" and other key policy areas of the new *Small Business Act* for Europe.
- Integrate programmes and measures from different ministries and agencies in this strategy to create a "cradle to grave" support structure (*i.e.* policies for developing entrepreneurs, supporting start-ups, nurturing early-stage enterprises to encourage higher survival rates and supporting firm growth) so that "entrepreneurial potential" more often becomes "entrepreneurial reality".
- Ensure that the intentions of the high-level policy documents and frameworks are reflected in developments on the ground, where enterprises operate, and are not confined to good principles.

Streamline policy and support-delivery processes wherever possible

- Define more clearly a single lead ministry for SME and entrepreneurship policy formulation and co-ordination.
- Reduce the number of organisations engaged in programme design and, especially, support delivery.
- Focus PARP's role on well-defined core activities in the areas of entrepreneurship (entrepreneurial spirit and start-up activities), as well as SME growth.
- Strengthen institutional capacity of remaining organisations and, where appropriate, place more reliance on regional branches to ensure local accessibility of service locations.

Co-ordinate policy support better at all levels

- Create a national-regional working group on SMEs and entrepreneurship, led by the Ministry of the Economy, to build capacity through the transfer of knowledge, information, and sharing of good practices. It should meet at least semi-annually to provide guidance to regional and local entities in the implementation of appropriate measures and activities.
- Establish a formalised and effective mechanism for consulting with the SME community on policy and programme design. Pilot programmes at the regional level may be desirable.

Design programmes that deliver support more effectively

- Encourage joint branding of nationally and regionally funded business-support services to make the system coherent to business users as well as service providers. The branding and quality assurance should be co-ordinated from the national level, while the packages of support to be provided should be geared to regional needs.
- Vary the range of services to be provided sufficiently to allow them to be tailored to the needs of the different target groups of SMEs and entrepreneurs at different stages of enterprise development.

Policy priorities and recommendations *(cont.)*

- Extend the principle of first-stop shops, one-stop-shops and single windows to all types of SMEs. Do not confine it to services for start-ups.
- Avoid allowing publicly-funded business services to crowd out what can be offered on a commercial basis.
- Use *Cohesion Strategy* resources for SMEs and entrepreneurship wisely to build capacity. Ensure generous funding for SME and entrepreneurship programmes within global *Cohesion Fund* resources, but only so long as they are cost-effective and deliver identifiable benefits.
- Deliver most SME and innovation support locally to benefit from spatial proximity, which allows the building of links and trust between firms and support service suppliers. Where support is highly specialised, complex or dependent on unique expertise, cost effectiveness may argue for providing delivery centrally rather than at local or regional levels.

Strengthen evaluation of policies and programmes further

- Make greater provision for broader evaluation of both SME and entrepreneurship policies and programmes than what is currently in place.
- Give high priority to training skilled evaluators and developing ways to manage them.
- Develop more sophisticated methodology and increase its standardisation across evaluations.

Strengthen the business environment to reduce barriers to SME development

- Reinforce the *Better Regulations* framework and implementation of the *Package for Entrepreneurship* to ensure their effectiveness in reducing regulatory burdens and administrative costs and adherence to the "Think Small First" principle.
- Ensure that *regulatory impact assessments* take full account of effects on SMEs of proposed new legislation and regulations.
- Reduce the burden of social security contributions on enterprises by reducing social security spending, which is largely funded through these contributions. Bringing early retirement spending into line with the EU25 average may offer the best scope for doing this.
- Examine the issue of bankruptcy protection for "natural persons" (for example: sole proprietorships, civil partnerships) enterprises to ensure natural persons are given a fair opportunity for a "second chance" effort at entrepreneurship.
- Give greater priority to labour market needs and developments in deciding the balance of provision between general and vocational training at secondary level.

Improve access to financing for SMEs and entrepreneurs

- Identify and address the barriers to extending the take-up and reach of guarantee and loan funds with consideration of good practices, particularly in the design of SME guarantee schemes in OECD countries.
- Nurture the growth and development of institutions, such as pension funds, insurance companies and investment funds that can prudently provide reasonable amounts of longer term risk capital, ideally including venture capital.
- Further develop the venture capital industry and business angels in favour of investments in start-ups and early-stage high growth potential enterprises, such as by applying incentives and tools often used by other countries to reduce the added risk taken by private investors.

Policy priorities and recommendations *(cont.)*

- Build the capacity of entrepreneurs to attract external financing, including through measures to create more awareness of the benefits of equity financing and to strengthen the competence of entrepreneurs in developing proposals for equity financing.

Facilitate access to markets

- To support the government's SME procurement policy, develop a database of SMEs that have the capacity to bid on government contracts (*e.g.* a simple SME supplier registration system) and then develop a tracking system to monitor contracts being awarded to SMEs. Good practices on mechanisms for developing these systems exist in Canada, the United Kingdom and the United States, among other countries.
- Explore the need for additional policy measures to support co-operative efforts of SMEs in the area of procurement access and to develop stronger linkages between Polish SMEs and large firms to enhance their participation in global supply chains, and, thus, improve their indirect access to export and procurement opportunities.
- Provide programme support to encourage larger numbers of micro-enterprises to acquire the organisational coherence, productivity and customer bases which allow them to expand into larger size classes.

Boost innovation among SMEs and entrepreneurs

- Extend the current emphasis on R&D, innovation, new products and new activities to a wider range of advances in productivity that can be achieved by bringing skills, organisational methods and productivity levels in Polish enterprises into line with EU and global standards.
- Develop a national incubator policy that lays out the standards of operation based on international best practices and performance benchmarks.
- Make continuous efforts to examine the performance of Polish clusters and to learn lessons from the experiences of cluster policies and activities in OECD countries and EU member states as input to the development of a comprehensive cluster policy framework.
- To supplement the law on sharing of intellectual property between universities and their spin-offs, develop simple rules to govern situations where university professors start spin-off companies that begin with the use of university facilities.

Ensure the conditions for promoting entrepreneurial attitudes and culture

- Continue efforts to foster the entrepreneurial mind-set in students and youth and to fully integrate entrepreneurship curriculum in the education system.
- Undertake strong efforts to ensure linkages between entrepreneurship education efforts and the offering of business-support services to graduates who want to start their own enterprises.
- Work to identify gaps in programmes, particularly as concerns strengthening the entrepreneurship culture, building entrepreneurial capacity in innovative activities, and ensuring young Poles with positive attitudes to entrepreneurship are supported with the knowledge, skills, advice and financial support that allow them to turn their ideas into viable ventures.

Tailor to local needs

- Adjust the balance of business service provision to the characteristics of the economic structure of each region and each region's potential for innovation and technology-based growth.

Policy priorities and recommendations *(cont.)*

- 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 the local level in these areas of business support.
- Review the "demarcation lines" for the actions in the *Innovative Economy Operational Programme* and *Regional Operational Programmes* in a dialogue between the regional and national authorities and agencies.
- Shift the balance from delivering national SME and entrepreneurship policies in the regions in favour of building capacity in the regions to design and implement regional and national support.
- Establish a national forum for SME and 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 and enterprise development.

Chapter 1

SME and Entrepreneurship Performance in Poland Today

SMEs in Poland contribute significantly to employment, investment and value-added, as well as to economic diversification. However, the sector remains weak. There is a disproportionate share of micro-enterprises, with fewer than 10 employees, and relatively few firms in the intermediate size classes, especially the 10-49 employee class. SMEs in Poland are rarely involved in export activity, they tend to lack the capacity, resources or willingness to invest in new technology and the low quality of their products or processes makes them generally uncompetitive in global markets. In addition, variations in framework conditions are reflected in significant regional variations in SME performance and new venture creation rates. Key barriers to SME development include: i) *regulatory complexities and administrative costs;* ii) *high tax rates;* iii) *inadequate access to financing;* iv) *lack of qualified labour; and* v) *deficiencies in knowledge, management and competitiveness.*

Introduction

The concept of "private enterprise" has a relatively short history in Poland, but the fast growth of small, private companies in the period following the start of the post-communist transformations in the 1990s is considered one of the greatest successes of Polish economic reforms (Surdej and Wach, 2007). The restructuring and modernisation of industry in recent years has had a positive effect on the Polish economic and business environment. The privatisation of state-owned enterprises, liberalisation of markets and sectors, opening up to international competition, and removal of price controls on raw materials and energy costs have resulted in greater modernisation of technologies and production efficiencies. Since the collapse of the COMECON trading bloc in 1991, Poland has also reoriented its foreign trade policy. Despite some continuing economic challenges, Poland has made tremendous economic progress over the past two decades.

Combined with the introduction of government policies to encourage entrepreneurial activity, create an environment that is supportive to innovation and change, and facilitate easier access to markets, small[1] and medium-sized enterprises (SMEs) have emerged as a significant component of the Polish economy, influencing economic and employment growth, competitiveness, and changes in the economic structure. Job creation has been one of the most important aims of the government in promoting SME development. From the beginning, the government has considered that the wave of unemployment generated by the restructuring and disappearance of state enterprises could be absorbed by the large-scale creation of SMEs.

During 1995-2000, SMEs created about one million new jobs. By 2000, SMEs were responsible for 66% of non-agricultural employment and 49.4% of gross domestic product (GDP) (Ministry of Economy, Labour and Social Policy, 2003). Since 1991, the number of registered enterprises has grown from less than half a million to almost 3.7 million in 2007, out of which 48% are "active". In 2007, SMEs accounted for over 99.8% of active enterprises and employed an average of 3.5 workers per enterprise, totalling over 6.2 million people.

The Polish authorities have recognised that a long-term strategy for SMEs requires co-ordinated action across a range of policy domains, including education, research and development (R&D), government regulation, competitiveness, labour market and social policies, and financial reform. Over the past 14 years, the country has seen numerous policy initiatives and programme measures to influence a more favourable operating environment for private enterprises and SMEs.

The government of Poland's first policy targeting SMEs was adopted in 1995, with the goal of improving the conditions for the functioning of SMEs (Ministry of Economy, Labour and Social Policy, 2003). Subsequent SME policy guidelines were adopted in 1999 and 2003, providing the impetus for a range of policy initiatives, programmes, and measures to address barriers to SME development and growth, specifically in the areas of access to external sources of financing, provision of training and counselling services, and reduction of legislative and regulatory burden for the creation of new enterprises and the growth of

existing SMEs. In 2002, the government adopted the European Charter for Small Enterprises and agreed to develop actions consistent with the ten enterprise policy areas specified in the charter.[2]

In 2004, Poland joined the European Union. EU membership has enhanced the opening up of the Polish economy to new ideas, new knowledge and new capital, which has contributed to improvements in the country's economic performance through the establishment of new firms, greater business co-operation, and more foreign direct investment (FDI) resulting largely from access to EU Structural Funds and multinational investments. Generally speaking, Poland has become more attractive as a business location. This has provided expanded opportunities for Polish enterprises, but at the same time created pressure for SMEs to become more competitive. The government response to the latter has been further structural reforms to better prepare SMEs for the expanded trade environment, including a greater emphasis on quality improvements, technology upgrading, innovation, and exporting competence. The most recent framework for SME and entrepreneurship policies is implicit in the National Strategic Reference Framework 2007-13 (Ministry of Regional Development, 2007), the National Reform Programme for 2008-11 (Ministry of Economy, 2008a), and the National Development Strategy 2007-15 (Ministry of Regional Development, 2006a).

Current SME-related policies are heavily oriented towards improving the innovation capacity and competitiveness of SMEs as well as increasing their productivity and share in value-added. One of the Polish government's key priorities is to bring Polish SMEs in line with European quality standards. Otherwise, their ability to access European and other international markets will be impeded. Funding of SME-related activities is largely through EU Structural Funds, which to a great extent drives SME programme priorities in the country.

Policies oriented towards the development of SMEs are currently dispersed among the many ministries, agencies and regional authorities as a horizontal theme. Ministries and agencies implicated in the development and implementation of SME policies include the Ministry of Economy (MoE), the Ministry of Regional Development (MRD), the Ministry of National Education, the Ministry of Science and Higher Education (MSHE), the Ministry of Agriculture and Rural Development (MARD), the Ministry of Tourism and Sport (MTS), and the Ministry of Labour and Social Policy (MSLP), as well as several agencies, the foremost of which being the Polish Agency for Enterprise Development (PARP), and the National Centre for Research and Development (NCBiR) in a supporting role. Also involved are the National Economy Bank (BGK), the network of Regional Financial Institutions (RFIs), and other regional entities.

A clear SME policy document guiding actions in this area has not existed since the 2003-06 Government Policy Guidelines for SMEs (Ministry of Economy, Labour and Social Policy, 2003). The lack of specific SME or entrepreneurship policy/strategy documents has potential to create problems for the systematic co-ordination of SME and entrepreneurship policy and programme efforts.

This chapter presents details on the current state of SMEs and entrepreneurship in Poland with emphasis on the structure, size and economic contribution of the SME and entrepreneurship sector. A distinction is made between SME performance, which relates to their start-up, survival and growth performance, and entrepreneurship performance, which relates to the creation of potential entrepreneurs. The two are closely linked, since the potential stock of entrepreneurs provides the pool from which new and growing firms

emerge, whilst the performance of existing SMEs also influences entrepreneurship behaviour. However, it is useful to separate out the two categories because they imply different policy approaches. Particular attention is paid as well to the quality and quantity of SME and entrepreneurship activity and the related association with innovation, which is a key driver for productivity and growth. This chapter, as much as possible, compares Poland's SME and entrepreneurship performance against international benchmarks, highlighting differences between different types of SMEs and entrepreneurs. It concludes with a summary of the major structural and enterprise-level challenges in Poland, which will help with taking stock of the current business environment in Chapter 2.

Size and structure of the SME sector

This section describes the current status of SMEs in Poland, in terms of numbers, size classes, employment, sector distribution and legal structure. For the Polish enterprise-related definitions used in this and following sections, see Box 1.1.

Box 1.1. **Enterprise-related definitions**

Entrepreneur: "A natural person, a legal person, and a non-corporate organisational unit with legal capacity under provisions of a separate Act, conducting activity on its own behalf [...] partners in civil partnerships within the scope of their economic activities" (Republic of Poland, 2004).

Enterprises: "Includes: state enterprises, foreign-owned enterprises and enterprises owned by social organisations and foundations, co-operatives, companies (joint-stock, limited liability companies, registered and limited partnerships, companies limited by shares, professional and civil law partnerships), as well as sole proprietorships engaged in an economic activity" (PARP, 2008).

Micro-enterprise: Enterprise with fewer than ten employees (not including the owners or co-owners) and annual net turnover of less than PLN equivalent of EUR 2 million or total balance sheet assets not higher than EUR 2 million.

Small enterprise: Enterprise employing up to 49 people (not including the owners or co-owners) and annual net turnover of less than PLN equivalent of EUR 10 million or total balance sheet assets not higher than EUR 10 million.

Medium-sized enterprise: Enterprise with between 50 and 249 employees (not including the owners or co-owners) and annual net turnover of less than PLN equivalent of EUR 50 million or total balance sheet assets not higher than EUR 43 million.

Large enterprise: By default, those enterprises with 250 or more employees (not including the owners or co-owners) and more than the PLN equivalent of EUR 50 million or total balance sheet assets higher than EUR 43 million.

Innovative activity: "Activity connected with preparation and start-up of manufacturing of new or improved materials, products, equipment, services, processes or methods, to be entered in the market or for a different, practical use" (Republic of Poland, 2005).

Innovative enterprise: "Enterprise that has made an innovation within the past three years, *i.e.* a novelty was introduced in a product or service, process, marketing or organisation" (Ministry of Regional Development, 2007).

Box 1.1. **Enterprise related definitions** *(cont.)*

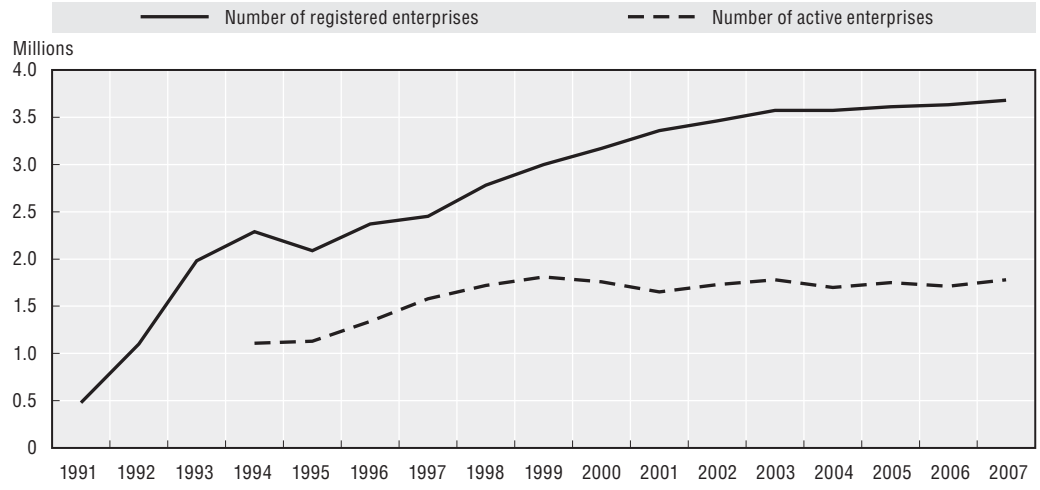
Technostarter: "An enterprise which carries out business activity in the area of a technological park or enterprise incubator or intends to start innovative activities according to a business plan elaborated by a KSU [National Network for SME Support] centre within the framework of services covered by the support" (Ministry of Economy, 2008b).

Note: The Polish government adopted the EU definition of SMEs in 2005.

Registered enterprises versus *"active" enterprises*

The number of registered enterprises[3] in Poland has been steadily growing since 1991, except for a dip in 1995 (Figure 1.1). From 1991 to 2007, the number almost tripled to 3.68 million.[4] However, there is a large discrepancy between the number and growth of registered enterprises and that of "active" enterprises.[5] The number of active enterprises has not been increasing as fast, and since 2001, the ratio of active to registered enterprises has hovered between 47-50% (although it was close to 65% in 1997). In 2007, the number of active enterprises totalled 1.78 million, an increase of almost 60% over 1995.

Figure 1.1. **Registered and active enterprises, Poland, 2007**



Source: Pre-2001 data from Surdej, A. and K. Wach (2007), "Entrepreneurship as the Challenge for Polish Economy in the 21st Century", conference proceedings of the 6th International Conference, 10-11 October, Faculty of Economics, Miszkolc University, pp. 169-176, *http://ssrn.com/abstract=111353*, Figure 1. Data for 2001-07 from various Polish government reports based on CSO data (*REGON Database*).

SME share of enterprises, employment, and GDP

SMEs make up a significant share of active enterprises and play a critical role in the Polish economy. In 2007, they accounted for 99.8% of active enterprises, employed almost 70% of non-agriculture workers in these enterprises, and contributed 56% of value-added (Table 1.1). Micro-enterprises (fewer than ten employees) make up the vast majority of non-agricultural enterprises (96.4%), 40.1% of their workers and 28% of their value-added. Micro-enterprises are by far the largest share of the SME sector (96.6%). Although the average micro-enterprise firm size is 2.1 workers, collectively, they employ almost 3.6 million workers (57.8% of SME workers). They also account for half of the SME sector contribution to value-added.

Table 1.1. **Distribution of active enterprises and employment by size class, Poland, 2007**

Size class (number of workers)	Number of enterprises	Share of enterprises (%)	Number of workers	Share of workers (%)	Average firm size	Share of value-added (%)
Micro (0-9)	1 713 194	96.4	3 592 817	40.1	2.1	28.0
Small (10-49)	45 184	2.5	1 007 453	11.2	22.3	10.4
Medium (50-249)	15 452	0.9	1 619 286	18.0	104.8	18.0
Subtotal	*1 773 830*	*99.8*	*6 219 556*	*69.3*	*3.5*	*56.0*
Large (250 +)	3 256	0.2	2 749 746	30.6	773.5	44.0
Total	**1 777 086**	**100.0**	**8 969 302**	**100.0**	**5.0**	**100.0**
Micro-enterprise share of SME contribution		96.6		57.8		50.0

Note: Employment figures from CSO enterprise survey data differ from Labour Force Survey figures.
Source: Data supplied by PARP from CSO figures.

In 2007, the SME share of total employment was 40.8%,[6] up ever so slightly over 2002. SME employment grew during the period by about 11.8% (average annual rate of almost 2.4%), while total employment grew by 10.6% (average annual rate of just over 2.1%).

Compared to the average for EU member states, the distribution of enterprises in Poland is more heavily skewed to micro-enterprises – 96.4% of enterprises in Poland *vs.* 91.9% for the EU27 (Table 1.2) [note that for Poland, micro-enterprises include non-employer firms]. Poland is particularly shy of small enterprises (only 2.5% of Polish enterprises *vs.* 7.0% in the EU), although the average employment size of a small enterprise in Poland is larger than the EU average, as is the average size of a medium-sized enterprise. On the other hand, large firms in Europe have considerably more employees, on average, than large firms in Poland. Polish SMEs contribute about the same level of value-added, but the micro-enterprise share of value-added is greater in Poland.

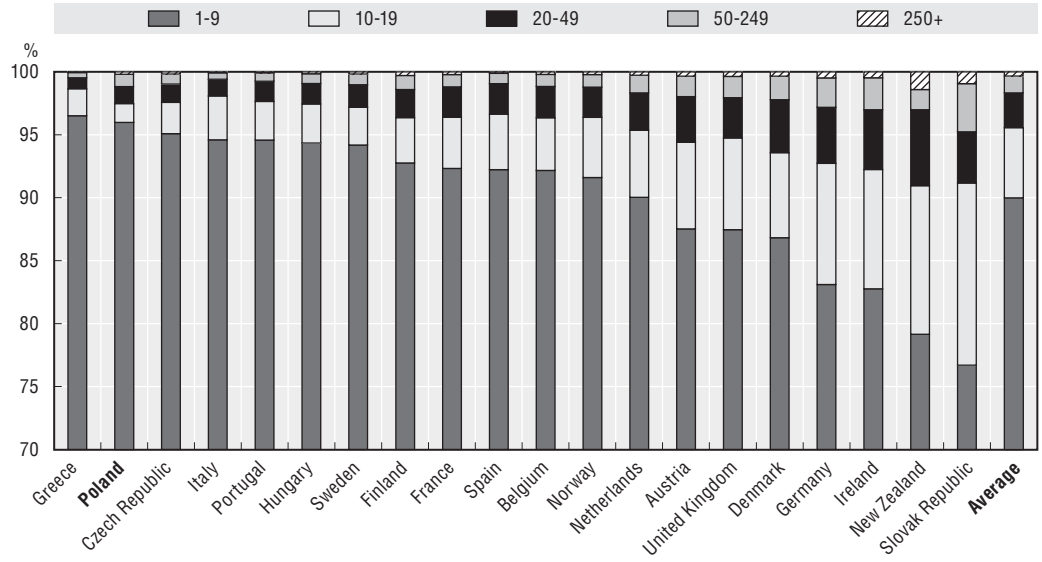
Table 1.2. **Distribution of enterprises and employment by size class in the EU27, 2007**

Size class (number of workers)	Number of enterprises (thousands)	Share of enterprises (%)	Number of workers (thousands)	Share of workers (%)	Average firm size	Share of value-added (%)
Micro (0-9)	18 778	91.9	38 890	29.7	2.1	21.0
Small (10-49)	1 402	6.8	27 062	20.7	19.3	18.9
Medium (50-249)	220	1.1	21 957	16.8	99.8	17.8
Subtotal	*20 409*	*99.8*	*87 909*	*67.2*	*4.3*	*57.0*
Large (250 +)	43	0.2	42 895	32.8	997.6	42.3
Total	**20 452**	**100**	**130 804**	**100**	**6.4**	**100**
Micro-enterprise share of SME contribution		92		44.2		36.4

Source: Audretsch, D. *et al.* (2009), "First Section of the Annual Report on EU Small- and Medium-sized Enterprises", Commissioned by the European Commission, Directorate General Enterprise and Industry, EIM Business and Policy Research, Zoetermeer, Netherlands, January, Tables 10 and 11. Figures for the non-financial business economy.

A similar discrepancy in size class distribution of enterprises and employment is also apparent between Poland and OECD countries. Apart from Greece, Poland has the highest proportion of micro-enterprises in its total enterprise stock among 20 OECD member countries (Figure 1.2). The average micro-enterprise share of employer enterprises for these 20 countries is 90%, compared to 96% for Poland.

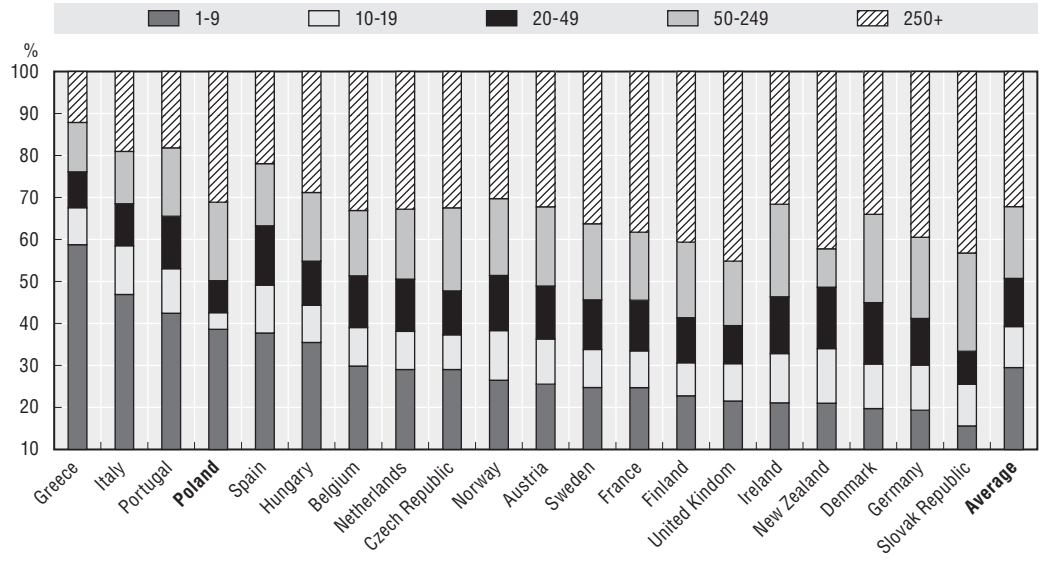
Figure 1.2. **Distribution of enterprises by employment size class, OECD member countries, 2006**



Source: Eurostat and OECD Structural and Demographic Business Statistics, *Business by Size Class Database*.

Among the 20 OECD member countries, Poland has the fourth highest share of its employer enterprise employment in micro-enterprises (39%), following Greece (59%), Italy (47%), and Portugal (42%) (Figure 1.3). Small enterprises (10-49 employees), in particular, contribute relatively less to employment share in Poland (6%) than in these other OECD countries (average of 11%). On the other hand, the large firm share of employment in Poland (31%) is very close to the OECD average for these countries.

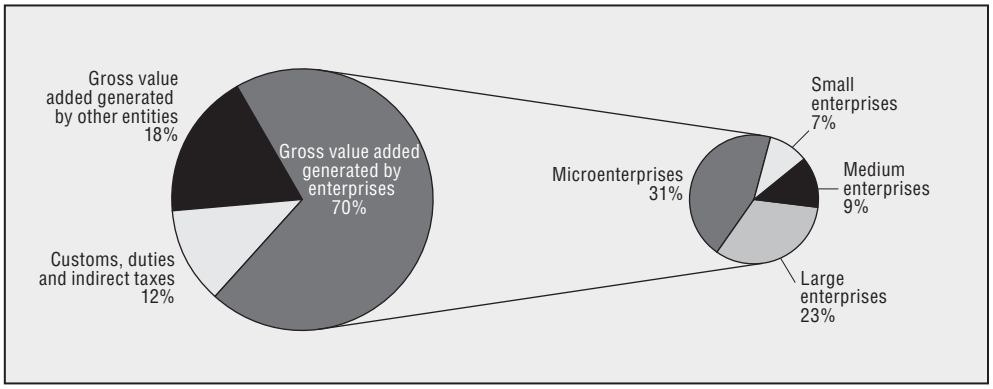
Figure 1.3. **Distribution of employment by enterprise size class, OECD member countries, 2006**



Source: Eurostat and OECD Structural and Demographic Business Statistics, *Business by Size Class Database*.

The SME share of GDP in 2007 was 47.4% (Figure 1.4). This has remained relatively constant in recent years, although it was slightly down from 48.5% in 2000 (PARP, 2003). These figures include the activity of informal SMEs as well. In this respect, Poland is lagging behind the EU, where SMEs generate almost two-thirds of GDP (European Commission, 2004).

Figure 1.4. **SME contribution to Polish GDP, 2007**

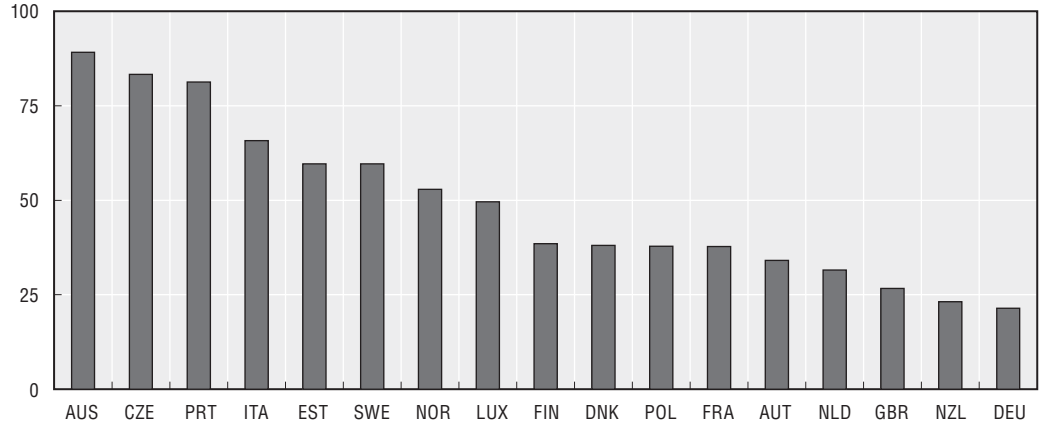


Source: PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland 2007-08", Warsaw.

The density of SMEs per 1 000 inhabitants in Poland is somewhat below the average for those OECD countries for which comparable data is available. The SME density in Poland stands at 38 per 1 000 inhabitants compared with an average of approximately 50 per 1 000 for all countries examined (Figure 1.5).

Figure 1.5. **Density of SMEs in the non-financial business economy, 2006**

Number of SMEs per 1 000 population



Source: OECD, *Structural and Business Statistics*. Data is for 2006.

Sector distribution of SMEs and SME employment

In 2007, the majority of non-agricultural Polish SMEs were in the trade and repairs sector (32%), followed by the services sectors (combined real estate and business services and other services) (39%). About 10% are in the industry sector (Table 1.3). The share of

Table 1.3. **Sectoral distribution of non-agricultural SMEs, Poland, 2007**

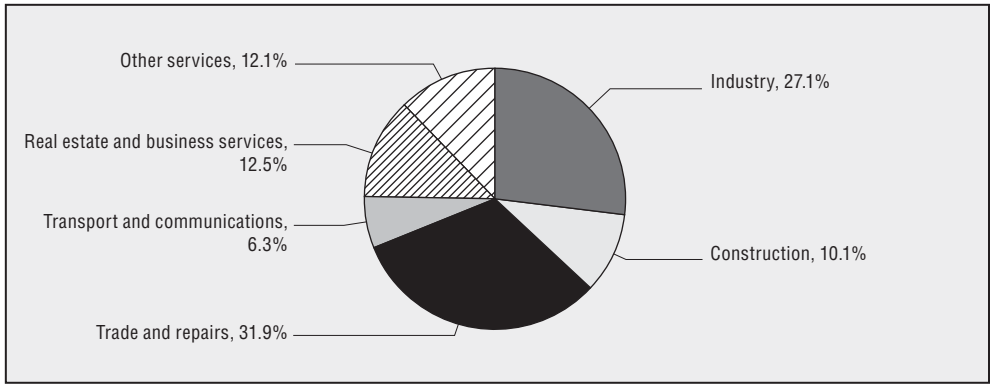
Sectors	Active SMEs (% of total)	
	2006	2007
Industry	11.5	10
Construction	10.0	11
Trade and repairs	35.7	32
Transport and communications	8.4	7
Real estate and business services	16.0	17
Other services	18.4	22
Total	100	100

Source: PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-07", Warsaw; PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2007-08", Warsaw.

industry sector SMEs has been stable, but has been in slight decline since 2001, and there has been a sizable increase in the share of services sector SMEs. Growth of SMEs in other services has increased dramatically from 4.9% of SMEs in 2001 to 22% of SMEs in 2007.

The largest share of SME employment is in the trade and repairs sector (31.9%), followed by the industry sector (27.1%) (Figure 1.6). Compared to 2001, the share of SME employment has decreased in every sector except in the real estate and business services and other services categories.

Figure 1.6. **Sector distribution of non-agricultural SME employment, Poland, 2006**



Source: PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-07", Warsaw.

Legal structure of SMEs

The majority of Polish SMEs have the legal form of "natural persons", or what is commonly referred to as sole proprietorships and includes civil partnerships. This form of enterprise accounts for 92.5% of Polish SMEs (Table 1.4). However, notable differences are found depending on the enterprise size class. Over 50% of small enterprises and over 80% of medium-sized enterprises are registered as "legal persons", while over 94% of micro-enterprises operate as "natural persons". This suggests that as Polish enterprises grow, they have an increasing tendency to become limited liability partnerships or companies.

Table 1.4. **Legal forms of SMEs in Poland, 2007**

Category	Total	Natural persons		Legal persons	
		Number	%	Number	%
Micro-enterprises	1 713 194	1 618 372	94.5	94 822	5.5
Small enterprises	45 184	20 235	44.8	24 949	55.2
Medium-sized enterprises	15 452	2 493	16.1	12 959	83.9
Total SMEs	**1 773 830**	**1 641 100**	**92.5**	**132 730**	**7.5**

Source: Data provided by PARP.

The "grey" economy

Informality is a characteristic of all economies, but the level of formality varies widely depending on the level of economic development. Schneider (2009) estimated that the "shadow economy" in Poland amounted to about 26.5% of GDP in 2006/07, down from 29.3% in 2004/05.[7] However, the Polish Central Statistical Office (CSO) estimated the size of the shadow economy in Poland in 2007 to be 14.7% of GDP.

Official Polish documents do not make reference to the number of informal enterprises[8] (or enterprises in the "grey economy"), so it is not clear how sizable this is and whether the number has been increasing or decreasing, but for the most part, the "grey economy" appears to be most prevalent among micro-enterprises in certain sectors. Construction, small restaurant industries, retail trade and food processing are among the sectors most prone to grey market activity.

Informal employment is quite low, but rising. There were an estimated 439 000 informal ("unregistered") workers in 2006 (up 8.4% over 2004).[9] This represented 5.1% of non-agricultural enterprise employment and 7.3% of SME employment.[10] One out of every seven workers in small construction enterprises are employed in an informal way (15.3%); one out of eight in the retail trade sector and minor repair sector (12.7%); and one out of 11 in the industry processing sector (9.1%). In other sectors where the "grey economy" was recorded, informal employment accounted for 6% of the overall number of small enterprise workers (PARP, 2008).

The other important aspect of informality is the practice of avoiding taxes – unregistered business that goes through legally-operating businesses. According to the World Bank Enterprise Survey in Poland for 2005, 43.9% of all firms do not report all of their sales for tax purposes (World Bank, 2009). This is higher than in other Eastern and Central European countries.

Among the common factors contributing to the rising "grey economy" in Poland are: complexity of laws and regulations, high costs of business activity and high payroll taxes (tax wedge). Although labour costs in Poland are relatively low compared to other EU countries, the non-wage related labour costs (including social security contributions), along with direct and indirect taxes are high. In fact, the tax wedge in Poland is one of the highest in the EU (Ministry of Economy, 2008c).

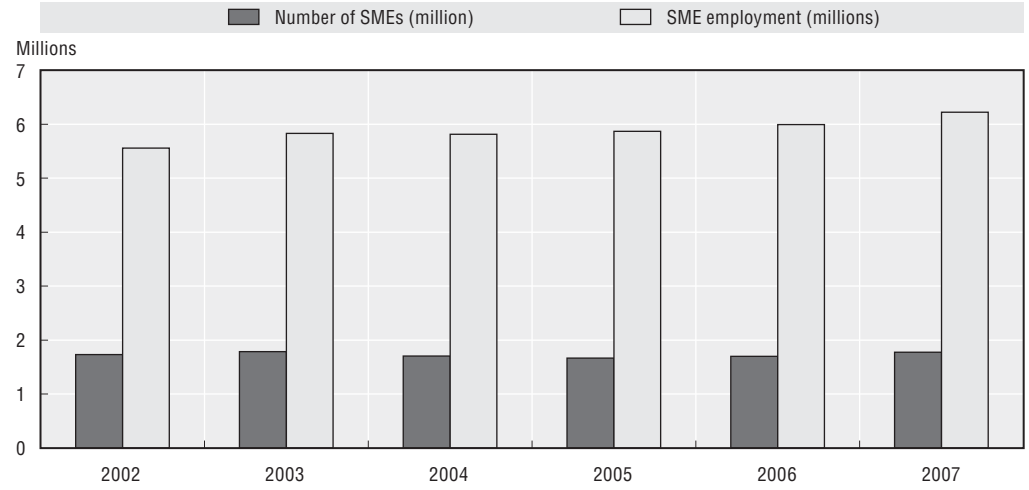
SME sector performance

This section deals with the growth trends in the performance of SMEs, including business entry, exit and survival rates, productivity levels, and their contribution to employment, turnover, value-added, exports, and innovation activity.

Growth of SMEs and SME employment

From 2002 to 2007, the number of SMEs increased from 1.73 million to 1.77 million (Figure 1.7), a net increase in the SME population of 2.4% (average annual growth of 0.5% or just over 8 000 SMEs per year). SME employment grew faster, by 11.8% (average annual growth of about 2.4%). One of the net effects of this was an increase in the average size of an SME from 3.2 employees in 2002 to 3.5 employees in 2007.

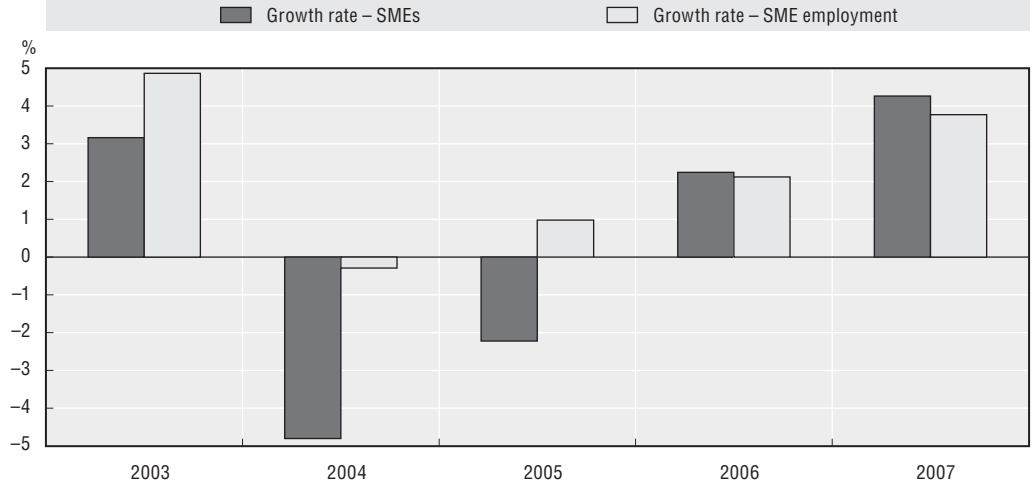
Figure 1.7. **Growth in number of SMEs and SME employment, Poland, 2002-07**



Source: Data provided from various official Polish sources originating from the CSO.

The pattern of net growth has been very slow and sporadic. Negative growth in the number of SMEs and SME employment occurred in 2004 and only gradually recovered to 2003 levels (Figure 1.8).

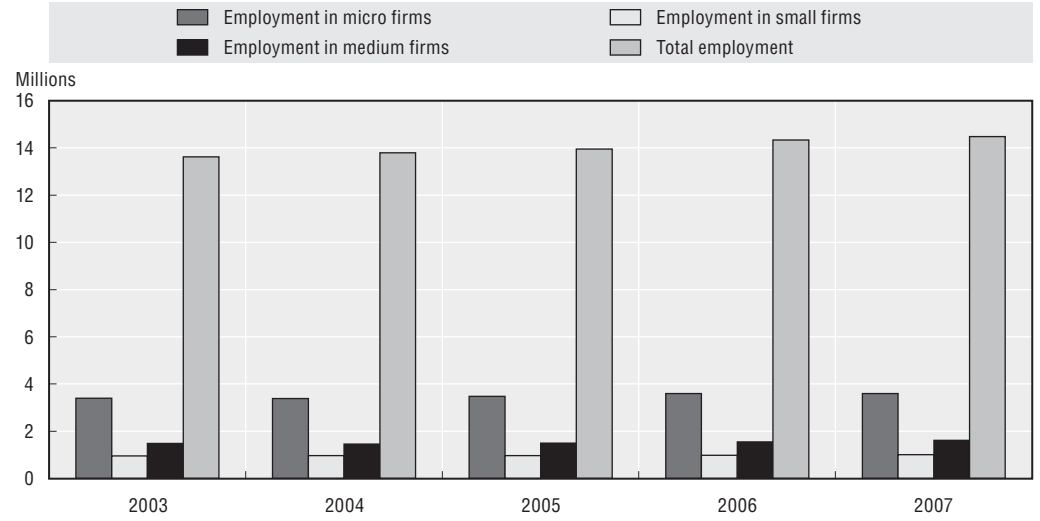
Figure 1.8. **Annual growth rates in SMEs and SME employment, Poland, 2003-07**



Source: Data provided from various official Polish sources originating from the CSO.

Net employment has been slowly increasing in all SME size classes in recent years (Figure 1.9). However, since 2003, employment growth was faster among medium-sized enterprises (2.4% a year) than in micro- and small enterprises (1.4% a year). Because total employment was growing at about 3% annually, the SME share of total employment did not change much between 2003 and 2007 – hovering between 41-43%.

Figure 1.9. **Growth in SME employment by size of enterprise, Poland, 2003-07**



Note: The base year used is 2003 because prior to that, Polish data combined the totals for micro- and small enterprises.
Source: Various PARP reports for 2004, 2007 and 2008.

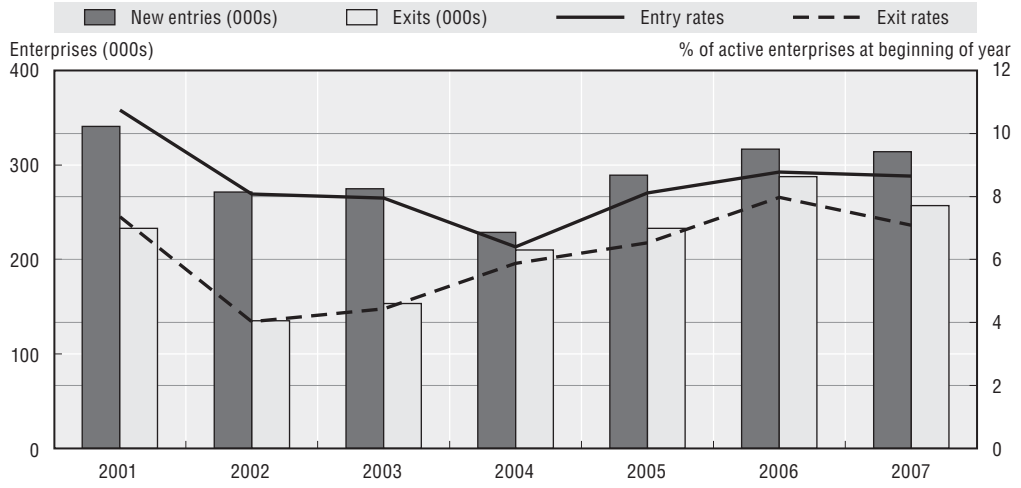
Annual enterprise entries and exits

Growth in the net stock of enterprises in the economy is largely determined by the number of new entries on an annual basis minus the number of exiting enterprises, that is, the business entry and exit rates. In Poland, this information is captured by the number of new entries and "signed off" enterprises in the REGON Register.

Enterprise entry and exit rates are an indicator of the level of dynamism in the enterprise sector. They can also be indicative of the condition of the economy. In 2007, there were 314 091 new enterprise entries and 257 060 signed off (exiting) enterprises, reflecting an entry rate of 8.6% and an exit rate of 7.1% (based on the number of registered enterprises at the beginning of the year). Figure 1.10 tracks the number of annual business entries and exits and the accompanying annual entries and exit rates over time.[11] The average entry rate during 2001-07 was 8.4%, although this ranged from 10.7% in 2001 to a low of 6.4% in 2004. The number of start-ups by micro-enterprises has been growing since 2004, and declining for small, medium and large enterprises since 2005 (PARP, 2009). Over 90% of new enterprises tend to be sole proprietorships. The exit rate average during 2001-07 was 7%, ranging from a low of 4% in 2002 to a high of 8% in 2006. Average entry and exit rates for 23 European countries for 2006 were reported as 9.8% and 7.9% respectively, suggesting that Poland may be slightly less dynamic in the enterprise sector than the average EU country (Eurostat, 2006).

Entry and exit indices are very interesting because they not only reflect the influence of measurable economic growth factors (*e.g.* GDP), but also of those immeasurable ones connected with investors' moods and expectations about the possibilities of managing an

Figure 1.10. **Annual enterprise entries and exits, Poland, 2001-07**



Note: Entry and exit rate calculations are based on the number of registered enterprises in the REGON Database at the beginning of each year.

Source: Data for new entries from PARP (2003), "Report on the Conditions of the Small and Medium-Size Enterprise Sector in Poland for the Years 2001-02", Warsaw; PARP (2004), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2002-03", Warsaw; PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2007-08", Warsaw.

enterprise. In Poland, the number of newly established enterprises had been slowly, but systematically, falling until 2001, after a huge growth rate in the second half of the 1990s in line with strong growth in GDP. Following the collapse of GDP growth dynamics (from 4% in 2000 to 1% in 2001), the number of newly established enterprises fell by as much as 18.7% in 2002 (PARP, 2007). As GDP started to strengthen again in 2003, the entry rate bounced back in 2005.

The combined entry and exit rate in 2007 was 15.7% (Table 1.5), which indicates a reasonable level of dynamism in the enterprise sector. However, the difference between entry and exit rates has lessened since 2002, resulting in slower growth in the net enterprise population. The most important thing is that the difference is positive, in favour of entries. Significant regional variations are noted in the distribution of new enterprises across the country as well as the entry and exit rates (to be discussed further in Chapter 4).

Table 1.5. **Enterprise entry and exit dynamics, Poland, 2001-07**

Percentage

	2001	2002	2003	2004	2005	2006	2007
Entry rate plus exit rate	18.1	12.1	12.4	12.3	14.6	16.7	15.7
Entry rate minus exit rate	3.4	4.1	3.5	0.5	1.6	0.8	1.6

Source: Author's calculations from data in Figure 1.10.

Survivability of new enterprises

The first year of operation presents the greatest challenge to Polish enterprises. On average, about a third of new Polish enterprises do not survive into the second year, with slightly greater chances of survival for employer firms (Table 1.6). At the end of four years, fewer than 30% of the Polish enterprises started in 2003 were still in existence but survival rates for the employer firms were much higher, at almost 53%. Although first-year survival

Table 1.6. **New firm survival rates, Poland, 2008**

Percentage

Year of establishment	First-year survival rate		Survival rate through to 2008	
	All new firms	Employer firms	All new firms	Employer firms
2003	64.4	69.8	29.8	52.6
2004	61.6	67.7	35.4	47.5
2005	66.7	71.6	42.0	55.5
2006	67.5	73.3	55.2	69.4
2007	70.8	72.9	70.7	72.9

Source: CSO (2009b), "Conditions of Establishment, Operation and Development Prospects of Polish Enterprises Established in the Years 2003-07", Statistical Information and Elaborations, Warsaw.

rates appear to be on the rise, these rates are much lower in Poland than for new employer firms in other selected OECD countries.[12]

Survival rates vary depending on sector, legal form of the new enterprise, and whether it has employees, as well as features connected to the owner, such as gender, age, education and professional experience. Enterprises with lower longer term survival rates are more likely in tourism and commercial sectors, registered as "natural persons", and those without any workers except the owner. The conclusion is that survival chances are much greater for enterprises registered as "legal" persons, with employees from the beginning, and a base of initial capital (PARP, 2008).

Job creation impacts of new entries

Since 2003, the CSO has been tracking new business entries on an annual basis and capturing data on a number of dimensions, including job creation. The new enterprises created in 2003-07 that were still active in 2008 created 1.83 million jobs (Table 1.7). This amounts to about 16% of private sector employment in 2008.[13] The average number of jobs per young surviving enterprise is 3.5.

Table 1.7. **Job creation impacts of new and surviving enterprises, Poland, 2003-08**

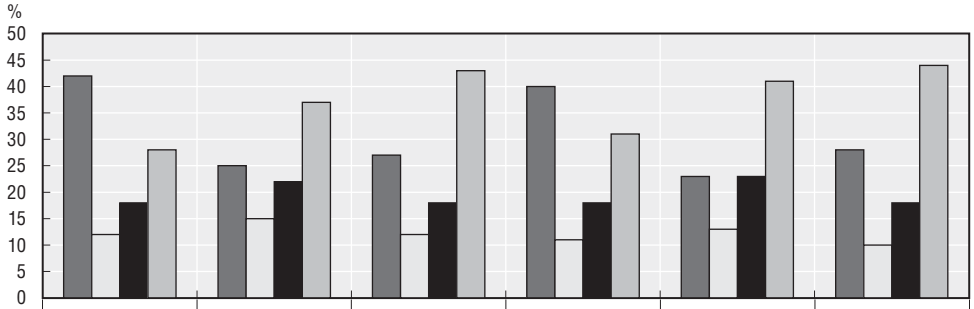
	Number of new enterprises	Still active in 2008	Persons employed in 2008	Average job creation per enterprise
2003	176 867	52 636	205 169	3.9
2004	186 684	66 072	333 730	5.1
2005	211 142	88 600	407 326	4.6
2006	241 352	120 990	407 184	3.4
2007	273 579	193 332	474 851	2.5
Total	1 089 624	521 630	1 828 260	3.5

Source: CSO (2009b), "Conditions of Establishment, Operation and Development Prospects of Polish Enterprises Established in the Years 2003-07", Statistical Information and Elaborations, Warsaw.

Trends in SME contribution to employment, turnover and value added

By 2007, SMEs contributed not only almost 70% of total enterprise employment, but 59% of turnover and 56% of value-added. The level of these SME contributions has seen some changes from 2003 to 2007. Basically, the large firm share of each of these dimensions has been increasing (Figure 1.11). In the SME sector, the performance of small enterprises has been declining in each of these areas. On the other hand, while the

Figure 1.11. **SME contribution to employment, turnover and value added, Poland, 2003 and 2007**



	Employment	Turnover 2003 (%)	Value-added	Employment	Turnover 2007 (%)	Value-added
Micro	42	25	27	40	23	28
Small	12	15	12	11	13	10
Medium	18	22	18	18	23	18
Large	28	37	43	31	41	44

Note: Employment includes self-employed workers; turnover and value-added are based on the total in PLN millions.
Source: Data supplied by PARP in 2009.

micro-enterprise share of employment is still by far the largest, this has decreased from 42% to 40%; its share of turnover has declined slightly, but its share of value-added has increased moderately to 28%. Medium-sized enterprises have essentially maintained their share of employment, turnover and value-added over the 2003-07 period.

The four-year growth rates for enterprise employment, turnover, and value-added have been 10.2%, 48%, and 49.3%, respectively (Table 1.8). Growth was highest in the large enterprise sector. In the SME sector, medium-sized enterprises experienced the fastest growth in employment and turnover, and micro-enterprises the fastest growth in value-added. In interpreting these growth figures, it should be remembered that medium-sized and large enterprises make up only about 1% of all Polish enterprises.

Table 1.8. **Growth in employment, turnover and value added, Poland, 2003-07**

Percentage

Size class	Employment	Turnover	Value-added
Micro-enterprises	5.8	35.1	55.1
Small enterprises	5.6	27.0	20.4
Medium-sized enterprises	9.5	54.4	51.9
SMEs subtotal	***6.7***	***39.8***	***46.9***
Large enterprises	19.0	61.7	52.4
Total	**10.2**	**48.0**	**49.3**

Source: Author calculations based on data provided by PARP.

SME productivity

Large enterprises in Poland are more productive than SMEs, which is the case in other countries as well. Generally, the larger the firm the more value-added per employee, due to economies of scale and efficiency. This is also apparent in Poland. Micro-enterprises have the lowest productivity, followed by small enterprises, medium-sized enterprises and large enterprises (Table 1.9).

Table 1.9. **Value-added per employee by enterprise size class, Poland, 2003-07**

In PLN

Enterprise size class	2003 (thousands)	2004 (thousands)	03-04 (%Δ)	2005 (thousands)	04-05 (%Δ)	2006 (thousands)	05-06 (%Δ)	2007 (thousands)	06-07 (%Δ)
Micro-enterprises	39.0	48.2	*23.6*	46.4	*–3.7*	57.2	*23.2*	57.3	*0.1*
Both small and micro-enterprises	43.9	50.4	*14.8*	49.4	*–2.1*	58.1	*17.7*	60.0	*3.3*
Medium-sized enterprises	60.1	68.1	*13.4*	67.3	*–1.2*	74.2	*10.3*	83.3	*12.2*
SME average	52.2	61.0	*16.8*	59.9	*–1.8*	68.3	*14.0*	72.2	*5.6*
Large enterprises	93.0	109.8	*18.1*	108.0	*–1.6*	111.6	*3.3*	119.0	*6.6*
Total	**60.8**	**70.7**	***16.3***	**69.7**	***–1.3***	**77.1**	***10.5***	**82.3**	***6.8***

Source: Author calculations based on data provided by PARP.

However, one can see a trend towards increasing productivity in Polish firms. Since 2003, value-added per employee has risen by PLN 21 500 (35%). Productivity improvements of medium-sized and large enterprises exceeded the national total in absolute terms (PLN), however, the greatest percentage productivity gain over the period was achieved in the SME sector (38% gain), largely due to the 47% gain in the micro-enterprise size class, where value-added per employee increased from PLN 39 000 in 2003 to PLN 57 300 in 2007. In comparison, the productivity gain in large enterprises was only 28%.

SMEs and investment performance

In 2007, almost half of Polish enterprises incurred no investment expenditures, with micro-enterprises showing the lowest performance. Micro- and small enterprises allocate less than 5% of their total revenues for investment activities (only 2.7% in the case of micro-enterprises). Expenditures on fixed assets by SMEs have been increasing since 2002, but are still below the absolute value of these investment expenditures in 2000, whereas for large firms, investment expenditures in 2006 were the highest since the beginning of the transformation (PARP, 2008). In 2007, the average capital expenditure for investment per enterprise amounted to PLN 81 200: PLN 10 700 for micro-enterprises, PLN 350 000 for small enterprises, and PLN 2.2 million for medium-sized enterprises. However, the fastest growth in investment expenditures occurred in micro- and small enterprises, 24.7% and 20.6% respectively (PARP, 2009).

SMEs report that limitations to their investment activities between 2006 and 2007 were: lack of access to capital for investing (33%); high risk of legal changes and resulting instability (27%); and lack of market demand (24%) (PARP, 2008). This suggests that entrepreneurs could be stimulated to invest by lower investment costs (higher profitability), lower investment risk and greater demand for produced goods and services.

Exporting SMEs

In spite of significant progress in export growth in recent years, the ratio of Polish exports to GDP (41.3% in 2007) and the per capita value of exports are still considerably lower than in the majority of new EU member states (Ministry of Economy, 2008c).[14] In 2007, large Polish enterprises accounted for 78% of export volume, medium-sized enterprises for 18% and small enterprises for 4% (Ministry of Economy, 2008c),[15] clearly demonstrating that large firms are more capable of competing internationally. Industrial enterprises, which tend to be dominated by large enterprises, are responsible for 85% of the value of exported goods and services. However, 87.1% of exporters are SMEs (14 262 out of

16 182 exporting enterprises in 2008), with small enterprises accounting for slightly more than half of the exporting SMEs (PARP, 2009).[16]

The share of export sales in net revenues has slowly increased for enterprises in all size categories over the past seven years (Table 1.10). The lowest contribution of export sales to revenues in 2007 was in small (7%) and medium-sized enterprises (12%), SMEs tending to operate in more local markets. The growth rate in export sales has been fairly consistent with the growth rates in revenue from activity as a whole. This is the case for enterprises of all sizes, although export sales in large enterprises, on an annual basis, have been growing at a faster rate than revenue growth.

Table 1.10. **Export performance by size of firm, Poland, 2001-07**

Enterprise size class	2001	2002	2003	2004	2005	2006	2007
			Share of export sales in net revenues (%)				
Total for more than 9 persons employed	11.0	12.0	14.8	16.0	16.0	17.0	18.0
10-49	4.0	6.0	7.3	8.0	8.0	8.0	7.0
50-249	7.0	9.0	11.9	12.0	12.0	13.0	12.0
More than 249	14.0	16.0	18.9	20.0	21.0	23.0	23.0
			Growth rate of revenues from activity as a whole (base = 100)				
Total for more than 9 persons employed	100.8	101.0	107.9	116.3	103.9	113.1	114.4
10-49	101.8	98.2	100.3	116.7	101.1	109.3	112.0
50-249	97.9	99.2	109.4	118.0	101.8	111.5	113.7
More than 249	102.1	103.0	109.7	115.6	105.9	115.1	115.1
			Growth rate of export sales (base = 100)				
Total for more than 9 persons employed	102.9	122.6	131.2	125.0	105.5	119.7	114.0
10-49	109.4	209.8	121.6	107.8	92.0	115.7	105.9
50-249	102.9	144.5	143.9	112.2	103.6	114.4	115.0
More than 249	100.5	120.1	126.1	130.2	107.0	121.2	114.3

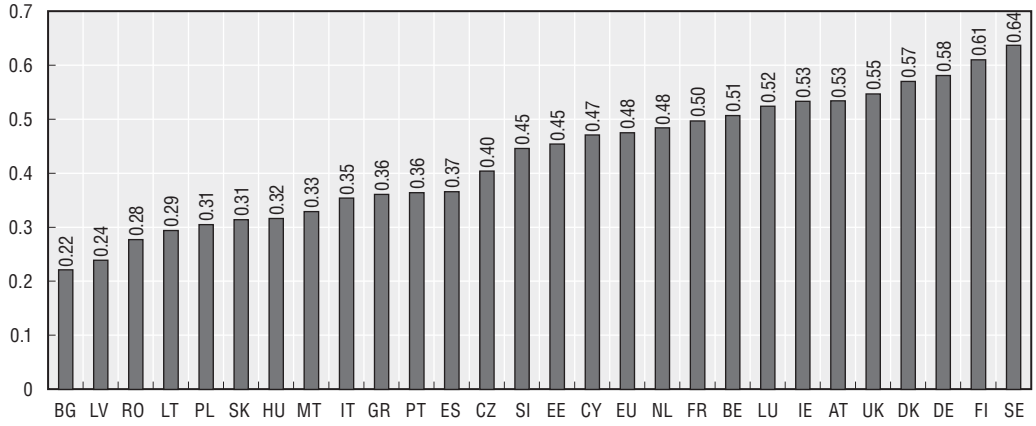
Source: Ministry of Economy (2008c), "Entrepreneurship in Poland, Analyses and Forecasting Department in co-operation with Economic Development Department, Economic Regulation Department, Support Instruments Department", Table 15, Warsaw, August.

SMEs' innovation performance

Poland ranked 23rd among 27 European countries in the 2008 European Innovation Scoreboard (Figure 1.12), placing it in the group of "catching up" countries, and reflecting a number of deficiencies in the innovation environment in Poland compared to the EU average (European Commission, 2008). Among the lowest innovation indicators are the level of public and business R&D expenditures; the share of SMEs innovating in-house and introducing any kind of innovation (marketing and organisational innovations, product or process innovations); and the number of registrations of any kind of patents or community trademarks and designs (see Table 1.11). However, Poland is lagging behind the EU on most dimensions of innovation.

The level of innovation investments in Poland is low compared to the average for European countries, especially among SMEs (European Commission, 2008). Statistics for 2006 reveal that large Polish firms spend almost three times more than SMEs on R&D. Only about 1% of Polish SMEs are interested in investing in their own R&D or purchasing external R&D works. Micro-enterprises, in particular, perceive no need to invest. Only 5% of SMEs has a separate R&D unit. SMEs find it difficult to develop working relationships with Polish research teams, even for the few SMEs that try. Only about 4% of SMEs co-operated with research units during 2007-08.

Figure 1.12. **Ranking of countries on the European Innovation Scoreboard 2008**



Note: Vertical axis reflects scores on the Summary Innovation Index (SII).

Source: European Communities (2009), "European Innovation Scoreboard 2008: Comparative Analysis of Innovation Performance", prepared by Maastricht Economic and social Research and training centre on Innovation and Technology (UNU-MERIT), *www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=437&parentID=51*.

Table 1.11. **Comparison of selected innovation indicators for Poland and the EU27, 2007-08**

European Innovation Scoreboard indicators	Poland (2007)	Poland (2008)	EU27 (2008)
Business R&D expenditure (% of GDP)	0.18	0.18	1.17
Public R&D expenditure (% of GDP)	0.39	0.38	0.65
Non-R&D innovation expenditures (% of turnover)	–	1.03	1.03
SMEs innovating in-house (% of all SMEs)	13.8	17.2	30.0
Innovating SMEs co-operating with others (% of all SMEs)	9.1	9.3	9.5
SMEs introducing marketing and organisational innovation (% of all SMEs)	19.3[1]	29.1	40.0
SMEs introducing product or process innovations (% of all SMEs)	–	20.4	33.7
Venture capital (% of GDP)	–	0.017	0.107
Sales of new-to-market products – involving new and modernised products (% of total turnover)	8.10	4.56	8.60
Sales of new-to-firm products (% of total turnover)	5.40	5.55	6.28
EPO patents per million population	4.2	3.0	105.7
New community trademarks per million population	24.7	33.2	124.6

1. The European Innovation Scoreboard 2007 refers to organisational innovation only, whereas the 2008 edition refers to both, organisational and marketing innovation, therefore these figures are not comparable.

Source: European Communities (2008), "European Innovation Scoreboard 2007: Comparative Analysis of Innovation Performance", prepared by Maastricht Economic and social Research and training centre on Innovation and Technology (UNU-MERIT), *www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=275&parentID=51*; European Communities (2009), "European Innovation Scoreboard 2008: Comparative Analysis of Innovation Performance", prepared by Maastricht Economic and social Research and training centre on Innovation and Technology (UNU-MERIT), *www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=437&parentID=51*.

Polish companies also have difficulty attracting specialists with the necessary skills in managing innovative projects in spite of a significant increase in the number of science and technology graduates since 2005. As is the case for SMEs in general, high social insurance contributions and taxes seem to influence the innovativeness of Polish firms, as these represent a significant financial burden on employers (European Commission, 2008). Innovative firms also require access to venture capital, which is currently underdeveloped.

Consequently over three-quarters of Polish SMEs are not conducting any activity to develop or implement new or significantly enhanced products/services, and only 16% plan to undertake considerable product changes in the future. Apart from the influences of

sector and size, the low innovation performance of Polish enterprises results from their poor financial situation and limited interest in undertaking R&D activities that are characterised by a high risk of failure (Ministry of Regional Development, 2007).

Table 1.12 indicates that small enterprises are much less engaged in innovation-related activity than medium-sized and large enterprises. A much larger share of large firms is innovating, with a substantially higher total investment in innovation activity.

Table 1.12. **SME contribution to innovation by size of enterprise, Poland, 2006-07**

Industry firms (by employment size class)	10-49	50-249	10-249	More than 249	Year
Share of innovative enterprises[1]	13.9	37.4	20.6	65.5	2007
Expenditures on innovation activity (PLN million)	1 283.0	4 189.1		12 369.0	2006
Share of enterprises undertaking innovation activity	11.6	32.3	17.5	59.2	2006
Enterprises receiving public funding for innovation	27.2	29.9		20.5	2006
Share of enterprises co-operating with others in innovation activity (% of innovating enterprises)	34.9	47.9		69.2	2006
Services firms (by employment size class)	10-49	50-249	10-249	More than 249	Year
Share of innovative enterprises	16.9	34.8	20.2	53.5	2007
Expenditures on innovation activity (PLN million)	1 037.6	1 002.4		6 229.1	2006
Share of enterprises undertaking innovation activity	14.9	31.3	17.8	48.6	2006
Enterprises receiving public funding for innovation	14.7	17.2		10.5	2006
Share of enterprises co-operating with others in innovation activity (% of innovative enterprises)	46.0	5.2		71.0	2006

1. The number of innovative enterprises that has introduced at least one new or improved product and/or process within an analysed period as a percentage of all enterprises in the given sector (Ministry of Regional Development, 2007).

Source: Data provided by PARP based on CSO reports and enterprises surveys.

Furthermore, SMEs are investing little in new technologies. Only 3% of Polish exports and 9% of imports are in high-technology products, the same level as for the past 10 years. Comparable rates for the EU in 2006 were 16.7% for exports and 19.5% for imports (Ministry of Economy, 2008c).

Many barriers make it difficult for SMEs to implement innovative solutions: the high costs of implementing innovation activities which exceed entrepreneurs' financial resources in an environment where external financing is not readily accessible; poorly developed infrastructure for supporting the commercialisation of R&D; and the high risk of investing in new technologies.

Entrepreneurship in Poland

Entrepreneurship generally refers to people and their enterprise behaviours, as opposed to enterprise entities. The OECD defines entrepreneurs as "those persons (business owners) who seek to generate value through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets" (OECD, 2008). The development of entrepreneurship in a society or economy requires attention to how (and which) people engage in the entrepreneurial process, defined as the process "whereby individuals become aware of business ownership as an option or viable alternative, develop ideas for businesses, learn the processes of becoming an entrepreneur, and undertake the initiation and development of a business" (Lundström and Stevenson,

2005). This process involves all activities leading to self-employment and the start-up of an enterprise (*e.g.* awareness, career orientation, training and skills acquisition) and the survival and growth of the enterprise.

Fostering positive societal and individual attitudes towards entrepreneurship and a favourable entrepreneurship environment are important factors in enhancing the level of entrepreneurial activity in an economy. In Poland, the need to stimulate entrepreneurship results from the (increasingly) difficult labour market and a persistently high level of unemployment. The development of entrepreneurship and building pro-enterprise attitudes are the basic elements which could lead to an improvement in the labour market as well as innovation.

However, the development of entrepreneurship in Poland seems to be understood more in the context of improving the business environment and lowering the costs of conducting business activities, rather than creating specific programmes linked to innovation and innovative start-ups to open up new business opportunities for groups of entrepreneurs, although recent measures to encourage innovative start-ups were introduced in the latest Polish innovation policy, "Directions for Increasing the Economy Innovation for the Years 2007-13". Entrepreneurship courses and modules have been introduced as a mandatory element of the education system at the lower and upper secondary and vocational levels since 2004.

This section deals with the issue of the potential supply of entrepreneurs in Poland and the level of entrepreneurial activity.[17] In understanding entrepreneurship performance, it is important to consider the factors that influence both the birth of new enterprises and their ultimate growth – such factors as the conditions facilitating the start-up process, including the regulatory environment, level of entrepreneurial skill, knowledge and ability of the population of potential and new entrepreneurs and their access to the supports and resources necessary to foster higher quality and greater success. To contribute to economic growth, a focus on better quality start-ups with innovation and growth potential is generally believed to be of great importance.

To examine Poland's entrepreneurship performance, this section looks at self-employment trends, Poland's performance on the European Entrepreneurship Survey Scoreboard, and the incidence of growth enterprises.

Self-employment – trends and demographics

Self-employment (people engaged in own-account self-employment and self-employed as employers) is used by many countries as a key indicator of entrepreneurial activity, and is the main indicator used by national statistical offices to provide information on men's and women's entrepreneurship (Giovanelli, Gunnsteinsdottir and Me, 2004). In some respects, self-employment can be seen as a first step into entrepreneurial activity that may lead to development of a small business, some of which will have growth potential. Furthermore, it can provide a platform for gaining entrepreneurial skills and experience.

According to 2007 Polish Labour Force Survey (LFS) data, there are more than 2.9 million self-employed persons aged 15 years and over in the employed population of 15.2 million. This means that 19.3% of the employed population is self-employed – higher than the estimated 16% for the EU as a whole (2005 Eurostat data). However, the vast

majority of the Polish self-employed are own-account workers; only about one in five self-employed persons are employers (CSO, 2009c).

It is reasonable however, to make a distinction between self-employment in agriculture and self-employment in other sectors due to the specific character of agriculture in Poland. In 2007, almost 1.5 million people were self-employed in sectors other than agriculture. The share of the non-agriculture self-employed in total employment has been rather stable over time; on average, 10% of the employed works on his/her own account (compared to 13% of total non-agricultural employment for the EU as a whole).[18] If enterprise sector employment is used as the base, the proportion of self-employed in Poland increases to 16.8%, a substantial share.

The absolute number of the non-agriculture self-employed increased from about 1.4 million in 1997 to about 1.47 million in 2007 (Table 1.13), a ten-year growth rate of 5%, compared to 6.9% for employees and about 0.2% for total employment.[19] This is not an impressive self-employment growth rate on an annual basis (average of 0.5% a year). It could be that there is a high level of dynamic in self-employment statistics, with many people entering and leaving self-employment activity on an annual basis, but additional data would be needed to examine this.

Table 1.13. **Employed persons by employment status, Poland, 1997, 2002 and 2007**

	1997		2002		2007	
	Thousands	%	Thousands	%	Thousands	%
Self-employed	3 508	23.1	3 126	22.7	2 932	19.2
Self-employed in agriculture sector	*2 109*	*13.9*	*1 792*	*13.0*	*1 464*	*9.6*
Self-employed in other than agriculture sectors	*1 398*	*9.2*	*1 334*	*9.7*	*1 468*	*9.6*
Employees	10 880	71.7	9 902	71.8	11 630	76.3
Contributing family workers	789	5.2	752	5.5	643	4.2
Total employment	**15 177**	**100.0**	**13 782**	**100.0**	**15 240**	**100.0**

Source: Calculations of Ministry of Labour and Social Policy based on LFS; provided by the PARP.

Several demographic issues are worth noting in the composition of the self-employed over the past ten years. First of all, the age structure of the self-employed has been shifting slightly towards the older age groups compared to that of total employment. In 1997, about a third of the self-employed were more than 44 years of age. In 2007, this share had increased to 45%, while the share of overall employment of this age group remained relatively stable at 33-36%. Self-employment for the 55-64 age group increased considerably (from 7.5% in 1997 to 12.5% in 2007). The share of the 15-34 age groups in self-employment has remained relatively stable at between 25-27%.

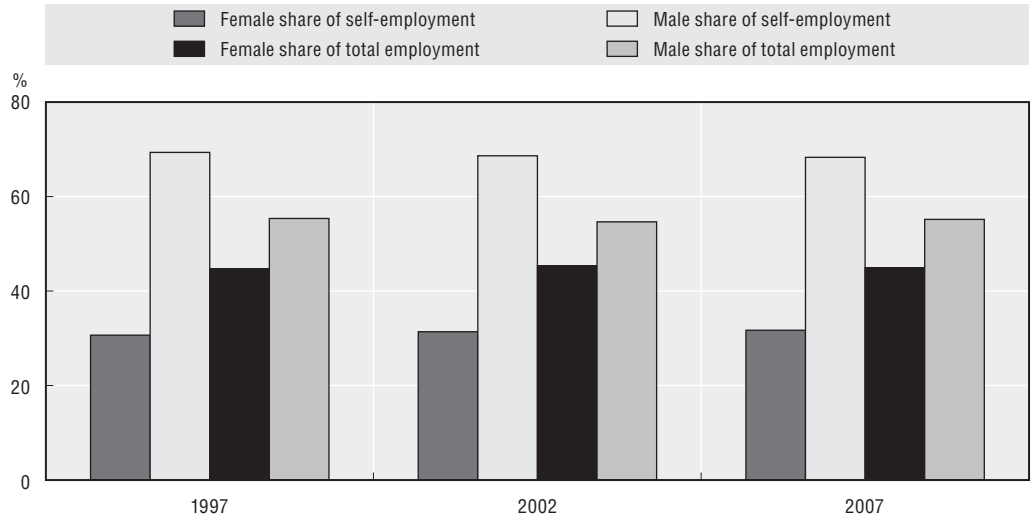
Secondly, the self-employed in Poland are relatively better educated than the employed generally. By 2007, about 27.3% of the self-employed had completed a tertiary education, compared to 22.7% of the overall employed population, and only 3.3% had a lower secondary, primary or incomplete primary education (compared to 9.5% in overall employment). It is also noted that the self-employed are drawing from more highly educated segments of the population. In 1997, less than 20% of the self-employed had post-secondary or tertiary education; this had increased to over 31% by 2007.[20] Over the same ten-year period, self-employment picked up a higher proportion of the population with vocational secondary education.

Thirdly, self-employment is more prominent in urban areas than rural areas. Three-quarters of the self-employed live in urban areas (relative to 62% of the working age population) and only a quarter in rural areas. However, the share of the rural self-employed has grown from less than 20% of the total in 1997 to 25% in 2007, at the same time that the distribution of overall employment has remained stable (rural share of employment of around 38%).

The prevalence of women among the self-employed

The composition of the self-employed by gender has not changed very much over the past ten years; in 1997, women made up about 30% of the non-agriculture self-employed compared to 31.7% in 2007 (Figure 1.13). As women make up about 45% of overall employment, this suggests they are underrepresented among the self-employed. The self-employment rate among women (the percentage of employed women who are self-employed) is 6.8%, about 57% of the rate for men (11.9%) (Figure 1.14). This also has changed little over the past ten years. These rates of self-employment are lower than the average for EU countries, which in 2005 was 11% for women and 19% for men.

Figure 1.13. **Female and male shares of employment and non-agricultural self-employment, Poland, 1997, 2002 and 2007**

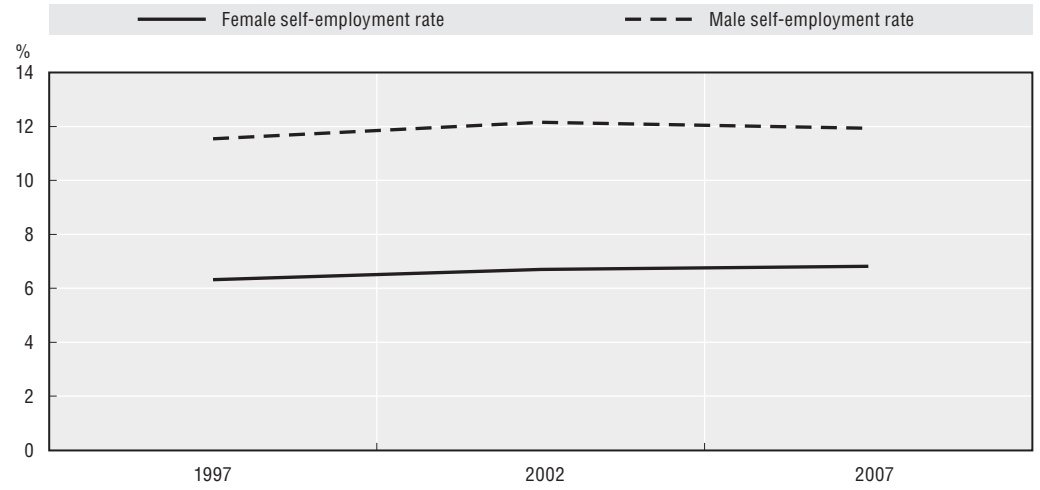


Source: Author's calculations based on LFS data.

As mentioned earlier, only one in five self-employed persons is an employer of others, but self-employed women are less likely than men to be in this group. In 2008, women accounted for 34.5% of the total self-employed (including agricultural and non-agricultural sectors) but only 29.4% of employers. Another way to look at this is that only 18% of the female self-employed are employers *vs.* almost 23% of the male self-employed (calculations based on CSO, 2009c).

It is noted, however, that in recent years, women have been starting upwards of one-third of all new enterprises in Poland. In 2007, they started 36.5% of the new enterprises in 2007 that were still active in 2008; 35.8% of the enterprises without employees, and 39.1% of the employer enterprises (CSO, 2009b).

Figure 1.14. **Male and female self-employment rates, Poland, 1997, 2002 and 2007**



Source: Author's calculations based on LFS data.

Motivations and challenges of prospective entrepreneurs and the self-employed

Polish citizens seem relatively predisposed towards entrepreneurship. In recent entrepreneurship surveys, more than half of Polish citizens expressed a preference for being self-employed rather than being an employee (51% *vs.* 44%), slightly higher than the EU25 average (Gallup Organisation, 2007a).[21] They clearly believe that self-employment would give them more personal independence and self-fulfilment as well as better income prospects.[22] For those preferring to be an employee, the issues of importance were having a regular fixed income (43%), fixed working hours (16%) and social security (14%), while at the same time, they felt they would have difficulties being self-employed either because they lacked the skills for it (13%) or the finances (11%), and would experience administrative difficulties (11%) (Gallup Organisation, 2007a).

In addition, almost 50% of Polish citizens express a desire to become self-employed within the next five years, compared to the EU25 average of 30% (Gallup Organisation, 2007a). The percentage of Polish citizens indicating that becoming self-employed was not desirable at all was the lowest of the EU25 countries, 24.5% compared to the EU25 average of 48.9%; in fact it was even lower than for US citizens. Almost half of Polish citizens indicated that it would very feasible (10.9%) or quite feasible (37.0%) that they would become self-employed in the next five years, higher than the EU25 averages of 9.2% and 22.2% (Gallup Organisation, 2007a).[23] This suggests that Poland has a large pool of potential entrepreneurs that, if given the right environment and conditions, may be motivated to convert their positive attitudes and intents into actual enterprises. Creating the appropriate conditions is one of the policy challenges of the Polish government.

Self-employment studies report three major motivations for Polish citizens to become self-employed (Bury, Kowalska and Kalska, 2007).[24] It is seen by persons who already have a few years of experience of being an employee as a more advantageous form of work. New graduates see it as an opportunity to enter the labour market, or in the case of the unemployed to re-enter the labour market. A small group of previously-employed people are pushed into self-employment by an employer to provide the same services to the employer, usually as a one-person business.

The self-employed in Poland perceive their situations to be different from that of employees. Basically, they believe that being self-employed can lead to a higher income and earn them more social respect than being an employee, but that they are burdened with more responsibilities, work longer hours, must know more about legal regulations, pay higher taxes, and bear a greater financial risk (Bury, Kowalska and Kalska, 2007).

Entrepreneurial activity levels and climate

Participation in the European Entrepreneurship Survey enables Poland to benchmark itself with other European countries on entrepreneurial activity and climate (see Box 1.2 for definitions of these entrepreneurial indexes.) In the 2007 European Entrepreneurship Survey, Poland scored close to (but lower than) the EU25 average on the entrepreneurial activity index, but well below the EU25 average on the four indicators of the entrepreneurial climate index, earning it rankings of 15 and 21 respectively (Gallup Organisation, 2007b).

Box 1.2. **Indexes of entrepreneurial activity and entrepreneurial climate**

Entrepreneurial activity index. Average score on three dimensions:

1. Overall entrepreneurial activity: measured in terms of the country's entrepreneurship rate – percentage of population who ever started a business, which is still active, or who are currently taking steps to start one.
2. Dynamics of entrepreneurship: average value of the normalised scores of the early-stage entrepreneurship and business survival rates – percentage of the population who in the last three years started up or took over a business which is still active, or are currently taking steps to start a business.
3. Entrepreneurial profile: proportion of "pull" entrepreneurs in comparison to "push" entrepreneurs – using influence of education, parent's occupation, risk tolerance, perceived financial difficulties in starting a business, and reason for starting up a business (necessity or opportunity) to categorise the profiles. A "pull" entrepreneur is one with a low perception of the financial difficulties related to a business start-up, high risk tolerance, and a high probability that they started the business because of an opportunity. A "push" entrepreneur is one with a high perception of the financial difficulties related to a business start-up, low risk tolerance, and a high probability that they started the business out of necessity.

Entrepreneurial climate index. Average value of the normalised scores of four indicators:

1. Business start-ups are difficult – lack of financial support, complex administrative procedures, difficult to receive information about starting a business.
2. Entrepreneurs are seen negatively – "they only think of their wallet" and "exploit other people's work".
3. Give failed entrepreneurs a second chance – to start another business.
4. Reason for self-employment: freedom *vs.* economic reasons – odds ratio of choosing freedom (factors such as personal independence, self-fulfilment, and freedom to choose time and place of work) *vs.* economic reasons (factors such as income prospects, a favourable economic climate, and business opportunities) as the motivation for being self-employed.

Source: Gallup Organisation (2007b), "Entrepreneurship Survey of the EU25: Secondary Analysis", Technical Note, Flash Eurobarometer, European Commission, Brussels.

Entrepreneurial activity index

Polish citizens have quite a high level of experience with entrepreneurship. Over 27% of the population reports having started a business or currently taking steps to start one, compared to the EU25 average of 22.8% (Table 1.14). Countries with higher activity rates are Greece, Estonia, Cyprus, Latvia, Hungary, Finland and Sweden, placing Poland eighth in the ranking. Poland has a higher rate of serial entrepreneurship than the EU average, as over a quarter of those who have ever started a business were trying to start a new business at the time of the survey. Only Estonia ranked above Poland on this indicator.

Table 1.14. **Poland's performance on entrepreneurial activity indicators, 2007**

Entrepreneurial activity indicator	Poland (%)	EU25 average (%)	Poland's rank
Have previously started a business or taking steps to start one	27.5	22.8	8th
(If "no" to the above): Had thought about it or taken some steps to start a business but had given up	19.8	20.5	5th
– thinking about starting a business	23.0	14.3	5th
– never came to mind to start a business	54.6	61.7	3rd
Have started (or taken over) a business in the past three years that is still active	11.3	13.7	19th
Started (or took over) a business more than three years ago that is still active	24.1	23.1	13th
Currently taking the steps to start a new business (base: those who have ever started a business)	25.8	18.8	2nd (after Estonia)
Once started a business but no longer an entrepreneur since the business failed (base: respondents who ever started a business or are currently taking steps to start one)	14.4	9.4	24th (before Spain)
Once started a business but no longer an entrepreneur since the business was sold, transferred or closed (base: respondents who ever started a business or are currently taking steps to start one)	17.5	28.1	21st
Started the business because came across an opportunity	60.4	57.7	10th
Started the business because it was a necessity (pushed into it)	24.2	27.0	14th
– both opportunity and necessity	12.8	10.4	7th

Source: Gallup Organisation (2007a), "Entrepreneurship Survey of the EU (25 Member States), United States, Iceland and Norway: Analytical Report", Flash Barometer, April, European Commission, Brussels.

Of those who have never taken actions to start a business, Polish respondents were much more likely than the EU average to be at least thinking about starting a business (23.0% *vs.* 14.3%), and fewer had never given it any thought (54.7% *vs.* 61.7%).

The majority of Polish entrepreneurs were motivated to start a business because they came across an opportunity, higher than the EU average. However, when adjusted for other factors related to their perceptions of financial difficulties, risk-tolerance, and profile characteristics (as noted in Box 1.2), the results suggest that half of the Polish entrepreneurs were "pushed" into their activity (Gallup Organisation, 2007b). This, combined with occurrences of business failure being the second highest among EU25 countries (about 14.4% of the population that once had a business saw the business fail) suggests that the entrepreneurial climate in Poland may not be entirely favourable.

Entrepreneurial climate index

On the indicators for the Entrepreneurial Climate Index (see Box 1.2), Polish citizens hold positive attitudes towards entrepreneurs and value their contribution to wealth and job creation, but at the same time, are among the most likely in the EU25 to have a negative image of entrepreneurs (to see them as people who "think only of their own wallet" and "exploit other people's work") (Table 1.15). These are contradictory views that set Poland apart in the European context.

Table 1.15. **Poland's image of entrepreneurs**

Entrepreneurial climate indicator	Poland (%)	EU25 average (%)	Poland's rank
Entrepreneurship is the basis of wealth creation, benefiting us all	75.5	72.6	12th
Entrepreneurs are job creators	88.2	87.5	15th
Entrepreneurs think only of their own wallet	56.5	45.4	5th
Entrepreneurs exploit other people's work	68.8	42.4	2nd

Source: Gallup Organisation (2007a), "Entrepreneurship Survey of the EU (25 Member States), United States, Iceland and Norway: Analytical Report", Flash Barometer, April, European Commission, Brussels.

Although Polish citizens are only moderately more likely than the EU25 average to think that it is difficult to start a business, over 80% agree that it is difficult due to a lack of available financial support, almost 75% due to complex administrative procedures, and almost 50% due to insufficient access to information on how to start one (Gallup Organisation, 2007a).[25] The major risks posing fear to Polish citizens if they were to set up a business were: the possibility of going bankrupt (33.7%), the uncertainty of their income (22.6%), and the risk of losing their property (12.8%) (Gallup Organisation, 2007a).

The European Entrepreneurship Survey notes that 48% of Polish young people (aged 18-24) have the desire to become self-employed (compared to the EU25 average of 44.6%). Over half (55%) of Polish respondents who were full-time students indicated that they had participated in a course or activity about entrepreneurship or setting up a business, much higher than the 34.3% of positive responses making up the EU25 average (Gallup Organisation, 2007a).[26] In addition, over one-third agreed that their school education made them interested in becoming an entrepreneur.[27] The fact that entrepreneurship is a required component of the Polish education system, and has been since 2004 may be at least partly responsible for these results. However, it may take time to benefit from the cumulative effect on the level of entrepreneurial skills and capacity. The key will be in converting potential entrepreneurs who have positive attitudes towards entrepreneurship, a desire to start a business and the basic knowledge and skills, into actual entrepreneurs.

Growth-oriented entrepreneurs

Another indicator of entrepreneurship performance is the incidence of high-growth enterprises and gazelles, the focus of recent OECD work.[28] High-growth enterprises are key actors for economic growth and play a disproportionate role in job creation, compared to other types of firms. As well, high-growth firms are often found to be introducing and commercialising radical innovations and creating spill-over effects for other enterprises from their product, process or business model innovations. A special class of high-growth firms, "gazelles", are young firms that achieve rapid growth within the first five years of their existence. Because of their impact on the economy, many governments seek to create a favourable environment for growth firms and the entrepreneurs who start and lead them.

The patterns of enterprise growth vary. While for some enterprises growth occurs evenly over time, others will experience sudden and intense growth at a certain period of time. High growth could be a feature of the enterprise at an early stage of development (*i.e.* within the first five years of existence) or take a long time to finally occur. For example, Acs, Parsons and Tracy (2008) found that high impact firms in the United States were on average 25 years old. Growth is not infinite. Many studies find that the firms most likely to

have experienced high growth rates in the preceding three-to-five-year period are among the least likely to experience high growth in the following three-to-five-year period (see for example, Parsley and Halabisky, 2008).

Although high-growth firms are found in all industries and regions, high-growth enterprises tend to be concentrated in a limited number of sectors. The sector distribution of high-growth enterprises will depend on the opportunities available, but are as likely to be in low-technology as high-technology sectors, and in the services sector as in manufacturing.

One of the important determinants of high growth is the entrepreneur's orientation, capacity and commitment to growth. Some entrepreneurs, given a combination of their characteristics, motivations, objectives and backgrounds are more predisposed to growth than others. Nurturing entrepreneurs and enterprises with high growth potential is an important policy objective for many governments.

This is an area where Poland does not have strong data. Although the ability to track individual firms over a period of time is not well developed within the statistical agencies, the Central Statistical Office started a longitudinal tracking of new enterprises in 2003 and may soon be able to report some tangible results on growth rates. A pilot study on the growth behaviour of 15 000 manufacturing firms in Poland (12 000 domestic firms and 3 000 foreign subsidiaries[29]) is the only current source of data on high-growth enterprises in Poland (Cieślik, 2007).[30] In spite of the limitations of the study (*i.e.* it only examines manufacturing firms), it does provide preliminary insights on the incidence and impact of high-growth enterprises in Poland. To qualify as a high-growth firm, the firm had to have achieved annualised rates of growth of at least 20 in employment or 20 in sales over the three-year period 2003-06, with a minimum of ten employees in the base year. This study discovered that 7% of firms met the criteria for a high-growth firm on the basis of employment and 15.2% on the basis of turnover for the three-year period, 2003-06 (Table 1.16).

Cieślik (2007) made three major observations from the findings: *i)* foreign subsidiaries lead the high-growth segment, with a greater percentage of high-growth firms than in the domestic segment on the three growth dimensions; *ii)* a past record in high-growth matters – firms with growth periods prior to 2003-06 account for a disproportionate share of employment, total sales and export sales relative to other high-growth firms; and *iii)* export sales are a major driver of growth.

It would be very useful to know more about the entrepreneurs leading the high-growth domestic firms and to examine factors related to their demographics, experience and strategic orientations. It would also be useful to examine the growth patterns of service firms and to know more about the age of the high-growth firms and the incidence of "gazelles". This research remains to be done. In the meantime, the challenge for the Polish government will be to inject "growth hormones" into nascent and existing firms, through such measures as specialised training or growth funds (Cieślik, 2007).

Regional and local variations

Poland is characterised by significant regional differences in its level of social and economic development, varying widely across indicators of per capita income, poverty, education, unemployment, and so on, with unevenly distributed physical and human capital and disparities in economic structure. This also applies to the performance of SMEs. The regional variations in economic and SME performance receive in-depth coverage in

Table 1.16. **Incidence of high-growth in Polish manufacturing firms, 2003-06**

	Domestic firms (DF)	Foreign subsidiaries (FS)	Total	Domestic share of total
Number of firms	12 054	3 042	15 096	79.8
Employment (thousands)	1 178.0	654.4	1 832.4	64.3
Total sales (PLN billions)	354.8	345.5	700.3	50.7
Export sales (PLN billions)	68.9	175.6	244.5	28.2
Exports to sales (%)	19.4	50.8	34.9	

High-growth firms[1]	Employment			Total sales			Export sales		
	DF	FS	Total	DF	FS	Total	DF	FS	Total
Number of high-growth firms	708	353	1 061	1 691	609	2 300	673	618	1 291
Employment (thousands)	97.9	136.0	233.9	218.8	179.9	398.6	182.1	239.5	421.6
Total sales (PLN billions)	28	75.6	103.6	139.3	109.1	248.3	128.9	162.5	291.4
Export sales (PLN billions)	5.9	47.4	53.3	28.7	69.8	98.6	33.6	96.3	130
Exports to sales (%)	21.1	62.7	51.5	20.6	64.0	39.7	26.1	59.3	44.6
	High-growth manufacturing firms share of total								
	DF	FS	Total	DF	FS	Total	DF	FS	Total
High-growth firms (%)	5.9	11.6	7.0	14.0	20.0	15.2	5.6	20.3	8.6
Employment share	8.3	20.8	12.8	18.6	27.5	21.8	15.5	36.6	23.0
Sales share	7.9	21.9	14.8	39.3	31.6	35.5	36.3	47.0	41.6
Export sales share	8.6	27.0	21.8	41.7	41.7	40.3	48.8	54.8	53.1
	High-growth manufacturing firms with past high-growth experience								
	DF	FS	Total	DF	FS	Total	DF	FS	Total
Number of high-growth firms	317	241	558	1 016	479	1 495	321	394	715
Employment (thousands)	55.9	114.4	170.3	154.1	162.4	316.5	96	184.5	280.9
Total sales (PLN billions)	16.2	61	77.2	120.9	102.6	223.6	50.8	135.3	186.1
Export sales (PLN billions)	3.8	37.1	40.9	25.9	85.8	91.7	15.9	84.9	100.8
	Past experience high-growth manufacturing firms share of high-growth firms								
	DF	FS	Total	DF	FS	Total	DF	FS	Total
% of high-growth firms	44.8	68.3	52.6	60.1	78.7	65.0	47.7	63.8	55.4
Employment share	57.1	84.1	72.8	70.4	90.3	79.4	53.0	77.0	66.6
Sales share	57.8	80.6	74.5	86.8	94.1	90.0	39.4	83.3	63.9
Export sales share	64.2	78.3	76.7	90.1	94.2	93.0	47.2	88.2	77.6

1. Firms with more than 20 per cent annualised growth in employment or total sales or export sales for the three years.
Source: Data from Cieślik, J. (2007), "General Trends and Roles of High-Growth Firms in the Polish Manufacturing Sector 1996-2006", OECD Workshop on the Measurement of the High-Growth Enterprises, Paris, 19 November. Data was derived from CSO micro-data from the Annual Enterprise Survey.

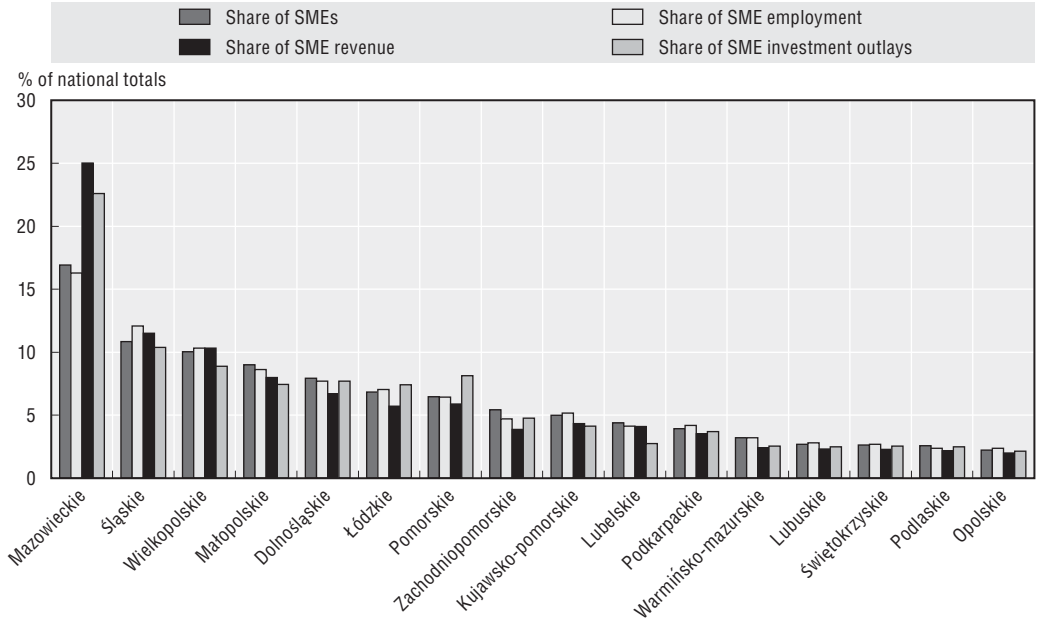
Chapter 4 and in a separate report prepared by the OECD Local Economic and Employment Development (LEED) Committee. This section highlights some of the most relevant SME performance indicators.

SME performance indicators by region

Wide regional differences are apparent in the distribution of SMEs, SME employment, SME revenues and SME investment outlays across Poland's regions (Figure 1.15).

One might expect to see a larger number of SMEs in the most populated regions and the level of SME employment, revenue and investment outlays related to the number of

Figure 1.15. **Regional distribution of SMEs, employment, revenue, investment outlays, Poland, 2007**



Source: Calculations based on CSO (2009d), "Activity of Non-Financial Enterprises in 2007", Warsaw, January.

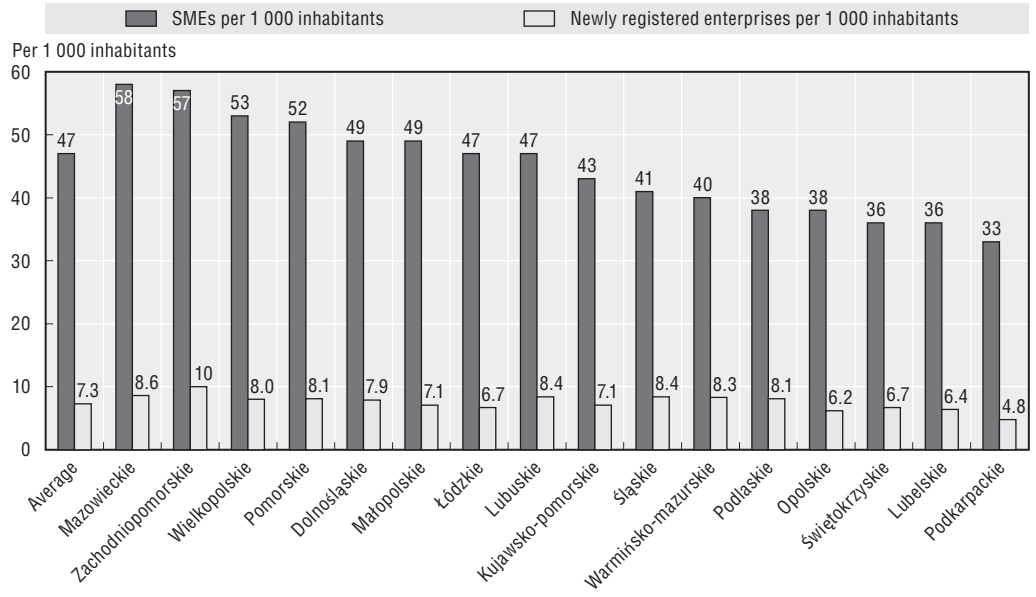
SMEs in the region (or *voivoidship*), but the variations are nonetheless large. For example, Mazowieckie generates a disproportionate share of SME revenue and investment outlays, given its share of the SME population, due likely to the presence of the country's largest city and other more favourable market opportunities and support structures. Differences in economic structure between *voivodships* and the role of large enterprises will explain much of the regional differences in SME performance.

More insight about regional differences can be gained by comparing *voivodships* on two key indicators: the density of SMEs and the density of newly established enterprises per 1 000 inhabitants. On a national level, there were 47 SMEs and 8 newly established enterprises per 1 000 inhabitants in 2007, but marked regional differences (Figure 1.16). Six *voivodships* have an SME density greater than the national average, led by Mazowieckie (58), a *voivodship* in the eastern part of the country, followed by Zachodniopomorskie (57) in the northwest. The lowest SME density is found in Podkarpackie (33), a *voivodship* in the lower southeast corner of the country, just behind Świętokrzyskie and Lubelskie, *voivodships* bordering to the east and north of Podkarpackie, each with 36 SMEs per 1 000 inhabitants.

Although it is not easy to generalise, *voivodships* on the eastern border of Poland tend to have a much lower density of SMEs than *voivodships* in the northwest part of the country (which are more proximate to western European markets). Generally, there is a higher concentration (density) of SMEs in the wealthier regions, perhaps reflecting the higher prevalence of agricultural activities in poorer regions, although there is also some evidence that SMEs in poorer regions are larger in size.

Low SME density regions tend to have a higher incidence of agricultural-based marginal self-employment, which suggests the impact of measures to stimulate the development of off-farm entrepreneurial opportunities and employment measures, including those that can be created by fostering supply-chain linkages and clusters.

Figure 1.16. **Density of SMEs and newly registered enterprises per 1 000 inhabitants by region, Poland, 2007**



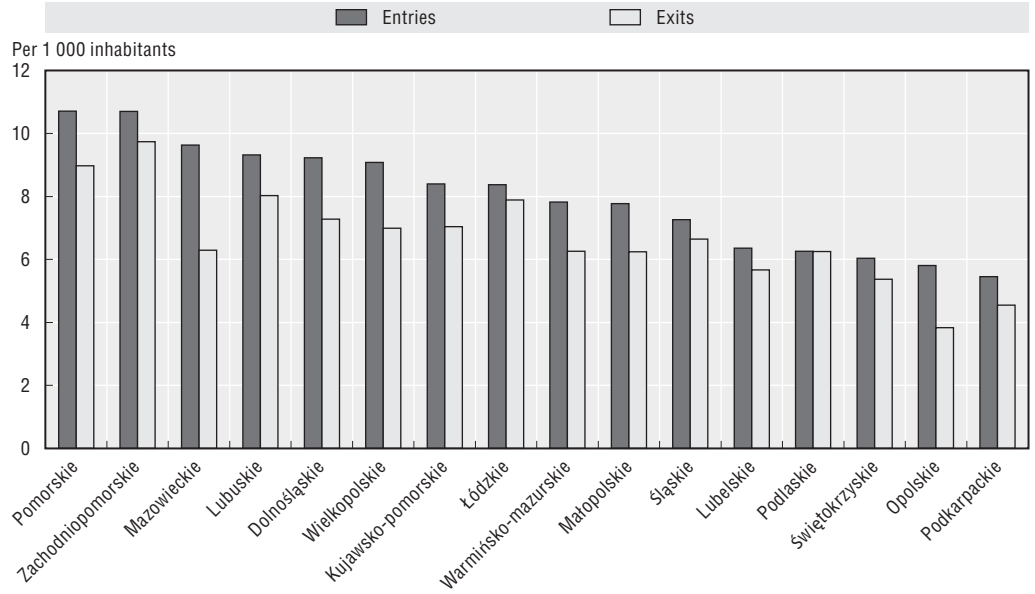
Source: PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-07", Warsaw for SME density; PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2007-08", Warsaw for density of newly-registered enterprises; CSO data.

Entrepreneurship in rural areas is still in the early stages of development, 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.

There is also a great deal of variation in new enterprise entry rates across *voivodships*. A disproportionate absolute number of new firms are started in the two *voivodships* of Mazowieckie and Śląskie, which accounted for more than one-quarter of new enterprises in 2006. In 2007, only the *voivodships* of Mazowieckie, Pomorskie and Lubelskie had more new enterprises started than the year before (increases of 1.7%, 7.1% and 2.7% respectively) (Ministry of Economy, 2008c). The other *voivodships* had fewer new enterprises than in 2006. However, on a comparative population basis, the density of newly established enterprises in 2007 was highest in Zachodniopomorskie and Pomarskie (over 10 per 1 000 inhabitants), *voivodships* with the second and fourth highest SME densities. This suggests that Zachodniopomorskie is the most entrepreneurial *voivodship* in Poland, but is trailed closely by Pomorskie and Mazowieckie in terms of new enterprise formation rates. With the exception of Malopolskie, the density of newly established enterprises is highest in the *voivodships* with a SME density higher than the national average.

Figure 1.17 provides a more comprehensive look at the regional performance of *voivodships* on both newly established SMEs and exits, indicators of the dynamism of the SME sector. Although Zachodniopomorskie and Pomorskie had the highest density of entries and exits in 2007, Mazowieckie and Opolskie are the best performers in terms of net entries, in spite of evidence that Opolskie has the lowest level of dynamism (entries plus exits). Podlaskie was the only *voivodship* with virtually no net growth in its stock of enterprises in 2007, with about the same level of entries and exits.

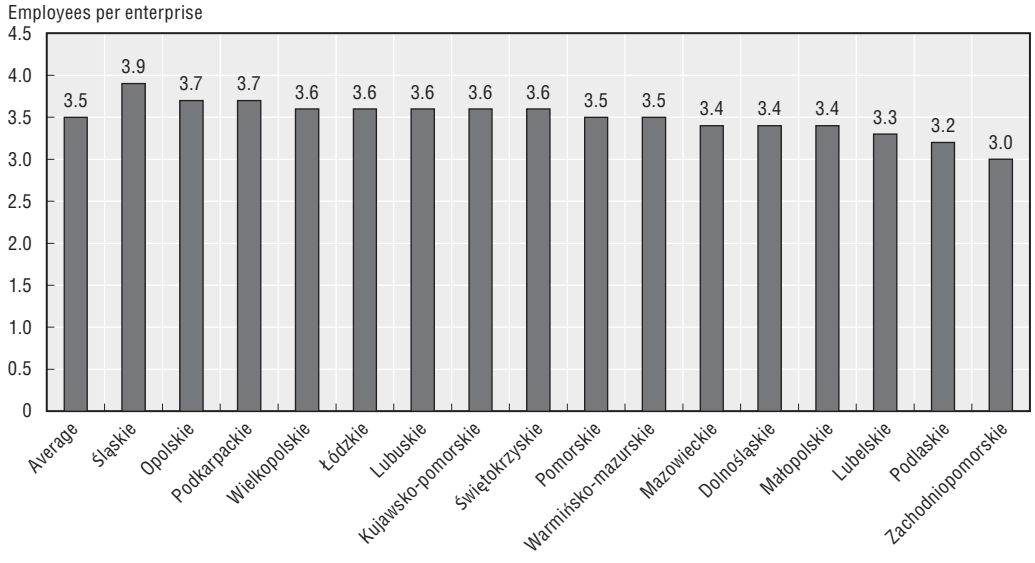
Figure 1.17. **Newly-started enterprises and exits by region, Poland, 2007**



Source: PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2007-2008", Warsaw; CSO data.

A number of *voivodships* with lower than average SME densities are home to SMEs with a larger than average number of employees (Figure 1.18). For example, Śląskie, Opolskie, and Podkarpackie, which have among the lowest density of SMEs, have the largest enterprises (an average of 3.7 to 3.9 employees per enterprises, compared to the national average of 3.5).

Figure 1.18. **Employees per enterprise by region, Poland, 2006**



Source: PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-2007", Warsaw; CSO data.

One also observes a high level of variance in per enterprise revenues and investment outlays by region (Table 1.17). With the exception of Mazowieckie and Wielkopolskie, *voivodships* with higher SME density do not necessarily have the largest SMEs in terms of average revenue, and with the exceptions of Mazowieckie and Pomorskie, are not necessarily home to SMEs with the highest average investment outlays.

Table 1.17. **Regional variation in the performance of SMEs in Poland**

Voivodships	Number of SMEs			Revenues			Investment outlays		
	Total	Per 1 000 inhabitants		Total	Per enterprise		Total	Per enterprise	
		No.	Rank	PLN million	PLN thousand	Rank	PLN million	PLN thousand	Rank
TOTAL	**1 773 830**	**47**		**1 705 743**	**962**		**68 907**	**39**	
Dolnośląskie	140 625	49	5	113 908	810	5	5 307	38	4
Kujawsko-pomorskie	88 518	43	9	73 582	831	8	2 840	32	13
Lubelskie	77 583	36	14	69 510	896	9	1 898	24	16
Lubuskie	47 728	47	7	39 567	829	13	1 702	36	9
Łódzkie	121 268	47	7	97 258	802	7	5 107	42	3
Małopolskie	159 351	49	5	135 889	853	4	5 122	32	13
Mazowieckie	300 087	58	1	426 644	1 422	1	15 566	52	1
Opolskie	39 194	38	13	33 718	860	16	1 463	37	7
Podkarpackie	69 606	33	16	60 026	862	11	2 533	36	9
Podlaskie	45 493	38	12	36 921	812	15	1 712	38	4
Pomorskie	114 815	52	4	100 477	875	6	5 602	49	2
Śląskie	192 244	41	10	196 265	1 021	2	7 151	37	7
Świętokrzyskie	46 520	36	14	39 064	840	14	1 758	38	4
Warmińsko-mazurskie	56 536	40	11	40 846	722	12	1 748	31	15
Wielkopolskie	178 010	53	3	176 094	989	3	6 123	34	11
Zachodniopomorskie	96 253	57	2	65 973	685	10	3 274	34	11
Coefficient of variation	**63**	**17**		**93**	**19**		**82**	**18**	

Source: Ministry of Economy study and calculations based on CSO (2009d), "Activity of Non-Financial Enterprises in 2007", Warsaw, January.

Based on rankings in the Polish government's synthetic index,[31] the highest performing *voivodship* on SME development and entrepreneurship is Mazowieckie, followed by Pomorskie. The lowest performing *voivodships* are the least developed, agricultural, and poorly urbanised regions, *i.e.* Podkarpackie, Świętokrzyskie, Opolskie, Warmińsko-mazurskie, and Lubelskie. Many factors come together to explain these regional differences, and may imply the need for some regionally-tailored SME policies, as discussed in Chapter 4.

The performance of SMEs varies significantly depending on the region's level of investment attractiveness. In *voivodships* with the highest level of investment attractiveness, SMEs need to meet the requirements of a high level of competitive pressure.[32] This more competitive environment results in more competitive SME behaviours (*e.g.* collecting information on competitors, using competition as a major driver of innovation activity; and using instruments to protect against competition, such as patents, design patterns and trademarks). SMEs in these *voivodships* also have better access to investment capital; more frequently finance their activities with external sources of financing (*e.g.* banks, leasing, venture capital, and credit guarantee funds); and more frequently introduce new innovations of a breakthrough nature.

Furthermore, SMEs located in the larger cities have an advantage. They are more likely to commission R&D activity; have formulated strategies for development; employ workers with higher education; employ persons with experience in foreign corporations; have quality certificates; and decide to purchase rights in the form of patents, licenses and know-how. This is most likely due to the greater access and sophistication of these inputs and services in major urban centres.

Examination of data for 2003-07 shows some change in the regional pattern of SME performance over time (Table 1.18).Whilst the total number of registered SMEs in the country increased from 1.72 million to 1.77 million (or 2.9%), this conceals marked regional variations, from Mazowieckie (+10.2%) and Warmińsko-komazurskie (+9.4%) at one extreme, to Śląskie (–12.4%) and Świętokrzyskie (–3.0%) at the other. The effect is to increase the share of the total number of SMEs in the economic core containing the capital city, although it should be noted that in all three eastern regions (Podlaskie, Lubelskie and Podkarpackie), the number of registered SMEs increased during this period.

Table 1.18. **Changes in number of SMEs and SME investment outlays by region, Poland, 2003-07**

Voivodships	Number of SMEs (thousands)					Total investment outlays					Investment outlays per enterprise			
	2003	2007	Δ (%)	% of total (2003)	% of total (2007)	In current prices (PLN millions)			% of total (2003)	% of total (2007)	in current prices (PLN thousands)		Δ (%)	Rank
						2003	2007	Δ (%)			2003	2007		
TOTAL	**1 723.8**	**1 773.8**	**2.9**	**100**	**100**	**37.03**	**68.91**	**86**	**100**	**100**	**21**	**39**	**86**	
Dolnośląskie	135.4	140.6	3.9	7.9	7.9	2.56	5.31	108	7	8	19	38	100	6
Kujawsko-pomorskie	83.9	88.5	5.5	4.9	5.0	1.65	2.84	72	4	4	20	32	60	13
Lubelskie	72.5	77.6	7.0	4.2	4.4	0.97	1.90	95	3	3	13	24	85	8
Lubuskie	44.5	47.7	7.4	2.6	2.7	0.89	1.70	91	2	2	20	36	80	9
Łódzkie	121.0	121.3	0.2	7.0	6.8	1.91	5.11	168	5	7	16	42	163	1
Małopolskie	149.1	159.3	6.9	8.6	9.0	2.91	5.12	76	8	7	20	32	60	12
Mazowieckie	272.4	300.1	10.2	15.8	16.9	8.88	15.57	75	24	23	33	52	58	14
Opolskie	37.0	39.2	5.8	2.1	2.2	.95	1.46	54	3	2	26	37	42	15
Podkarpackie	68.0	69.6	2.4	3.9	3.9	1.41	2.53	80	4	4	21	36	71	10
Podlaskie	44.4	45.5	2.6	2.6	2.6	.70	1.71	145	2	2	16	38	137	4
Pomorskie	111.1	114.8	3.3	6.4	6.5	2.20	5.60	155	6	8	20	49	145	3
Śląskie	219.5	192.2	–12.4	12.7	10.8	4.41	7.15	62	12	10	20	37	85	7
Świętokrzyskie	48.0	46.5	–3.0	2.8	2.6	.82	1.76	113	2	3	17	38	123	5
Warmińsko-mazurskie	51.7	56.5	9.4	3.0	3.2	.93	1.75	88	3	3	18	31	72	11
Wielkopolskie	168.8	178.0	5.5	9.8	10.0	4.57	6.12	34	12	9	27	34	26	16
Zachodnio-pomorskie	96.8	96.3	–0.5	5.6	5.4	1.27	3.27	157	3	5	13	34	162	2

Source: DAP MoE elaboration based on CSO data.

The pattern of investment outlays per SME over the same period shows a somewhat different pattern (Table 1.18). In this case, the highest rates of increase may be observed in Łódzkie (+163%), Zachodniopomorskie (+162%) and Pomorskie (+145%), compared with a national average of +86%. The effect is a degree of regional convergence with respect to investment expenditure by SMEs between 2003 and 2007.

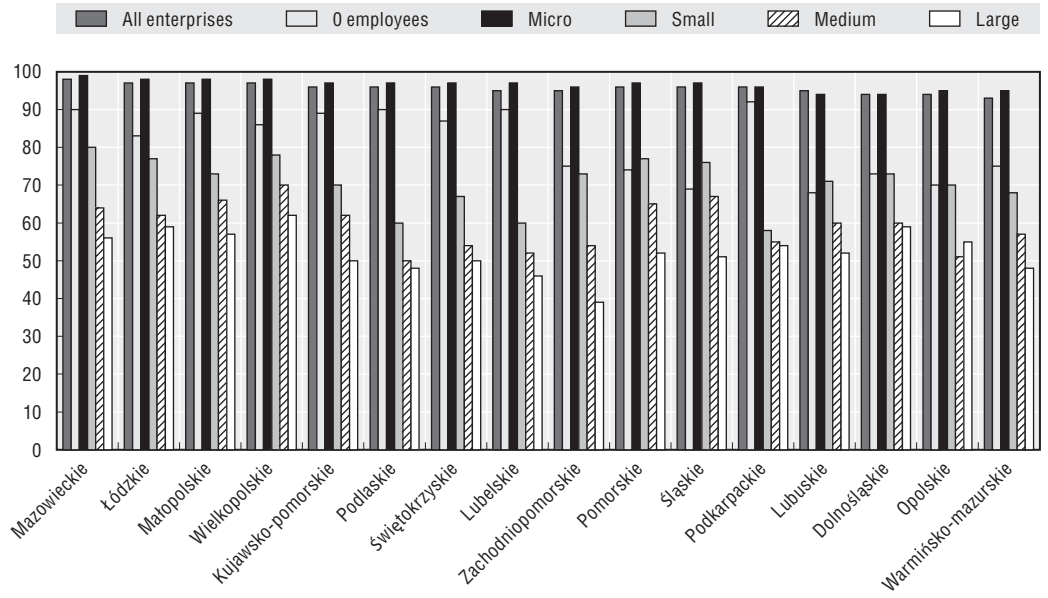
One of the challenges for the Polish government is to strengthen the operating environment for SMEs in low development *voivodships*. This will take more concerted policy effort and programme measures to alter the pattern of low SME density and accompanying low new enterprise entry rates. There is supporting evidence in the entrepreneurship

literature that regions with high or low levels entrepreneurial activity are likely to maintain high or low levels of start-up activity in the future (Fritsch and Mueller, 2005). This path dependency theory implies that policy interventions are essential in order to alter the "path" of low entrepreneurial activity. However, policies to stimulate entrepreneurship in low entrepreneurship regions will need patience and persistence over the longer term.

One might expect to see differences in the priority needs of regions with respect to entrepreneurship development 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 entrepreneurship, as well as to influencing its nature. Linking national and regional economic development strategies is an optimal approach, as is taking steps to fully understand regional differences so different policies can be applied.

Finally, it is interesting to note the private sector (as opposed to the public sector) share of enterprises in each of the *voivodships*. Although the private sector share of registered enterprises is between 93.9-97.6% in all regions, there are significant variations by size of enterprise (Figure 1.19).

Figure 1.19. **Private sector share of registered enterprises by size and by region, Poland, 2006**



Source: PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-2007", Chapter 3, Warsaw; data from CSO (2008), "Activity of Non-Financial Enterprises in 2006", Warsaw.

The private sector share of large enterprises is much lower in all *voivodships*, ranging from 40% in Zachodniopomorskie to 63% in Wielkopolskie. On average, only 60% of medium-sized enterprises are in private hands (ranging from about half in Opolskie to 70% in Wielkopolskie). In some cases, such as in Podkarpackie, Lubelskie and Podlaskie (all on the eastern border), the private share of even small enterprises is barely 40%. The relatively high public share of enterprises could suggest there are barriers to entry for new private sector enterprises beyond the micro-enterprise level. This could have implications for Poland's privatisation efforts if the objective is to open up opportunities for private sector entrepreneurs and enterprises.

Clusters and regions

Policy around the cluster approach to economy development is a new issue in Poland, but interest in it is growing, specifically in relationship to innovation policy.[33] Emerging regional innovation systems in Poland show a strong similarity to clusters, especially in high-technology sectors, and clustering is considered to be a very good method of supporting the transfer of knowledge and innovation to the economy. Cluster mapping and reports show that there is good potential for the development of competitive cluster structures in Poland with a strong regional focus.

Almost 50 regional clusters were identified in a cluster mapping exercise in 2004, of which five were given three-star ratings for their strong cluster effects (Ketels and Sölvell, 2006):[34] the apparel cluster in Łódz, the automotive clusters in Katowice and Wrocław, the financial services cluster in Warsaw and the transportation and logistics cluster in Gdańsk. Other clusters cover sectors such as medical devices (Łódz and Szczecin), tobacco (Lublin), aerospace (Rzeszów, Podkarpackie), furniture and forest products (Poznań, Wielkopolskie), oil and gas products and services (Kraków), hospitality and tourism (Wrocław, Łódz, Katowice), and so on.

However, there are many barriers to clustering in Poland, especially: lack of trust among entrepreneurs and lack of will to co-operate among firms due to fear of having ideas stolen; lack of understanding of the importance of co-operation; lack of financing sources and financial supporting institutions; lack of business information and information about potential partners; lack of regional and local policy supporting clusters; fiscal barriers (*e.g.* higher taxes for associations); poor management skills of entrepreneurs; a young SME sector with lack of entrepreneurship tradition; and limitations due to top managers' lack of interest in external relationship building.

Fundamental structural and enterprise-level challenges in Poland

The SME sector continues to contribute to employment, turnover, investment and value-added and to gradual diversification of the Polish economy. Poles indicate favourable attitudes towards entrepreneurship and a high preference for self-employment/entrepreneurship as a career option. Although business entry rates are high relative to the EU average, survival rates in the first three years of the business are low compared to other European countries. Annual net increases in the total stock of SMEs and the self-employed have been marginal (about 0.5% for each) and SME employment has been growing at a slower rate than total employment. The majority of SMEs are traditional craftsman-type and not innovative enterprises.

An analysis of the structural features of the SME sector exposes some serious challenges. Specifically, there is a disproportionately high percentage of micro-enterprises and a shrinking proportion of small enterprises. This suggests that micro-enterprises do not have the capacity or opportunity to grow into small enterprises and/or that small enterprises are increasingly moving into the medium-sized class (which is unlikely to be the case).

Very few SMEs are involved in export activity, operating primarily in local markets. SMEs lack the capacity, resources or willingness to invest in new technologies and undertake innovative activities. Low quality of production and processes renders the SME sector uncompetitive in European and global markets. Polish SMEs lag behind the EU average on most innovation indicators and the level of innovation expenditure,

especially in R&D, is extremely low (European Commission, 2008). This reflects a number of operational deficiencies at the SME level.

According to surveys conducted by PARP, Polish SMEs lack operational sophistication and pay little attention to strategy development, record-keeping, marketing activities, and innovation (PARP, 2008, Chapters 2, 4 and 5). The majority of SMEs experience problems with the quality of management, organisational structures, competence of management staff, and lack of or poor quality of market research data. Two-thirds of SMEs are focused on their survival in the market and maintaining their current position, rather than on development and growth.

Fewer than 3% of operating enterprises keep accounting books, however, the revenue of these enterprises accounts for as much as 72% of the total volume of enterprises' revenues. Fewer than half of SMEs have a written development strategy,[35] although 47% declare having a strategy that is not written down (PARP, 2008). The particularly low use of planning and strategy development by micro-enterprises suggests undertaking measures to increase the percentage of micro-enterprises using more formal tools.

Polish SMEs are disadvantaged in terms of capital and technology relative to their EU counterparts and are more likely to report problems due to: the lack of skilled labour; a bureaucratic regulatory and procedural environment; poor infrastructure; high labour force costs; and low access to finance (Gallup Organisation, 2007c).[36] Only 8% of new enterprises started in 2007 accessed a bank loan to undertake their activity (CSO, 2009b). To a limited extent, SMEs also perceive themselves as encountering problems with implementing new technology, new forms of organisation and with the lack of quality management, but not more so than other EU SMEs.

Micro- and small enterprises less than two years old have low participation rates in public procurement tenders.[37] The small size of a company and complicated administrative and bureaucratic procedures are primary factors hindering participation in a tender. Having an ISO certification facilitates entering tenders, but only about 10% of Polish SMEs have a product quality certificate of any kind. This suggests that measures are needed to educate SMEs on procurement opportunities, support attainment of quality certifications, and encourage co-operation between companies and consortiums in order to facilitate an increase in the SME share of procurement markets.

The most serious problem is the lack of resources that could be allocated to modernisation. The lack of capital hinders investment in new technology, development and introduction of innovative products and market solutions, due to the high cost of buying licenses and know-how, funding R&D, producing prototypes, etc.

The overall performance results of enterprises in the SME sector are influenced by the fact that such a high percentage of SMEs are micro-enterprises with one manager and few or no employees. For example, 81% of micro-enterprises, 49% of small enterprises, and over 66% of SMEs operating in the local/regional market are managed by one person. SMEs managed by one person have employees with lower education levels; have lower involvement in public support; lack a separate R&D unit; and do not plan expansion into new markets.

The many differences noted in the behaviour and characteristics of micro-, small and medium-sized enterprises (see PARP, 2008, Chapter 4), suggest that tailored policies may be required to address the particular constraints of each group. Of course, these differences

can also be explained by sector, the market they are operating in, the scale of competition and their revenue levels.

A similar situation may exist for the newly self-employed, where complicated regulations concerning taxation and insurance, complicated regulations concerning requirements connected with starting a new business, and lack of financial liquidity may act as incentives for self-employed persons to operate in the grey economy.

In conclusion, while SMEs dominate the Polish enterprise population, their development remains hampered by fundamental weaknesses and operating constraints, which is resulting in only very slow improvements in the performance of the SME sector over time. This points to market failures with important implications for employment creation, income distribution, competitiveness, and regional development. Policies and strategies are needed to facilitate growth in the number of medium-sized enterprises, which means developing the growth potential of micro- and small enterprises.

Poles seem to have highly favourable attitudes towards entrepreneurship with a propensity to prefer self-employment over being an employee and high desire to become an entrepreneur in the next five years. This presents an opportunity for the Polish government to provide incentives to stimulate a higher conversion rate of these positive attitudes and intent into actual entrepreneurs and new enterprises, particularly those with higher innovation and growth potential. This might entail tailored support for potential entrepreneurs (*e.g.* assistance with finding good business opportunities, developing business plans, finding start-up capital), reduced administrative barriers for new businesses, and improved access to suitable financing. There may also be a need to address the particular barriers faced by women, young people and technostarters who want to start their own businesses.

The government is committing a significant amount of effort to researching the SME sector, both in terms of data collection and reporting and annual/quarterly surveying of SMEs' needs and concerns. The Central Statistical Office can be commended for its production of data that enables timely and up-to-date tracking of developments in the SME sector and the performance of SMEs. However, there does not appear to be much evidence of gender disaggregated SME data (although there is some on self-employment), capacity to track the growth of firms (to identify the high-growth firms and their characteristics) is nascent, and regional comparative analysis is somewhat lacking. Neither is the distinction between public and private firms altogether clear in the data on SMEs.

Notes

1. In this chapter, references to SMEs are inclusive of micro-enterprises, except where specifically noted.
2. The European Charter for Enterprise requires reporting against ten priority actions: *i)* education and training for entrepreneurship; *ii)* cheaper and faster start-up; *iii)* better legislation and regulation; *iv)* availability of skills adapted to the needs of SMEs; *v)* improving online access; *vi)* getting more out of the single market; *vii)* taxation and financial matters; *viii)* strengthening the technological capacity of small enterprises; *ix)* successful e-business models and top-class small business support; and *x)* developing stronger, more effective representation of small enterprises' interest at Union and national level.
3. Registered enterprises reflects the number of enterprises that register in the National Official Business Register (REGON), an administrative register held by the Central Statistical Office (CSO). The basic function of the REGON register is to identify entities of the national economy by assigning unique identification numbers to businesses that register.

4. Of the 3.68 million registered enterprises, 572 were State Owned Enterprises; 18 128 were co-operatives; 2 787 650 were natural persons; and the remainder were commercial companies (CSO, 2009a).
5. The REGON register reports on all registered enterprises; some of these never commenced operations after registering; some are inactive but have not reported termination or suspension of activity to registry officials; and others are actively engaged in business activity. The number of active enterprises is based on a statistical determination from the CSO structure surveys (PARP, 2004).
6. According to the Labour Force Survey (LFS) data, supplied to the OECD by PARP, total employment in 2007 was 15.24 million. SMEs accounted for 6.2 million of that employment.
7. The level of informality in Poland compared very favourably against that in 25 other transition countries, for which the average GDP contribution of informality in 2006/07 was 39.9%. In fact, Poland compared more similarly to countries such as Hungary and Slovenia.
8. Informal enterprises in the Polish context would include enterprises that are not officially registered, or that do not report all of their turnover for tax purposes, or that hire workers without registering them.
9. On the basis of CSO Statistical Yearbooks 2004, 2005, 2006. Also see PARP (2008a, pp. 29-30). This is based on an equivalency of full-time workers (many informal workers are employed on a seasonal or part-time basis). The actual number of informal workers has been increasing at an average of 4.3 to 4.8% a year from 2002-07 (calculations from CSO, 2009b).
10. Private SME employment in 2006 was 6 million; total non-agricultural enterprise employment was 8.5 million.
11. Entries are the number of newly registered economic entities in the REGON register. Some of these entities may have registered, but not become operational. Exits are the number of entities removed from the REGON register, but some of them may in fact have terminated their activity in a previous time period. Thus, some caution should be exercised in interpreting these data.
12. In a project involving 18 OECD countries, one-year survival rates for employer firms started in 2004 ranged from a low of about 60% in the Netherlands to over 90% in the Slovak Republic and Latvia; in 60% of the countries, new employer firms had one-year survival rates of over 80% (OECD, 2008).
13. Total private sector employment in the third quarter of 2008 was reported as 11.6 million (CSO, 2009c).
14. The level of exports per capita in Poland was USD 4 399 in 2007, compared to the EU27 average of USD 4 784. However, Poland's performance is well below that of the Czech Republic, Estonia, Hungary, Slovak Republic, Slovenia, etc. (WTO, 2008).
15. According to the Ministry of Regional Development (2006b), there were 14 000 SMEs involved in exporting in 2001 – less than 1% of all SMEs.
16. Poland's export activities have been adversely affected by the global crisis, with exports to Russia dropping by almost 40% and to France and the Netherlands by about 20% (PARP, 2009).
17. The OECD (2008) defines "entrepreneurial activity" as "enterprising human action in pursuit of the generation of value through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets".
18. The suggestion here is that Poland has a much higher percentage of its self-employed in the agricultural sector than in the EU as a whole.
19. Total employment did not grow significantly during 1997-2007, which saw a significant decline in the number of self-employed in the agricultural sector.
20. However, the overall education level of Poles has been increasing as well and, in fact, self-employment is losing some of its proportional share of tertiary educated people.
21. Poland ranked 9th among the EU25 countries on this indicator. The benchmark for the United States is 61% of the population that would prefer to be self-employed.
22. Almost three-quarters of Polish respondents who preferred self-employment indicated this would give them more personal independence and self-fulfilment and one-third of them better income prospects. Only four EU25 countries had a higher percentage for the "better income prospects" motivation; the EU25 average was 20.6%.
23. Survey responses showed that 13.3% of Polish respondents stated that this was "very desirable" and 35% "rather desirable", compared to the EU25 averages of 10.8% and 18.9% respectively.

24. This survey of almost 1 000 self-employed persons found that 41% became self-employed because it was a more advantageous form of work; 43.5% because it was an opportunity to enter or re-enter the labour market; and fewer than 10% because they were forced to by an employer.

25. More Polish respondents strongly agreed with statements on these matters than the average for the EU25.

26. However, only 135 Polish respondents answered this question.

27. Twice as many Poles strongly agreed with this statement than the EU25 average.

28. The OECD (2008) defines a "high-growth firm" as one with average annualised growth in employment of turnover of more than 20% over a three-year period and ten or more employees at the beginning of the observation period. "Gazelles" are a sub-set of high-growth firms and are defined as firms born five years or less before the end of a three-year observation period, with annualised growth in employment or turnover of greater than 20% over a three-year period, and with ten or more employees at the beginning of the observation period.

29. Foreign subsidiaries were defined for the purposes of this study as enterprises with 10% or greater foreign-equity stake.

30. Data for this set of firms exists for the years 1996-2006.

31. The Polish government's synthetic index was developed to measure and rank the performance and investment activity of SMEs and the level of entrepreneurship in *voivodships*. The index is explained in PARP (2008a).

32. SMEs in *voivodships* with a higher level of investment attractiveness are more likely to report having more than ten major competitors operating in the market and their competitive environment is characterised by a higher rate of change than in other regions (PARP, 2008a).

33. Information in this section was taken from Ministry of Economy, "Introduction to Cluster Development in Poland", provided to OECD by the PARP.

34. The rating system is based on measures of: *i)* size (absolute employment); *ii)* specialisation (share of employment in the cluster category); and *iii)* dominance (share of employment across all cluster categories). Polish clusters are of various sizes and strengths.

35. Of this, 40% of small and medium-sized enterprises state that they do not have a formal development strategy, but this applies to 95% of micro-enterprises.

36. The low purchasing power of customers is also a problem for Polish SMEs, but not more so than for SMEs in other EU countries.

37. The size of the Polish procurement market increased from PLN 23 billion in 2000 to PLN 79.6 billion in 2006. It is noted that procurement law cannot grant preferences to any of the participants of a tender, *i.e.* there are no special provisions for small firms, such as exist in the United States, Canada, and some other European countries.

References

Acs, Z., W. Parsons and S. Tracy (2008), "High-Impact Firms: Gazelles Revisited", Office of Advocacy, Small Business Administration, Washington DC.

Audretsch, D. *et al.* (2009), "First Section of the Annual Report on EU Small- and Medium-sized Enterprises", commissioned by the European Commission, Directorate General Enterprise and Industry, EIM Business and Policy Research, Zoetermeer, Netherlands, January, *http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/spr_main_en.htm*.

Bury, A, I. Kowalska and K. Kalska (2007), "Report on Needs Investigation in Poland", prepared as part of the Guidance and Counselling for Self-Employment Project, Leonardo Da Vinci Community Vocational Training Action Programme, Second Phase: 2000-06, *www.self-employment.ugal.ro/documente.htm*.

Cieślik, J. (2007), "General Trends and Roles of High-Growth Firms in the Polish Manufacturing Sector 1996-2006", OECD Workshop on the Measurement of the High-Growth Enterprises, Paris, 19 November.

CSO (Central Statistical Office) (2008), "Activity of Non-Financial Enterprises in 2006", Warsaw.

CSO (2009a), "Concise Statistical Yearbook of Poland 2008", Warsaw.

CSO (2009b), "Conditions of Establishment, Operation and Development Prospects of Polish Enterprises Established in the Years 2003-07", Statistical Information and Elaborations, Warsaw.

CSO (2009c), "Labour Force Survey in Poland in III Quarter 2008", Statistical Information and Elaborations, Labour and Living Conditions Division, Warsaw.

CSO (2009d), "Activity of Non-Financial Enterprises in 2007", Warsaw, January.

European Commission (2004), *2003 Observatory of European SMEs*, No. 7, Brussels.

European Commission (2008), "INNO-Policy TrendChart – Policy Trends and Appraisal Report, Poland", INNO-Policy TrendChart, Innovation Policy Development Unit, Enterprise and Industry Directorate-General, Brussels.

European Communities (2008), "European Innovation Scoreboard 2007: Comparative Analysis of Innovation Performance", prepared by Maastricht Economic and social Research and training centre on Innovation and Technology (UNU-MERIT), *www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=275&parentID=51*.

European Communities (2009), "European Innovation Scoreboard 2008: Comparative Analysis of Innovation Performance", prepared by Maastricht Economic and social Research and training centre on Innovation and Technology (UNU-MERIT), *www.proinno-europe.eu/index.cfm?fuseaction=page.display&topicID=437&parentID=51*.

Eurostat (2006), "Business Demography Statistics", European Commission, *http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/special_topics/business_demography*.

Fritsch, M. and P. Mueller (2005), "The Persistence of Regional New Business Formation Activity over Time – Assessing the Potential of Policy Promotion Programs", *Discussion Papers on Entrepreneurship, Growth and Public Policy*, No. 0205, Max Planck Institute for Economics, Jena.

Gallup Organisation (2007a), "Entrepreneurship Survey of the EU (25 Member States), United States, Iceland and Norway: Analytical Report", Flash Barometer, April, European Commission, Brussels.

Gallup Organisation (2007b), "Entrepreneurship Survey of the EU25: Secondary Analysis", Flash Eurobarometer, European Commission, Brussels.

Gallup Organisation (2007c), "Observatory of European SMEs – Summary", *Flash Barometer Series*, No. 196, European Commission, Brussels.

Giovanelli, C., H. Gunnsteinsdottir and A. Me (2004), "The Status of Statistics on Women and Men's Entrepreneurship in the UNECE Region, Statistical Division", UNECE, presented at the Regional Symposium on Mainstreaming Gender into Economic Policies, 28-30 January, United Nations Commission for Europe, Geneva.

Ketels, C. and Ö. Sölvell (2006), "Clusters in the EU-10 New Member Countries", Pro Inno Europe, European Commission, Brussels.

Lundström, A. and L. Stevenson (2005), *Entrepreneurship Policy: Theory and Practice*, Springer, New York.

Ministry of Economy (2008a), "National Reform Programme for 2008-11 to Implement the Lisbon Strategy", adopted by the Council of Ministers on 18 November 2008, Republic of Poland, Warsaw.

Ministry of Economy (2008b), "Poland 2008 Report Economy", Republic of Poland, Warsaw.

Ministry of Economy (2008c), "Entrepreneurship in Poland", Analyses and Forecasting Department in co-operation with Economic Development Department, Economic Regulation Department, Support Instruments Department, Warsaw, August.

Ministry of Economy, Labour and Social Policy (2003), "Government Policy Guidelines for Small and Medium-Sized Enterprises for the Years 2003-06 in Poland", document adopted by the Council of Ministers on 4 February 2003, Republic of Poland, Warsaw.

Ministry of Regional Development (2006a), "National Development Strategy 2007-15", Republic of Poland, Warsaw, November.

Ministry of Regional Development (2006b), "Improvement of the Competitiveness of Enterprises Years 2004-06", Republic of Poland, Warsaw.

Ministry of Regional Development (2007), "Innovative Economy 2007-2013, Operational Programme, National Strategic Reference Framework 2007-13", Republic of Poland, Warsaw, October.

OECD (2008), "Measuring Entrepreneurship: A Digest of Indicators", OECD-Eurostat Entrepreneurship Indicators Programme, *www.oecd.org/document/29/0,3343,en_2649_33715_44016477_1_1_1_1,00.html*.

PARP (Polish Agency for Enterprise Development) (2003), "Report on the Conditions of the Small- and Medium-Sized Enterprise Sector in Poland for the Years 2001-2002", Warsaw.

PARP (2004), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2002-03", Warsaw.

PARP (2007), "Small and Medium-Sized Enterprises in Poland in 2005-06", Warsaw.

PARP (2008), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2006-07", Warsaw.

PARP (2009), "Report on the Condition of the Small and Medium-Sized Enterprise Sector in Poland in 2007-08", Warsaw.

Parsley, C. and D. Halabisky (2008), "Profile of Growth Firms: A Summary of Industry Canada Research", Industry Canada.

Republic of Poland (2004), "Act of 2 July 2004 on Freedom of Economic Activity", Article 4.1 and Article 4.2, Warsaw.

Republic of Poland (2005), "Act of 29 July 2005 on Some Forms of Support for Innovative Activity", Warsaw.

Schmeimann (2008), *Eurostat Statistics in Focus* 31/2008, p. 4.

Schneider, F. (2009), "The Size of the Shadow Economy for 25 Transition Countries over 1999-2000 to 2006-07: What Do We Know?" Preliminary version, Department of Economics, Johannes Kepler University of Linz, Linz-Auhof, Austria, March.

Surdej, A. and K. Wach (2007), "Entrepreneurship as the Challenge for Polish Economy in the 21st Century", Conference Proceedings of the 6th International Conference, 10-11 October, Faculty of Economics, Miszkolc University, pp. 169-176, *http://ssrn.com/abstract=1113531*, accessed 10 March 2009.

World Bank (2009), *World Development Indicators*, World Bank, Washington DC.

WTO (World Trade Organisation) (2008), "Trade Profiles", *http://stat.wto.org/CountryProfile/WSDBCountryPFHome.aspx?Language=E*.

Chapter 2

SME Framework Conditions and the Business Environment in Poland

Many elements of the transformation of the business environment in Poland to make it supportive of small- and medium-sized enterprises (SMEs) and entrepreneurship have been accomplished during Poland's accession to the World Trade Organization and the European Union. Today the strategic policy framework for pursuing structural reform and economic development in Poland is built around the Lisbon Strategy at the EU level and the National Development Strategy at the national level. Implementation takes place through the Operational Programmes (OPs) of the National Cohesion Strategy, which determines the allocation and distribution of the EU Structural Funds amounting to around 3% of gross domestic product (GDP) over the period 2007-13. This approach provides scope for improving framework conditions, notably by reinforcing the "Better Regulations" framework in areas such as taxation, inspections and reporting requirements with a view to reducing compliance costs and administrative burdens. But addressing some barriers will involve institution building and longer term reform, such as adapting the educational and vocational training systems better to the needs of the economy and strengthening the capacity of the financial sector to meet the needs of SMEs and growing firms.

From transition to convergence: strategic framework

Since central planning was abandoned and the transition to a market economy began, the Polish economy has been transformed enormously. The main elements of a market economy are now in place, the bulk of economic activity is carried out by private businesses or individuals and Poland is increasingly integrated with the international economy. Indeed, Poland's economic framework conditions are heavily influenced by its membership in: the European Union, with its single market; the World Trade Organization (WTO), with commitments to open trading arrangements at a global level; and the OECD, involving commitments to free capital movements and openness to international investment.

Poland still lags behind most of its EU and OECD partners in important respects. Income levels are low, important parts of the country's infrastructure need to be developed and modernised and regional disparities are large. To address these issues and to catch up with more developed partner countries a *National Development Strategy* was approved by the Council of Ministers in late 2006. This is reinforced within the EU framework by the *Lisbon Strategy*.[1] These strategies are given concrete support by the allocation of EUR 67.3 billion of EU Structural Funds over the period 2007-13 as part of the *National Cohesion Strategy* agreed with the European Commission[2] (Table 2.1).

This Structural Funds allocation, 20% of the EU total, is very large. It amounts to EUR 9 billion in 2009, or around 3% of gross domestic product (GDP), and will build up to EUR 11 billion in 2013. Significant Polish co-financing is also expected. This has macroeconomic implications. Analysis by the Ministry of Regional Development, Poland's principal interlocutor with the European Commission as regards the Structural Funds, suggests that the positive impact on GDP will build up to more than 9% during the 2012-15 period. Even after the funds stop, a continuing impact of more than 4% is expected (see Ministry of Regional Development, 2007a, Section 4.3). While these figures seem high, they call attention to the pervasive impact the Structural Funds are having on the overall business environment. It is essential that they be used wisely.

The use of the EU Structural Funds within Poland reflects strategic policy choices. Three priorities are evident.

First, the allocation of 25% of the funds to be managed by individual regions and a centrally managed Operational Programme for Development in eastern Poland reflects the importance attached to ensuring that all regions benefit from these funds.

Second, Poland's infrastructure weaknesses in areas such as transport and water management are being addressed with the large Infrastructure and Environment Operational Programme.

Third, building a modern knowledge-based economy is regarded as the key to future transformation and successful development of the Polish economy. Consequently the focal points of the two large remaining operational programmes are investment in human resources and innovation. Since many elements of the other operational programmes

Table 2.1. **Financial overview of Poland's National Cohesion Strategy**

	2007-13 total (EUR billion)	Share (% of EU contrib.)
Operational Programme		
Centrally managed		
Infrastructure and environment	27.9	41.5
Innovation economy	8.3	12.3
Human capital	9.7	14.4
Technical assistance	0.5	0.7
Development of Eastern Poland	2.3	3.4
European territorial co-operation	0.7	1
Managed by regions		
16 Regional programmes	16.6	24.7
Memo: share allocated to		
Lisbon Strategy goals	42.5	64
Enterprise support	14.8	22
Benefit of SMEs	11.1	16.5
		(% of total)
Total EU contribution	67.3	7.8
Polish public funds	11.9	13.9
Polish private funds	6.4	7.5
Total (% of GDP at annual rate)	85.6 (3.8)	100

Source: Ministry of Regional Development (2007a), "National Strategic Reference Framework for 2007-13 in Support of Growth and Jobs", National Cohesion Strategy, adopted by the European Commission, May.

should have positive effects on innovation, the total share of the Structural Funds that will be used to achieve Lisbon Strategy goals is around 64%.

While SMEs and entrepreneurship are not the specific targets of an operational programme funded by the EU Structural Funds, they should benefit from many of the individual projects and programmes. Overall, 22% of the total funds are targeted for direct or indirect support for enterprises, and around 75% of this should benefit small and medium-sized enterprises (SMEs). This implies around 0.5 % of GDP for SME support for the seven-year period to 2013 from EU funds alone, and as much as 0.64% of GDP once supporting Polish funding is taken into account.

The following section provides an overview of the Polish economy and reports the main barriers it presents to SME development and entrepreneurship, notwithstanding support from the Structural Funds. The subsequent sections consider the policy framework that governs the main elements of the business environment: entrepreneurial capacity and human resource development; financial markets; social security and tax systems; product markets; business law and regulatory issues; and policies toward research, technology and innovation.

Overview and barriers to SMEs and entrepreneurship

Macroeconomic overview

Following a difficult adjustment period during the early transition from central planning, many aspects of overall economic performance in Poland have been good: growth has been above OECD and EU averages (Table 2.2); and inflation has generally been held to rates only slightly above the euro area average, although further progress will be needed if

Table 2.2. **Selected economic performance indicators, 2008**

Indicators	Poland	Euro area[1]	EU27	OECD
GDP (billion, current prices)	PLN 1 271.7	EUR 9 272.3	EUR 12 512.1	USD 40 631.9[2]
GDP (USD billion, current prices)	527.8	13 582.3	18 394.0	40 631.9[2]
GDP (USD billion, at PPP)	673.1	10 913.8	15 247.2	38 834.3[2]
Per capita GDP (USD at PPP)	17 660	33 308	30 513	32 752
Growth rate, 2000-08 (% p.a.)	4.1	1.7	2.1[3]	2.2
Inflation,[4] 2000-08 (% p.a.)	2.7	2.2	3.1[3]	2.4
Household saving rate (% of disposable income)	4.1[5]	8.6[2]	5.2[2]	–
Gross fixed capital formation (% of GDP)	22.0	21.6	21.1	20.9[2]
General government balance (% of GDP)	–3.9	–1.9	–2.3	–3.2
Gross general government debt (% of GDP)[6]	47.1	69.3	61.5	78.7
Current account (USD billion)	–29	–58.2	–196.5	–601.6
Current account (% of GDP)	–5.5	–0.4	–1.1	–1.4
Unemployment rate (% of labour force)	7.1	7.5	7.0	5.9
Employment rate (% of working age population)	59.2	66.1	65.9	66.7[2]
Participation rate in labour (% of working age population)	64.8	–	–	73.5
Total employment (millions)	15.8	147.9	221.8	541.1
by sector (% of total)				
Agriculture	14.0	3.8	–	–
Industry	31.9	24.6	–	–
Services	54.2	71.6	–	–
Productivity level (GDP per hour worked USA = 100)	38.6	85.3	78.1[7]	76.2
Productivity growth, 2000-08 (% p.a.)[8]	3.2	1.0	1.3[7]	–

1. 13 OECD countries.
2. 2007.
3. 2000-07.
4. Change in the GDP deflator.
5. 2006.
6. Maastricht definition for EU countries; Total liabilities for OECD.
7. EU19.
8. Labour productivity average annual growth rate.

Source: Eurostat; IMF (2009a), *World Economic Outlook Database*, April; OECD (2009a), *OECD Economic Outlook*, Vol. 2009/1, OECD Publishing: *http://dx.doi.org/10.1787/eco_outlook-v2009-1-en*; OECD databases; and Ministry of Labour and Social Policy.

Poland is to adopt the euro. By 2007, public finances had improved to the point where the European Commission could recommend lifting the Excessive Deficit Procedure that had been in effect since July 2004. With the onset of the global financial crisis, however, this improvement has not been sustained. With growth of GDP likely to be modestly positive in 2009, Poland has coped better with this crisis than most OECD countries.

Notwithstanding the progress that has been made, however, labour participation, employment and productivity levels remain low, per capita income levels are still little more than half the OECD average, regional variations in performance are striking and the business sector displays little of the dynamism that characterises most advanced market economies. To at least some degree this may relate to unfinished business in the transition process, reflected in a high level of intrusive oversight by various official bodies and continuing high state ownership in the enterprise sector, notably at the local level. In any case, it is clear that more needs to be done if the business environment is to be conducive to the entrepreneurial behaviour and rising innovation required for the objectives of the Lisbon Strategy and the National Development Strategy to be achieved.

Results from cross-countries analyses by international institutions make the point:

- The OECD's system of indicators of product market regulation show Poland as having the highest level of anti-competitive restrictions of any OECD member country as of early 2008 (Woelfl *et al*., 2009).
- In the World Bank's forthcoming *Doing Business* 2010 Report, covering the period June 2008 to May 2009, Poland ranks 72nd globally (World Bank, 2009). This is unchanged from the previous year. Among OECD countries, Poland is 26th out of 30 and among the 26 EU members covered, Poland ranks 23rd.
- The World Economic Forum's Global Competitiveness Report for 2009-10 ranks Poland 46th globally out of 133 countries, a rise of seven from a year ago (World Economic Forum, 2009). It ranks 24th of OECD countries and 18th of 27 EU members.
- Survey information collected for the European Commission indicates that Polish SMEs are more likely than those in the EU to report problems due to: the lack of skilled labour; a bureaucratic regulatory and procedural environment; poor infrastructure; high labour force costs; and low access to finance (Gallup Organisation, 2007).

There are many methodological issues which can be raised about these studies. But the finding that Poland ranks behind its EU and OECD partners in terms of having a business environment that is friendly to enterprises seems reasonably robust.

Structural challenges

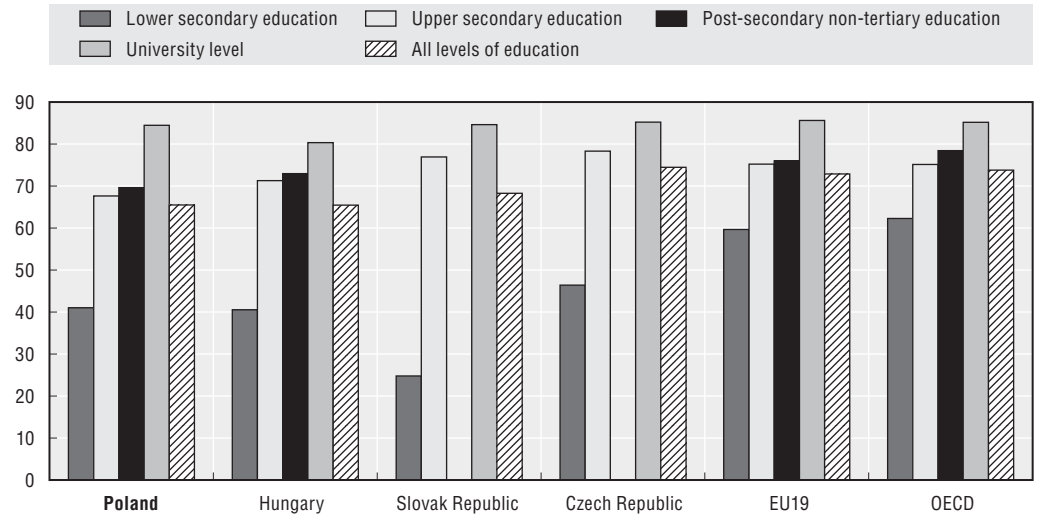
For largely historical reasons, Poland faces two major structural challenges that affect economic and social policy formulation and impinge on SMEs and entrepreneurship. One is to raise labour force participation and employment rates, which are among the lowest in the OECD. Low employment is largely a problem of the unskilled, since employment of workers with university level education is in line with EU and OECD averages (Figure 2.1). It is especially pronounced among older workers who came of age during the central planning period and often find they lack the skills to adapt to the changed environment, although employment of younger age groups is also low (Figure 2.2). While social problems related to low employment among middle-aged and older workers may not impinge directly on SMEs and entrepreneurs, successful approaches to dealing with the issue are likely to have positive effects on SMEs as well.

Second, as noted earlier, regional disparities in Poland are wide: Warsaw and the western *voivodships* are generally wealthier and more developed than the other regions, especially those in the east. These disparities, which are evident in variations in SME performance across regions, raise significant policy issues (Box 2.1) and have influenced the design of the Cohesion Strategy. This in turn has highlighted issues of ensuring coherence, of both design and implementation, between policies at national and regional levels (see Chapter 4).

Barriers perceived by SMEs and entrepreneurs

The conclusion that improvements are needed in the overall business environment, especially in areas that influence the ease of entry of new firms and the attractiveness of expansion, is reinforced by more detailed survey information collected by the Polish authorities about barriers that Polish SMEs and entrepreneurs perceive to their success. A 2007 SME survey (Ministry of Economy, 2008a) reveals how SMEs of various different sizes see barriers to their own development (Figure 2.3). "Tax rates" are among the top three

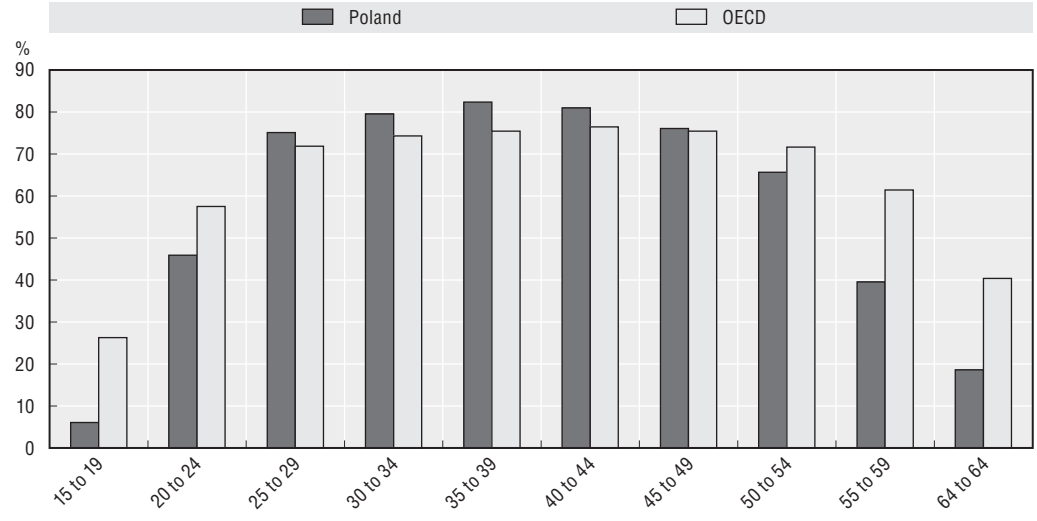
Figure 2.1. **Employment rates by educational level, Poland and selected countries, 2007**



Source: OECD (2009b), *Education at a Glance 2009: OECD Indicators*, OECD Publishing: *http://dx.doi.org/10.1787/eag-2009-en*.

Figure 2.2. **Employment rates by age, Poland and OECD countries, 2008**

Percentage



Source: OECD, *Labour Force Statistics Database*.

most serious barriers indicated by SMEs of all sizes, and for micro- and small enterprises it is indisputably the most serious barrier (Table 2.3). For medium-sized enterprises, the top barrier is finding workers with suitable qualifications. Complex legal provisions are serious problems for SMEs of all sizes but more problematic for medium-sized enterprises than for micro- and small enterprises. Other barriers reflect problems that SMEs should address themselves to at least some degree. Competition from large enterprises ranks as the fourth most serious barrier for all SMEs. Labour costs, which include a non-wage component, are more important problems for small enterprises than micro- and medium-sized enterprises

Box 2.1. **Regional disparities in Poland**

The performance of SMEs varies significantly on a regional basis, depending on the region's level of investment attractiveness. SMEs need to meet the requirements of a high level of competitive pressure in regions, or *voivodships*, with the highest level of investment attractiveness (PARP, 2008).* This more competitive environment results in more competitive SME behaviour (*e.g.* collecting information on competitors, using competition as a major driver of innovation activity; and using instruments to protect against competition, such as patents, design patterns and trademarks). SMEs in these *voivodships* also have better access to investment capital, more frequently finance their activities with external sources of financing (*e.g.* banks, leasing, venture capital, and credit guarantee funds), and more frequently introduce new innovations of a breakthrough nature.

Furthermore, SMEs located in larger cities have an advantage. They are more likely to commission research and development (R&D) activity; have formulated strategies for development; employ workers with higher education; employ persons with experience in foreign corporations; have quality certificates; and decide to purchase rights in the form of patents, licenses and know-how. This is most likely due to the greater access and sophistication of these inputs and services in major urban centres.

One of the challenges for the Polish government is to strengthen the operating environment for SMEs in low development *voivodships*. This will take more concerted policy effort and programme measures to alter the pattern of low SME density and accompanying low new enterprise entry rates. There is supporting evidence in the entrepreneurship literature that regions with high or low levels entrepreneurial activity are likely to maintain high or low levels of start-up activity in the future (Fritsch and Mueller, 2005). This path dependency theory implies that policy interventions are essential in order to alter the "path" of low entrepreneurial activity. However, policies to stimulate entrepreneurship in low entrepreneurship regions will need patience and persistence over the longer term.

Low SME density regions tend to have a higher incidence of agricultural-based marginal self-employment, which suggests measures to stimulate the development of off-farm entrepreneurial opportunities and employment measures, including those that can be created by fostering supply-chain linkages and clusters. In addition, there are regional and urban-rural variations. Entrepreneurship in rural areas is still in the early stages of development, 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. The result is differences in the priority needs of regions with respect to 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 entrepreneurship, as well as to influencing its nature. Linking national and regional economic development strategies is an optimal approach, as is taking steps to fully understand regional differences so different policies can be applied.

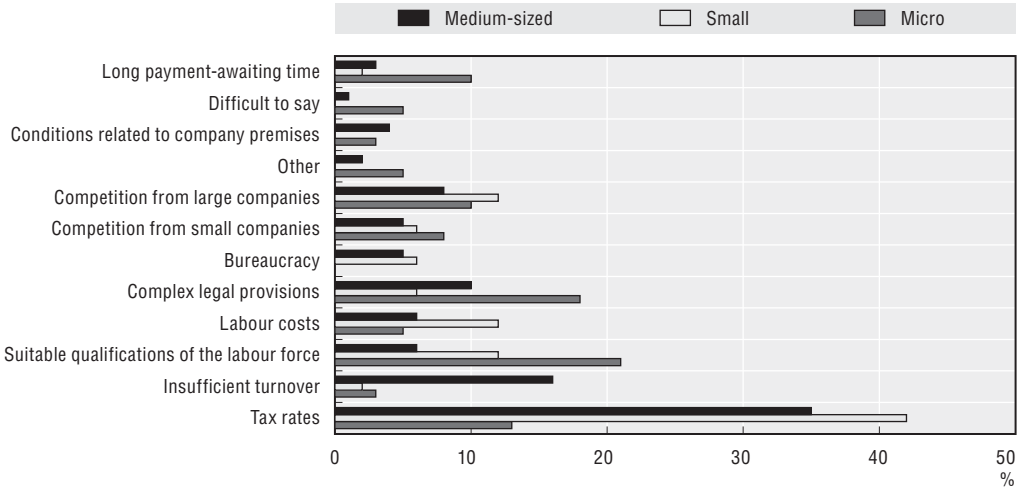
* SMEs in *voivodships* with a higher level of investment attractiveness are more likely to report having more than ten major competitors operating in the market and their competitive environment is characterised by a higher rate of change than in other regions.

while insufficient turnover is more serious for micro-enterprises than for small and medium-sized enterprises.

Results of a similar survey conducted at the beginning of 2008 by the Ministry of Economy indicated that SMEs – especially medium-sized enterprises – were having

Figure 2.3. **Barriers to enterprise development according to Polish SMEs, 2007**

Share of respondents



Source: Poll survey of the SME sector, Ministry of Economy, April 2007, as reported in Ministry of Economy (2008b), "Poland Report Economy", Warsaw.

Table 2.3. **Barriers to Polish enterprise development by size of enterprise in order of priority, 2007**

Micro-enterprises	Small enterprises	Medium-sized enterprises
1. Tax rates	1. Tax rates	1. Suitable qualifications of the labour force
2. Insufficient turnover	2. Suitable qualifications of the labour force	2. Complex legal provisions
3. Complex legal provisions	3. Labour costs	3. Tax rates
4. Competition from large companies	4. Competition from large companies	4. Competition from large companies
5. Labour costs	5. Complex legal provisions	5. Long payment waiting time
6. Suitable qualifications of the labour force	6. Bureaucracy	6. Competition from small companies
7. Bureaucracy	7. Competition from small companies	7. Conditions related to company premises

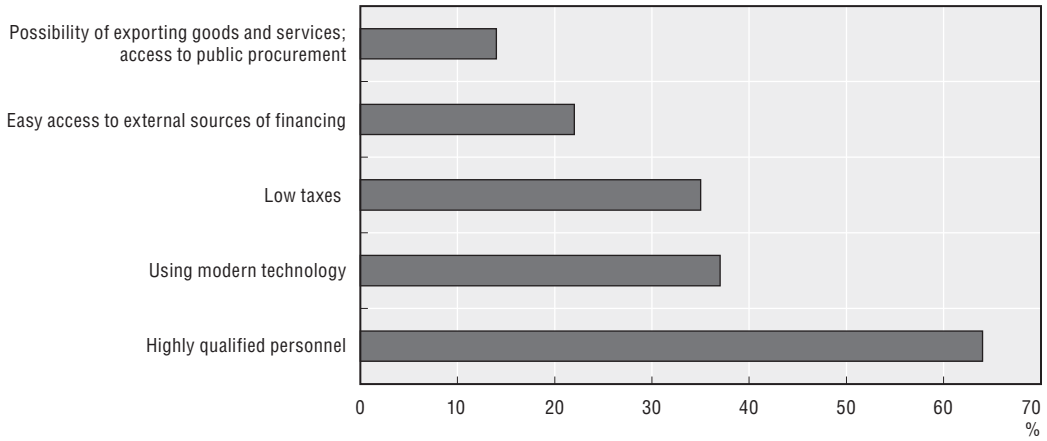
Source: Derived from Figure 2.3.

increasing problems finding new employees with relevant qualifications. Half of SMEs have a negative view of tax laws and 40% negatively assessed operation of the judiciary system. Notably, most SMEs in the 2008 survey did not see any changes in areas of regulation and procedures over the previous survey period and those that did indicated that the changes contributed to both improvement and deterioration of business conditions (Ministry of Economy, 2008b).

Separate research commissioned by the Polish Agency for Enterprise Development (PARP) is consistent with the European Commission and Ministry of Economy surveys. Positive factors most crucial to the development of SMEs are access to highly qualified personnel, use of modern technology, low taxes, easy access to external sources of financing, and access to export and procurement markets (Figure 2.4). The factors most negatively affecting the development of SMEs are: taxes and high non-wage labour costs, competition, lack of qualified personnel, payment gridlocks, the system of labour law, high non-wage labour costs, insufficient demand and difficulties in accessing credit (Figure 2.5).

Figure 2.4. **Factors that positively affect the development of Polish SMEs**

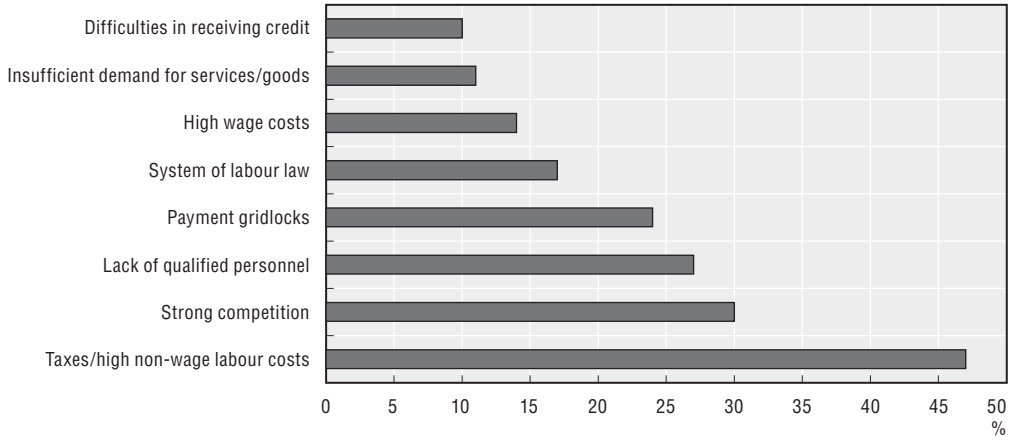
Share of respondents



Source: PARP (2008), "Report on the Condition of the SME Sector in Poland in 2006-2007", Section 5.5, Warsaw.

Figure 2.5. **Factors that negatively affect the development of Polish SMEs**

Share of respondents



Source: PARP (2008), "Report on the Condition of the SME Sector in Poland in 2006-2007", Section 5.5, Warsaw.

In summary, the main barriers to SME and entrepreneurship development as perceived by SMEs themselves are:

- tax rates;
- regulatory complexities and administration costs;
- inadequate access to financing;
- lack of a qualified labour supply;
- deficiencies in knowledge, management competence and competitiveness.

These barriers are largely external to the enterprise. An exception is the level of management competence, which is reflected in marketing, innovation, organisational and quality weaknesses, particularly in small and micro-enterprises. But even this is a product of a country's education and training systems as well as the forces that influence its ability to attract and retain skilled people. Unless these barriers are addressed, the performance of the SME sector in areas crucial to Poland's future economic growth will not improve.

Human resources and entrepreneurial capabilities

Among the main barriers to SME development cited earlier, both the lack of qualified labour and deficiencies in knowledge, management competence and competitiveness reflect weaknesses in Poland's human resource base. The range of skills and characteristics needed in a dynamic economy with a high rate of creation of new enterprises goes beyond traits widely recognised as "entrepreneurial", such as willingness to take the necessary risks. It also extends to more basic management and specialised skills which quickly become necessary in a growing business, such as accounting, finance, and scientific or technical expertise essential to the enterprise's activities. Strengthening the human resource base is a long-term matter of strengthening both formal and continuing adult education systems, as well as a matter of attracting and retaining skilled people in an increasingly open and integrated international economy.

The policy framework and the EU Structural Funds

The importance of strengthening the human resource base in Poland is clearly recognised in the National Development Strategy and the Lisbon Strategy. The forthcoming Life-long Learning Strategy to the Year 2015 will provide additional strategic guidance in this area. It will focus on national qualifications standards and strengthening links among organisations responsible for formal education and those that support informal learning.[3] Its objective will be to raise professional and other key competences of both young people and adults, which would contribute to growth of employment while reducing some of the barriers to SMEs and entrepreneurship described above.

The importance attached to human resources is highlighted by human capital having been made both a Strategic Objective in the National Cohesion Strategy and the explicit focus of an Operational Programme "Human Capital" financed by the EU Structural Funds. The amounts provided here will be EUR 9.7 billion from the EU, to be supported by co-financing from the Polish authorities envisaged to be EUR 1.7 billion,[4] which would make the EU contribution 85% of the total (Table 2.4). The EU funds come from the European Social Fund, not the Regional Development Fund, and a large part is targeted at social issues such as health care (Priority 2.3), support for unemployed people in regions (Priority 6.1) and avoiding exclusion (Priority 7.2). But around 20% of the total, or EUR 2.3 billion, will provide direct support for start-ups, enterprises and their workers (parts of Priorities 2, 6 and 8). Other parts will provide the more indirect support needed to provide a more qualified workforce in the longer term (Priorities 2, 3, 4 and 9).

Formal education

The formal education system, where basic skills and the foundations for most professional qualifications are acquired, has changed enormously in Poland since 1990. There has been a:

- sharp drop in enrolment as a consequence of a major decline in birth rates;[5]
- decentralisation of the management structure at primary and secondary levels after 1999;
- huge expansion at the tertiary level.

Resources devoted to formal education are similar to the average for OECD countries, when expenditures are measured as a share of GDP (Table 2.5). So, too, is performance at

Table 2.4. **Human Capital Operational Programme for Poland: Financial overview, 2006**
EUR billions

Priority axis	EU funds	Public funds	Official total
1. Employment and social integration	0.43	0.08	0.51
2. Development of human resources and adaptability of companies and improvement of health of working people	0.66	0.12	0.78
3. High quality educational system	0.86	0.15	1.01
4. Higher education and science	0.82	0.14	0.96
5. Good governance	0.52	0.09	0.61
6. Labor market open for all	1.92	0.34	2.26
7. Promotion of social integration	1.32	0.23	1.55
8. Regional staff of economy	1.35	0.24	1.59
9. Development of education and competences in regions	1.45	0.26	1.7
10. Technical assistance	0.39	0.07	0.46
Total Human Capital Operationnal Programme	9.71	1.71	11.42

Source: Ministry of Regional Development.

Table 2.5. **Expenditure on education, Poland and selected countries, 2006**
As a percentage of GDP

	Pre-primary education	All primary, secondary and post-secondary non-tertiary education	All tertiary education	Total
Australia	0.1	4.0	1.6	**5.7**
Czech Republic	0.5	3.0	1.2	**4.8**
France	0.7	3.9	1.3	**5.9**
Germany	0.5	3.1	1.1	**4.8**
Hungary	0.8	3.4	1.1	**5.6**
Mexico	0.6	3.8	1.1	**5.7**
Norway	0.3	3.7	1.2	**5.4**
Poland	**0.6**	**3.7**	**1.3**	**5.7**
Portugal	0.4	3.6	1.4	**5.6**
Slovak Republic	0.5	2.7	1.0	**4.3**
Sweden	0.6	4.1	1.6	**6.3**
United States	0.4	4.0	2.9	**7.4**
OECD average	**0.5**	**3.7**	**1.4**	**5.7**

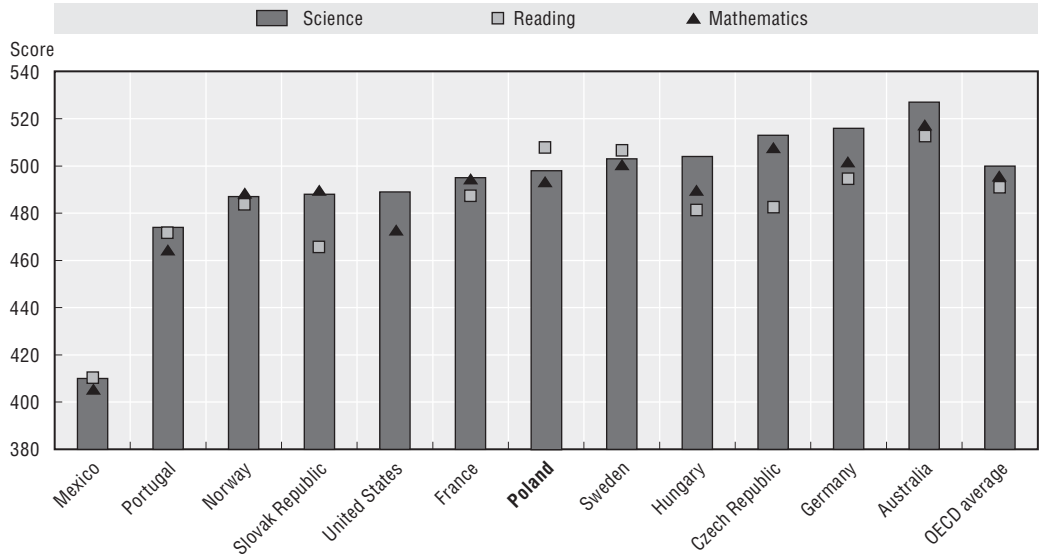
Source: OECD (2009b), *Education at a Glance 2009: OECD Indicators*, OECD Publishing: *http://dx.doi.org/10.1787/eag-2009-en*.

compulsory levels, at least as reflected in international comparisons of achievement by children aged 15 in reading, science and mathematics carried out by the OECD's Programme for International Student Assessment (PISA) (Figure 2.6). At the tertiary level, the rise in enrolment from around 400 000 students in 1991 to around 2 million in 2006 is bringing Poland more in line with other EU countries in terms of educational achievement.

The extensive changes in the needs of the economy have created pressure for the system to adapt in many ways. One important development is the inclusion of a significant focus on entrepreneurship-related issues in formal curricula. At lower levels, independent projects are encouraged and students are introduced to key institutions in the economy, such as credit institutions and stock markets. At the high-school level (age 15-18), students are offered the Connection Programme, which develops these subjects further, drawing on assistance from the banking system. Consideration is being given to making this compulsory. At the tertiary level, formal management training appears to be extensive.[6]

Figure 2.6. **Comparative educational performance, Poland and selected countries, 2006**

Mean score in student performance, all students



Source: OECD (2007a), *PISA 2006: Science Competencies for Tomorrow's World: Volume 1: Analysis*, PISA, OECD Publishing: *http://dx.doi.org/10.1787/9789264040014-en*.

Notwithstanding this progress, the system faces challenges relating to quality control, the needs of the labour market, and funding. But since compulsory and higher education have experienced opposite trends in terms of demands for their services, the pressures they face are quite different.

As regards compulsory education:

- Following decentralisation, lines of authority among key agencies should be reviewed to ensure that they are coherent.[7] In particular, the role of the Curatorial, who are appointed by the *voivodships*, but are responsible for ensuring that national education policies are implemented and for monitoring quality, could be reviewed. Conflicts with local governments who are responsible for provision of compulsory education (Gminas and Poviats) should be avoided. Incentives, autonomy and accountability of school principals should be strengthened and clarified.
- The *Teachers Charter*, which dates from 1982, has made restructuring in response to changing enrolment levels, curriculum demands and regional patterns more of a challenge than it should be. It defines the professional status and employment rights of most compulsory level teachers and provides for generally low salaries, with little scope for incentives to encourage quality improvement. At the same time it includes strong employment protection and limits on workloads or changes to responsibilities. Its most recent modification, in October 2008 as part of the Life-long Learning Strategy, achieved some improvements as regards obligations, notably in the area of children with special needs.
- Labour market needs and developments should have greater influence on the balance of provision between general and vocational training at secondary level (see Box 2.2 for an example of what can be achieved). There is also scope for modernising vocational training in light of industrial changes that have occurred in recent years. To facilitate

Box 2.2. **Vocational education and training: The Austrian experience**

Austria has one of the best developed systems of vocational education and training in the OECD. It is organised around a system of apprenticeships and engages the highest share of secondary student students among OECD countries. Apprenticeships are designed to provide young people with a good basis for making the transition to the workforce with skills that will make them competitive in international terms. The system is conceived as an integrated whole, includes practical training content, provides well-adapted equipment as needed and attempts to be responsive to market signals in determining the types of training to be provided (see OECD, 2008b).

Most apprentices in Austria begin their training upon completion of compulsory schooling, *i.e.* around the age of 15. In 2007, 41% of Austrian 15-year-olds were in the first year of apprenticeships. The duration of apprenticeships is variable, but most people complete their programmes by age 17-19. Around 80% of the apprenticeship period is spent on-the-job at participating enterprises, of which there were around 40 000 in 2008, with the rest involving attendance at part-time vocational schools. This school attendance may take place steadily, on a once-a-week basis throughout the apprenticeship or it can be provided in blocks of 8-12 weeks once a year.

Two important features of the system can be noted. First, apprentices are paid on the basis of normal collective bargaining agreements between employers and trade unions. The apprenticeship wage may begin low but rises during the apprenticeship until, in the final year, it typically reaches around 80% of the corresponding skilled worker's wage. Apprentices are covered by health, accident and unemployment insurance systems and their service is credited as qualifying time for old-age pensions. Costs associated with the school-based part of apprenticeships are covered by public authorities, with federal, regional and local authorities each covering part, while enterprises cover the remainder.

Second, apprentices have the possibility of leaving the programme with certified qualifications which entitle them to call themselves "skilled workers". This requires passing an examination which most choose to take and 80-90% typically pass.

Overall, an apprenticeship programme is the highest formal education for around 40% of the Austrian labour force. The success of the programme in providing skilled people is evidenced by the high share of people who have completed apprenticeships among managers in the business sector: around 35% in the corporate sector as a whole and 50% in SMEs.

modernisation, the government introduced changes in 2007 which, among other things, clarified guidelines for professional qualifications and strengthened monitoring of labour shortages and surpluses by job type and regions. Further reform in this area is likely.

The challenge for higher education policy is to manage the sector's rapid growth in a way that maintains quality, and to find sustainable ways to finance it.

- The expansion of the higher education sector since 1991[8] has run ahead of the supply of qualified academic teaching staff. This has resulted in high demand for staff, putting pressure on standards and encouraging staff to take multiple jobs to augment relatively low salaries. To address these issues, more internationally competitive remuneration and better career structures are needed, while secondary employment that distracts from teaching duties and research should normally be discouraged. Appointment and promotion processes need to be more open and transparent.

- Given the uneven quality of higher education institutions, both students choosing how to continue their education and employers considering new graduates for jobs would benefit from better monitoring of standards, particularly in new private institutions. The State Accreditation Committee, which evaluates degree programmers, should reinforce its focus on improving quality, measured in terms of results, as opposed to ensuring compliance with process requirements, and on disseminating its assessments and remaining up to date.
- Financing the rapid expansion of higher education has proved a challenge, both for students and for the institutions themselves. Since the benefits of higher education largely accrue to the students themselves as higher lifetime earnings, there is a strong case for charging fees to cover at least part of the costs, supplementing these with grants schemes to ensure accessibility. Private institutions charge fees and ways should be sought to ease constitutional restrictions which prevent public institutions from doing the same for full-time students. Structural funds from the Cohesion Strategy, notably for Priorities 3 and 4 of the Human Capital Operational Programme and Priority 13 of the Infrastructure and Environment Operational Programme, should ease resource constraints, especially in the public institutions.
- To assist students with both fees and living expenses, existing loan schemes should be reformed to allow for income-contingent repayment, perhaps as part of the tax system, with some degree of state assumption of risk.

Continuing adult education and training

Post-formal education and training, designed mainly to provide adults over 24 with training of various sorts, is weaker than the formal education system. Available cross-country comparative information is somewhat dated, but around the time of EU accession, Poland was lagging behind most other OECD countries in many respects. Participation was low (Table 2.6), largely benefited young and well-educated workers (Figure 2.7) and benefited very few SMEs (Table 2.7). It is also subject to wide regional variations.

Polish authorities recognise these weaknesses and the need to reinforce efforts being made in the formal system to adapt better to the needs of the economy. They are aiming for a uniform approach to the issue that covers all those involved and that responds more flexibly to developments in the job market. Important issues include the following:

- Young and highly educated adults benefit more from training than do older and less skilled workers. This raises the issue of how much to target training on those who need it most, *i.e.* older and unskilled workers, as opposed to younger, educated people for whom returns are typically higher.
- Students should have greater scope to switch from one competence to another. In this regard the formal education system can play an important role by providing a good general base.
- As in the tertiary sector, more stress on outcomes rather than process would be desirable.
- A good system for validating qualifications is needed.

Given the large sums targeted at this area by the Cohesion Strategy, it will be essential to evaluate pilot programmes carefully to identify which programmes are cost-effective in

Table 2.6. **Participation in adult learning, Poland and selected countries, 2002**

	Adjusted participation rate[1]
United Kingdom	6.9
Denmark	6.7
Switzerland	6.2
Sweden	5.5
Finland	4.5
Norway	4.3
United States	3.3
Germany	3.3
Canada	2.9
Netherlands	2.9
Austria	2.8
Spain	2.6
Korea	2.4
Portugal	1.8
Hungary	1.4
Poland	1.4
Mexico	1

1. The adjusted participation rate (APR) is calculated to take into account the frequency with which adults participate in learning and the length of course they attend. If all adults spent 35 hours per week for 52 weeks in such courses the APR would be 100.

Source: OECD (2005), *Promoting Adult Learning, Education and Training Policy*, OECD Publishing: *http://dx.doi.org/10.1787/9789264010932-en*.

increasing participation and in delivering improvements in skills, and facilitating switches to new jobs and sectors.

International migration

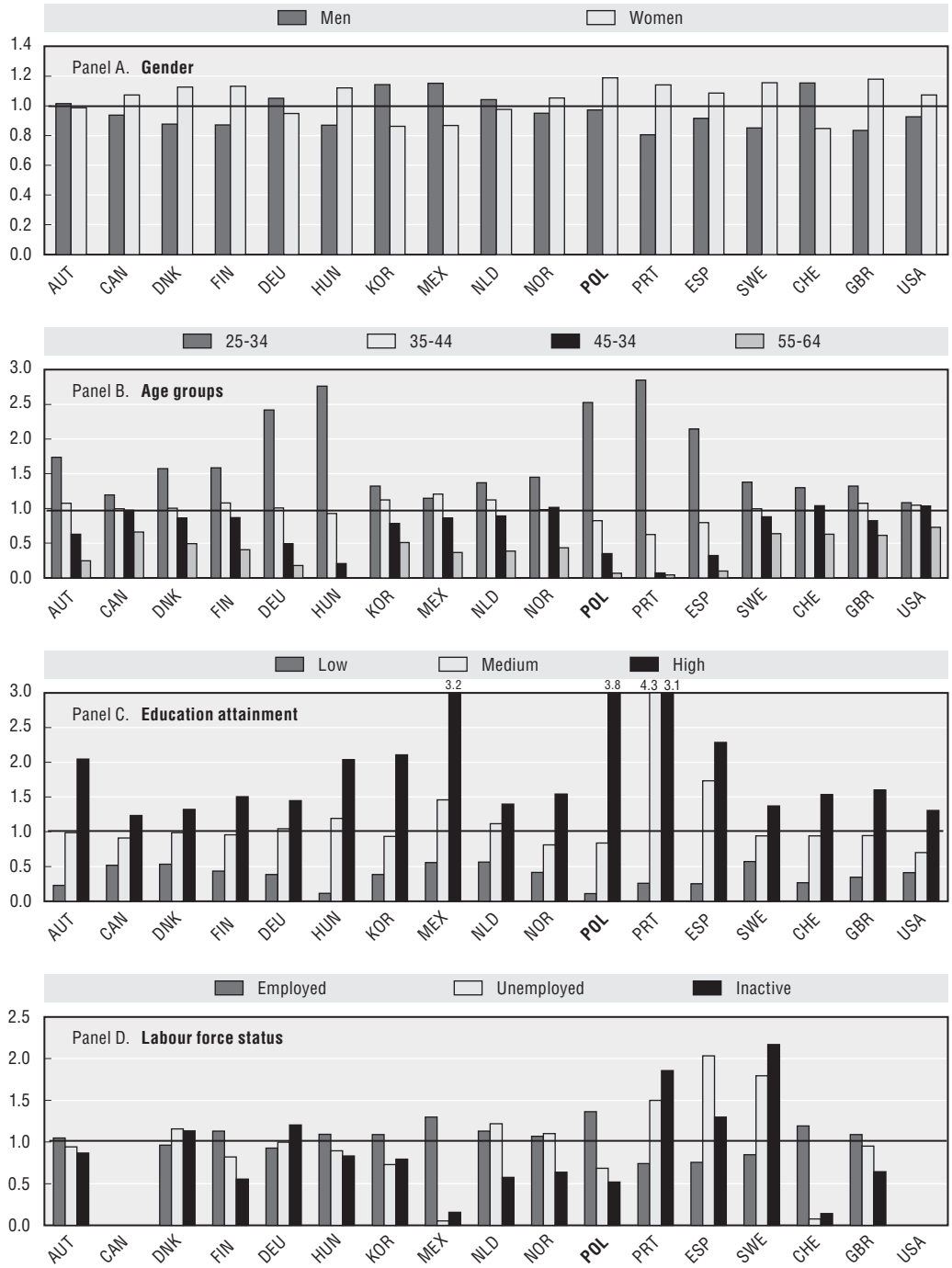
International migration can have an important influence both on a country's entrepreneurial human resource base and on the availability of management skills and qualified people to work for SMEs. Entrepreneurial and skilled people are often highly mobile internationally. A good ability to attract and retain such people is essential if a country's SME sector is to make a significant contribution to employment and productivity growth by generating successful new businesses, especially in the innovative spheres prioritised by the Lisbon and Cohesion Strategies.

EU accession has made migration for economic purposes between Poland and other parts of Europe much easier than it was before 2004. Notably, accession allowed the situation of Polish migrants working illegally in the EU15 countries to be formalised. Among other things, their scope for starting new businesses increased dramatically. Opening of EU labour markets to Polish workers has been progressive across countries but, at this stage, limitations have been abolished, aside from exceptional situations.[9] As barriers to movement came down, Poland experienced an outflow (Table 2.8), which brought the cumulative total of Poles outside the country to an estimated 2.27 million people by the end of 2007, with around 82% in other EU countries. Even though there has been a significant reflow,[10] this raises the issue of how international migration is affecting the entrepreneurial and skilled elements of Poland's human resource base.

The evidence on this is mixed, especially since different countries attract different types of migrants. Much of the work of Polish migrants is transitory and around two-thirds

Figure 2.7. **Adult learning participation rate by socio-economic characteristics, 2002**

Ratios of participation rates for each subgroup to the national average participation rate, 25-64-year olds



Note: A ratio superior to 1 implies that the proportion of persons in adult learning in a specific category is above the country's average participation rate; a ratio between 0 and 1 implies that it is below the average rate. The ratios of sub-group participation allow the comparison of countries with data for a four-week reference period with those of countries with data for a one-year reference period.

Source: OECD calculations based on Eurostat, European Union Labour Force Survey, and national sources given in Table 1.1.

of Polish migrants return within 12 months. Often the work does not involve high qualifications: construction (many countries); seasonal work in agriculture (France, Netherlands, Spain, Sweden and others); and hotels and restaurants (France, Ireland,

Table 2.7. **Continuing vocational training, Poland and selected countries, 2005**
Percentage of all enterprises providing continuing vocational training courses (by employee size class, 2005)

	10-19	20-49	50-249	250+	Total
Austria	61	68	86	98	67
Czech Republic	52	63	88	100	63
Denmark	76	81	91	98	81
Germany	44	57	65	78	54
Poland	**11**	**22**	**43**	**72**	**24**
Slovak Republic	30	39	57	80	38
United Kingdom	57	69	75	83	67
EU27	37	53	68	84	49

Source: Eurostat (2005), "Continuing Vocational Training Surveys (CVTS3)", Luxembourg.

Table 2.8. **Main European destinations for migrating Polish labour, 2005-07**
Thousands

Destination	2005	2006	2007
Austria	10	11	22
Czech Republic	13	17	24
Denmark	2	7	10
France	10	11	14
Germany	322	270	235
Ireland	45	65	80
Italy	40	49	No data
The Netherlands	26	55	30
Norway	24	38	51
Spain	35	48	71
Sweden	3	4	3
Switzerland	4	8	No data
United Kingdom	127	162	150

Source: Ministry of Labour and Social Policy (2008), "Information on the Employment of Polish Citizens in EEA Countries and in Switzerland and of EEA Countries' Citizens in Poland", Warsaw, April; UK Home Office (2008), "Accession Monitoring Report", May 2004-March 2008, London, United Kingdom, May.

Luxembourg, Spain and the United Kingdom). On the other hand, Ireland and the United Kingdom attract migrants who are younger, predominantly male and likely to bring their families once they find stable incomes. In the United Kingdom, around 40% work in administration, business and management; in Ireland and Finland, significant numbers work in the information technology (IT) and computer sector; while in Ireland and Luxembourg, many work in banks and consulting. In Germany, 20 000 Polish migrants were entrepreneurial enough to open their own businesses.

In Poland this outward migration undoubtedly had favourable effects on unemployment, and the large repatriation of private transfers to Poland, amounting to 1.3% of GDP in 2006, should be noted. Such shortages of labour that were progressively noted were often in sectors such as repairs, construction, healthcare services and supermarkets, which may not seem crucial for SMEs and entrepreneurs concerned to find particular types of skilled labour. When terms and conditions in Poland have been good, more highly educated people have stayed. For example, when in 2006 the German Council tried to recruit large numbers of Polish programmers to work in Germany, only 200 accepted.

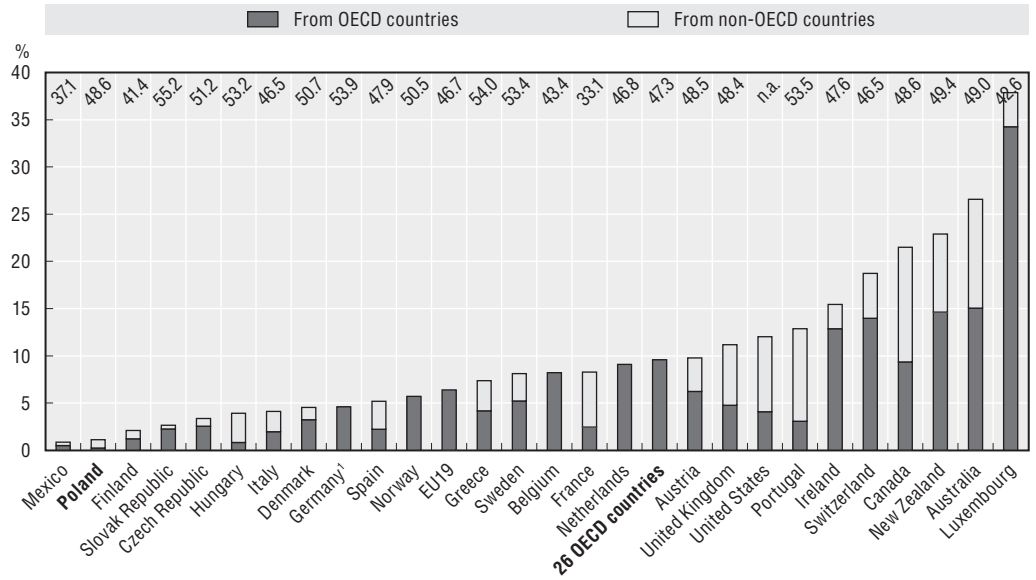
Nevertheless, surveys indicate[11] that problems Polish enterprises faced of finding qualified people, especially semi-skilled workers in crafts and services, increased during the

period before the current slowdown. While the situation may be easing for now, the Ministry of Economy believes further outflows of specialists such as doctors and skilled IT people, predominantly young, male, with no children and from less urbanised areas are likely.

At the same time, Poland has attracted relatively modest inward migration, mainly recently and from the Ukraine. Before EU accession, Poland attracted very few professional and technically skilled migrants, mainly from non-OECD countries (Figure 2.8) and there is little evidence that this has changed. Notably, EU accession of Romania and Bulgaria, where incomes are generally below those in Poland, does not seem to have led to significant inflows of people, skilled or otherwise.

Figure 2.8. **Employed professional and technical migrants by country of residence, 2000 or 2001**

As a percentage of total employed professionals and technicians



1. Excludes employees for whom the country of birth is unknown.

Source: OECD (2007b), *OECD Science, Technology and Industry Scoreboard 2007*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2007-en*.

Overall, the benefits of the outward migration of Polish workers have probably outweighed any costs to date, although the Polish economy would benefit if it could better attract and retain skilled internationally mobile people. To assist in this regard:

- The income tax regime has been modified to provide for a more advantageous method to avoid double taxation.
- The work permit procedure has been simplified and work permit fees paid by Polish employers have been lowered.

To the degree that the openness of Polish society and its economy make international mobility an obstacle to stronger entrepreneurship and better performance of SMEs in Poland, it should be seen as an indication that more must be done to ensure that the Polish business environment is an attractive place to operate when considered in an international context.

Access to financing

The Polish financial sector has been transformed as part of the transition to a market economy. Nevertheless, inadequate access to financing was one of the major barriers cited earlier, suggesting that it still has some way to go before it fully meets the needs of SMEs and entrepreneurial firms aspiring to rapid growth. The issues the sector faces are largely of an institution-building nature, since at this stage the supervisory and regulatory frameworks have been substantially harmonised with the EU framework and associated directives. In the World Bank's *Doing Business 2010*, Poland ranks ahead of most EU members, and fifteenth globally, in terms of credit information sharing and the legal rights of borrowers and lenders designed to expand access to credit.

Overview of the structure of the Polish financial system

An overview of the structure of the Polish financial system is provided in Table 2.9. Some 70% of the assets were held by commercial banks, while insurance companies and pension funds each held around 10% of the system's assets in 2007. As of late 2007, approximately half the system, including around 80% of the banking sector, was majority foreign owned. There were six majority-owned government institutions, four of which were banks, which held around 15% of the assets. At this stage, there are only three majority government-owned banks, one of which is the largest commercial bank and a second of which is the BGK, which serves as a vehicle for financial support programmes for SMEs. The IMF-World Bank Financial Sector Assessment of Poland in 2006 noted that government ownership has not been a source of distortion but advised that full privatisation would eliminate any issues of conflict of interest between ownership and supervisory roles (IMF and World Bank, 2006a).

Table 2.9. **Evolution of the structure of the Polish financial system, 1998-2008**

Financial institutions	End-December, 1998		End-December, 2002		End-September, 2007		End-December, 2008	
	Number	Assets (EUR billion)	Number	Assets (EUR billion)	Number	Assets (EUR billion)	Number	Assets (EUR billion)
Commercial banks	83	74.5	59	110.2	64	193.1	73	237.2
Co-operative banks	1 189	3.3	605	5.8	582	12.6	579	13.6
Credit unions	220	0.1	120	0.6	67	1.8	n.a.	2.1
Insurance companies	54	5.1	70	14.3	65	33.3	64	33.7
Brokerage houses	46	0.8	38	0.7	51	3.3[1]	n.a.	2.5
Investment Funds[2]	46	0.4	124	5.7	275	37.4	n.a.	17.7
Pension funds	0	0	17	7.9	15	36.9	14	33.3
Total	**1 638**	**84.3**	**1 033**	**145.2**	**1 119**	**318.2**	**n.a.**	**340.1**
Memo items:								
Majority government-owned	13	35.8	9	32.7	6	47.9	n.a.	n.a.
Majority foreign-owned	31	12.9	95	84.2	97	160.5	n.a.	n.a.
Exchange rate: PLN/EUR		4.0925		4.0202		3.7775		4.1535

1. End June.
2. Number of authorizes entitles; include UCITS and non-UCITS.

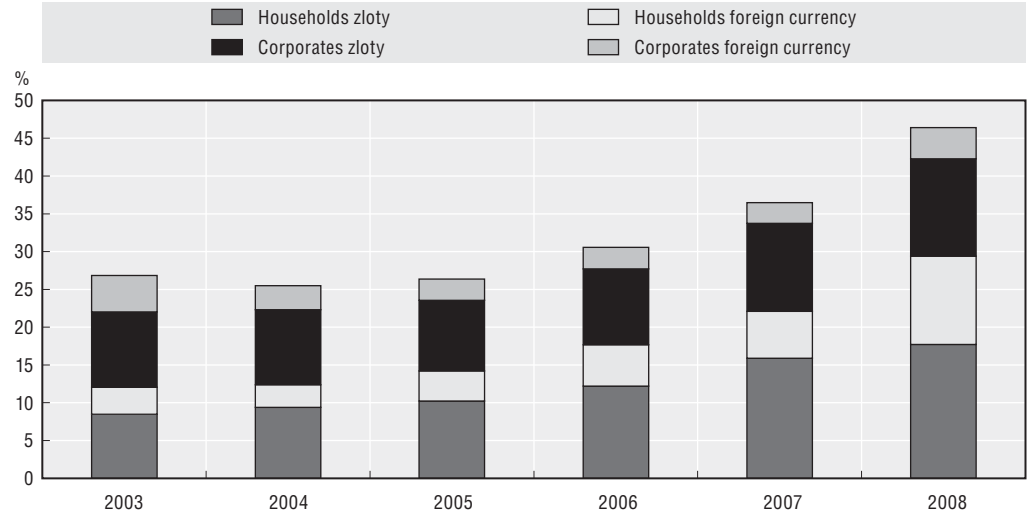
Notes: n.a.: not available. Coverage of *memorandum items* is incomplete. See notes in original IMF source.
Source: IMF (2008), Staff Report for the 2007 Article IV Consultation with Poland, April, Table 6, National Bank of Poland, KNF (Polish Supervisory Agency.

Development and use of the banking system has been rapid, reflected in the fact that the broad money supply (virtually all of it cash and bank deposits) by the end of 2008 exceeded 53% of GDP. This is not large by standards of advanced market economies (57%

for M2 in the United States, 87% for M3 in the euro area, 138% for M4 in the United Kingdom). However, there is no "right" size. It has risen rapidly during the transition and appears to reflect a persistent increase in the public's readiness to hold money, as the economy has become more "banked", rather than any potential inflation pressures. The asset counterparts, which are partially funded by significant amounts of borrowing by foreign-owned banks from their parents, consist predominantly of lending to the private sector since net claims on general government represent less than 20% of claims on domestic sectors. Credit to households, which includes large amounts of foreign-currency-denominated mortgage lending but may also reflect some lending used by SMEs, has risen much more rapidly than corporate lending and now accounts for more than half of lending to the private sector (Figure 2.9).

Figure 2.9. **Credit to households and corporates, Poland, 2003-08**

% of GDP



Source: National Bank of Poland (2009), "Information Bulletin", Warsaw; and previous issues.

While institutional development has been impressive, the scope for further development is evident from the limited role of capital market instruments. These consist almost entirely of government debt and equities (Table 2.10). Polish government debt, which amounted to nearly 35% of GDP in 2007, is widely held by institutions other than banks. The capitalisation of Polish equities was somewhat larger, nearly 44% of GDP, with more than 40% held by foreign investors and nearly 15% in the hands of the Treasury. The relatively undeveloped non-bank financial sector, mainly pension and investment funds, held only 25% of the total. Various credit market instruments were negligible and the tiny venture capital market was almost entirely supported by foreign investors.

Does the system meet the needs of SMEs and entrepreneurs?

The commercial banks appear to do a reasonable job of serving the operational needs of SMEs:

- Practical access to bank credit is good. In the second half of 2007, one-third of all SMEs obtained bank loans, including 25% of micro-enterprises, 50% of small enterprises and 60% of medium-sized ones. Around 20% of SMEs used overdraft facilities.

Table 2.10. **Stocks and holders of financial instruments, Poland, end 2007**

	Treasury debt	Municipal bonds	Corporate bonds	Corporate equity	Venture capital[1]	Mortgage-related bonds
Total as a % of GDP	**34.6**	**0.4**	**2.3**	**43.9**[2]	**0.1**	**0.2**
Holders (% of total)						
Pension funds	21.8	…	4.6	25.3[5]	…	…
Insurance companies	16.2	1.2	4	…	…	…
Investment funds	10.5	1.5	17	[5]	…	5.4
Banks	24.7	83.9	29.6	0	…	63.5
Retail	2.7	…	2.1	12	…	0
Corporates	1.1[3]	0.2	36.1	5.9	…	…
Foreign investors	18.4	12.7	5.5	42	99.9	…
Other/non-identified	4.5	0.4	1.1	14.7[4]	0.1	31.1
***Memo:* Total in PLN billion**	404.5	4.1	26.4	512.6[2]	1	2.4

1. 2005.
2. Polish corporates only. Total capitalization is 92.5% of GDP, or PLN 1 080.3 billion.
3. Non-financial entities.
4. The Treasury.
5. Investment funds, pension funds and asset management funds combined.

Source: National Bank of Poland (2008); IMF and World Bank (2006b) for venture capital.

- Approval rates were also high: 43% for micro-enterprises, 58% of small enterprises and 92% for medium-sized firms.
- The average interest rate was around 10%, which represents significant but not excessive premium over the 2007 average NBP reference rate of 5% and the lending rate for large corporations of 6.1%.
- Leasing provides a convenient and popular alternative to bank loans, especially for SMEs acquiring road transport vehicles and industrial equipment (PLN 28.4 billion, or 2.4% of GDP in 2007).

Nevertheless there are some areas for improvement which largely relate to further clarifying the legal and regulatory framework regarding collateral and financial instruments other than standard bank loans:

- The Ministry of Economy notes problems that arose from lack of systemic regulations on leasing, whose explicit legal recognition is comparatively recent, during the 2000-01 slowdown (Ministry of Economy, 2008a).
- Factoring and forfeiting are possible under contract law in Poland but they are not explicitly recognised in legal terms. Factoring, which can be a useful way to obtain working capital, is only used by a small number of enterprises in Poland since most firms are not familiar with it. Information on forfeiting, a form of trade financing, is not readily available but export-related financing by Polish banks is negligible (0.2% of lending to SMEs, 0.1% of lending to large enterprises).
- Legislation enabling securitisation was passed in 2004, but in late 2006 the IMF and World Bank called attention to "regulatory glitches that hinder securitisation" (IMF and World Bank, 2006a).

The capital market, on the other hand, provides more limited support for SMEs aiming to fund expansion. The Warsaw Stock Exchange (WSE) has developed rapidly (Table 2.11), stimulated by privatisation of large enterprises by the state, but largely serves mature companies. Both the number of listings and market capitalisation have risen rapidly

Table 2.11. **The Warsaw Stock Exchange, 2000-07**

	2000	2003	2007
WIG Index (200 level = 100)	100	117	312
Number of listed companies	225	203	351
Number of IPOs	13	6	81
Number of withdrawals	9	19	14
Market cap. of all listed companies (PLN billion)	130.1	167.7	1 080.3
Market cap. Of domestic companies (PLN billions)	130.1	140	509.9

Source: Warsaw Stock Exchange, as reported by the Ministry of Economy in *Entrepreneurship in Poland*, 2008

since 2003 and initial public offerings (IPOs) increased from less than 10 per year during 2001-03 to more than 80 in 2007. Much of this activity has been by foreign companies, whose capitalisation has risen from nothing in 2002 to more than half the total in 2007.

The New Connect alternative trading platform, created in August 2007 may have more potential. It operates outside the regulated market and serves as a platform for SMEs with high growth potential. Since its opening coincided with the emergence of the current financial crisis, it has little experience with operations in normal conditions so its performance must be judged cautiously. Some 91 companies with a market capitalisation of EUR 336 million are listed as of 12 June 2009, and there have been eight IPOs on New Connect since the start of 2009. Another dozen are anticipated during the course of the year. Their value has been small – total fundraising on the Warsaw exchange, including the regulated exchange, has amounted to PLN 73 million, or EUR 17 million – but such sums can make a difference for small companies and the comparison with two IPOs in London and eight IPOs in the United States during the same time period is encouraging.

While private equity and venture capital companies have succeeded in raising significant amounts of funding themselves (EUR 937 million in 2006), their use of these funds is overwhelmingly (94%) for refinancing existing investments. Funding expansion for SMEs is around 5% of the total and start-up and seed capital stages combined attract less than 1%. This is very low in international terms (Figure 2.10). It is hoped that this market will develop further. In the meantime, Poland relies on government and EU financed programmes for SME support (Chapter 3).[12]

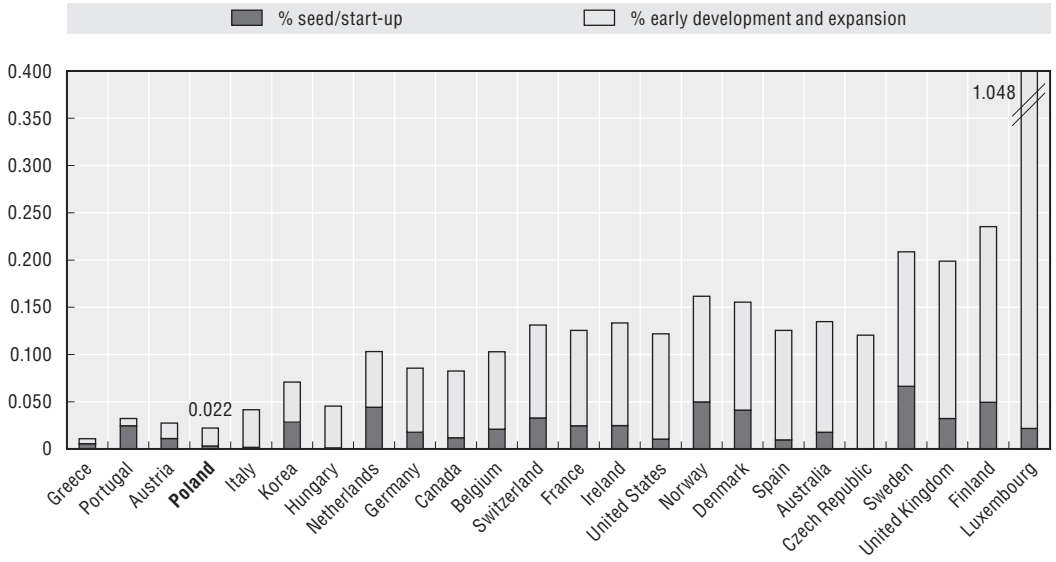
Future developments

The current global financial crisis has led to a commitment at the level of the G20 Heads of Government to review and revise financial market regulations and supervisory arrangements. Poland cannot avoid being affected by this. In the European Union, G20 commitments and the De Larosiere Report (De Larosiere, 2009) are likely to set the agenda. As changes are implemented care will be needed to ensure that plans to simplify the existing regulatory framework within the Ministry of Economy's "Better Regulations" framework are preserved and implemented.

Social security and tax systems[13]

"Taxes and non-wage labour costs" are regularly cited as a major force negatively affecting development of SMEs (Figure 2.3 and Figure 2.5). This substantially reflects high social security contributions, mainly to fund health and pension benefits, which are levied at rates which are among the highest in the EU or the OECD. Other elements of the Polish tax system are generally less burdensome.

Figure 2.10. **Venture capital investment, Poland and selected countries, 2008**
As a percentage of GDP



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing : *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

The influence of taxation and social charges on business expansion

The tax "wedge", *i.e.* the difference caused by tax and social contributions between the cost to an employer of taking on labour and net income the worker receives, acts as an obstacle to agreement between an employer and a worker about the terms and conditions of employment. It therefore works to discourage any business expansion that involves increasing staff. In Poland, until recently, this wedge has been comparatively high relative to other EU and OECD countries, especially for low-income workers since personal income taxes in Poland are less progressive than in many countries (Figure 2.11). Following recent reductions in social security contribution rates, introduction of a new child allowance and reductions in personal income tax rates, the wedge should come down to levels that are no longer high in EU terms, although it will remain higher than in most other OECD countries.

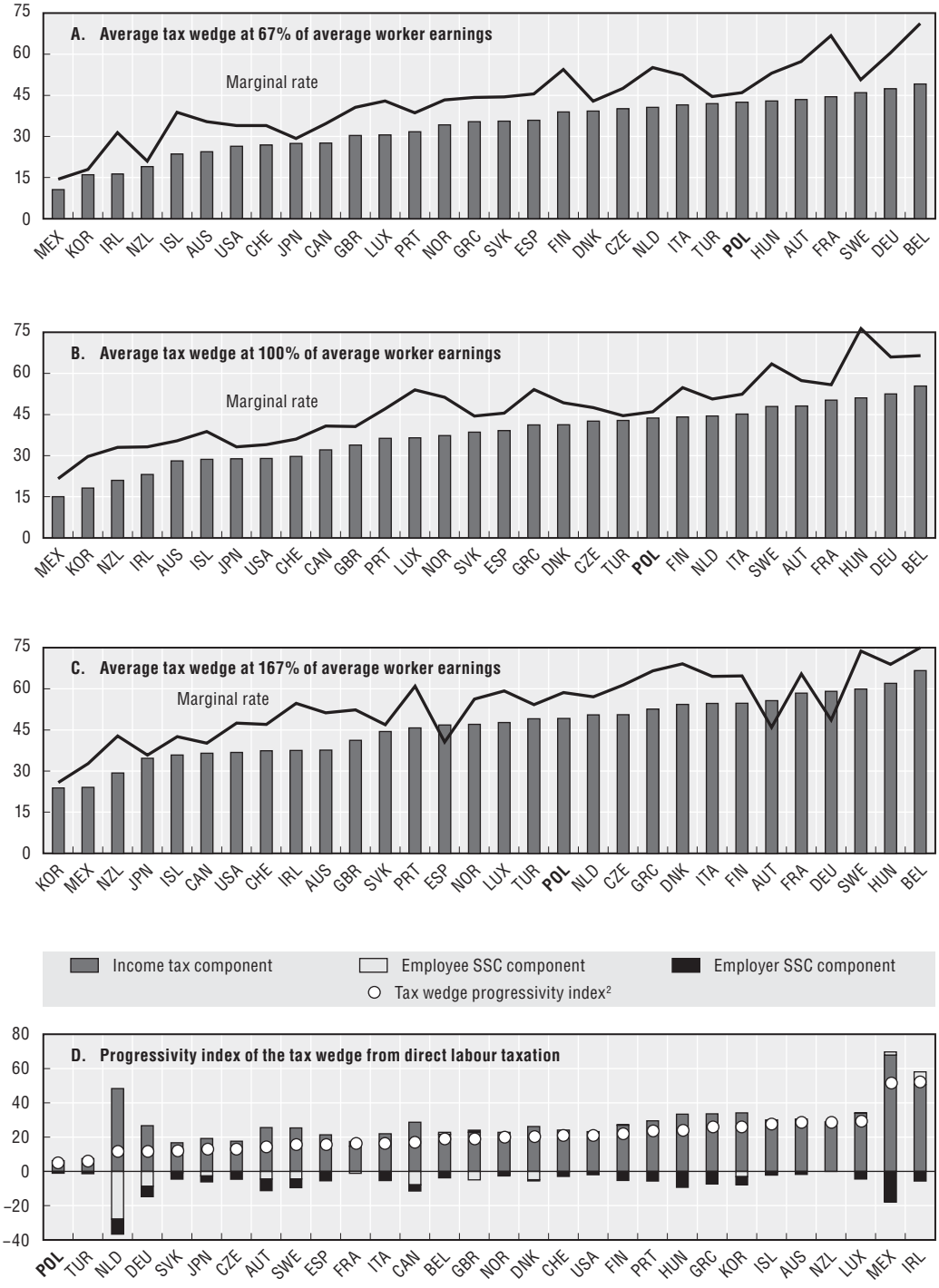
Since social security contributions account for an unusually large share of government revenues in Poland (Figure 2.12), they are the major force influencing the tax wedge. These in turn reflect a high level of spending on social benefits, which are substantially, though not entirely, funded by earmarked payroll taxes. Although spending on these benefits has declined following important reforms in 1999 from a peak of 25% of GDP in 1992 to 15% of GDP in 2007, it remains above the OECD average.

A more positive feature of the Polish tax system from the perspective of encouraging entrepreneurship and risk-taking more generally is the relative flatness of its personal income tax structure. This has two aspects:

- Poland taxes labour and capital income at different rates. Capital income is taxed at a fixed rate of 19% while, as of 2009, labour income is subject to a progressive two-bracket structure. This means that to the extent that entrepreneurial income is taken as capital income it is taxed at a relatively low and flat rate. This is of particular importance for entrepreneurs or investors concerned to "exit" on favourable terms in the event of success.
- The progressive structure applying to labour income is relatively flat, with a lower rate of 18% and a higher rate of 32%. The higher rate is not only low in international terms for a

Figure 2.11. **Tax wedge across OECD countries, 2008**

As a percentage of gross labour costs, for a single person with no children

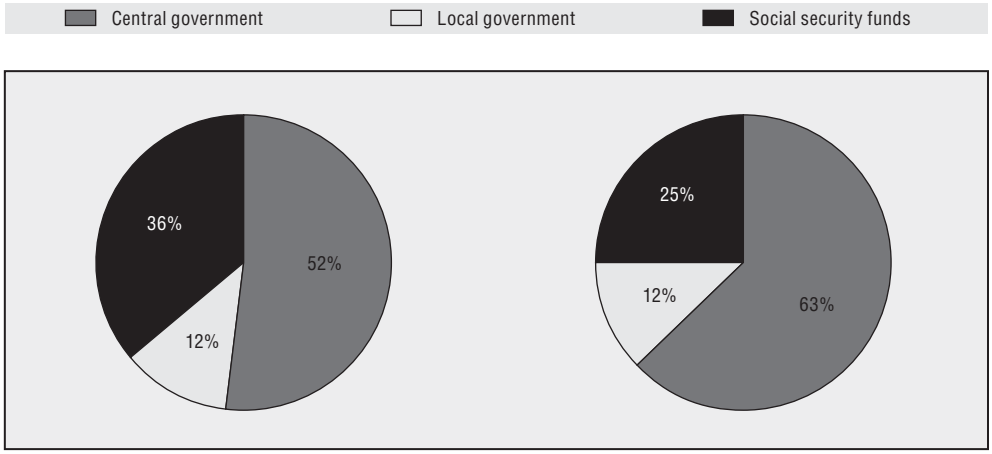


1. The average tax wedge is defined as the share of income tax and all social security contributions minus benefits in gross labour costs, marginal rates are defined as the increase in tax and all social security contributions minus benefits as a share of the related increase in gross labour costs.
2. The progressivity index of the tax wedge is calculated as TW167 – TW67)/ TW167, where TW167 and TW67 is the tax wedge for workers at 167% and 67% of average wage, respectively.

Source: OECD (2008a), *OECD Economic Surveys: Poland 2008*, OECD Publishing: *http://dx.doi.org/10.1787/eco_surveys-pol-2008-en*; OECD Tax Database.

Figure 2.12. **Taxes by level of government, Poland and OECD countries, 2006**

Per cent of total tax revenues



Note: Central government includes supranational taxes (attribution less than 0.5%) collected on behalf of the European Union by its member states. The OECD figures are unweighted averages of unitary countries. The figures do not take into account the transfer of revenue from central to local government.

Source: OECD, *Revenues Statistics Database*.

maximum rate but its threshold is around 2.6 times average earnings, again relatively high in international terms and above the incomes of more than 93% of taxpayers who declare labour income. This means that entrepreneurial income taken as labour income is taxed at a relatively low rate, subject to only moderate progressiveness. It also implies that the risk-reward trade-off for skilled or specialist workers at entrepreneurial and growing firms reflects internationally attractive tax rates.

Further reducing the importance of tax and non-wage labour costs as a barrier to entrepreneurship will probably require additional savings in social benefit spending. Areas where further savings could bring Poland more into line with international practice include:

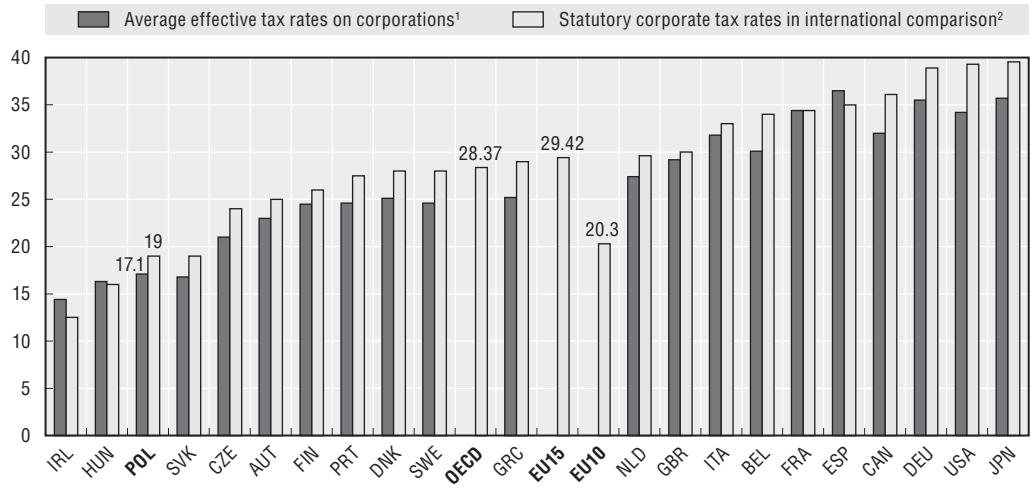
- Eligibility for disability benefits were tightened in 1999, resulting in a steady decline in the number of beneficiaries. This has already generated significant savings, allowing a reduction in contribution rates of seven percentage points and bringing expenditures below two per cent of GDP. Further savings are likely as inflows to the beneficiary list remain low. Greater efforts to integrate people with minor disabilities in the labour market could generate more savings but this is not currently under consideration.
- Early retirement benefits amounted to 2.5% of GDP in 2005, five times higher than the 0.5% of GDP for the EU25. The 1999 reform aligned lifetime benefits with contributions, greatly reducing early retirement rights and encouraging people to remain active past statutory retirement age. But it was only compulsory for people born after 1968. These benefit payments are unlikely to diminish until the 1999 reforms are at least partially extended to people born between before 1968. Recent legislation has aimed at increasing the activity of people over 50, notably by eliminating the option of early retirement (except bridging pension). This may be helpful in this regard provided savings in early retirement payments exceed the fiscal costs of exemptions from social contributions that serve as incentives to hiring.
- A special pension scheme for farmers (KRUS) runs in parallel with the main regime. While benefits are lower than those of the main regime, contributions are even more so, increasing the budgetary pressure and working to encourage people to remain in

farming. Eligibility requirements for disability pensions are also softer than in the main regime. Integrating KRUS into the main regime could save nearly one per cent of GDP, not counting savings of administrative costs.

Corporate income taxation

Corporation tax in Poland has been steadily reformed since the 1990s, with the general trend being to broaden the base and lower the (flat) rate. This is aligned with the personal capital tax rate (ensuring no tax incentive to incorporate) at 19%.[14] It is one of the lowest statutory rates in the OECD area (Figure 2.13). A few exemptions exist, notably agriculture, fisheries, seaports and activities in special economic zones (SEZ)[15] until these are phased out in 2017, but otherwise relatively few activities benefit from special tax advantages. R&D, for example, can be expensed as a current cost but it does not enjoy additional tax benefits. Losses can be carried over for five years but no more than half can be expensed in any single year. As a result, the effective rate is nearly as high as the statutory rate.

Figure 2.13. **The taxation of corporate profits, Poland and selected countries, 2006**



1. Data refer to 2005 for Australia, Canada, Japan, Norway and the United States
2. Basic combined central and sub-central (statutory) corporate income tax rate. Aggregates are unweighted averages and EU10 covers the new EU member states.

Source: OECD Tax Database, *www.oecd.org/ctp/taxdatabase*; European Commission (2006), "Structures of the Taxation Systems in the European Union", Enterprise and Industry, Brussels; IMF (2007), *International Financial Statistics*, IMF, Washington DC.

Taxation of small unincorporated businesses and the self-employed

While the principles underpinning the design of the Polish tax system call for taxing all enterprises in the same way, there are several features that recognise the advantages of simplicity for unincorporated businesses and self-employed individuals.

- The self-employed have the option of paying their own social security contributions on the basis of an assumed income corresponding to 60% of average wages in Poland. This favours average and higher incomes, and is clearly advantageous for entrepreneurs whose profits are rising rapidly. The savings in contributions entail a cost in terms of reduced pension rights in the future, but an option exists to pay more to protect pension rights. There are three negative aspects of this system: *i)* it discourages expansion of a business beyond self-employment; *ii)* it encourages contracting out to fictitious self-employed workers, which just erodes the tax base; and *iii)* it discriminates against

low incomes, which can be an important issue for potential growth SMEs in their early stages when incomes are frequently low or negative.

- For many activities (agriculture and some other activities are excluded), there is a "lump sum" option. This is applied to turnover where it is below EUR 150 000, rather than any measure of income, which gives it advantages in terms of record-keeping and paperwork. Tax is applied at a flat rate, which varies with the activity but is normally below the standard tax rate of 19%. Distribution activities, for example, are taxed at 3%, manufacturing at 5% and services generally at 17%. The proportion of eligible SMEs choosing this option has declined in recent years and is now quite small.
- The self-employed have the option of having their personal income treated as capital income, subject to the 19% flat rate with no higher bracket.
- Other features that benefit entrepreneurs and SMEs include: *i)* accelerated depreciation; *ii)* some easing of procedures; *iii)* micro-enterprises can pay taxes with debit cards; and *iv)* SMEs can pay quarterly instead of monthly.

Indirect taxes

Indirect taxes, mainly value-added tax (VAT), excise taxes and real estate taxes, provide a significant proportion of government revenues. In 2008 they amounted to around 14.2% of GDP, in line with international standards, and, apart from some compliance issues discussed later, raise few issues for SMEs and entrepreneurship. The threshold for registration for VAT, without which a business cannot recover VAT paid on its inputs, is PLN 50 000 (around EUR 11 000). This is relatively low by international standards.

Wealth taxes and bequests

Poland has no wealth tax but it does have an inheritance tax, which can create pressure to liquidate successful SMEs on the death of their owner. The system favours close relatives as taxation of bequests to distant relatives and strangers is higher than for close relatives. The exempt amount is very low, only PLN 9 500 for close relatives. Taxation of around 2% for close relatives is unlikely to create issues of continuity for a business provided the heirs wish to maintain it. Bequests to strangers, however, who might be best placed to ensure continuity, are taxed at 20%. This is large enough to raise issues of how to pay the tax without liquidating the business.

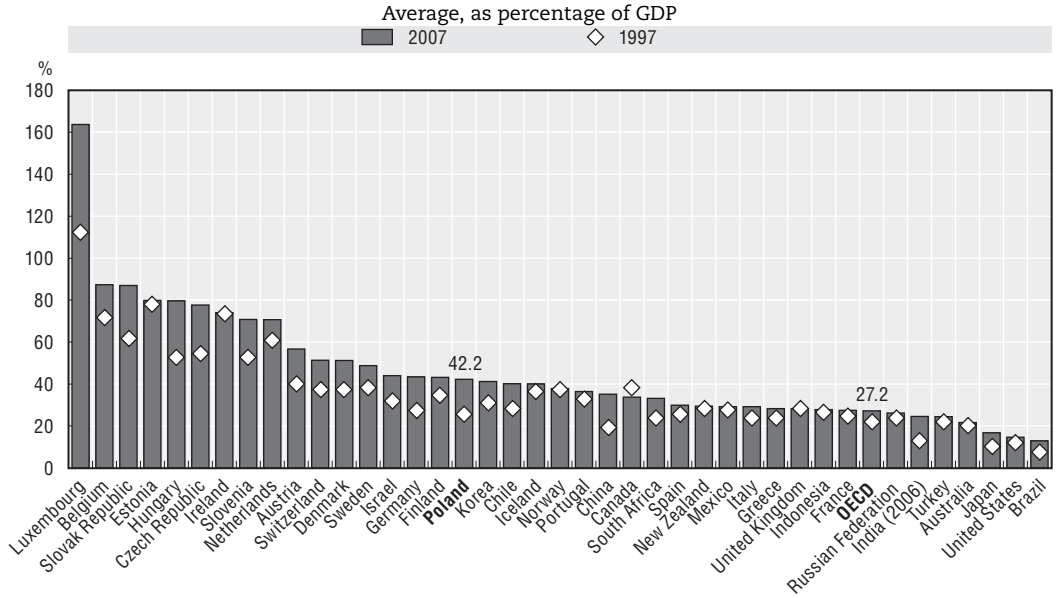
Product market conditions

Openness and market access

Poland is a relatively small, open economy whose markets are subject to the rules of the EU single market. This in turn operates internationally subject to WTO rules in world markets. A consequence of this is that many of the main policy influences on Polish product markets lie outside Poland. Trade rules are agreed internationally and many policy domains in Europe are at least partly determined at the EU level, notably competition policy. While this framework is not entirely free of distortions, agriculture stands out as an example; it means that Polish markets are generally open and competitive. At the same time Polish producers face few overt restrictions on access to large integrated international markets.

One result of this is that product markets in Poland have become more internationally integrated as the transition to a market economy has proceeded. Foreign trade now accounts for more than 42% of activity, a figure that compares favourably to that for the larger EU countries and much higher than in 1997 (Figure 2.14). Inward foreign direct

Figure 2.14. **Trade integration: Total exports and imports, Poland and selected countries, 2007**

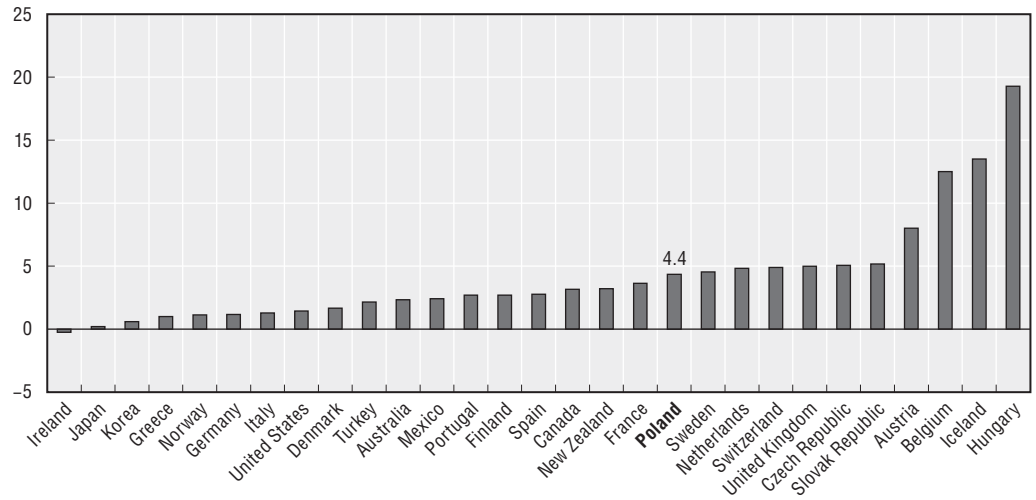


Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

investment (FDI) averaging more than 4% of GDP for much of this decade (Figure 2.15) has served to integrate Polish industry with the international economy, as reflected in the high shares of turnover and employment, especially in manufacturing, accounted for by foreign-controlled affiliates (Figure 2.16, left and centre panels). A high level of trade integration, especially reliance on exports, is a notable feature of these affiliates (Figure 2.16, right panel).

Figure 2.15. **FDI inflows to OECD countries, average 2003-08**

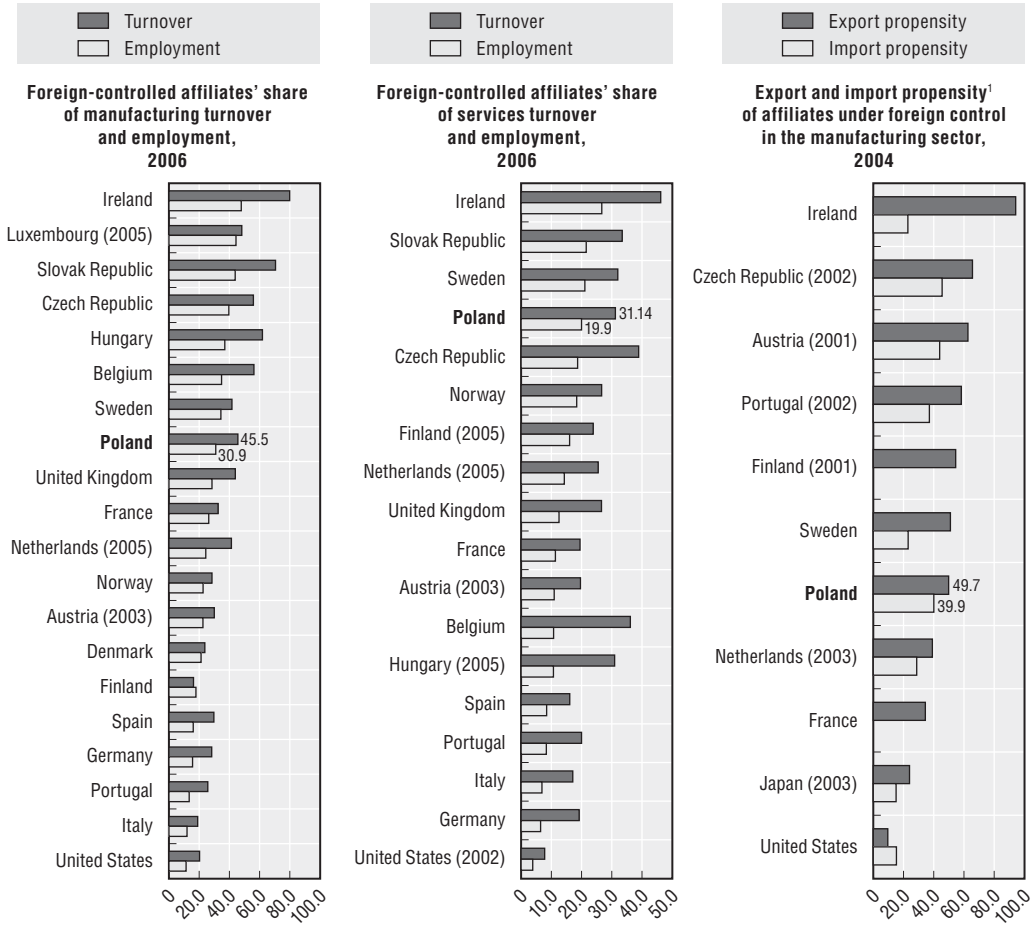
As a percentage of GDP



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.16. **Activity of affiliates under foreign control, Poland and selected countries, 2004 and 2006**

As percentage of GDP



1. Exports and imports as a percentage of turnover (or production for Ireland).

Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*; OECD (2007b), *OECD Science, Technology and Industry Scoreboard 2007*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2007-en*.

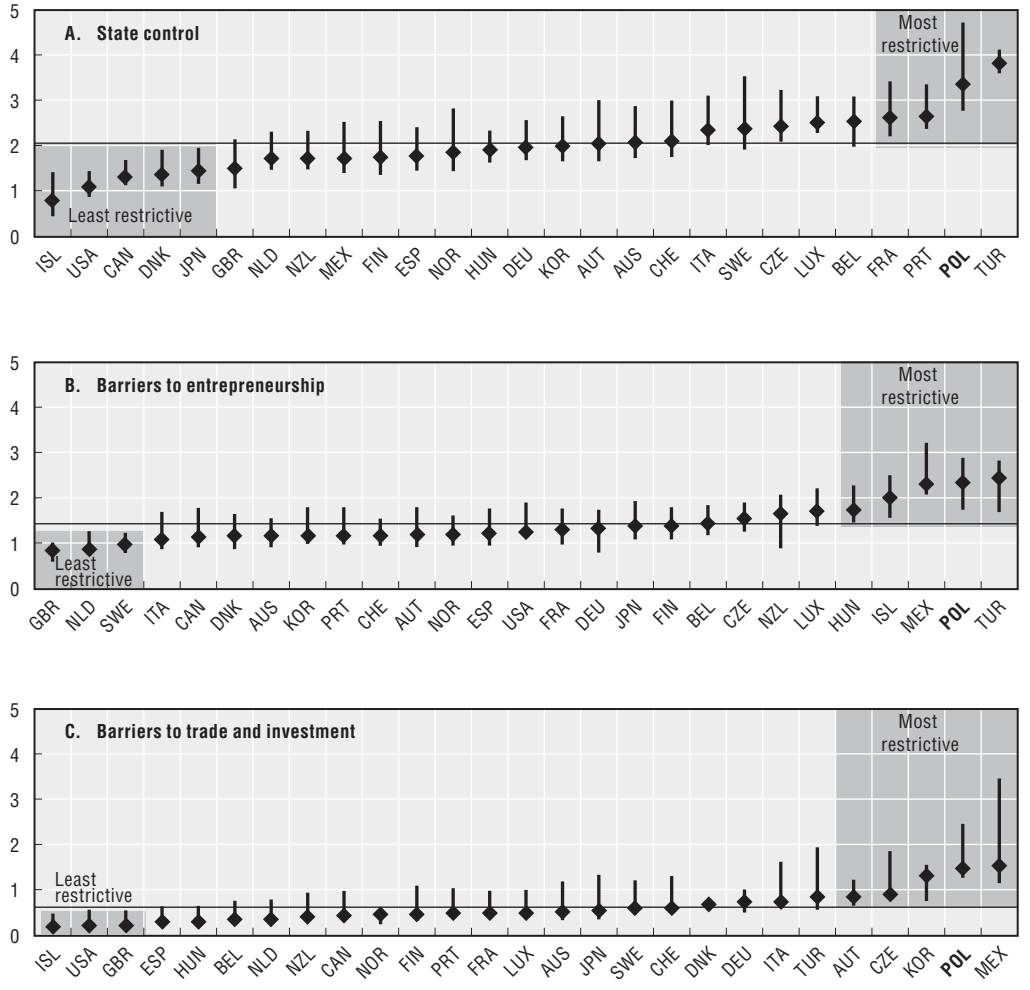
Notwithstanding these trends, Poland does not compare well with most other OECD countries in terms of its framework for ensuring competition in its product markets.[16] The major weaknesses are the still relatively large role of the state in the economy and regulatory barriers to entrepreneurship. Such barriers to trade and investment that persist despite EU and WTO obligations, mainly relating to FDI and discriminatory procedures, are also generally higher than elsewhere (Figure 2.17).

State ownership and control

The Ministry of Treasury continues to hold shares in 1 361 companies, leaving aside remnants of around 400 enterprises not acting on a commercial basis. Of these 1 361, 740 are in sectors the government plans to exit and they are slated for privatisation by 2011.[17] The rest are in sectors considered "strategic" – oil, gas and defence – and will be retained. Local authorities have not inherited business assets from the central planning period so their role in the commercial sector is limited to public service companies, in most

Figure 2.17. **Product market regulation scores by domain, Poland and selected countries, 2008**

Index scale of 0-6 from least to most restrictive



Source: Woelfl, A., *et al.* (2009) "Product Market Regulation in OECD Countries 1998-2008", *OECD Economics Department Working Papers*, No. 695, OECD, Paris.

cases small ones. In some cases, local authorities have formed joint ventures with private businesses, often for large projects such as transport links.

While state control of enterprises through direct ownership may be limited and declining, special voting rights, such as "golden shares", provide considerable scope for exercising influence. These rights can be exercised in the event of a proposed merger, a change in controlling ownership, the choice of management or strategic management decisions.

It is not clear how much the state's ownership and control of enterprises damages the competitive environment. EU regulations on state aid operate to encourage a level playing field, working against competitive distortions, and the "strategic" sectors dominated by state-owned firms are limited in size. In the SME sector, the private sector has at least one advantage over the public sector: greater wage flexibility. Furthermore, the funding advantages of involving public entities in joint ventures for infrastructure probably outweigh any likely disadvantage to private enterprises competing with them.

Nevertheless, the fact of public ownership usually provides an advantage in terms of financial credibility or overt support which makes competition difficult, especially for SMEs. In addition to proceeding with planned privatisations of enterprises outside the oil, gas and defence sectors, the authorities should minimise the role of publicly owned local services which make private provision of competing services non-viable and discourage entrepreneurial initiatives. This can be done by emphasising funding of public services which in general do not require provision by public authorities and can often be done more efficiently by businesses, subject to disciplines of the market.

Barriers to trade and investment

Barriers to trade and investment are not extensive in Poland, but two issues stand out:

- In some cases there exist legal limits to the number or proportion of shares in publicly controlled firms that foreign investors can hold. In addition, special government voting rights, noted above, can be exercised in the event of acquisition of equity by foreign investors.
- Poland lacks any specific legal provision mandating application of the national treatment principle when applying regulations, so as to guarantee non-discrimination against foreign firms. In addition, while foreign firms have a number of means of redress in cases of perceived discrimination, official trade policy bodies are not among them.

While these issues may not directly impinge greatly on SMEs, they work indirectly against access to international markets for SMEs since sub-contracting for large international firms is often the most promising way for SMEs to tap such markets.

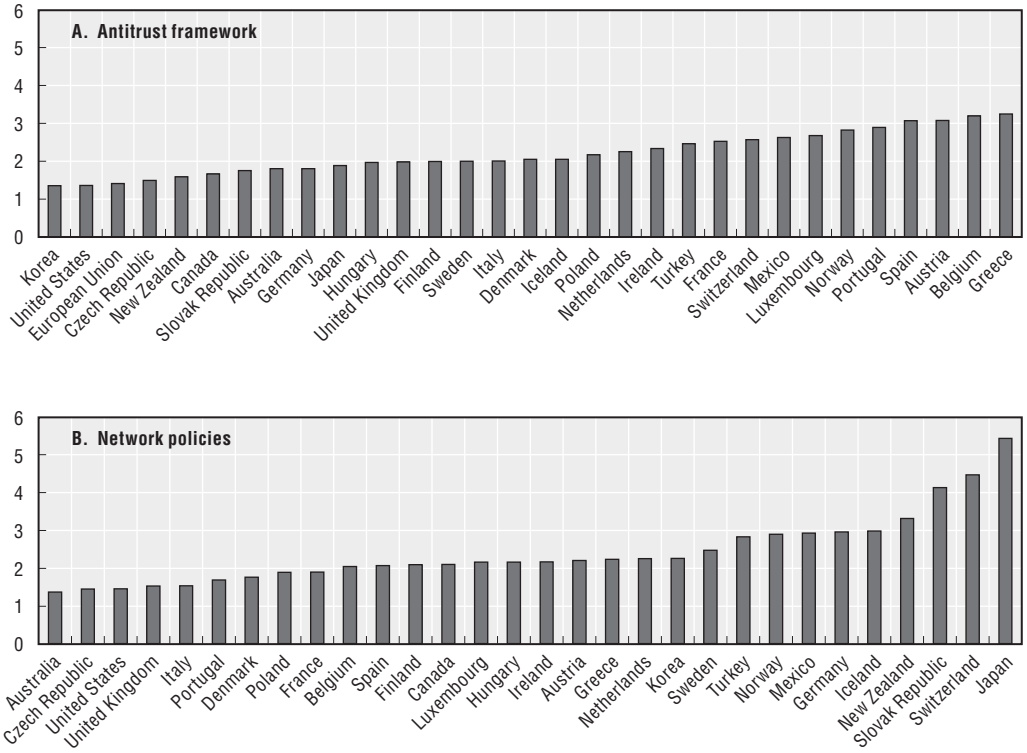
Other competition issues

While general competition policy is substantially determined at the EU level, national authorities retain considerable responsibility in this area. Policies to encourage competition in many industries which have been privatised or substantially deregulated, in particular network industries such as telecommunications, rail and electricity are also developed at the national level. In these areas Poland falls broadly in the middle of the range found across the OECD (Figure 2.18). Some issues:

- Many elements of anti-trust policy in the EU remain with the national authorities. Poland's approach favours competition since it has no rules granting special exemptions or exclusions from: *i)* general competition law; *ii)* restraints on horizontal cartels; *iii)* restrictions on vertical restraints or abuse of dominance; or *iv)* merger restraints.
- In some strategic and network industries, legal barriers to entry exist (oil, gas, power generation and distribution) and in others regulatory barriers apply (access to electricity and gas networks must be negotiated and competition is limited in gas and in postal services as they concern letters). Some others are more open (several firms have franchises for rail transport; air and road transport are generally open and liberalised; and postal services as they concern parcels and telecommunications are generally competitive).
- There are few formal restrictions on entry to other industries but many services are protected by occupational licensing which implies at least shared exclusivity in provision of services. These include accounting, architecture, engineering, law and some types of retail distribution. In addition, lengthy education and passing special exams are often required. It is important to maintain high standards, but care is needed to ensure that the result is not blockage of opportunity for entrepreneurial firms and high prices and limited supply of important services.

Figure 2.18. **Main components of the Competition Law Indicator, Poland and OECD countries, 2007**

Index scale of 0-6 from least to most restrictive



Source: Hoj, J., *et al.* (2007), "Product Market Competition in the OECD Countries: Taking Stock and Moving Forward", *OECD Economics Department Working Paper*, No. 575, ECO/WKP(2007)35, OECD, Paris.

- The large public procurement market in Poland[18] is governed by legislation and procedures designed to align Poland with applicable EU directives. The principle of equal treatment of all market entities excludes explicit preferences for SMEs, such as set-asides. But soft measures, consistent with other Polish legislation relating to SMEs, are used to reduce obstacles that SMEs face when seeking public contracts. These include: *i)* development of advisory and training infrastructure; *ii)* procedures conducive to SME participation in award proceedings, such as splitting contracts into small value lots with several contractors; *iii)* simplified and transparent procedures such as setting out contracts in terms of functional requirements rather than technical specifications; and *iv)* reducing financial burdens, for example by allowing non-cash methods, such as bank guarantees, to meet obligations such as providing a tender security deposit and contract execution security.

Business law and horizontal regulatory issues

Laws concerning the organisation of business activity and horizontal regulations designed to achieve objectives in social, environmental, health, safety or other policy areas impinge on business operation and generate costs which enterprises have to incur. These costs have been estimated by the European Commission at around 4-5% of GDP in Poland.[19] They often weigh especially heavily on SMEs and entrepreneurs who lack specialised expertise and for whom management time is scarce. Indeed, regulatory

complexity and administrative burdens were among the most important barriers to SME development cited earlier. To minimise these costs the Council of Ministers adopted a "Regulatory Reform Programme", prepared by the Ministry of Economy in August of 2006. This programme, which is being modified as the "Better Regulations" programme in 2009, with a view to speeding its implementation, concerns both process and substance.

Process for ensuring high-quality laws and regulation

Consistently efficient design of laws and regulations requires that good regulatory practices be institutionalised throughout the public sector. Such practices include capacities to judge when and how to regulate effectively, transparency, flexibility and the ability to co-ordinate policies across agencies. A core element of such practices is the use of regulatory impact assessment (RIA). This can take many forms, but it should generally include quantification of benefits and costs, their comparison and consideration of alternative ways of achieving objectives.

- The emphasis in Poland is on simplification. The Ministry of Economy is arranging reviews, involving independent experts, of the barriers to entrepreneurship cited by businesses to identify the scope for simplification.
- A system of formal RIA was implemented in 2001. The Ministry of Economy prepared "Guidelines for Regulatory Impact Assessment" which contain methodology for calculating costs and benefits of proposed regulations, incorporating environmental issues and administrative burdens. An *ex post* RIA process will be introduced to verify the accuracy of the original RIA undertaken during a regulation's design and formulation process. Furthermore, a data base will be prepared to make RIAs available to the public.
- Since a large share of the key laws affecting the business environment in the EU is rooted in Community regulations,[20] *i.e.* EU directives that must be transposed into national law, Poland plans to apply RIA during the legislative stage at the EU. This may either lead to improvements in the directive itself or provide guidance for drafting transposition legislation in Poland.

While progress to date is promising, RIA should be improved. The process will be resource intensive and a great deal of training is required. The first stage in 2007 involved training for almost 600 central administration officials who were engaged in legislative process, including carrying out the assessments. In the second stage, to run from 2009-11, training will be provided to officials and executives in the central administration and another 3 000 people will benefit.

Laws and regulations impinging on SMEs and entrepreneurs

While the transition away from central planning and alignment with EU rules and institutions has been impressive, more needs to be done to ensure that the purpose of strategic reforms is reflected in the daily operations of the business sector. Some concrete illustrations of the difficulties that businesses encounter on the ground are provided in Table 2.12, which reports the underlying information about *Doing Business* in Poland that served as the basis for the country's World Bank ranking of 72 out of 183 countries, cited earlier. OECD averages are provided for comparison. A set of initiatives, called the *Package for Entrepreneurship*, is being undertaken to address some of these issues with a view to simplifying commercial law. Some areas where improvements are possible are considered below.

Table 2.12. **Doing Business in Poland, 2007-09**

Years to May	2009 Rank		2009	2008	2007	OECD average 2009
Ease of doing business	72/183					
1. Starting a business	117	Procedures (number)	6	*10*	*10*	5.7
		Duration (days)	32	*31*	*31*	13.4
		Cost (% of GNI per capita)	17.9	*18.8*	*21.2*	4.9
		Paid in minimum capital (% GNI per capita)	15.3	*168.8*	*196.8*	15.5
2. Dealing with construction permits	164	Procedures (number)	30	*30*	*30*	15.1
		Duration (days)	308	*308*	*308*	157
		Cost (% of income per capita)	124.2	*137.0*	*159.8*	56.1
3. Employing workers	76	Difficulty of hiring index	11	*11*		26.5
		Rigidity of hours index	33	*60*		30.1
		Difficulty of firing index	30	*40*		22.6
		Rigidity of employment index	25	*37*	*37*	26.4
		Firing costs (weeks of salary)	13	*13*	*13*	26.6
4. Registering property	88	Procedures (number)	6	*6*	*6*	4.7
		Duration (days)	197	*197*	*197*	25.0
		Cost (% of property value)	0.5	*0.5*	*0.5*	4.6
5. Getting credit	15	Legal rights index	9	*8*	*8*	6.8
		Credit information index	4	*4*	*4*	4.9
		Public registry coverage (% adults)	0.0	*0.0*	*0.0*	8.8
		Private registry coverage (% adults)	68.3	*50.0*	*51.5*	59.6
6. Protecting investors	41	Disclosure index	7	*7*		5.9
		Director liability index	2	*2*		5.0
		Shareholder suits index	9	*9*		6.6
		Investor protection index	6.0	*6.0*	*6.0*	5.8
7. Paying taxes	151	Payments (in number)	40	*41*	*40*	12.8
		Time (hours)	395	*418*	*418*	194.1
		Profit tax (%)	17.3			16.1
		Labour tax and contribution (%)	21.9			24.3
		Other taxes (%)	3.3			4.1
		Total tax rate (%)	42.5	*40.2*	*38.4*	44.5
8. Trading across borders	42	Documents for export (number)	5	*5*	*5*	4.3
		Time for export (days)	17	*17*	*17*	10.5
		Cost to export (USD per container)	884	*884*	*834*	1 089.7
		Documents for import (number)	5	*5*	*5*	4.9
		Time for import (days)	25	*27*	*27*	11.0
		Cost to import (USD per container)	884	*884*	*834*	1 145.9
9. Enforcing contracts	75	Procedures (number)	38	*38*	*38*	30.6
		Duration (days)	830	*830*	*830*	462.4
		Cost (% of claim)	12.0	*12.0*	*12.0*	19.2
10. Closing a business	85	Time (years)	3.0	*3.0*	*3.0*	1.7
		Cost (% of estate)	20	*20*	*22*	8.4
		Recovery rate (cents on the dollar)	29.8	*29.8*	*27.8*	68.6

Source: World Bank (2009), "Highlights of the 2010 edition of Doing Business", World Bank, Washington DC, *www.doingbusiness.org*.

Starting a business

Staff at a large business incubator provided a business perspective on progress with simplifying start-up processes.[21] They reported that plans for a "one-stop-shop" for business start-ups have been under consideration for several years. Some years ago setting up a business required stops at the Municipal, Social Security, Tax and Statistical Offices. This

has been streamlined and now it is only necessary to go to the Municipal Office. But the Office takes the relevant forms to process them and returns them by post, extending the process to three weeks. The idea was good but the practice did not achieve much.

An anecdote such as this may not be representative, but it aligns well with the World Bank finding that as recently as 2008 the start-up process involved more procedures, took more than twice the time and cost nearly four times as much in Poland as the OECD average. The minimum paid-in-capital was more than ten times average OECD levels. Initiatives undertaken as part of the "Better Regulations" programme, including a new "one-stop-shop", with scope for completing the process on line, appear to be improving the situation. Notably, substantial reductions in procedures and in requirements in paid-in capital have been put in place during the past year. The time required, however, so far appears to remain as it was.

Bankruptcy arrangements

The most important feature of a good bankruptcy regime is that it deals with problems clearly, fairly and expeditiously. If it is also lenient toward debtors, that has advantages for entrepreneurship in that it reduces the costs of failure and hence the downside risks while allowing debtors to recover and undertake new initiatives. This, however must be weighed against the disadvantages in terms of availability of capital due to weaker creditors' rights.

Poland does not compare favourably here. Bankruptcy law concerns corporations but makes no provision for natural persons, except as a consumer, even if they operate a business. For incorporated businesses, the orientation of bankruptcy law is to protect creditors and to encourage prudence, although the courts aim to take advantage of any prospect of recovery. The Doing Business data suggest that this objective is not achieved well, as the process takes nearly twice as long, cost is more than double and ultimate recovery is less than half of the OECD average.

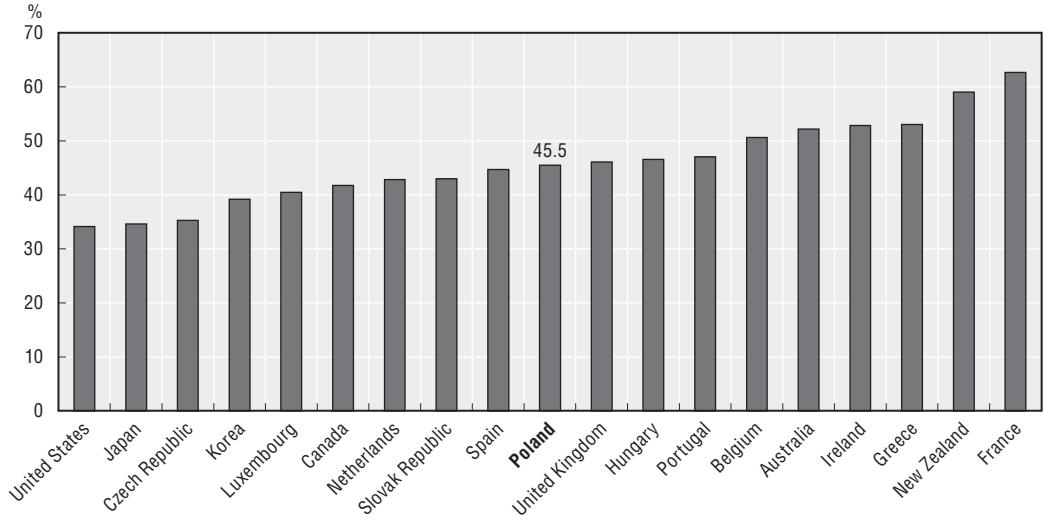
For natural persons the only option is to file for bankruptcy under business law. Since the proceedings remain open as long as valid creditor claims are outstanding, the process can be lengthy. Only when it is completed, and assuming there were no issues of bad faith, can the bankrupt start a new business.

The result of these arrangements is that relatively few bankruptcies occur: 2 465 filings were made in 2008 and in 525 cases, proceedings were completed in the courts. For legal persons the time before a new business can be started is typically in the three-to-ten-year range.

Labour law

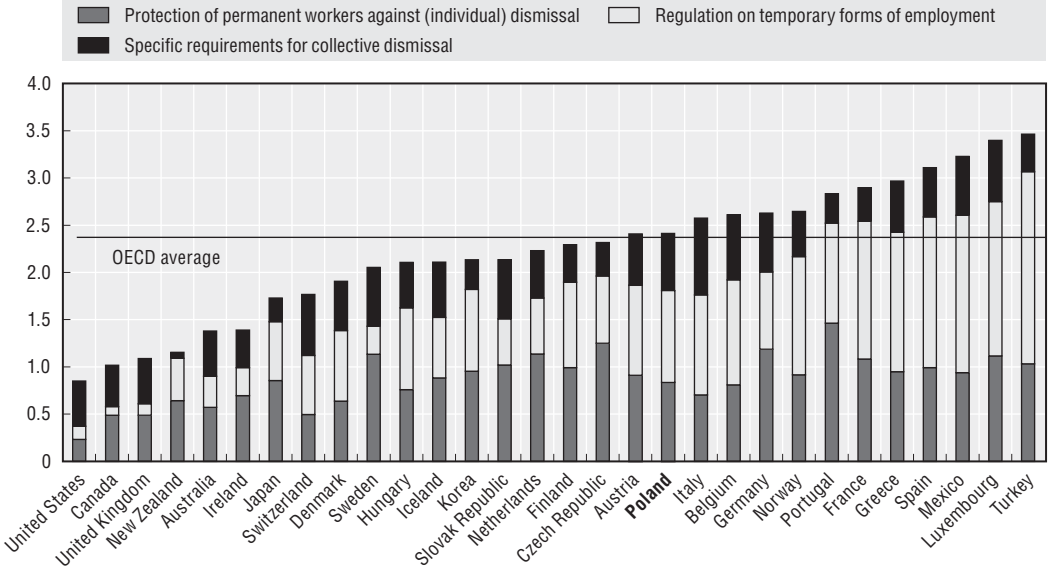
Two important areas where labour legislation impinges on the business environment are minimum wages and employment protection legislation (EPL). High minimum wages, which were increased in 2008 by 20%, and now stands above 45% of median wages, interact with high social security contributions to ensure that low-cost labour is hardly available. Strict EPL not only limits management flexibility but, especially for SMEs, discourages growth by making it difficult and expensive to reverse hiring decisions if circumstances warrant it. Poland has not compared badly in comparison with advanced countries in either of these areas (Figures 2.19 and 2.20), and legislation passed in 2007 allows more flexibility as regards temporary and task-related contracts, but scope for improvement still exists.

Figure 2.19. **The minimum wage relative to the median wage, Poland and selected countries, 2008**



Source: OECD, *Labour Costs Database*.

Figure 2.20. **Strictness of employment protection legislation, Poland and OECD countries, 2008**



Note: The OECD has developed an index (with scale 0-6 from least to most restrictive) to measure the strictness of EPL. The index is broken down into three components: regulations governing the terms and conditions of permanent contracts in case of individual dismissals; additional provisions in the face of mass layoffs; and regulations governing the possibility of hiring on temporary contracts.

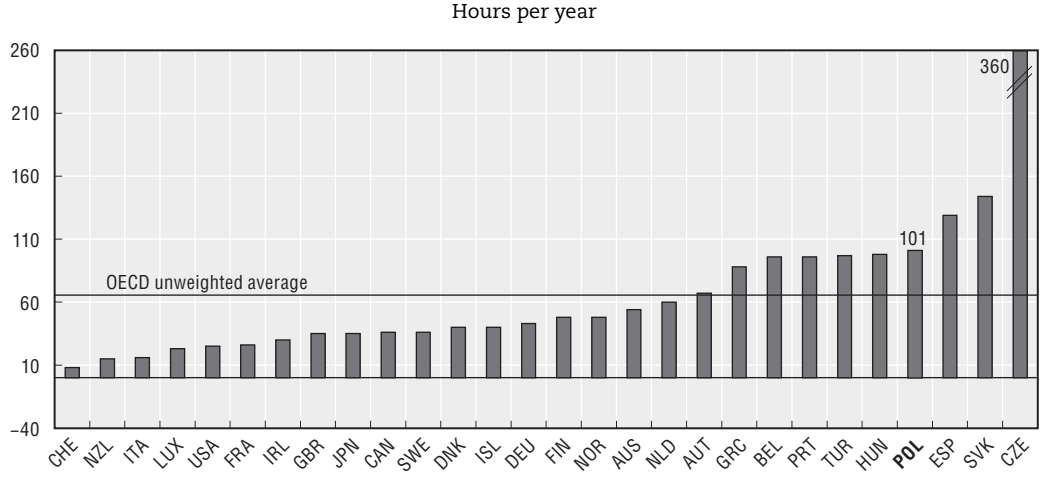
Source: OECD, *Employment Protection Database*.

Compliance costs: Value-added tax[22]

Compliance costs arising from value-added tax appear to be unusually high in Poland. VAT obligations require more time than in most other EU countries (Figure 2.21) (see OECD, 2008a), partly due to procedures intended to close loopholes and protect revenues. Complaints by businesses include:

- Administrative costs are unnecessarily high. A case in point: VAT refunds on purchases of inputs must be claimed on the basis of receipts produced in the same year. If receipts are not received until later periods, refunds can still be claimed but only by filing a corrective form. An extension of the period over which receipts are valid for refund claims would reduce paperwork.
- Refunds lag behind payments arising from the same production by as much as 180 days, which means businesses effectively provide interest-free loans to the tax authorities. These could be reduced.
- Practices used in other EU member countries that would simplify matters could be allowed in Poland. For example, the principle of postponed accounting would allow VAT payable on imports from another EU country to be deducted fully during the same accounting period, cancelling the liability.

Figure 2.21. **Time required to comply with VAT obligations, OECD countries, 2006**



Source: World Bank (2008), *Paying Taxes: The Global Picture*, World Bank, Washington, DC.

Administrative burdens: Inspections

Frequent and intrusive inspections are a feature of the Polish business environment. During the past ten or so years the number of institutions with the authority to carry out inspections has risen by half and now stands at over 40. Two stand out:

- The National Labour Inspectorate conducted over 80 000 inspections of more than 60 000 employers in 2007. These related to health, safety, control and surveillance. Some 370 000 decisions were issued concerning breaches of the law, mainly relating to occupational health and safety, and 12 000 required immediate work stoppage.

- *Voivodship* Inspectorates of the State Trade Inspectorate conducted 24 500 inspections relating to consumer protection in 2007. These resulted in over 2 000 motions to various inspections and over 5 000 fines.

Some norms were fixed in the Freedom of Economic Activity Act of 2004 to limit the burden on businesses:

- Inspections require a written authorisation and must include the start and end dates. Seven-day advance notice is required. The person being inspected or his designee must normally be present during the inspection.
- The duration of all inspections performed by one inspection body on a single entrepreneur in a single calendar year was limited to four weeks for SMEs and eight weeks for larger enterprises.
- Simultaneous inspections of the same entrepreneur's activities were banned.
- These limitations do not apply to certain tax issues, equity and commodity markets, banking, pension, insurance and veterinary activities. Where an inspection reveals a striking violation, a follow-up conducted in the same calendar year does not count against the limit on duration of inspections.
- If an inspection needs to be prolonged, this must be justified in writing.

The Ministry of Economy reports that the Act has not worked as well as hoped. Entrepreneurs' organisations report pressure, confirmed by the Ministry (Ministry of Economy, 2006a), to accept simultaneous inspections and to prolong inspections beyond the intended duration limits. There are too many controlling institutions whose tasks overlap, and inspectors often invoke special situations involving, for example, hazards to life, health or environment to justify derogations from the Act. Demands for documents and explanatory material can continue for months after the formal end of an inspection.

Administrative burdens: Reporting requirements

The Ministry of Economy has identified 6 187 obligations to provide information under 482 legal acts (roughly 200 laws and 250 ordinances). These reporting requirements involved questionnaires, applications to conduct business, documenting the course of processes under way in a business, permits, mid-term reports and participation in inspections. Ways are being sought to reduce the administrative burden in priority areas by 25%.

In addition, every Polish business entity is obliged to report on its activities for statistical purposes. Frequency can vary from once to systematically on annual, quarterly or monthly bases. An extensive research programme is decided by the Council of Ministers and can oblige full and comprehensive reporting in specified formats delivered by specified deadlines. In 2007 it included 218 subjects to be handled by statistics services, ministries and the National Bank of Poland. Coverage of large enterprises, with more than 250 employees, is comprehensive, in effect a census, while sampling procedures are used for SMEs. In all, businesses had to deal with more than 400 specimen reporting forms, questionnaires and survey forms. While the costs of statistical reporting are less than many other regulations and obligations, and increasing scope for reporting on line may help, they are nevertheless burdensome.

Research, development and technology

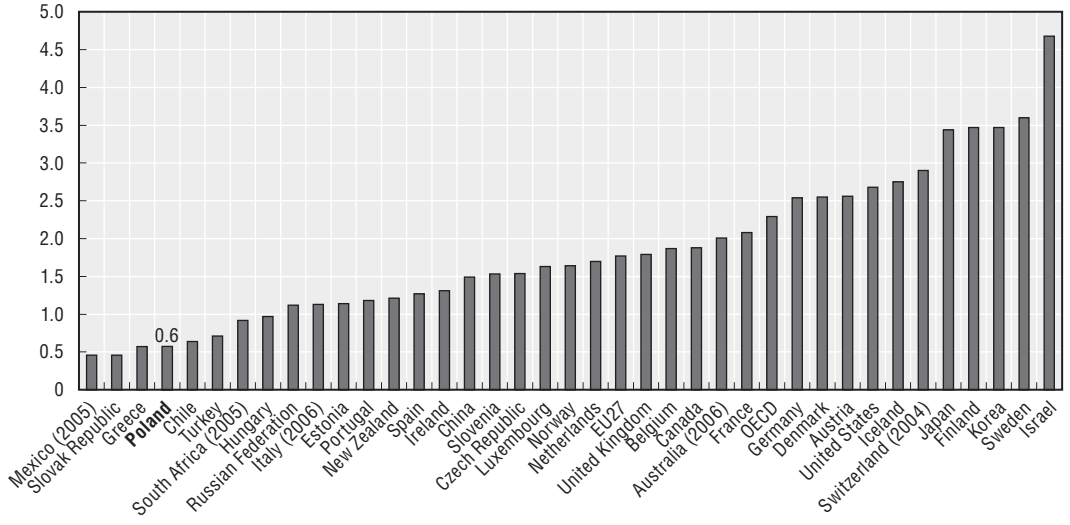
Current state of play

Science, technology and innovation which diffuses advances by commercialising them play an important role in the EU Lisbon Strategy, designed to make the EU the world's most competitive knowledge economy. At this stage Poland lags behind many of its EU partners and other OECD member countries in a number of key respects:

- Research and development play a limited role in the Polish economy. Its share in GDP is low in international terms (Figure 2.22), as are the shares financed and performed by the business sector (Figure 2.23). Only 670 enterprises carry out significant R&D activities[23] and the Lisbon objectives of 3% of GDP for the EU, with two-thirds financed privately, are far away. Even Poland's national target of 1.5% of GDP would require a doubling of recent levels of R&D.
- Human resources in science and technology, as measured either by the share of the employed workforce in professional or technical jobs (Figure 2.24) or by professional research staff (Figure 2.25), are below both OECD and EU averages, with almost no researchers fou.nd in the business sector.
- Links between the science and business sectors are weak, impeding commercialisation of new ideas developed in universities or public research organisations. Staff mobility between academic and business sectors is low, as is business collaboration for innovation with higher education institutions, especially among SMEs (Figure 2.26), although business funding for R&D in the higher education and government sectors is significant (Figure 2.27). The legal environment is in place and instruments exist for commercialisation of scientific advances, but uptake seems to be low.
- Diffusion of information and communications technologies, notably broadband Internet, is a weak point in Poland. Broadband subscription is low, especially for SMEs (Figures 2.28 and 2.29), regulatory impediments exist and it remains difficult to deal with the central administration on line.

Figure 2.22. **R&D intensity, Poland and selected countries, 2007**

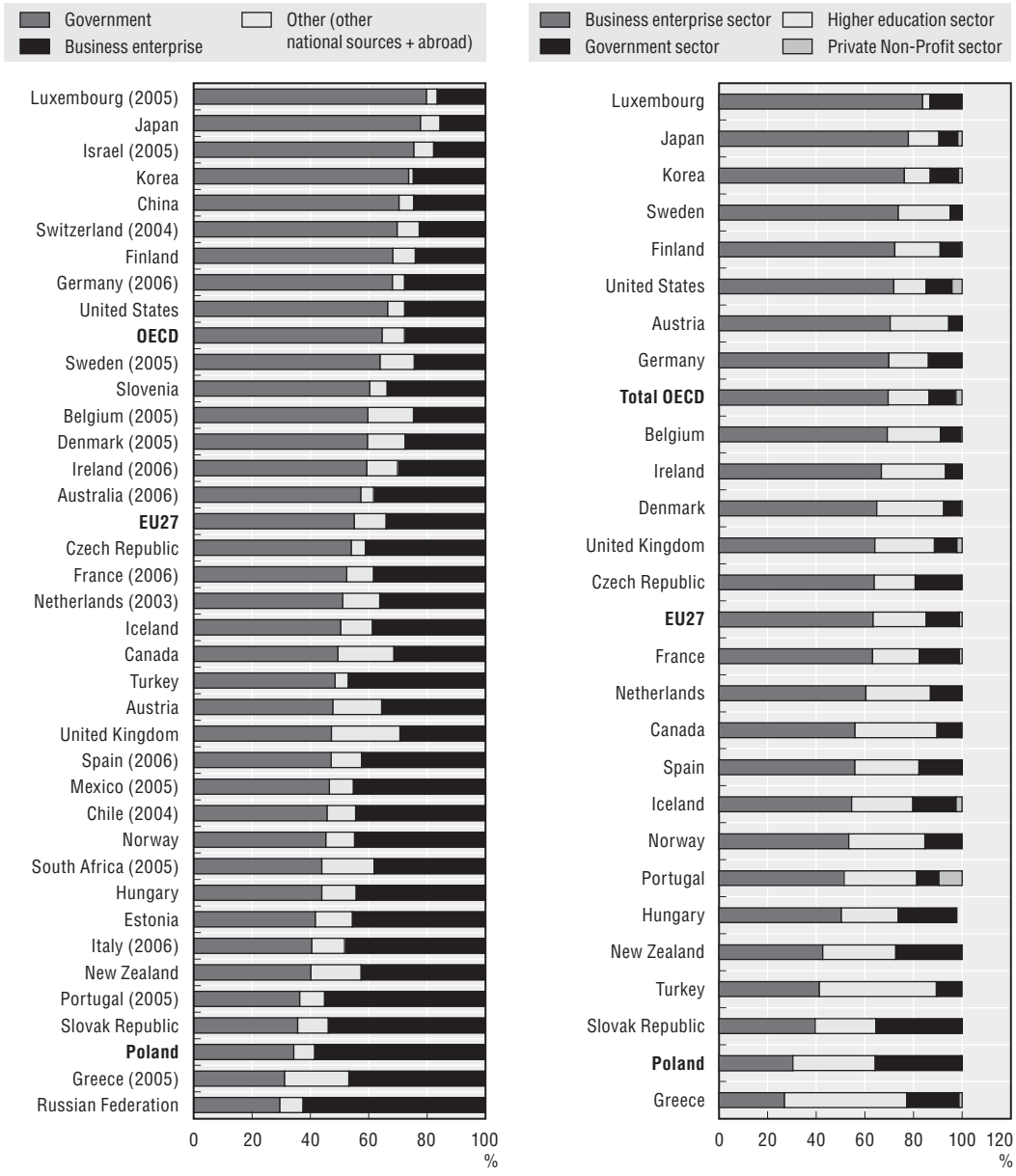
Gross domestic expenditure on R&D as percentage of GDP



Source: OECD (2009c), OECD Science, Technology and Industry Scoreboard 2009, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.23. **R&D expenditure, OECD and selected countries, 2007**

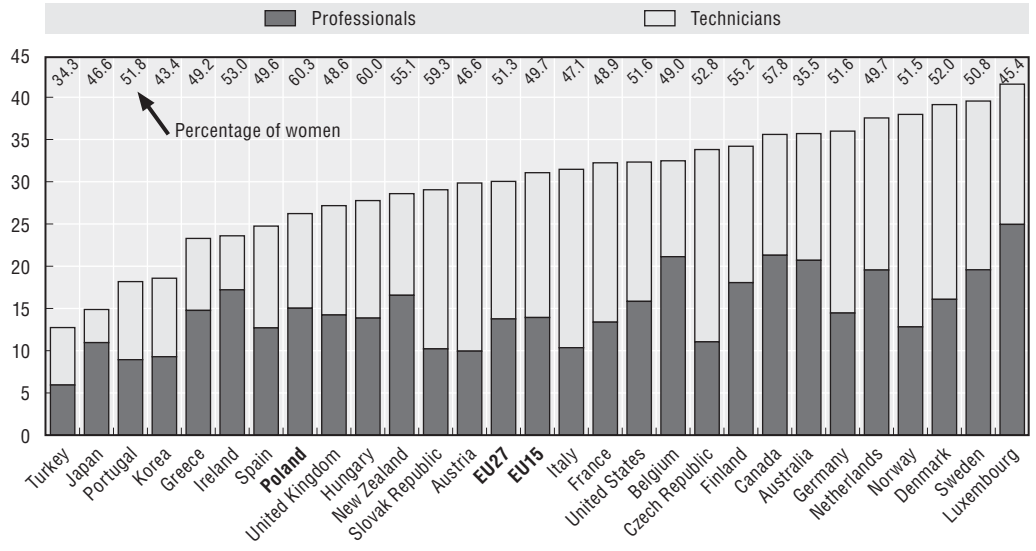
As a percentage of the national total



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.24. **Human resources in science and technology occupations, OECD and selected countries, 2008**

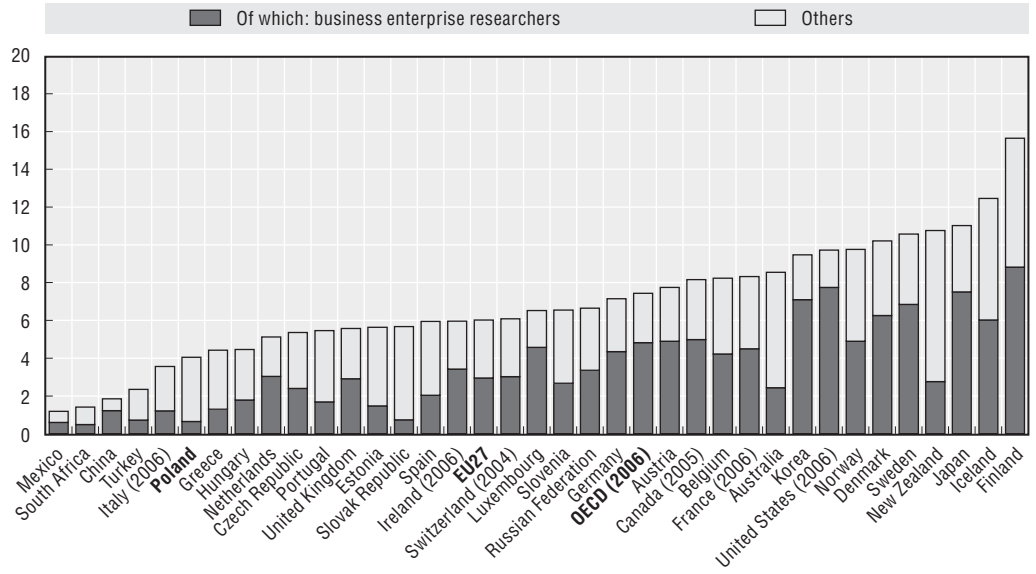
As a percentage of total employment



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.25. **Researchers, Poland and selected countries, 2007**

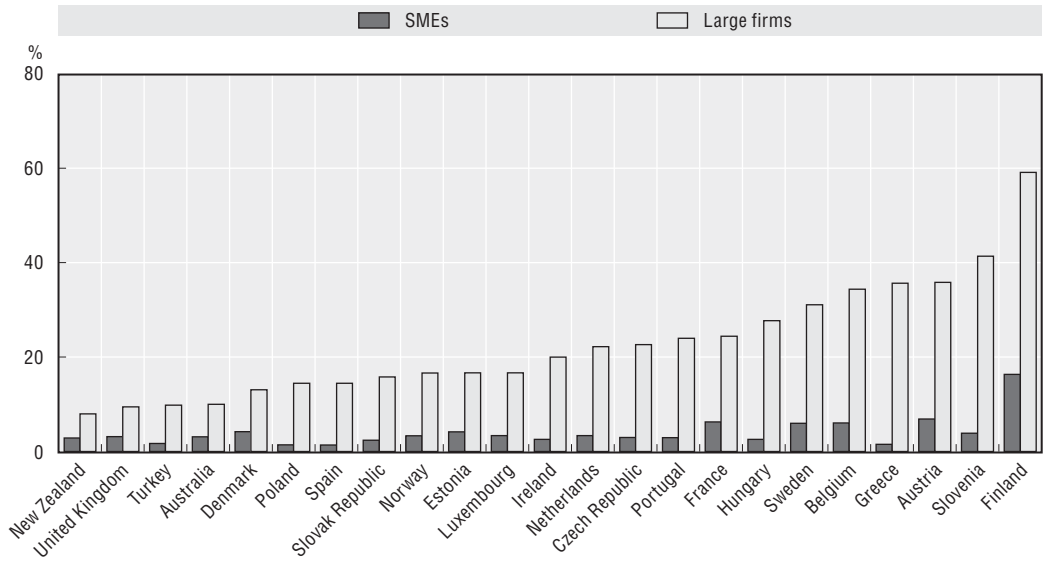
Per 1 000 total employment



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.26. **Firms collaborating in innovation with higher education institutions by size, Poland and selected countries, 2004-06**

As a percentage of all firms

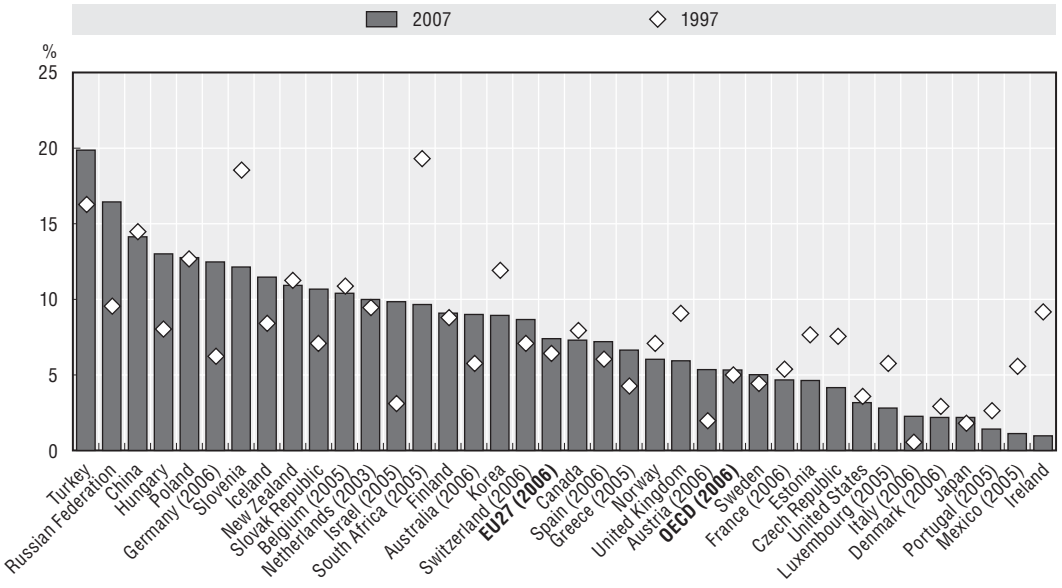


Notes: For New Zealand: SMEs: 10-99 employees.
For France: manufacturing only.

Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.27. **Business funded R&D in the higher education and government sectors, Poland and OECD countries, 2007**

As a percentage of R&D performed in these sectors (combined)

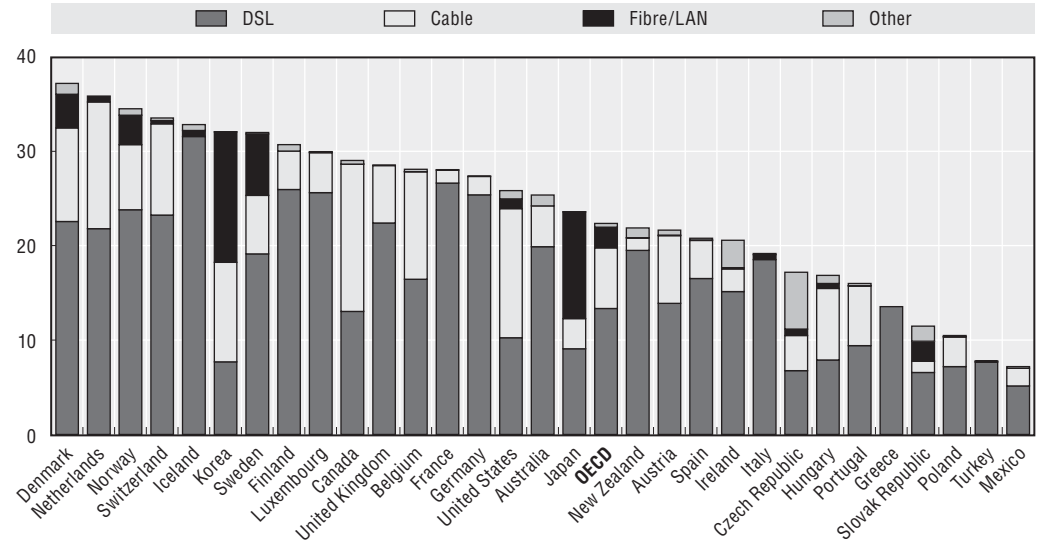


Notes: Luxembourg: only in the government sector.
Switzerland: only in the higher education sector.

Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.28. **Broadband subscribers per 100 inhabitants, Poland and OECD countries, 2008**

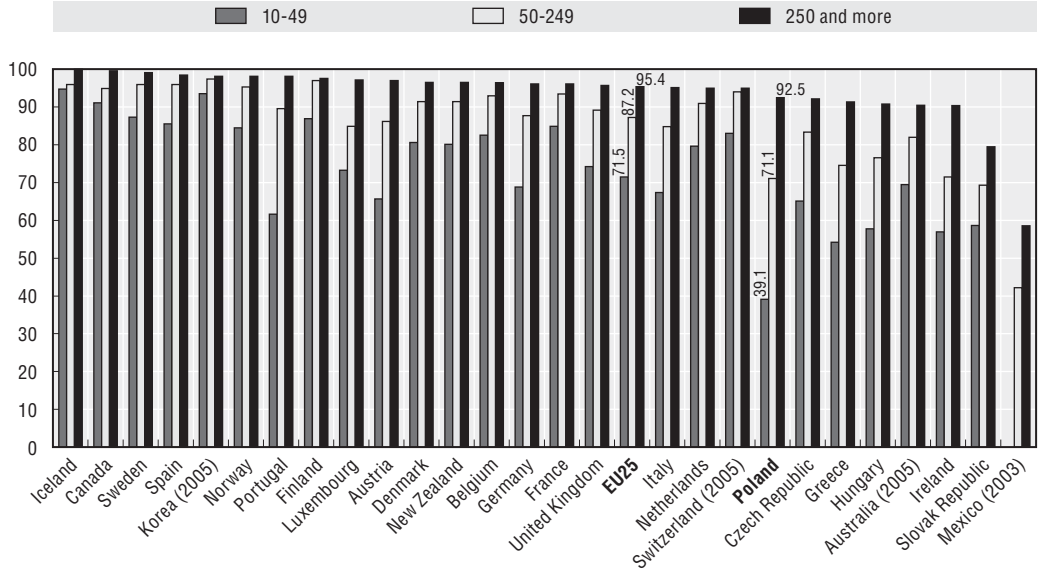
By technology, December 2008



Source: OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

Figure 2.29. **Broadband penetration by size class, Poland and selected countries, 2006**

As a percentage of businesses with ten or more employees



Source: OECD (2007b), *OECD Science, Technology and Industry Scoreboard 2007*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2007-en*.

The policy framework and Structural Funds

The importance the Lisbon Agenda attaches to the "innovation" agenda has led the Polish authorities to attach high priority to these issues in order to reduce the gap between Poland and the EU15. In addition to the National Reform Programme for 2008-11 to implement the Lisbon Strategy, the government has set out a Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13 (Ministry of Economy, 2006b).[24]

The main vehicle for implementing this strategy is the Operational Programme "Innovative Economy" which is part of the Cohesion Strategy (Table 2.13). The amounts envisaged are substantial: EUR 8.25 billion will come from the EU over the seven-year period, 95% of which is earmarked for the Lisbon Strategy. The Polish government will provide co-financing of EUR 1.46 billion, for a total of EUR 9.71 billion, or nearly 0.5% of GDP per annum. It is hoped that another EUR 2.42 billion will be raised from other sources. Support for the science base (Priority Axes 1 and 2) will receive more than one-quarter of the total, measures designed to strengthen commercialisation of new ideas (Priority Axes 3-6) will receive nearly half, while most of the remainder is targeted at addressing the weaknesses noted above in the use of information and communications technologies. Much of this funding will benefit enterprises and SMEs will be prioritised in the allocation of some EUR 3.65 billion.

These activities will be complemented by projects carried out as part of some of the other operational programmes funded by the EU, notably for Development in Eastern Poland, the 16 Regional Operational Programmes and the Human Capital Operational Programme.

Since responsibility for managing and implementing these programmes is rather dispersed,[25] coherent co-ordination and monitoring that the various parts complement each other is needed to guarantee that the overall strategy is carried out effectively. In this regard, the existence of a clear strategy document plays an important role in unifying the various elements of the policy framework and, where relevant, its delivery to beneficiaries.

Table 2.13. **Innovative Economy Operational Programme: Financial overview, 2007-13**

EUR billions

Priority axis	EU funds	Public funds	Official total	Other
1 Research and development of new technologies	1.1	0.19	1.3	0.17
2 R&D infrastructure	1.1	0.19	1.3	0.05
3 Capital for innovation	0.29	0.05	0.34	0.02
4 Investments in innovation undertakings	2.92	0.51	3.43	1.7
5 Diffusion of innovation	0.34	0.06	0.4	0.03
6 Polish economy on the international market	0.35	0.06	0.41	0.05
7 Information society – establishment of electronic administration	0.67	0.12	0.79	0.14
8 Information society – increase in innovativeness of economy	1.2	0.21	1.42	0.27
9 Technical assistance	0.28	0.05	0.33	0
Total Innovative Economy OP	8.25	1.46	9.71	2.42

Source: Ministry of Regional Development: *Innovative Economy*, 2007-2013.

Priorities for strengthening innovation performance

Poland's framework for policies toward innovation was recently reviewed by the OECD Science and Technology Committee's Working Party on Technology and Innovation Policy (OECD, 2007c). The review recognised Poland's strength in basic science but called attention to difficulties stemming from its socialist past, including large numbers of R&D units ("branch institutes"), fragmentation of funding and lack of mobility of the science workforce. It recognised a need to invest in R&D human resources and various kinds of infrastructure and equipment if Poland is to adopt and integrate best practice technologies and practices as it reduces its gap with EU and OECD partner countries. Its key recommendations, which have been well received by the Polish authorities, include:

- **Strengthen the science base** by encouraging more competitive and focused funding; by linking public funding to co-operation and networking in institutions that deliver results; and by consolidating the branch institutes to create fewer but stronger public research institutions.
- **Strengthen incentives for business R&D and innovation** by improving the regulatory framework, simplifying the tax system, providing direct or indirect incentives and improving support for early stage venture financing.
- **Foster industry-science linkages** by allowing more flexibility and autonomy in the management of public-private partnerships (PPPs) for R&D; rationalising the number of intermediary institutions by linking public support more closely to performance; continuing to decentralise to regional players while stressing reporting requirements and independent evaluations; and building capacity for management of intellectual property rights at universities.
- **Strengthen human resources for science and technology** by developing financial incentives and research criteria to encourage scientists to co-operate more with businesses; relying on open recruitment and transparent criteria for promotion to enhance quality and mobility; revising promotion criteria to give greater weigh to applied activities such as technology transfer; and improving prospects for science graduates by linking vocational and higher education better to industry skill needs.
- **Improve the governance of the innovation system** by strengthening long-term planning in public research; encouraging business involvement in priority setting and on university boards; mainstreaming valuation as a core element of innovation policy; and strengthening the evidence base for policy making by developing better statistics and related analysis.

Conclusion

This chapter has presented and discussed information on framework conditions and the business environment for SMEs and entrepreneurship in Poland. Box 2.3 sets out specific policy recommendations to help strengthen in these areas.

Box 2.3. **Summary of key recommendations concerning SME and entrepreneurship framework conditions and the business environment in Poland**

Human resources and entrepreneurial capabilities

- Review lines of authority among key agencies responsible for compulsory education to ensure that they are coherent following decentralisation. Strengthen and clarify incentives, autonomy and accountability of school principals.
- Give greater priority to labour market needs and developments in deciding the balance of provision between general and vocational training at secondary level.
- Strengthen teaching in higher education by making remuneration more internationally competitive and providing better career structures. Discourage secondary employment that distracts from teaching duties and research. Make appointment and promotion processes more open and transparent.
- Reinforce the focus of the State Accreditation Committee, which evaluates degree programmes, on improving quality at private higher education institutions, measured in terms of results, as opposed to ensuring compliance with process requirements.
- Seek ways to ease constitutional restrictions which prevent public higher education institutions from charging fees, as private institutions do, to cover at least part of their costs. Supplement fees with grants schemes to ensure accessibility.
- Reform student loan schemes to allow for income-contingent repayment, perhaps as part of the tax system, with some degree of state assumption of risk.
- Reinforce efforts being made in the formal system to adapt vocational education better to the needs of the economy. Develop a good system for validating qualifications.

Access to financing

- Nurture the growth and development of institutions, such as pension funds, insurance companies and investment funds that can prudently provide reasonable amounts of longer-term risk capital, ideally including venture capital.

Social security and tax systems

- Reduce the burden of social security contributions on enterprises by reducing social security spending, which is largely funded through these contributions. Bringing early retirement spending into line with the EU25 average and integrating the special scheme for farmers (KRUS) with the main scheme may offer the best scope for doing this.

Product market conditions

- Minimise the role of publicly owned local services, which can make private provision non-viable and discourage entrepreneurial initiatives, by emphasising funding of public services, rather than provision by public authorities.
- Commit more clearly to the national treatment principle in order to make Poland a more welcoming destination for international investors, which offer SMEs an excellent source of indirect access to export markets.

Business law and horizontal regulatory issues

- Reinforce the "Better Regulations" framework and implementation of the "Package for Entrepreneurship" to ensure their effectiveness in reducing regulatory burdens and administrative costs.

Box 2.3. **Summary of key recommendations concerning SME and entrepreneurship framework conditions and business environment in Poland** *(cont.)*

- Ensure that the intentions of the high-level policy documents and frameworks are reflected in developments on the ground, where enterprises operate, and are not confined to good principles. Value-added tax, inspections and reporting requirements are areas where reductions in compliance costs and administrative burdens can usefully be sought.

Research, development and technology

- Strengthen the science base by encouraging more competitive and focused funding; by linking public funding to co-operation and networking in institutions that deliver results; and by consolidating the branch institutes to create fewer but stronger public research institutions.
- Strengthen incentives for business R&D and innovation by improving the regulatory framework; simplifying the tax system; providing direct or indirect incentives; and improving support for early stage venture financing.
- Foster industry-science linkages by allowing more flexibility and autonomy in the management of public-private partnerships (PPPs) for R&D; rationalising the number of intermediary institutions by linking public support more closely to performance; and building capacity for management of intellectual property rights at universities.
- Strengthen human resources for science and technology by developing financial incentives and research criteria to encourage scientists to co-operate more with businesses; relying on open recruitment and transparent criteria for promotion to enhance quality and mobility; revising promotion criteria to give greater weight to applied activities such as technology transfer; and improving prospects for science graduates by linking vocational and higher education better to industry skill needs.
- Improve the governance of the innovation system by strengthening long-term planning in public research and encouraging business involvement in priority setting and on university boards.

Notes

1. The National Development Strategy 2007-15 (Ministry of Regional Development, 2006) is the main document setting out the overall policy framework from the national perspective. The Lisbon Strategy is set out concretely for Poland in the National Reform Programme, 2008-11 (Ministry of Economy, 2008c). The National Cohesion Strategy agreed with the European Commission, which details the allocation of the Structural Funds, is set out in the National Strategic Reference Framework for 2007-13 (Ministry of Regional Development, 2007a).
2. The current National Cohesion Strategy follows the smaller National Development Plan which provided EUR 12.8 billion during 2004-06. Before that, Poland benefited from pre-accession support under the PHARE programme (Programme of Community aid to the countries of Central and Eastern Europe).
3. Economic aspects of policies toward education and training in providing a skilled human resource base in Poland were reviewed by the OECD (2008a, Chapter 4). Separately, but around the same time, the OECD Education Committee reviewed policies toward tertiary education, see Fulton *et al.* (2006). This section draws heavily on these reviews.
4. Note that these plans were finalised in 2006 on the basis of prevailing exchange rates. Precise amounts may be affected by exchange rate fluctuations.
5. In 1990, roughly 700 000 children entered primary school. This figure has fallen to 320 000 and it continues to decline. In contrast, around 400 000-450 000 students leave the system every year.

6. Indeed, some Polish authorities considered that formal management education could usefully be reduced in favour of engineering.
7. Chapter 4 calls attention to similar issues in the context of entrepreneurship policies.
8. There are now more than 400 higher education institutions, most of which are private. Private institutions enrol 30% of the student body and did not exist as recently as 1991. Demographic considerations suggest that the expansion of the sector may have peaked and that some consolidation is likely in the coming years.
9. For some professions (*e.g.* doctors, nurses, and architects) qualifications acquired in one EU country are automatically recognised in other members. For others, Community law provides the basis for mutual recognition of an immigrant's qualifications. This may involve a period of adaptation, passing an examination or other evidence of competence. See *www.ec.europa.eu/internal_market/qualifications/index_en.htm*.
10. During 2008, the largest groups returned from Germany (33%), the United Kingdom (16%), Italy (12%) and the United States (8%).
11. In surveys by the Ministry of Economy, the National Bank of Poland and private companies such as KPMG, problems finding qualified people were cited with increasing frequency over time. See Ministry of Economy (2008a).
12. In addition, IMF (2009b) has indicated that a USD 500 million credit line from the World Bank for Polish SMEs is in preparation.
13. This section draws heavily on OECD (2008a), which included a review of the Polish tax system.
14. Dividends are taxed at both corporate and personal levels. To reduce the degree of double taxation, they are subject to withholding at the capital income rate of 19%.
15. Fourteen of these zones were created in the mid-1990s to attract foreign investment in low-income regions. As they are inconsistent with EU state aid guidelines, they are being phased out. There are 15 SEZs operating in Poland.
16. This section draws heavily on the underlying Polish responses to a questionnaire used by Woelfl, *et al.* (2009).
17. This may require legislation since legal or constitutional restrictions on the sale of government stakes are widespread, affecting power generation, water transport, air transport, operation of road infrastructure, tobacco products, basic metals, fabricated metal products, wholesale trade, restaurants and hotels and financial institutions outside the insurance industry.
18. This amounted to 7.6% of GDP in 2006 and has probably risen subsequently. This is less than is typical in the EU, where the value of public contracts is around 16% of GDP. In 2007 tender notices published by Polish employers, nearly half local government bodies, amounted to 8% of the EU total. For extensive discussion, see Ministry of Economy (2008d).
19. See *www.reforma-regulacji.gov.pl/english*, "Reducing Administrative Burdens".
20. Studies in the Denmark, Luxembourg, Netherlands, United Kingdom and some other countries put the figure at almost half. See *www.reforma-regulacji.gov.pl/english*, "Improvements of the EU directives implementation".
21. Interview with AIP Group.
22. See Chapter 3 of OECD (2008a) for an extensive discussion.
23. Secretariat interview with PAED and MSHE.
24. Priorities are: *i)* human resources for the modern economy; *ii)* research for the economy; *iii)* intellectual property for innovation; *iv)* capital for innovation; and *v)* infrastructure for innovation. Note that these differ from the "Priority Axes" of the EU Operational Programme described in the text, even if substantively they largely cover the same issues.
25. The Ministry for Regional Development acts as managing authority for all the horizontal programmes but the 16 Regional Operational Programmes are managed at the regional level by the Boards of the *Voivodships*. Various national ministries share competence and responsibility while regional and local authorities are heavily involved at the level of delivery.

References

European Commission (2006), "Structures of the Taxation Systems in the European Union", Enterprise and Industry, Brussels.

Eurostat (2005), "Continuing Vocational Training Surveys (CVTS3)", Luxembourg.

Fritsch, M. and P. Mueller (2005), "The Persistence of Regional New Business Formation Activity over Time – Assessing the Potential of Policy Promotion Programs", *Discussion Papers on Entrepreneurship, Growth and Public Policy*, No. 0205, Max Planck Institute for Economics, Jena.

Fulton, Oliver, *et al.* (2007), *OECD Reviews of Tertiary Education: Poland 2007*, OECD Publishing: *http://dx.doi.org/10.1787/9789264039131-en* .

Gallup Organisation (2007), "Observatory of European SMEs – Summary", *Flash Barometer Series*, No. 196, European Commission, Brussels.

Hoj, J., *et al.* (2007), "Product Market Competition in the OECD Countries: Taking Stock and Moving Forward", *OECD Economics Department Working Paper*, No. 575, ECO/WKP(2007)35, OECD, Paris.

IMF (International Monetary Fund) (2007), *International Financial Statistics*, IMF, Washington DC.

IMF (2008), "Staff Report for the 2007 Article IV Consultation with Poland", IMF, Washington DC, April.

IMF (2009a), "World Economic Outlook Database", April.

IMF (2009b), "Staff Report for the 2008 Article IV Consultation with Poland", IMF, Washington DC, July.

IMF and World Bank (2006a), "Financial Sector Assessment Update, Poland", IMF and World Bank, Washington DC, December.

IMF and World Bank (2006b), "Technical Note: Competition and Performance in the Polish Second Pillar", Financial Sector Assessment Program, Republic of Poland, Washington DC, October.

Larosiere, J. De, *et al.* (2009), "Report of the High-Level Group on Financial Supervision in the EU", European Commission, Brussels, 25 February.

Ministry of Economy (2006a), "Analysis of Regulatory Barriers to Economic Activity", Warsaw, March.

Ministry of Economy (2006b), "Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13", Warsaw, August.

Ministry of Economy (2008a), "Entrepreneurship in Poland", Warsaw.

Ministry of Economy (2008b), "Poland Report Economy", Warsaw.

Ministry of Economy (2008c), "National Reform Programme for 2008-11 to Implement the Lisbon Strategy", Warsaw.

Ministry of Economy (2008d), "The New Approach to Public Procurement", Warsaw, April.

Ministry of Labour and Social Policy (2008), "Information on the Employment of Polish Citizens in EEA Countries and in Switzerland and of EEA Countries' Citizens in Poland", Warsaw, April.

Ministry of Regional Development (2006), "National Development Strategy 2007-15", Warsaw, November.

Ministry of Regional Development (2007a), "National Strategic Reference Framework for 2007-2013 in Support of Growth and Jobs", National Cohesion Strategy, adopted by the European Commission, May.

Ministry of Regional Development (2007b), "Operational Programme: Innovative Economy, 2007-13", Warsaw, October.

National Bank of Poland (2008), "Financial System Development in Poland in 2007", Warsaw.

National Bank of Poland (2009), "Information Bulletin", Warsaw.

OECD (2005), *Promoting Adult Learning*, Education and Training Policy, OECD Publishing: *http://dx.doi.org/10.1787/9789264010932-en*.

OECD (2007a), *PISA 2006: Science Competencies for Tomorrow's World: Volume 1: Analysis*, PISA, OECD Publishing: *http://dx.doi.org/10.1787/9789264040014-en*.

OECD (2007b), *OECD Science, Technology and Industry Scoreboard 2007*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2007-en*.

OECD (2007c), "Policy Mix for Innovation in Poland, Key Issues and Recommendations", OECD report, *www.mg.gov.pl/NR/rdonlyres/69E5CA02-65AD-468C-B16C-BBEB1DA420B1/52549/wersjaANGpodglad_pojedynczo.pdf*.

OECD (2008a), *OECD Economic Surveys: Poland 2008*, OECD Publishing: *http://dx.doi.org/10.1787/eco_surveys-pol-2008-en*.

OECD (2008b), "Quality Assurance in Vocational Training and Education", mimeo, OECD, Paris.

OECD (2009a), *OECD Economic Outlook*, Vol. 2009/1, OECD Publishing: *http://dx.doi.org/10.1787/eco_surveys-pol-2008-en*.

OECD (2009b), *Education at a Glance 2009: OECD Indicators*, OECD Publishing: *http://dx.doi.org/10.1787/eag-2009-en*.

OECD (2009c), *OECD Science, Technology and Industry Scoreboard 2009*, OECD Publishing: *http://dx.doi.org/10.1787/sti_scoreboard-2009-en*.

PARP (Polish Agency for Enterprise Development) (2008), "Report on the Condition of the Small- and Medium-Sized Enterprise Sector in Poland in 2006-07", Warsaw.

UK Home Office (2008), "Accession Monitoring Report", May 2004-March 2008, London, United Kingdom, May.

Woelfl, A., *et al.* (2009) "Product Market Regulation in OECD Countries 1998-2008", *OECD Economics Department Working Papers*, No. 695, OECD, Paris.

World Bank (2008), *Paying Taxes: The Global Picture*, World Bank, Washington DC.

World Bank (2009), Highlights of the 2010 edition of *Doing Business*, World Bank, Washington DC, *www.doingbusiness.org*.

World Economic Forum (2009), *Global Competitiveness Report 2009-2010*, World Economic Forum, Davos.

Chapter 3

SME and Entrepreneurship Policies and Programmes in Poland

Poland offers comprehensive support for small and medium-sized enterprises (SMEs) and entrepreneurship, but improvements can be made in a number of areas. The regulatory and administrative environment for entrepreneurs and SMEs can be further simplified; loan guarantees and loan funds strengthened and rationalised; the use of equity promoted; and new activities introduced to improve the skills of SME managers and employees. SME innovation can be promoted through an incubator policy, simplified intellectual property rules and cluster building, and government and large firm procurement can be influenced to improve SME access to markets. More understanding is needed on opportunities and barriers to entrepreneurship by under-represented groups including women, unemployed people, people with disabilities and young people. Entrepreneurial attitudes and culture should also be strengthened. A further serious challenge is to clarify the overall policy support structure. There is no explicit policy framework for SMEs or entrepreneurship in Poland, leaving relevant policies embedded in the activities of several ministries and scattered across many operational programmes and organisations. The result is an absence of overall design and coherence, and excessive complexity, lack of clarity, fragmented initiatives and lack of critical mass.

Introduction

This chapter examines the evolution of small and medium-sized enterprise (SME) and entrepreneurship policies in Poland; outlines the current policy position; describes the institutional and organisational structures for implementation of policy measures and delivery of support programmes; presents an inventory of the main SME and entrepreneurship (and related innovation) support programmes and regulatory initiatives; and identifies strategic issues worthy of further attention. The chapter ends with a summary of recommendations implicated from this part of the assessment of SME and entrepreneurship policies and programmes. A broader set of recommendations will follow in Chapter 5.

Poland has had the benefit of participating in the activities of the OECD Working Party on SMEs and Entrepreneurship (WPSMEE) since it became an OECD member (1996). In 2000, it adopted the OECD Bologna Charter on SME Policies, together with 47 other OECD and non-OECD countries.[1] Poland is also a party to the EU Lisbon Agenda. It adopted the European Charter for Small Enterprises in 2002 and signed on to the new Small Business Act for Europe in 2008. The Small Business Act for Europe creates a new policy framework, building on the European Charter and modern SME policy, through a set of ten guiding principles (Box 3.1), a set of legislative proposals guided by the Think Small First principle, and a set of new policy measures to implement the ten principles according to the needs of SMEs at the Community and member state level. The intent of the Act is to improve the overall policy approach to entrepreneurship, to irreversibly anchor the Think Small First principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development (European Commission, 2008a).

The EU is advocating that member states adopt targets recommended in the Act (such as increasing the threshold for value-added tax [VAT] registration to EUR 100 000) and address market failures throughout the entrepreneurial lifecycle by making better use of possibilities offered by Community State Aid rules to support start-ups and provide incentives for SMEs. EU countries will place different policy weights on the implementation of the ten principles, depending on their own priorities, but have negotiated three initial major priorities: better regulation, access to financing and access to markets. The Polish SME and entrepreneurship policy agenda needs to be reviewed in light of the new Small Business Act for Europe and the new EU SME policy framework.

Box 3.1. **Ten policy principles of the Small Business Act for Europe, 2008**

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded (*e.g.* systematic strategies for entrepreneurship education at all levels; ease of business transfers; and support for women and immigrant entrepreneurs).
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.
3. Design rules according to the "Think Small First" principle (*i.e.* better regulation, regulatory impact assessments, increase VAT registration threshold).
4. Make public administration responsive to SMEs' needs (*i.e.* reduce fees for starting a business, reduce time to set up a business to less than one week, reduce and simplify business licenses and permits, reduce information burden on the smallest enterprises, single contact point access to government information).
5. Adapt public policy tools to SME needs: facilitate SMEs' participation in public procurement and better use of State Aid possibilities for SMEs.
6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.
7. Help SMEs to benefit more from the opportunities offered by the Single Market (*i.e.* disseminating information, advice systems on how to defend themselves against unfair commercial practices).
8. Promote the upgrading of skills in SMEs and all forms of innovation.
9. Enable SMEs to turn environmental challenges into opportunities.
10. Encourage and support SMEs to benefit from the growth of markets (*i.e.* reduce trade barriers, encourage coaching of SMEs by large companies to bring them into international markets).

The SME and entrepreneurship policy agenda

The Polish government's first policy programme targeting SMEs was adopted in 1995, as set out in the document *Small and Medium Enterprises in the National Economy 1995-97* (running in practice until 1998). Its objective was to improve conditions for the functioning of the SME sector and introduce methods of support (Ministry of Economy, Labour and Social Policy, 2003). At the same time, the government created the Polish Foundation for the Promotion and Development of SMEs to co-ordinate actions to increase the competitiveness of SMEs in domestic and foreign markets and implement programmes for SME development. This Foundation was converted to the Polish Agency for Enterprise Development (PARP) in 2001.

The follow-up SME policy was adopted in May 1999 and set out in the document – *Government Policy Guidelines for Small- and Medium-Sized Enterprises until 2002*. The State budget allocation for its implementation was PLN 140 million. This policy laid the foundation for actions to stimulate and facilitate business activity (access to external financing, information, consulting and training services for entrepreneurs, export development support, and promoting quality), and to shape the conditions for the creation and furtherance of the development potential of SMEs (Ministry of Economy, Labour and Social Policy, 2003). The end goal was to increase competitiveness, exports, and investment outlays in the SME sector.

The objective of SME policy in 2003, as stated in the 2003 document *Government Policy Guidelines for Small and Medium-Sized Enterprises fo the years 2003-2006 in Poland,* was to "stimulate the business activity of the sector of small and medium-sized enterprises providing growth of employment and to increase SME sector competitiveness and ability to operate on the European Single Market" (Ministry of Economy, Labour and Social Policy, 2003). The sub-objectives of this policy, reinforced in the strategic programme adopted by the Prime Minister's Council on 4 February 2003, Directions of Government Activities towards SMEs in the Years 2003-06, were to:

- support projects promoting the development of SMEs (*e.g.* access to scientific knowledge, technical assistance, financing modernisation, and information);
- improve the legal and administrative environment for SMEs and develop an entrepreneurial attitude within society (*e.g.* legislative changes to improve the conditions that limit their operations; prepare annual statistical data and reports on the status of the SME sector; initiatives to popularise entrepreneurship, especially among young people, women, persons with disabilities, and the unemployed; and support for new employment and organisational forms);
- develop the institutional support environment for SMEs (*e.g.* expand the network of Consultation and Advisory Points providing consulting, training and information services to entrepreneurs; strengthen the resources of the National SME Services Network (KSU) and of the National Innovation Centres Network (KSI) to improve the quality of services; strengthen the organisation and resources of the Regional Financial Institutions (RFIs) to utilise the EU funds; establish and promote contact points to assist entrepreneurs having problems functioning in the EU common market; create a uniform system of loan funds and credit guarantee funds for SMEs; provide more capital support for the loan and guarantee funds; expand the capacity of PARP and qualifications of its employees; support local authorities in the development of infrastructure that promotes the development of SMEs, such as business incubators, innovation centres, and technology and industrial parks; and develop Internet-based information systems to make information available to SMEs on EU legal regulations, export opportunities, advanced technologies, and so on); and
- support the integration of enterprises and their activity in international fora (*e.g.* promote co-operation among SMEs and formation of SME consortia to better enable SMEs to access EU procurement opportunities; and support for the internationalisation of SMEs and their products through participation in trade fairs and expositions).

Funds to implement the strategy laid out in the SME policy guidelines document were estimated at PLN 2.5 billion to come from the State budget, the EU Structural Funds and matching funds from SMEs and entrepreneurs (Ministry of Economy, Labour and Social Policy, 2003). About 80% of the first year budget allocation of PLN 223.4 million was used to implement the *Development of Entrepreneurship Programme* and the *Capital for the Entrepreneurial Programme* adopted by the government in 2002 and 2003, and the remainder for export promotion and covering the premium for Poland's participation in the *Multiannual Programme for Enterprises and Entrepreneurs* (Ministry of Economy, Labour and Social Policy, 2003).

Considerable progress was made on the launch and implementation of specific policy measures specified in the 2003-06 SME policy and strategy, as evidenced by the list of major identifiable actions in Annex A. These include the passing of new legislation such as the

2004 Act on Freedom of Economic Activity, amendments to the *Law on Financial Support for Investments* (giving entrepreneurs the opportunity to apply for financial support for new investments located in technology and industrial parks), the *Law on Investment Funds* (allowing venture capital activity), a new law on VAT giving exemptions to "small taxpayers", a new *Bankruptcy and Reorganisation Law*, and adoption of the *Regulatory Reform Programme ("Business Deserves Better")*. This period saw orders of the Ministry of Education to introduce an entrepreneurship curriculum as a priority of pedagogical supervision in lower and secondary schools, and as part of the qualifying examination curriculum set for graduates of two-year vocational schools. Furthermore, regulations were passed setting the requirements and standards of service for business-supporting institutions.

This 2003-06 SME policy was not renewed or updated at the end of 2006. In its stead, the government has taken the approach of integrating the SME development theme in all government policy frameworks as a horizontal issue. At this point, one can see objectives to promote and develop the SME sector and entrepreneurship in a myriad of government policy and strategy documents and EU Operational Programmes (OPs), highlighted in Chapter 2 (also see Annex B).

The *National Reform Programme 2005-08* focused on entrepreneurship activities in Priorities 2 and 3, with the main goal to diminish barriers to entrepreneurship development. The *National Reform Programme 2008-11* focuses on actions to provide a favourable regulatory and institutional environment for enterprise, innovation and investments (Measure 1) and on actions to support the transfer of technology and the diffusion of innovation (Measure 2). Priority 1 of the *National Development Strategy (NDS) 2007-15* identifies development of entrepreneurship as one of the actions to enhance the growth of competitiveness and innovativeness of the economy. Further, the growth of entrepreneurship is stressed as one of the overriding strategic goals of the *National Strategic Reference Framework (NSRF) 2007-13*[2] and reinforced in Priority 4 as one of the areas to be supported by the EU Structural Funds.

The current policy priorities related to SME and entrepreneurship development appear to be:

- better and more simplified regulation (*i.e.* regulatory reforms to create a friendly legal, financial and institutional environment for the creation and growth of enterprise);
- human capital development (*e.g.* skilled workforce, entrepreneurial and management training);
- shaping entrepreneurial and innovative attitudes;
- growth in access to finance (*e.g.* alternative instruments for debt and equity financing);
- facilitating access to new markets;
- improved provision of business support and innovation services, particularly related to innovative activities;
- increasing the level of research and development (R&D) and innovation; and
- building a trust and co-operation culture for co-operative R&D, clusters and related initiatives.

These priorities are woven through the other policy and strategy documents and sectoral strategy papers; however, there is no single document outlining the SME and entrepreneurship policy/strategy framework or identifiable policy goal and targets (*e.g.* share of SME sector activity in GDP growth, growth in the stock of SMEs, increase in the

proportion of small and medium-sized enterprises, increase in the proportion of high-growth SMEs, share of innovative start-ups, etc.) that one sees in many EU and OECD countries. It would be very useful for the Polish government to establish a goal for SME and entrepreneurship policy, for example, to "double the number of start-ups reaching ten or more employees within three years", that would provide direction to overall government policies and measures.

One could well argue that, given the structure of the SME sector (*e.g.* very large share and weak capacity of micro-enterprises, very few small enterprises, low survival rate of new enterprises, slow growth in the stock of SMEs and self-employment, low proportion of exporting SMEs) and the economic downturn, a cohesive SME and entrepreneurship policy and strategy is needed to guide government actions. Otherwise, the fragmentation of policies and measures could actually dilute efforts to develop the sector, including the rate of entry of higher quality enterprises. Without a specific SME and entrepreneurship policy or strategy framework, it is difficult to actually assess the state of SME and entrepreneurship policies, as related policy measures are scattered across other policy and strategy documents. In addition, having a proper process in place for assessing SME policies will be important in monitoring implementation of measures under the Small Business Act for Europe. It is equally difficult to co-ordinate government actions. To address these challenges, the Ministry of Economy has the goal to develop a coherent strategy for SME and entrepreneurship development within the next two years. This is an issue that the Polish government needs to address if the focus on entrepreneurship development and SME competitiveness are to be recognised as visible priorities.

Furthermore, a harmonised policy framework makes it easier to communicate national SME and entrepreneurship policy to the SME sector and to policy stakeholders, including ministries, local and regional authorities, banks and financial institutions, intermediary organisations, education and training institutions, universities and business-support entities, thereby creating more transparency.

The SME and entrepreneurship policy structure

Poland is lacking a recognisable co-ordination mechanism for SME and entrepreneurship policy measures. The main government stakeholders involved in SME and entrepreneurship policy at the national level are the Ministry of Economy (MoE), the Ministry of Regional Development (MRD)[3] and PARP. The Ministry of National Education, the Ministry of Labour and Social Policy (MLSP), the Ministry of Agriculture and Rural Development (MARD) and the Ministry of Science and Higher Education (MSHE) are also involved in policy measures associated with entrepreneurship education, self-employment training, rural enterprise development, the commercialisation of R&D, support for innovative start-ups and spin-off companies, and the diffusion of scientific knowledge and technology to SMEs and entrepreneurs. In addition, the Central Statistical Office (CSO) plays an important supporting role in policy development by implementing a system for collecting data on the SME sector and carrying out regular SME surveys to assess their performance, practices, and needs.

The Ministry of Economy is the primary authority for defining SME, entrepreneurship and innovation policies and implementation of support instruments. Four of the top strategic priorities of the Ministry are: *i)* support of entrepreneurship, innovation and competitiveness; *ii)* better legal regulations; *iii)* partnerships for economic growth; and

iv) activity on the international market. Until 2006, the Ministry had a full Entrepreneurship Development Department responsible for designing the government policy supporting entrepreneurship development, especially the development of SMEs. It operated with 30 staff in five divisions that were tasked with such things as preparing programmes, monitoring policies and programmes, research, co-ordinating the institutional system supporting entrepreneurship and SMEs (loan funds, credit guarantee funds, venture capital), activities to stimulate and promote entrepreneurship attitudes in society, and reporting. When the Ministry was last restructured, the roles and responsibilities of the Entrepreneurship Department units were largely redistributed to other functional units within the Ministry.[4]

The Ministry of Regional Development is responsible for preparing and implementing the National Development Strategy; regional development; managing the EU Structural Funds; and administering many EU-funded programmes. Both the MRD and PARP are responsible for the evaluation of programmes co-financed with the EU Structural Funds.

The Ministry of Science and Higher Education is responsible for universities, scientific research and R&D, and has become increasingly involved in implementing the Innovative Economy agenda with programmes and initiatives supporting SMEs and the development of innovative entrepreneurship.

A co-ordination process for SME and entrepreneurship policy formulation and implementation is needed. The MRD announced the formation of a Task Force on SMEs and Entrepreneurship in April 2008 (under the structure of the National Strategic Reference Framework and National Development Strategy Co-ordination Committee) that includes up to 40 core members representing all relevant ministries, local and regional governments, and business-support institutions. The mandate activities of this task force, as outlined in the Terms of Reference, are to:

- monitor the implementation of the SME and entrepreneurship policies within the operational programmes of the NSRF;
- analyse the effects of these policies in regard to the objectives laid out in the priority axes;
- issue opinions on changes to financing these policies within the operational programmes of the NSRF and present these to the Co-ordinating Committee;
- present to the Co-ordinating Committee propositions for changes to enable achievement of the NSRF priorities; and
- analyse and ratify reports on progress in the implementation of SME and entrepreneurship policies within the operational programmes of the NSRF.

It is unclear how this task force will function in terms of co-ordinating the government's overall approach to SME and entrepreneurship policies and the extent to which it will include SME and entrepreneurship policies and measures that lie outside the framework of operational programmes.

Development of a policy map would be very useful. The policy map would provide a schematic of overarching SME and entrepreneurship policies and measures showing links and relationships among all related policy and programme initiatives, including those being implemented under the operational programmes, the National Reform Programme, and the programmes of all relevant ministries (*e.g.* Ministry of Education, Ministry of Interior and Administration, etc.).

Strategic issues on the SME and entrepreneurship policy structure

At present, there appears to be limited co-ordination of national, regional and local SME and entrepreneurship measures and activities. With significant regional Structural Funds management, some *voivodships* are setting up entrepreneurship/economic development units, which will likely worsen the situation if a formal co-ordination and sharing mechanism is not in place. The Task Force on Entrepreneurship may be an effective mechanism for serving this purpose if it broadens its agenda to cover all SME and entrepreneurship policy issues (beyond those included in the various OP measures) and holds regular meetings.

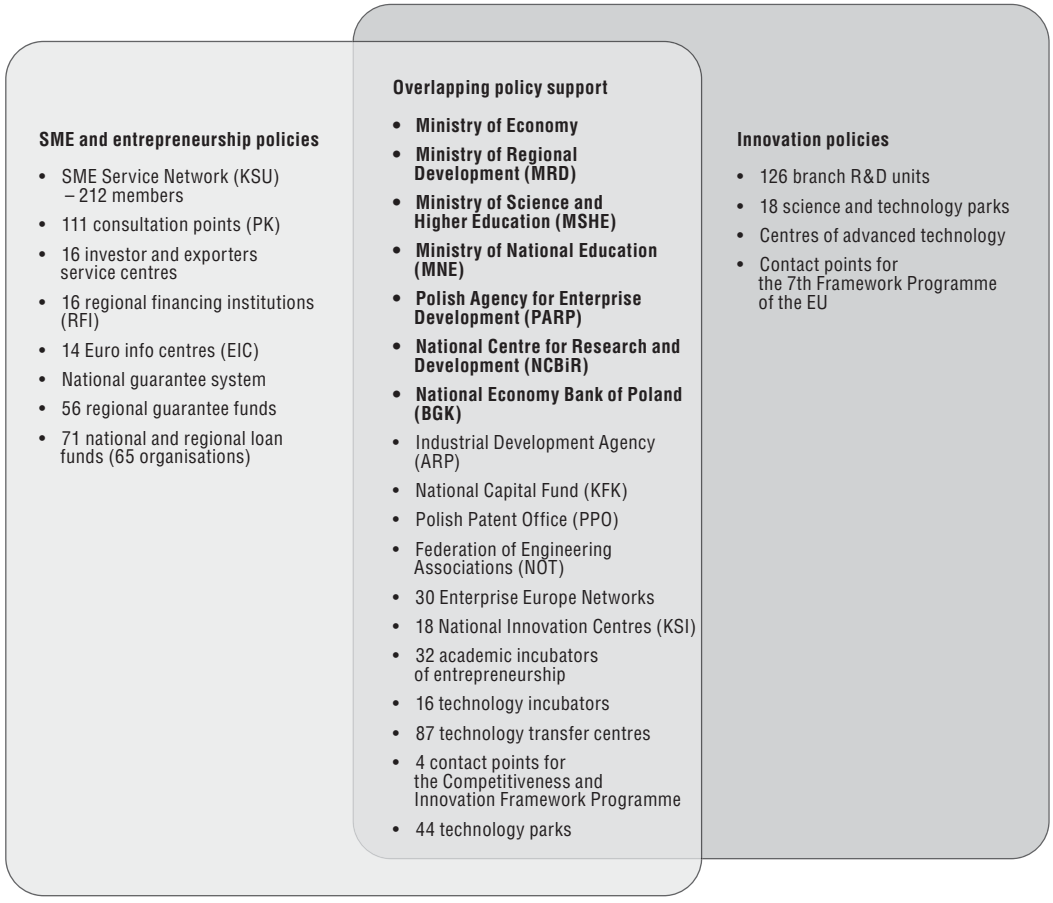
Given the entry of many new players in the area of entrepreneurship development and the limited capacity and experience of regional and local authorities with the formulation and implementation of SME and entrepreneurship policies, it is essential that complementary mechanisms are put into place to build capacity through the transfer of knowledge, information, and sharing of good practices. This could take the form of a national-regional working group on SMEs and entrepreneurship, led by the Ministry of Economy, that holds at least semi-annual meetings dedicated to discussing policy issues and challenges. As well, an SME and entrepreneurship policy framework should be in place to provide guidance to regional and local entities in the implementation of appropriate measures and activities.

The SME and entrepreneurship-related support structure

There is a well-developed structure for implementing SME and entrepreneurship policy measures and programmes. It consists of a number of organisations, institutions, and networks, all involved in delivering various kinds of programme measures to SMEs and entrepreneurs, as well as the supporting instruments of the government. The system is based on co-operation of partners at three levels – PARP at the central level, regional financial institutions (RFIs) at the regional level (one in each *voivodship*), and independent units of the National SME Services Network (KSU) and National Innovation Centres Network (KSI) at the local level. In addition, regional and local loan funds and credit guarantee funds, regional authorities, foundations, associations, and other non-governmental organisations (NGOs) that are not necessarily members of the KSU and KSI networks, are also involved in projects targeting the SME sector at the local level. A more detailed discussion of the links between national, regional and local dimensions of the SME support structure is presented in Chapter 4.

Since the launch of the National Development Strategy 2007-15 and the Strategy for Increasing Innovativeness of the Economy in the Years 2007-13, there is a clear tendency to highlight innovation aspects of SME and entrepreneurship development. This has implications for the SME and entrepreneurship support structure. More ministries are involved, and more organisations become involved in delivering support. The innovation support structure is presented later in this section. The schematic of the support structure for SME and entrepreneurship and innovation policies is illustrated in Figure 3.1. This reveals a considerable amount of overlap in the delivery of SME and entrepreneurship and innovation support programmes of a number of support entities. In itself, this is not a negative outcome, but what is most revealing is the multiplicity of organisations involved in the programme implementation support structure.

Figure 3.1. **SME, entrepreneurship and innovation support structure in Poland at the national level, 2009**



Note: Numbers based on estimates from various Polish reports.

Collectively, there is a proliferation of over 700 entities serving some aspect of the SME sector. The number has more than doubled since 2001. According to PARP, there are 326 training and consulting centres, 71 local and regional loan funds, 64 credit guarantee funds, 6 seed capital funds, 87 technology transfer centres, 32 academic incubators of entrepreneurship, 47 business and technology incubators, and 44 technology parks.

Polish Agency for Enterprise Development (PARP)

PARP is the primary agency for co-ordinating SME support services at the national level. It was established as a government agency in 2001 as a successor to the Polish Foundation for the Promotion and Development of SMEs (which operated during 1996-2000). The agency, which now employs a staff of 500, originally had two basic functions: *i)* as the government agency in charge of enterprise development and implementing tasks resulting from the State's policy towards SMEs and economic development; and *ii)* as the entity implementing Programmes of Community aid to the countries of Central and Eastern Europe (PHARE), especially in the area of development of the SME sector. It was also assigned responsibility for the functioning of SME support centres and procedures for providing services and the accreditation of institutions and consultants providing services to enterprises on the basis of uniform standards, functions that PARP continues to perform. PARP implements

programmes with particular emphasis on support to SMEs, export activity, regional development, the use of new technologies and techniques, human resource development, and creation of new jobs to counteract unemployment.

PARP's mandate is wide-ranging in scope and has been expanded on a number of occasions to take on the implementation of different government policies, most recently to implement innovation policies. It is also responsible for many projects financed by the EU Structural Funds. It has 21 departments dealing with research and analysis, monitoring and evaluation, raising awareness and promoting entrepreneurship, direct support to SMEs, innovation and technology, business-support institutions, etc. Annually, it produces a report on the conditions of the SME sector, which is a valuable document to monitor the performance and behaviours of SMEs and the contribution of the SME sector to the economy.

PARP's budget for 2009 was EUR 652.3 million (PLN 2.9 billion) for implementation of measures under the Innovative Economy Operational Programme (OP IE), the Human Capital Operational Programme (OP HC), the Operational Programme for Eastern Poland Development (OP EPD) and other entrepreneurship and innovation programmes and instruments.

PARP's objectives are delivered through subsidies to SMEs and the institutions that support their development; training and labour market subsidies; advisory and expert services; provision of knowledge, economic information, studies and analyses to businesses; and information and promotion events. PARP works in partnership with the National SME Services Network (KSU), which it also manages. Moreover PARP co-operates with employers and employee organisations, NGOs, business-support organisations, and central and regional administrations on entrepreneurship policy, the implementation of instruments and design of new initiatives. PARP is also active in international co-operation and best practices exchange, especially in the field of innovation and entrepreneurship promotion and development.

Regional financial institutions

In 2001, the government facilitated the formation of RFIs in each *voivodship* to be regional partners for PARP in the implementation of sectoral policy addressed to SMEs in the given regions. These are either regional development agencies or institutions with adequate experience in supporting SMEs (*i.e.* chambers, foundations, associations). The areas focused on by the RFIs include: implementing regional enterprise development instruments and administering PARP-specific sectoral SME support instruments in the regions. Most of the RFIs provide free information to SMEs in consultation points, and supervise, co-ordinate, and monitor the network of consultation points in each *voivodship*. RFIs have abundant, substantive and organisational resources to render services to SMEs (Foundation for the Promotion of Entrepreneurship, 2007).

The National SME Services Network (KSU)

The National SME Services Network (KSU) was established in 1996 to provide a network umbrella for centres involved in supporting businesses and entrepreneurs. This network includes NGOs, regional development agencies, organisations of employers, credit guarantee funds, loan funds, business schools, craftsmen associations, foundations and chambers of commerce and industry, etc.; a system for supporting SMEs has been in place for over ten years. The main purposes of the activities are to enhance the competitiveness of Polish SMEs by offering a range of high-quality services connected with entrepreneurship and the efficient operation of existing SMEs. This network was added to in 2000 with the

creation of business counselling centres to provide free information and advisory services to SMEs, and later by consultation points (centres to provide free business information to SMEs and entrepreneurs). Collectively, these KSU units offer general advisory services, pro-innovative advisory services, information services, training services, and financial services (*i.e.* granting guarantees, lending). The network has about 212 organisational units; there is a KSU Co-ordination Board. There are over 1 400 accredited consultants and experts working in the KSU system. KSU activities are monitored and evaluated by PARP.

All KSU units are registered with PARP and must meet a certain level of quality and standards to be an accredited support provider. These requirements and service standards are described in detail in the Regulation of the Minister of Economy and Labour of 27 January 2005 on the National SME Services Network (*Official Journal* No. 27, item 221). All members of the KSU must have the technical and financial capacity to adequately provide advisory, training, information and financial services to start-ups, micro-enterprises and SMEs; ensure the provision of services by people with appropriate skills; have a quality assurance system for their services; and act in accordance with the rules of professional ethics. KSU units have quality management systems compliant with the requirements of the PN-EN ISO 9001-2001 norm. New units are added to the KSU if the outcome of the registration audit is positive. The main criterion to be listed as an accredited service provider is the ability to provide services to SMEs by ensuring experts with adequate skills and experience in a given area of specialisation related to assistance funds.

The KSU network includes consultation points offering basic information and referrals; institutions offering financial services such as the national guarantee funds and the national loan funds; the RFIs, which offer information and access to EU funds; and the National Innovation Centres (KSI) offering innovation support services (*e.g.* universities, technology centres, and incubators).

Consultation points (PKs)

Local and regional consultation points (PK) are units where potential entrepreneurs, start-ups, and existing SMEs can access free information, such as about administrative and legal aspects of economic activity, corporate management (in the area of law, marketing, finance, taxes, manufacturing, etc.), rules to be followed in drafting applications for state aid, access to finance (offered by loan, guarantee and venture funds, other financial institutions and business-support organisations), sources of advisory services, etc. As of May 2009, there were 111 such points in the country with 288 consultants serving as "first contact" points to the array of services provided in other parts of the SME support network.

Enterprise Europe Network

There are 30 Enterprise Europe Network centres active in Poland, gathered in four consortia:

- Central Poland – Business Support Network (Central Poland – BSN) – co-ordinator: PARP (consists of six members from four regions: Mazovia, Łódź, Kujawy-Pomerania and Pomerania);
- Europe West Poland – co-ordinator: Wrocław CTT;
- BISNEP (Business and Innovation Support for North-East Poland) – co-ordinator: Warsaw University CTT;
- BSN South Poland – co-ordinator: Cracow Polytechnic CTT.

The Enterprise Europe Network offers a broad range of services to assist and advise SMEs. The network partners supply information about and help in accessing EU policies, programmes and funding opportunities, such as:

- assisting companies in identifying potential commercial partners, especially in other countries;
- helping SMEs develop new products, and access new markets and informing them about EU activities and opportunities;
- advising small businesses on technical issues (*e.g.* intellectual property rights, standards and EU legislation);
- acting as a two-way street between entrepreneurs and EU decision makers, relaying views in both directions.

National Association of Guarantee Funds and Polish Association of Loan Funds

Guarantee funds have formed into the National Association of Guarantee Funds (KSFP), a few members of which are also members of the KSU. The regional and local loan funds have formed into the Polish Association of Loan Funds (PSFP); about half of its members belong to the KSU.

National Innovation Centres Network (KSI)

The National Innovation Centres Network (KSI) comprises KSU units that specialise in providing pro-innovative advisory services to SMEs that need assistance in improving an existing or implementing a new technological process, product or service, and helping to create the conditions for the transfer and commercialisation of new technological solutions. The KSIs are PARP-certified units that follow procedures of mutual co-operation within the network and co-operate on a formal and ongoing basis with R&D centres in the provision of services, or operate as a separate organisational unit of such an R&D centre.

Network of Investor and Exporter Service Centres (COIC)

In 2009, the Ministry of Economy allocated PLN 78 million to support the new network of investor and exporter service centres (COICs) (2009-15). The goal of the COIC is to facilitate access to professional and comprehensive information on exports and investment for Polish and foreign entrepreneurs. Pro-export services will provide planning and organisational services to entrepreneurs operating in Poland who want to export or make investments abroad. Pro-business services will be available to international investors interested in starting businesses in Poland who need information on investment incentives and support instruments. This initiative is implemented under the OP IE Sub-measure 6.2.1 Support for network of investor and exporter service centres.

NGOs

A number of non-government organisations are also involved in supporting SME and entrepreneurship development, such as the Polish Employers Organisation, the Association of Private Employers, the Business Centres Club, the Polish Crafts Association, the national Chamber of Commerce, the Foundation for Promotion of Entrepreneurship, and the Foundation for Academic Incubators of Entrepreneurship.

National innovation policy is shaped at the central level by the Ministry of Economy and the MSHE. The Ministry of Economy drafts assumptions for innovation policy and

explains them in strategic documents and the MSHE monitors universities, research institutes, R&D units and other research centres. They co-operate in developing and financing some projects to co-ordinate research and the implementation of projects of special importance to the national economy.

Several entities are involved in the implementation of innovation policy: PARP, the Industrial Development Agency (ARP), the Polish Patent Office (PPO), the Polish Federation of Engineering Associations (NOT), the National Innovation Centres Network (KSI), the Centres of Advanced Technologies (CoAT), and the National Centre for Research and Development (NCBiR) established in 2007.

The main SME innovation roles at the national level are assumed by PARP and ARP. PARP co-operates closely with the Ministry of Economy and the MSHE on developing systemic solutions and implementing pilot programmes that encourage the emergence of new companies, co-operation of entrepreneurs, and the use of industrial property for increasing competitiveness (*e.g.* innovation vouchers for initiating co-operation between R&D institutions and micro- and small enterprises, grants for preparation of applications for international innovation programmes for SMEs). PARP also manages the National KSI network. PARP also conducts research and evaluation activities of entrepreneurship and innovation programmes and instruments. The ARP supports investment and advisory projects connected with the creation of science and technology parks, industrial parks and technology incubators. The Polish Patents Office carries out activities to create more awareness of the importance of intellectual property protection (IPR) issues and facilitates the patenting process.

The Polish Federation of Engineering Associations (NOT), through its network of around 50 branch institutions in the country, supports companies (mainly SMEs) by helping them establish contacts with the R&D sector and obtain funding for innovation projects. NOT has an agreement with the MSHE to manage small grants to SMEs under the "goal-oriented (commissioned) projects for SMEs" component of the OP IE.

The Academic Incubators of Entrepreneurship is a network of entrepreneurship incubators (start-up centres) located at Polish universities, started in 2004. These incubators focus on promoting the spread of knowledge about innovation and entrepreneurship, removing obstacles to a pro-innovative and pro-entrepreneurial environment around the university, providing advisory services to students, young scientists, and academic staff on the steps to starting a business and commercialising innovations, and attracting resources from institutions and potential investors to seed growth-potential ideas. The academic incubators are linked to academic advisors who provide expertise to incubating entrepreneurs. Funding support for academic incubators is based on an annual competition for proposals by the Ministry of Economy.

At the regional level, innovation in SMEs is supported by Centres of Advanced Technologies (CoAT), technology transfer centres, technology parks, industrial parks, technology incubators, patent offices focused on technology transfer and protection of intellectual property (IPP), the Enterprise Europe Network and the KSI members. There are more than 500 independent centres of this type across the country.

Strategic issues for SME, entrepreneurship and innovation support structures

The KSU is at present considered one of the best tools of state aid allocated to promote growth and development of SMEs in Poland (Stawasz *et al.*, 2007). Formation of the network

has led to an improved quality and range of services and information to SMEs, and to better co-ordination of the delivery of government programmes and EU support. The system undergoes continuous development and upgrading of the experience and skills of service providers (*i.e.* professional development and accreditation standards) to better address the needs of entrepreneurs in setting up and managing private businesses.

However, the proliferation of SME, entrepreneurship and innovation support entities raises issues about overlap and duplication, whether the national centre is able to keep pace with and work with regions to co-ordinate such growth in institutions, and whether a coherent business-support system is emerging for entrepreneurs and SMEs at the regional level as a result. The assessment of the national, regional, and local dimensions of SME and entrepreneurship support indicates a need to integrate the publicly funded business services systems, including those funded from national and regional sources. These issues are further discussed in Chapter 4.

Fragmentation of business support contributes to entrepreneurs being uncertain about where to go to access specific types of business services. Most importantly, the system should appear coherent to business users as well as service providers. The principle of first-stop shops, one-stop-shops and single windows should not be confined to services for start-ups but should be applied to the range of business services for all types of SMEs.

Given that the Regional Development Authorities and Marshalls' Offices now have their own regional operational programme (ROP) funds to develop entrepreneurship, but have limited experience and capacity in the area of SME and entrepreneurship policy development and programme implementation, they will require significant capacity building. Implementing effective ways to transfer knowledge and good practices to regional officials responsible should be a priority for the Ministry of Economy.

Policies, programmes and measures in support of SMEs and entrepreneurship

Chapters 1 and 2 outlined several SME and SME sector challenges. At the sector level, for example, there is a disproportionately high percentage of micro-enterprises in the SME population; low survival rates among new enterprises; slow growth in the net stock of SMEs and self-employed persons; and low levels of exporting SMEs, competitiveness, and investments in technology and innovative activity. At the SME level, entrepreneurs report that they are challenged by an inadequate supply of educated and skilled workers, administrative and regulatory burden hampering their start-up and growth efforts, high taxation and social security costs, and complex legal processes.

Over the past ten years, in particular, the Government of Poland has been working to address these challenges. This applies to their efforts in the area of regulatory reform, provision of quality business-support services and financing instruments, facilitating access to markets, upgrading the competitiveness of SMEs, and introducing entrepreneurship as a theme at various levels of the education system. Over time, the SME and entrepreneurship policy agenda has been evolving, increasingly emphasising innovative activities and measures to improve the innovation performance of Polish enterprises, including SMEs, by strengthening innovation-related infrastructure and services.

Although the SME and entrepreneurship policy agenda is not wholly transparent (for reasons outlined above), an analysis of government policy documents, programmes and measures suggests a categorisation encompassing eight policy areas. These eight areas

will be used as the framework to guide the discussion and review of Polish SME and entrepreneurship policies and programmes:

- simplifying the regulatory and administrative environment for entrepreneurs and SMEs;
- improving access to SME financing;
- ensuring quality business-support services to facilitate entrepreneurship, start-ups and SME growth;
- strengthening SME skills and management capacity;
- boosting innovation among SMEs and entrepreneurs;
- facilitating access to markets (procurement, exports);
- supporting underrepresented groups; and
- promoting entrepreneurial attitudes and culture.

This section describes the major programmes and measures aligned with these SME and entrepreneurship policy objectives (with a summary list provided in Table 3.1).

Table 3.1. **Summary of national-level SME and entrepreneurship policies, programmes and measures in Poland, 2009**

Policy area/objective: 1. Simplifying the regulatory and administrative environment for SMEs	Lead implementing body: Ministry of Economy
Programmes or measures	
Task Force for Modern Economy Regulation (2006)	
National Reform Programme (2007-13)	
Target to reduce administrative burdens by 25% in certain areas by 2012	
Package for Entrepreneurship (set of acts introduced in the legislative process in 2008 to revise commercial code, bankruptcy law, etc.)	
Reduction of the minimum capital requirement for a limited liability company from PLN 50 000 to PLN 5 000	
Amendments to the Act on Freedom of Economic Activity to reduce administrative burden (including a one-stop shop for business start-up procedures)	
Law on Cutting Administrative Burden for the Entrepreneurs	
Law on Consolidation of Inspection Institutions	
Amendment to the Law of Accountancy to raise the threshold below which enterprises do not have to comply with full accountancy rules (simplification)	
Simplification of tax rates and reporting systems for enterprises below annual revenue of EUR 150 000	
Reduction of social security payments for new self-employed persons during the first 24 months of being in business	
Introduction of the principle of regulatory impact assessments (RIAs) on all new legislation with use of the SME test	
Implementing the Think Small First principle of the Small Business Act for Europe (with PARP)	
Policy area/objective: 2. Improving access to SME financing	Lead implementing bodies: Various
Programmes or measures	
National Credit Guarantee System	BGK with other banks
Local and Regional Loan Guarantee Funds	Marshalls' Offices
Local and regional loan funds	Marshalls' Offices
Labour Fund (grants for unemployed persons who become self-employed)	Labour Fund
Technological Credit Fund	BGK
National Capital Fund (to stimulate private equity investments in promising start-ups and SMEs)	KFK/ BGK
Technostarters pilot project (seed capital for high potential technology start-ups	MSHE
Seed capital funds	PARP
Funding for newly-formed angel investor networks	PARP
NewConnect private placement trading platform on Warsaw Stock Exchange	
Consultation points providing information on sources of financing	PARP

Table 3.1. **Summary of national-level SME and entrepreneurship policies, programmes and measures in Poland, 2009** *(cont.)*

Policy area/objective: 3. Ensuring quality business-support services to facilitate entrepreneurship, start-ups and SME growth	Lead implementing body: PARP
Programmes or measures	
KSU network	
KSI network	
Consultation points	
PARP accreditation of consultants and advisers working in these networks	
Policy area/objective: 4. Strengthening SME skills and management capacities	**Lead implementing bodies: Various**
Programmes or measures	
Skills training and upgrading assistance offered to SMEs and their workers (OP HC)	PARP, Marshalls' Offices
Programme to improve the quality of system training services (OP HC)	PARP
Funding for training and business advisory services for employers, employees and people planning to start a business (OP HC).	PARP
Leonardo da Vinci Programme (vocational education and training)	MNE
Company Training Fund (helps cover the cost of company training programmes)	Ministry of Labour and Social Policy
Akademia – SME e-learning programme	PARP
Policy area/objective: 5. Boosting innovation among SMEs and entrepreneurs	**Lead implementing bodies: Various**
Programmes or measures	
Instruments of direct support to SMEs	
Innovation vouchers	PARP
Innovative Investment Loans	PARP
Technological Credit Fund	BGK
Tax relief for purchase of new technologies	Ministry of Economy
Support for investments of "goal-oriented" innovation projects	MSHE (NOT)
Support for the creation of R&D Centres status (inside enterprises)	Ministry of Economy/ PARP
Technology Initiative I and InitTech	MSHE (NCBiR)
Management of Intellectual Property	PARP
Promotion of intellectual property protection and use	PPO
Business incubation support	PARP, ARP
Support instruments for business environment institutions	
Establishment of innovation centres	PARP
National Academic Entrepreneurship System	PARP, Ministry of Economy
Supporting new innovative activities (supporting costs of evaluating innovative concepts of entrepreneurs)	PARP
Creator of Innovativeness Programme	MSHE
Patent Plus Programme	
Portal of Innovations	PARP
Innovative Enterprises Club	PARP
Cluster support (infrastructure, cluster competitiveness, research and policy development, international cluster activities)	PARP, Ministry of Economy
Policy area/objective: 6. Facilitating access to markets	**Lead implementing bodies: Various**
Programmes or measures	
Procurement	
Public Procurement for the Entrepreneurial Economy – the Programme for supporting SMEs	Ministry of Economy, PARP
Simplifying procurement procedures, small value tenders, allowing SMEs to use bank guarantees to secure tender deposits	Ministry of Economy
Exporting	
Subsidy support to obtain product certificates, publish promotional materials, participate in trade promotion projects, consultancy services to evaluate export market opportunities	Ministry of Economy, PARP
Export credit services	Ministry of Economy, Export Credit Insurance Group
DOKE Programme (export credit interest rate support scheme)	

Table 3.1. **Summary of national-level SME and entrepreneurship policies, programmes and measures in Poland, 2009** *(cont.)*

Passport to Export	PARP
Promotion of Polish Products Programme	Ministry of Economy
Information on export markets and business match-making	Ministry of Economy
Network of Investor and Exporter Service Centres	Ministry of Economy
Policy area/objective: 7. Supporting underrepresented groups	Lead implementing bodies: Various
Programmes or measures	
Women for Women Project	PARP
Start-up grant and training scheme for unemployed persons	Local Employment Offices, Labour Fund
Start-up loan for persons with disabilities who start an enterprise	PFRON, Labour Fund
Subsidy scheme for rural people who start a micro-enterprises in a range of sectors that have employment potential	Ministry of Agriculture and Rural Development
Policy area/objective: 8. Promoting entrepreneurial attitudes and culture	Lead implementing bodies: Various
Programmes or measures	
Entrepreneurship education	
Entrepreneurship as a compulsory subject in lower and upper secondary schools	MNE
Entrepreneurship as part of the core curriculum for two-year vocational school graduates	MNE
National Vocational and Training System (modules of training for enterprise managers and SME owners)	MNE
Promotion of entrepreneurship as one of the main aims of adult education	MNE
Support for the Leon Koźminski Academy of Entrepreneurship (higher education level)	MSHE
MSHE commitment to make entrepreneurship a requirement of the new university curriculum (within five years)	MSHE
National Bank of Poland Programme of Economic Education (training programme for teachers)	National Bank of Poland
Enterprise promotion initiatives	
Polish Product of the Future competition	PARP
Entrepreneurial Poland Business Plan Competition	Ministry of Economy sponsorship
Global Entrepreneurship Week in Poland	Public-private partnership, chaired by Minister of Economy
European Enterprise Awards	Ministry of Economy
The European SME Week	Ministry of Economy

Simplifying the regulatory and administrative environment for entrepreneurs and SMEs

As stressed in the OECD Istanbul Ministerial Declaration (OECD, 2004a), policies and institutional frameworks that contribute to a business environment that is conducive to entrepreneurship and facilitates entry, growth, transfer of ownership and smooth exit of enterprises are essential in a modern, globally competitive economy.

The Polish government's current regulatory policy objectives are two-fold: to simplify the law and to eliminate administrative barriers (*e.g.* unnecessary permits, licenses, concessions) to enable the dynamic development of entrepreneurship. The process of adjusting the system of laws and regulations to accommodate the private sector and to ease the burden on SMEs and entrepreneurs has been ongoing for more than ten years. The recently adopted target is to reduce administrative burdens by 25% in certain areas by 2010 (*e.g.* environmental, land use planning, economic activity, labour law). The Ministry of Economy is responsible for the National Reform Programme 2008-11 that outlines the major policy initiatives (Ministry of Economy, 2008a).

The first evidence of government actions to reduce bureaucratic barriers to economic activity was formation of a Government Working Party to examine the issue in 1998. One

of the most significant outcomes of this process was the Act on Economic Activity in November 1999, which included a package of laws to ease the activity of private enterprises. Poland joined the EU initiative "Candidate Countries Business Environment Simplification Task Force (CC BEST)" in 2002, and in the same year, the Council of Ministers approved the "Entrepreneurship First" package, one of the fundamental elements of the economic strategy, "Entrepreneurship-Development-Work". The package included a list of acts to be amended to improve the legal environment for entrepreneurs and businesses; remove bureaucratic barriers and simplify procedures; introduce more friendly legislative and tax procedures; simplify the social insurance system (reduce social security costs and tax rates); and introduce more flexible labour regulations (Ministry of Economy, Labour and Social Policy, 2003).

The current attempt to review the burden of government regulations on businesses started in 2005 under the title "Project SIGMA" (Support for Improvement in Governance and Management) (OECD, 2007a). An inter-ministerial working group (Task Force for Modern Economy Regulation) was set up in 2006 to develop better regulation policy. This initiative was led by the Ministry of Economy with an official from each ministry responsible for better regulation in that ministry. The Regulatory Reform Programme was launched in 2006 (known as the "Business Deserves Better" Programme) as the first comprehensive effort to define an integrated approach to regulatory management policy. The National Reform Programme 2008-11 continues this work.

During the period from November 2007-October 2008, the government adopted a package of acts to simplify the commercial law. The legislative work for this "Package for Entrepreneurship" was initiated in 2008. It encompasses, among other changes, amendments to the labour code, the Act on Graduate Internship (making it easier and more profitable for enterprises to hire graduates), the tax statute, the civil code, the Foreign Exchange Law, the Bankruptcy and Restructuring Law (to allow natural-person-non-entrepreneurs to go bankrupt and more easily resolve insolvency problems), the Act on making the economic information available, and the commercial companies code.

An important measure included in amendments to the Commercial Law was a reduction of the minimum capital requirements for setting up a limited liability company from PLN 50 000 to PLN 5 000 and for setting up a public limited company from PLN 500 000 to PLN 100 000. This has resulted in Poland's dramatically improved performance on this indicator in the 2010 *Doing Business* report (see Table 2.12 in Chapter 2).

Other laws and amendments adopted by Parliament in 2008 under the "Package for Entrepreneurship" included the following measures (also see Annex A for year 2008):

- Amendments to the Law on Freedom of Economic Activity (adopted in July and December 2008) introducing a new instrument enabling entrepreneurs to suspend their business activities for a period of up to two years without having to fulfil most of the administrative obligations they have to execute when active (beneficial to seasonal enterprises) and introducing a one-stop shop for start-up procedures.
- Entrepreneurs are required to fill out only one form (instead of four) to register a new business and the application cost of PLN 100 has been eliminated. Provisions are being made for online registration, to be available soon.
- The Law on Cutting Administrative Burdens for the Entrepreneurs (underway) will eliminate from Polish law all unnecessary permissions and licenses affecting business activities, enforce the rule of freedom in business activity, and simplify law.

- The Law on Consolidation of Inspection Institutions (in preparation) will harmonise all inspections carried out by the State or local institutions affecting business activity, eliminate all unnecessary inspections, and consolidate all tasks covering the same area. This is intended to reduce administrative costs for entrepreneurs and improve their productivity.
- Amendments to the Law of Accountancy to raise the threshold for company compliance with full accountancy rules from EUR 800 000 of yearly revenue to EUR 1.2 million, thus broadening the range of entrepreneurs eligible for more simplified accountancy rules.

SMEs are also given some preferential treatments in the taxation regime. If annual turnover is less than EUR 150 000, the enterprise may choose to pay a flat tax rate of 19% and is not required to keep books. The corporate tax rate is a graduated system from 18% to 30% and books are required. This particular provision is criticised for two reasons: *i)* it creates a system where micro- and small enterprises accept the practice of not keeping books; and *ii)* the progressively higher taxation rate for corporate enterprises is a disincentive for natural person enterprises to become incorporated. The unintended effect of these rules may be to actually discourage the growth of micro- and small enterprises by providing incentives for them to remain small, as mentioned in Chapter 2. SMEs can also accelerate depreciation, settle tax accounts with credit cards, and apply for deferral of advance tax payments over five years.

Self-employed persons in Poland are required to contribute to the social security (labour) fund, against which they can draw should the enterprise close down (which is not the case in all countries).[5] They pay a flat social security rate based on a wage level of no lower than 60% of the average wage in Poland. In some respects, these features produce an incentive to becoming self-employed by reducing the risk-reward trade-off.

The government's 2008 Stability and Growth Plan (issued in response to the global financial crisis) included an amendment to the Act on Corporate Income Tax to allow start-ups and companies with turnover of less than EUR 1.2 million to include all investment outlays up to EUR 100 000 into their costs for 2009 and 2010 (up from the current threshold of only EUR 50 000 for one year). The policy objective is to stimulate new and existing SMEs to invest during the economic downturn.

In 2001, the government introduced the rule of conducting regulatory impact assessments (RIAs) on all drafted regulations (adopted "Guidelines for the Regulatory Impact Assessment in October 2006"). The RIA guidelines cover cost-benefit impact assessments in the following areas: public finance; employment, labour markets and job quality; competitiveness, entrepreneurship, trade and investment flow; operating costs and business processes; administrative burden on enterprises; innovation and research; and regional and sectoral development (Ministry of Economy, 2006). RIA training of central administration officials started in 2007 and will continue through 2009-11. Almost 3 500 officials will receive this training. The Ministry of Economy has developed a Handbook on Consultations that outlines how to conduct consultations with stakeholders on proposed legislative changes and white papers, etc.

The Ministry of Economy is currently implementing a pilot project (through PARP) to introduce the "Think Small First" principle. An evaluation of the required system changes is anticipated before the beginning of 2010. The challenge is twofold: firstly, to systematically apply the "Think Small First" principle when new legislation is created; and secondly, to introduce fast track legislation to address specific problems, such as the Package for Entrepreneurship, which contained 22 legal acts. At present, the focus is on the

national level and all permits and licences are being reviewed, although it is intended eventually to map sub-national regulations as well as national regulations.

Strategic issues for simplifying the regulatory and administrative environment

One-stop shops for business start-ups have been under consideration for a long time in Poland but have not been effectively implemented as yet. SMEs and new entrepreneurs can deal with one government office (the Municipal Office) for all the paper work, but the time for processing these papers and receiving final approval takes up to three weeks. An online process to complete all the steps for starting a business is being developed under the Better Regulations Programme. At the same time, there is a need to reduce the number of steps and procedures, which is the focus of preparation work in 2009.

With respect to the regulatory changes enacted to date, the key question concerns the extent to which the key barriers faced by start-up entrepreneurs and existing SMEs (such as complex start-up regulations, high social security charges, complex taxation payments system) have been addressed, particularly in light of evidence that informality levels have been increasing (Chapter 1). As noted in Chapter 2, Poland has one of the most restrictive regulations affecting entrepreneurship among OECD countries. The value-added tax (VAT) exemption level only applies to enterprises with turnover of less than PLN 50 000, which is low compared to international standards, and requires excessive compliance time compared to other EU countries. The new Small Business Act for Europe is recommending that member states raise the VAT exemption threshold to a minimum of EUR 100 000. This recommendation to raise the minimum threshold for VAT exemption should be seriously considered by the Polish government.

Plans to implement the SME test as part of the RIA regime, to assess the impact of new legislation and regulation on SMEs, will need to be further developed. The Ministry of Economy may benefit from the good practice experience of the UK government in this regard (see "Small Business Impact Test" at *www.berr.gov.uk/whatwedo/enterprise/framework/small-firms-ia/page38021.html*).

As noted in Chapter 2, bankruptcy laws have been reviewed but only apply to corporations. The majority of SMEs in Poland are operated as natural persons, which are not covered by the bankruptcy law. The issue of bankruptcy protection for "natural persons" enterprises is a policy area in need of attention if natural persons are to be given a fair opportunity for a "second chance" effort at entrepreneurship.

Amendments to the Law on Accountancy increasing the annual revenue threshold before the requirement to comply with full accountancy rules applies, and changes to the taxation regime giving entrepreneurs the choice to play a flat tax (if annual revenue is less than EUR 150 000) without the requirement to keep books, have been criticised by some stakeholders as creating the adverse impact of hindering SMEs from developing the financial reporting systems needed to support growth. These may be examples of where an RIA to assess the impact of legislative changes on SMEs might have been useful. The conduct of RIAs on legislative, regulatory and procedural changes affecting SMEs (*i.e.* the "SME test") should be more widely applied in the future.

Given all of the legislative and regulatory changes already completed or underway, there is a need to ensure that SMEs, entrepreneurs, and members of the advisory networks are fully aware of the current set of rules and procedures. PARP is currently seeking input from SMEs on how they prefer to be kept informed of these changes.

Improving access to SME financing

Improving SME access to financing is a policy priority for most countries in the developed and developing world. The need for alternative and multiple financing mechanisms for SME activity has been justified by evidence collected by the OECD (OECD, 2006a, 2007b) and supported as a policy priority in the *OECD Brasilia Action Statement for SME and Entrepreneurship Financing* (OECD, 2006b). Without proper access to financing, the process of starting and growing enterprises is highly constrained, as is the process of innovation.

Given the market failures (and information asymmetries) in allocation of bank loans to SMEs, and the lack of ability of SMEs to provide collateral for bank loans, improving SMEs' access to financing for start-up and operations is a major policy objective for the Polish government. This applies to both debt and equity financing. There are three types of government financing schemes – guarantees, loan funds, and equity/investment funds. An important sub-objective of these financing instruments, and a metric of performance, is job creation.

Government guarantee programmes have been in place for over a decade. A major push to facilitate access to financing took place during 2002-06 with the launch of the "Capital for the Entrepreneurial Programme" adopted in 2002. The objective of this programme was to build an extensive network of local and regional SME credit guarantee funds and SME loan funds. In 2007, the Ministry of Economy also supported the establishment of National Contact Points for Financial Instruments for SMEs in partnership with the Polish Banking Association.

Debt financing

Loan guarantee funds. The primary policy instrument of the Polish government to address the lack of access SMEs have to traditional bank financing is government-backed guarantees. These guarantees are provided to banks to act as collateral security for loans and as an incentive to banks to lend to SMEs by reducing the risks in SME lending. The National Credit Guarantee Fund (CGF), managed by the BGK, and about 50 local and regional guarantee funds are active in this market. The National Credit Guarantee Fund programme was launched in 1994, followed by the first local and regional guarantee funds in 1995. The local and regional guarantee funds are funded largely from the ROPs. The Eastern Poland Development Fund will have EUR 23.5 million available for guarantee funds for early-stage SMEs.

Local and regional guarantee funds differ dramatically in capital size, ranging from over PLN 60 million to a few hundred PLN, thus, there is a great deal of variability in the territorial scope and activity of the different funds. In 2007, about 60% of the guaranteed loans were issued by the ten largest and most active funds. Until recently, the low-value guarantees were dominant (PLN 50 000 or less), but as the capital of guarantee funds increases, the number of large guarantees (over PLN 500 000) has also been rising.

Active guarantees in 2007 amounted to 113% of the value of the total capital of all funds. This is a low risk ratio of guarantee commitments to guarantee fund capital, which in many countries is much higher. Good practice indicates that in a mature well-established guarantee scheme with a well-diversified portfolio, the leverage of active guarantees could reach as high as six or seven times the fund capital (European Commission, 2006).

Banks are the major partners in delivery of guarantee funds, responsible for 89% of the number of guaranteed loans and 96% of their value (Ministry of Economy, 2008b). The majority of guaranteed loans are for working capital (71%), followed by investment loans (24%); all sectors are represented.

The processing fee for guarantee services to Polish SMEs varies depending on which system they access – the BGK or one of the independent guarantee funds. Although Polish guarantee funds have different policies, this fee is generally around 3% (which according to international good practice might be considered high[6]). The default rate on guaranteed loans is around 4%.

In 2007, 6 084 guarantees were granted by the National Loan Guarantee Fund at the BGK totalling PLN 1.384 billion (average guarantee of PLN 227 480). The majority of these guarantees went to micro-enterprises employing up to 5 persons (46%) and to small enterprises employing up to 50 persons (40%) (Ministry of Economy, 2008b).

During 2007, the local and regional guarantee funds granted about 5 132 guarantees,[7] to a value of almost PLN 600 million (around EUR 133 million) (average guarantee of PLN 115 000 or around EUR 25 000), resulting in the creation of 4 000 new jobs (PLN 150 000 per job; 0.8 jobs per guarantee[8]). Almost 70% of guarantees are granted to micro-enterprises and over 26% to small enterprises (Ministry of Economy, 2008b).

In total, just over 11 000 SME guarantees were issued in 2007. This is a very low penetration of SMEs (about 0.6% of almost 1.8 million SMEs). Of course, the penetration rate is dependent on the size of the guarantee funds, the complexity of the terms and conditions for the guarantee, the registration and administration costs, and the ratio of granted guarantees to the capital base of the guarantee funds.

The Stability and Growth Plan adopted in 2008 to deal with the effect of the global financial crisis on Poland included a package to strengthen the system of SME guarantees. To increase the number of guarantees, the government has amended the Guarantee Law (in 2009) to increase the security amount of a BGK guarantee to 50% of the loan value. Internationally, the guarantee to loan ratio ranges from 40% to 90% (European Commission, 2006; OECD, 2009a). In the Polish environment, it might be appropriate to further raise the ratio from 50% to at least 70%.[9] The 2009 amendment also broadened the types of loans eligible for the guarantee, such as deposit guarantees and lease security deposit guarantees. Further, the government amended the Act on Regional and County Self-Government to make it possible to set up guarantee funds in the form of companies under the commercial law with use of EU funds. Also in May 2009, a change was made in the basis for BGK guarantees. Henceforth, the BGK will provide the guarantee on a simplified credit line to SMEs for amounts from PLN 100 000 to PLN 5 million, including evaluating the credit risk for these loans. Guarantees below PLN 100 000 will be granted from funds co-owned with the regional funds.

Local and regional loan funds. The first loan funds in Poland geared to micro- and small enterprises that could not provide the collateral for bank loans emerged in 1992. At the end of 2008, there were 65 local and regional organisations running 71 loan funds with managed loan capital of just less than PLN 950 million (Polish Association of Loan Funds, 2009). From the beginning, these loan funds have collectively granted 152 100 loans amounting to PLN 2.4 billion. The majority of the loans are small. Micro loans of up to PLN 10 000 have accounted for over two-thirds of the loans and almost one-third of their

value. Loans to micro-enterprises totalled over 96% of the total number of loans and 84% of their value (Ministry of Economy, 2008b). Thus, these loan funds are one of the major sources of external debt financing available to micro-enterprises.

The capital in loan funds has more than doubled since 2004 due to injections from the EU Structural Funds. In 2008, 19 600 loans worth PLN 438.4 million were issued (average value of PLN 22 367). Over 70% of the loan fund clients and 35% of the value of all loans is attributable to only one of the loan fund entities (*Fundusz Mikro*). This suggests that most of the loan funds are very small with low revolving money limits and limited client reach.

Job creation is one of the measured impacts of financial support to SMEs by loan funds. Over the past 15 years (1992-2007), loans worth PLN 2.391 billion to 152 100 SMEs have resulted in the creation of 49 500 new jobs (average loan size of ~PLN 15 800; average cost per job of ~PLN 48 000).

Other loan programmes. The Labour Fund offers start-up loans for self-employment activity and micro and small businesses as an alternative to unemployment. Since 2005, preferential loans are also available through the BGK to support the creation of new companies by graduates (EIB line).

The BGK is responsible for operating the Technological Credit Fund aimed to support SMEs that have potential sales of very innovative products.

Structural funds are also an important source of financing of the economic activity of SMEs. Different EU funds can be accessed to cover costs of investments in human resources, training and skills development, consultancy, access to new technologies and management solutions, etc.

Equity financing and seed capital

Access to equity financing is particularly important for early-stage and high-growth innovative SMEs (OECD, 2006a; 2007b). As noted in Chapters 1 and 2, the private equity/venture capital (PE/VC) market plays a minor role in supporting SMEs and entrepreneurship in Poland. The equity gap exists, particularly for enterprises at the seed-capital and start-up phases, where PE/VC financing is practically non-existent. The Polish Private Equity Association (PPEA) has 68 members with an estimated EUR 15 billion under management, but the majority are buy-out funds.[10] There are only a few early-stage start-up funds in the market and this part of the industry is considered "relatively underdeveloped" (Ministry of Economy 2008b). Most PE/VC fund managers do not have experience investing in entrepreneurial firms. The majority of the capital supplied to PE/VC entities comes from foreign markets and institutional investors and is targeted to larger transactions and investments amounting to more than EUR 4 million. This creates a particularly pressing situation for small innovative companies with ambitious plans for development. The equity gap in Poland is substantial, estimated to range between EUR 258-1 287 million (Ministry of Economy, 2007). In 2006, Polish PE/VC funds made investments in only 46 companies, averaging EUR 6.4 million per investment (Ministry of Economy, 2008b).[11] However, only 0.4% was invested in enterprises at the start-up stage and 0.4% at the seed-capital stage.

The National Capital Fund. In 2005, the Polish government approved the creation of the National Capital Fund (KFK)[12] to provide an incentive to attract a higher level of private investment in innovative start-ups and early-stage growth-potential SMEs. The KFK

started operation in 2007 under management by the BGK. It is a fund of funds that invests in private venture capital funds operating in Poland with the main objective to alleviate the diagnosed imperfections of the capital market in the allocation of capital to early-stage and smaller enterprises (and thereby minimise the size of the equity gap) by stimulating a venture capital market for investments not exceeding EUR 1.5 million. The initial target is to financially support investments in about 170 SMEs. The KFK functions as a public-private partnership to co-operate with the best-managed Polish PE/VC entities, selected through periodically held public tenders.

Operating as a Fund of Funds, the KFK does not invest directly in specific enterprises, but financially supports PE/VC funds that are willing to make investments in SMEs at early stages of development, particularly innovative and R&D enterprises with promising growth potential.[13] The KFK's participation in the PE/VC fund can be up to 50% of its capitalisation, with the remaining half to come from private investors.

In 2007, the designated subsidy to the KFK from the State budget was PLN 54.3 million (Ministry of Economy, 2008b). In the years 2007-15, the KFK will have at its disposal around PLN 800 million from the EU Structural Funds (OP IE) and CHF 53 million from the Swiss-Polish Cooperation Programme.

To reduce the investment risk of PE/VC funds, the KFK offers subsidies to cover some of their management costs (up to 10% of the KFK contribution and 65% of qualified costs), a minimum rate of return (not less than the average profitability for ten-year bulk treasury bonds), and priority when returns on investment are distributed. The maximum investing period is five years. The Fund's exit strategy from its investments is to sell its shares in the company to a sector investor assuming these values increase over time. Share proceeds are distributed among investors, who receive the invested capital plus profit.

The decision regarding KFK investments in individual PE/VC funds is made through a periodic multi-stage open tender selection procedure that takes about 177 days to complete (from call to signing of investment contracts). The offers submitted to the KFK are assessed on three criteria: *i)* professional attitude and previous experience of the managers, and relevance of the experience to the investment strategy of the fund; *ii)* the PE/VC fund's investment strategy; and *iii)* size of the created fund. The first tender call in 2008 resulted in offers for the creation of risk capital funds to two PE/VC entities and the first transfer of cash was made in the first half of 2008. The second tender call ended in July 2009; PLN 300 million is expected to be invested in this round. The KFK intends to use its capitalisation to create a portfolio of 21 specialised venture capital funds.

Start-up seed capital funds. The Technostarters Pilot Project, a component of the government's innovation strategy has earmarked a fund to make seed investments of up to EUR 200 000 in high potential technology start-ups coming out of the university environment (under the MSHE).

PARP has been funding seed capital funds since 2007. From 2007 to March 2009, they made investments in 47 start-ups totalling EUR 26 million, mostly in service enterprises. PARP has also established a EUR 100 million fund that will allow incubating institutions investing in the incubation of ideas targeting the creation of spin-off companies to take up to 49% of the ownership of the new company.

Business angels. Business angels (informal investors) can be an important source of financing for start-ups and early-stage SMEs. The concept of formalising business angels in

Poland evolved in the early 2000s and in 2003, the Polish Business Angels Network (POLBAN) started operations (*www.polban.pl*) as a member of the European Business Angels Network. To join POLBAN, investors need PLN 50 000-500 000 in cash that they are willing to invest. The Polish Employers Association has also started an angel network (Lewiaton Business Angels). There is no available information on the level of activity in existing angel networks.

An instrument to promote angel investments included in the OP IE aims to foster linkages between informal investors and entrepreneurs by funding newly formed investor networks that will also offer advisory services to the entrepreneurial firms in which they invest.

Stock markets. Although the Warsaw Stock Exchange (WSE), which was established in 1991, has grown dramatically in recent years, strict listing requirements and high costs of initial public offerings (IPOs) limit the group of potential companies participating in the stock exchange (Ministry of Economy, 2008b).

In 2007, NewConnect was established as an alternative (private placement) trading platform on the Warsaw Stock Exchange for the financing and trading of listed new firms and SMEs with high growth potential, as discussed in Chapter 2. This new market, with relaxed regulations, is primarily intended for companies operating in high-technology sectors. To the end of July 2009, the listings of 94 mostly very small companies attracted EUR 100 million. PARP offers an instrument to cover the costs incurred by SMEs in preparing for listing on NewConnect (average cost of about PLN 130 000). In 2008, they had 15 applications, with 22 more in the first half of 2009.

Corporate Governance Guidelines for NewConnect were issued in 2009. One of the needs of the NewConnect system is a cadre of authorised (and qualified) advisors to work with SMEs in the listing preparation process.

Strategic issues for improving access to SME financing

Commercial banks prefer lending to existing SMEs (and preferable larger enterprises), even with government-backed loan guarantees. New start-ups appear to be particularly affected by the lack of access to bank credit, suggesting a possible market failure. During the recent global financial crisis, Polish banks tightened their lending policies even further and bank loan availability to enterprises diminished considerably (National Bank of Poland, 2009). These issues should be a growing concern for Polish policy makers due to their effects on the level of enterprise investment and growth.

There is low uptake and reach of guarantee and loan funds. In 2007, about 30 000 loan fund and guarantee fund loans were granted to SMEs (about 1.7% of all SMEs). This could be due to low fund capitalisation levels, unattractive terms and conditions (*e.g.* high costs, complex application and approval processes, low ratio of granted guarantees to the guarantee fund capital base), or low level of awareness among micro- and small enterprises of funding sources. Further reinforcement for the view that guarantee and loan funds have limited reach is suggested by the fact that during 2003-07, an average of 218 000 new enterprises were started (CSO, 2009). These issues should be further examined with consideration of good practices, particularly in the design of SME loan guarantee schemes in OECD countries and EU member states.

Loan funds are not evenly distributed in Poland's regions, so SMEs in some regions have access to several funds, while SMEs in other regions have limited access (see Chapter 4).

Gender-disaggregated data on loan fund and loan guarantee clients are not readily available; however, women are estimated to make up about 20 per cent of micro-enterprise clients in loan funds,[14] lower than their representation in the SME population.

Although there are national associations for both guaranteed funds and loan funds, there are no standards for operation of funds, no standard fees for services, and no regulatory frameworks. The issue of co-ordination of funds is also an issue. There is likely scope for some rationalisation and co-ordination of loan funds that would result in more economies of scale in lending. At the same time, the network is likely in need of a larger capital base to expand the number of SME clients.

Since the KFK has only been in operation for a short period of time, it is too early to measure the impact of the government's strategy to stimulate private investments in start-ups and early-stage SMEs. The NewConnect trading platform is a strong complement to PE/VC activity since it provides an exit strategy for the initial investors.

At the present time, excess liquidity in the PE/VC market is a problem. Critics talk about over-regulation of the KFK and too much oversight by the EU and the Ministry of Economy. There are also structural problems in the risk-taking capacity of the equity system (*e.g.* low tolerance for risky investments), and no specific legislation vehicle for venture capital investments (other legislation for Investment Funds is used). In addition, there are very few enterprises with 10-50 employees, let alone those with growth potential. Basically the VC industry needs more incentives, more investors, and stronger investee markets. The Polish government should examine options for further developing the venture capital industry and business angels in favour of investments in start-ups and early-stage high potential enterprises, such as by offering tax incentives and capital gains exemptions to reduce the added risk taken by private investor, practices used in many other countries. These options are often employed by governments in other countries in the early stages of developing a venture capital sector. To build the capacity of entrepreneurs to attract equity financing and develop a pipeline of high-potential investee companies, efforts should be taken to create more awareness of the benefits of equity financing and strengthen the competence of entrepreneurs in developing proposals for equity financing.

Ensuring quality business support services to facilitate entrepreneurship, start-ups and SME growth

There are three policy issues regarding the system of SME support services in Poland: *i)* the range of services provided to the different segments of the SME and entrepreneurship population; *ii)* the distribution of business-support organisations across Polish regions; *iii)* the quality of the service-providing entities in terms of the staff and consultants and the advice and services given. PARP plays a lead role in co-ordinating the support service network (the KSU), maintenance of quality standards (qualifications and services), upgrading of competencies, and promotion. It is supported in this work by the EU Structural Funds (European Social Fund).

A more thorough discussion of the business-support system and issues of national-regional-local scope are covered in Chapter 4.

The policy objective for SME support is to provide institutional access for entrepreneurs and start-ups to services of the highest quality in key fields of public intervention.[15] This is supported by two PARP projects: *i)* support and development of business-support institutions and their networks that provide services aimed at

entrepreneurship development; and *ii)* financing of the Network of Consultation Points. These consultation points address the needs of new start-ups and young SMEs by providing free information on business start-up rules and regulations, sources of advisory services and financing. The target for consultation points is to provide free-of-charge information services for 123 000 entrepreneurs and start-ups.

Activities to be financed by these PARP projects between 2008-12 include: maintenance of information exchange systems within the KSU network (databases, information sets); creation and development of internal links within the national, regional and thematic structures; co-ordination and promotional activities for the KSU network (meetings, conferences, information brochures, information services); providing common information on the services of the network and how to use them; registering audits; maintenance of quality standards; raising the level of human resources in the system (entry and competence tests); participation of the KSU consultants in information and advisory sessions, and research, analysis; reporting on different aspects of the system development; and testing of new services.

Due to the diversity of the KSU members, the provided services offer is very wide. Each entrepreneur or person undertaking a business activity can reportedly find a KSU centre to assist in solving problems connected with managing their enterprises. Nevertheless, some of the KSU members are specialised in only one field (*e.g.* provide services related to a specific trade) and are not able to cover all needs of a client. In response, an internal information system for the KSU members has been created in order to support KSU centres in referring clients to the appropriate expertise. The KSU system adapts to emerging client needs by introducing new services and information packages.

Activities of the KSU system, the services provided by member organisations, and the sphere of public intervention are monitored by PARP through research and thematic evaluations. From the beginning of July 2005 to the end of September 2008, the KSU network served 662 850 clients (an average of just more than 200 000 a year), and the Consultation Points provided information to 83 192 clients (about 26 000 a year). Of the KSU services provided in 2007, 24% were offered to support start-ups, and 76% existing SMEs. Information services accounted for two-thirds of the client interventions; advisory and training services for 12% each; financing for 2.5%; pro-innovation advice for less than 0.5% for; and 6% for other services (Klos, 2008). This suggests a possible imbalance in the allocation of services with too much of it focused on providing information and an insufficient proportion focused on more intensive interventions to assist new entrepreneurs and SMEs in solving their technical and business management problems (*i.e.* advice, counselling, diagnostics, etc.).

Strategic issues for ensuring quality business-support services

An examination should be made to assess whether the KSU network is providing the appropriate balance of information *vs.* other more intensive interventions to support the needs of SMEs and entrepreneurs. It is possible that start-ups and existing SMEs are in need of more facilitation, counselling and diagnostic services. With regard to State Aid rules, of course, this might have implications for introducing new expanded services such as coaching or mentoring, as well as ensuring KSU staff have the appropriate facilitation and counselling skills.

A number of other strategic issues relating to the provision of business-support services are covered in Chapter 4.

Strengthening SME skills and management capacity

Human capital development is an important policy priority for the government and many national programmes have been designed in recent years to give more attention to the issue.[16] Among them, the most important is the National Programme on Human Capital Development 2007-13, financed from the European Social Fund (ESF). The goal of this programme is to enable full usage of the human resources potential of the country by increasing employment and adaptability of enterprises and employees, raising the level of education in society, reducing areas of social exclusion and supporting development of the state administrative structures.

Priority II of the OP HC 2007-15 is the one most closely related to the development of SMEs ("Development of human resources and adaptation potential of enterprises and improving the health condition of working persons"). The primary focus is investing in the upgrading of knowledge and abilities of enterprises' employees to facilitate the transition to the knowledge-based economy, either through adapting the training system to the needs of the labour market or direct training offers to SMEs and their workers.

Measures under the OP HC fund general and specialist training and consultancy services for entrepreneurs and enterprise staff based on the individual strategies of company development; projects involving research, promotional, training and advisory projects; pilot projects (promotional, training and advisory) based on results of the studies and analysis carried out by PARP; popularisation of innovation and entrepreneurship and supporting mobility between sectors of science (R&D) and the economy; and promotion of co-operation between the institutions supporting innovations and between entrepreneurs. Further, the OP HC funds measures to improve the quality of training and counselling services offered by training institutions and entities.

Targets to be achieved in the OP HC include: supporting the training of 550 000 workers in 200 000 enterprises; delivering business support to 350 000 start-ups and existing enterprises through business-support institutions;[17] and training 4 000 trainers.

PARP training projects for SMEs and SME support organisations. PARP implements two measures within Priority II of the OP HC: *i)* funding training and access to business services and counselling for employers, employees, and people planning to start a business; and *ii)* building capacity and funding training for organisations and social partners in the entrepreneurship support system. PARP will develop training and advisory projects to improve the qualifications and skills of staff working in training institutions (trainers and lecturers) in developing curricula, conducting training and providing advisory services for management and employees of the enterprises. PARP will also implement the "Instrument of Rapid Reaction" project aimed at minimising the negative effects of restructuring processes by providing a set of tools and mechanisms to support training services for employees in danger of redundancy and counselling enterprises in difficulty.

Complementary instruments are executed in Priority VIII of the OP HC for employees working for enterprises within a single *voivodship*.

Leonardo da Vinci Programme to improve the vocational education and training system. Poland participates in the Leonardo da Vinci Programme, which focuses on improvements to the vocational education and training (VET) systems, and support for lifelong learning. The Mobility Project (Initial Vocational Training) has elements that encourage projects to prepare beneficiaries to start their own business. In the past, however, SMEs have not been the direct recipients of much Leonardo da Vinci support. SMEs report problems with gaining financial guarantees necessary for non-public institutions in the Leonardo da Vinci Programme, and due to the lack of management skills, the importance of employee training is not sufficiently recognised in the SME sector. Transfer of Innovation projects granted in the 2007 selection round are aimed at enhancing the lifelong learning process in SMEs and in manufacturing sectors. They are addressed to highly qualified people on the labour market who need to improve their knowledge and skills. The main VET fields addressed by the projects are: manufacturing, recycling, modern technologies in VET, competitiveness between SMEs, and increasing competences and skills among public administration.

Company training fund – upgrading of SME employees and employers. Upgrading the qualifications of SME employees and employers is a priority for the government,[18] however, to compensate for the low level of training investment by SMEs and to make it more attractive, the government has implemented a company training fund (changes in force from 1 February 2009). This is effectively a financial reserve set aside by the employer to finance the continuous education and training of his/her employees. When establishing the fund, the employer can receive reimbursement of up to 50% of the cost of the training (of all employees or of employer),[19] and up to 80% in the case of training people aged 45 or over. The reimbursement is no longer contingent on employing the trained person for at least a year, as it was in the previous legislation.

SME e-learning programme – *Akademia***.** PARP has developed an educational website for SMEs that offers free e-learning materials (*www.akademiaPARP.gov.pl*) financed from EU funds. The aim of the *Akademia* Programme is free access to business knowledge for SMEs and people planning to start their own business. These PARP courses are geared to facilitate the knowledge needs of entrepreneurs in a practical and user-friendly way. PARP's *Akademia* has been offering e-learning since November 2006 and offers the following courses: how to develop a company – management systems for SMEs; how to get the money back from your trade partners and liquidity management in a company; quality management in a company; sales management; marketing in an SME; intellectual property rights in an SME; and Internet marketing and e-commerce.

At the end of 2008, about 40 000 people had accessed the learning materials (about 55% were women), and 30% of them completed the courses with a certificate. PARP has plans to further develop and promote *Akademia* to reach a more significant number of entrepreneurs. Some 20 new courses are to be launched with the target of reaching 20 000 learners.[20]

Strategic issues on strengthening SME skills and management capacity

The training targets for enterprises and employers are ambitious. But more important is a concern about the quality and type of training supported. It is not evident that an SME training

needs assessment has been done to guide decisions on the merits of specific training projects – unless the assumption is that "some training is better than no training at all."

The *Akademia* e-learning project has merit and is an effective way to transfer learning to SMEs in a way that is suitable to their own schedules. It would be good, however, to complement the *Akademia* online training with some group tutorials or mentoring to assist SMEs in internalising and assimilating into practice what they are learning.

Given the lack of basic skills of most micro and small enterprises owners and managers, such as bookkeeping, financial management, and marketing skills (noted in Chapter 1), it is not clear that specific initiatives are in place to address these deficiencies in existing enterprises. Certainly considerable funding is available under the OP HC for employer and employee training, but will these areas be strategically addressed? This issue should be reviewed.

Entrepreneurship education in schools will be part of the solution for the future. In the meantime, improving the management skills of existing SMEs is key to improving their chances for survival and enhancing their competitiveness. Focusing on improving the innovative capacity of SMEs without first helping SMEs improve their competencies in basic areas of managing the business may not produce the desired impact.

Boosting innovation among SMEs and entrepreneurs

The importance of innovation attached to the Lisbon Agenda has led the Polish authorities to place high priority on these issues in order to reduce the gap between Poland and the EU15. In addition to the National Reform Programme for 2008-11 (to implement the Lisbon Strategy), the government has set out the Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13. The main vehicle for implementing this Strategy is the OP IE, which is part of the National Cohesion Strategy (as outlined in Chapter 2). The OP HC also supports human capital projects to foster innovation (promoting pro-innovation attitudes; building capacity of clusters and innovation support entities; providing innovation-related information).

In the Innovative Economy strategy, the strategic objective is the growth of the innovativeness of enterprises in order to maintain the fast development of the economy and to create new, better jobs. This is to be achieved by the implementation of 19 strategic areas falling under five axes: *i)* human resources for the modern economy; *ii)* research for the economy, *iii)* intellectual property for innovation, *iv)* capital for innovation; and *v)* infrastructure for innovation. These priorities have been translated into programmatic measures under the nine priority axes of the OP IE (see Chapter 2).

As part of the government's strategy for innovativeness related to SMEs, the government's objectives appear to be: *i)* to stimulate innovative activity through risk-sharing investment incentives (*e.g.* subsidies and cost-sharing schemes); *ii)* to develop linkages and networks between the R&D system and SMEs/entrepreneurs; *iii)* to transfer technologies to SMEs; and *iv)* to expand and strengthen the supporting/systemic infrastructure for innovative SMEs and entrepreneurs (*e.g.* innovative advisory services, incubators, seed capital funds, clusters, etc.). The main policy instruments for achieving these objectives are described in Box 3.6 at the end of this chapter.

The OP IE interventions include direct funding support for entrepreneurs, funding and technical assistance for business support and science institutions that provide entrepreneurs with high-quality services, and systemic support ensuring an institutional

environment conducive to the development of innovative entrepreneurs. The implementation of the Priority Axis 1 – "Research and development of new technologies", focuses (among other things) on support for investments of entrepreneurs in the area of R&D through co-financing of projects covering technical, technological or organisational undertakings (industrial R&D) implemented by entrepreneurs, groups of entrepreneurs or other entities that are able to directly apply the results of the project in practice.[21] Complementary measures under Priority Axis 4 support the implementation of innovative projects by co-financing the commercialisation of research results, offering an advisory scheme, and financing the enterprises to prepare applications for the status of R&D centre. Simultaneously, aid is provided for investments concerning new designs and utility models, as well as for the purchase of new innovative technological or organisational solutions that create a significant number of new working places. Due to the dedicated system of implementation of projects, the applicant will submit one application comprising the whole undertaking together with its implementation stage.

While the OP IE measures apply to all enterprises, SMEs are identified as key beneficiaries in many of them.

Under Priority Axis 3 "Capital for innovation", actions are aimed at supporting the entire innovation process from the moment of idea incubation, through to advisory services during the process of establishing the new enterprise, and capital support for the newly established company. The instrument has been supplemented by the possibility of capital support for innovation activity via venture capital funds and seed/start-up funds, as well as by the instrument aimed at boosting the business angels market.

The government offers two categories of support programmes – instruments of direct support to SMEs and support instruments for business environment institutions. These are described below.

Instruments of direct support to SMEs

Several instruments are being implemented to specifically increase the level of innovative activity in SMEs. These include: innovation vouchers (PARP-implemented); the innovative investment implementation loan (PARP-implemented); the Technological Credit (BGK-implemented); tax relief for the purchase of new technologies; support for investments in "goal-oriented" innovation projects (sponsored by the MSHE and carried out by NOT); granting of R&D Centre status (with tax relief) for enterprises generating at least 20% of their sales from R&D services; funding for R&D commercialisation activity (Technology Initiative 1 and the IniTech Programme); measures to promote the management of intellectual property (IP), IP protection and industrial design; and training and advisory services to encourage new investments with innovative potential (largely through incubation services). For a more detailed description of these measures, see Box 3.6 at the end of this chapter.

Support instruments for business environment institutions

Boosting the innovative activity of SMEs requires more than direct funding to share some of the investment risk. It also requires a support infrastructure of facilities, organisations, and capacity-building initiatives. In Poland, a number of government-funded programmes are focused on strengthening the capacity of business-support institutions to provide innovation and R&D-related services to SMEs. These are delivered by PARP, the MSHE and the Polish Patent Office, and targeted to universities, technology

parks, centres of technology transfer, incubators, scientific bodies and consortia of science and industry entities (which also include SMEs). These partners focus on building links between R&D institutes, SMEs, and people who can be encouraged to start businesses to commercialise their knowledge, and systems that connect incubators, technology transfer offices, and technology parks. Further detail on specific programme measures is provided in Box 3.6 at the end of this chapter.

Funding support is provided for development and capacity building of innovation centres (individual projects), the beneficiaries of which are highly specialised business environment institutions providing services in support of high-growth and technology-potential projects, including entities managing science and technology parks, technology incubators, advanced technology centres, productivity centres and other centres providing specialist services for entrepreneurs, in particular for SMEs. Financial assistance is offered to cover the costs of consultancy services to develop a development strategy for the innovation centre, consultancy and promotion resulting from the centre's strategy (*e.g.* databases, coaching, matching partners, estimating costs of the implementation of a given project for production by client entrepreneurs, the assessment of the market value of the R&D results), implementing expansion or modernisation of existing technical infrastructure, and promotional activities resulting from the centre's strategy.

Further, under the OP IE (2007-13), PARP administers a programme of funding for institutions supporting establishment of innovative enterprises (*e.g.* incubators, technology parks) to support the costs of projects related to research for, and evaluation of, innovative concepts presented by potential entrepreneurs, the preparatory work needed to establish a new enterprise based on such a concept, and capital investment in the newly founded enterprise. To the end of December 2008, 15 projects, totalling PLN 174 million had been funded (average of PLN 11.6 million).

There are over 60 businesses or technology incubators operating in Poland. Business incubators are managed workspaces for new and young enterprises in locations that also offer a range of assistance services (*e.g.* flexible rent schedules, advice and consultation, financial and credit intermediation, shared service equipment, contacts with innovation network). These incubators are largely located on university campuses (*e.g.* Academy Incubators of Entrepreneurship[22]) or in technology parks. The policy rationale for the Academic Incubators of Entrepreneurship is to address the issues of high employment among university graduates, the lack of entrepreneurial knowledge, practical training and experience of the average student, complicated start-up procedures, and the high cost of starting a business. Higher education entities can apply for up to PLN 15 000 to establish an academic incubator, including the costs of registration, purchase of equipment, and development of promotional and training materials. Data on the total number of new enterprises incubated in the entire system does not appear to exist.[23]

Other programmes aim to accelerate the commercialisation of R&D results, spin-offs, and innovative start-ups through the transfer of knowledge to entrepreneurs (*e.g.* the Creator of Innovativeness Programme and Patents Plus Programme – see Box 3.6) and improving science-industry co-operation in academic and higher education environments. To address the low number of Polish patents and to make it easier for SMEs to acquire patented technologies and be competitive in the market economy, the government offers the Patents Plus Programme. To promote discussion and information platforms for the

promotion of pro-innovative actions, PARP initiated and manages the Innovative Enterprises Club and launched the Portal of Innovations (see Box 3.6).

Promoting clusters

Current policies to support enterprises, especially SMEs, play an important role in fostering networking and clustering in Poland. Both public and private SME-supporting institutions have been created to support cluster activities, such as business incubators, centres for technology and information transfer, loan guarantee funds and venture capital funds, as well as business-support centres and technology parks. In all regions of Poland, there are platforms of dialogue and co-operation among firms facilitated by chambers of commerce and industry, bilateral chambers, sector chambers, and other business associations and organisations. The beginning of cluster policy in Poland (analysis of industrial policy clusters and potential policy instruments) dates back to 2004.

Promotion of clustering in Poland and expansion of cluster activity is strictly connected with EU Structural Funds and covers direct support to clusters for investment, training and advisory services (ROPs, OP IE, OP HC, and OP EPD), international co-operation clusters in the field of R&D and innovation (under Framework Programme project) and promotion and networking activities among enterprises and business-support organisations. All the measures at the national level concerning clusters are implemented by PARP.

The importance of supporting clusters was highlighted in The Strategy for Increasing the Innovativeness of the Economy for 2007-13, which includes among its objectives to support the development of clusters and technological platforms in technologically advanced sectors and to strengthen the co-operation between the R&D sector and the economy. The OP IE includes measures to support investments and counselling services related to development of co-operative relations and clusters and the establishment and development of business-support networks on a supra-regional scale rendering services related to innovative activities of entrepreneurs. Co-operation between entrepreneurs (including at the start-up stage), as well as between firms and business-support institutions, mainly scientific entities, is intended to create conditions that facilitate development and diffusion of new solutions (technological, product and organisational), know-how exchange and better utilisation of resources. Under the OP EPD, there are additional measures for clusters development covering those situated in eastern Poland.

PARP has been involved in developing human capital and the elaboration of recommendations to shape effective cluster policy in Poland. It has carried out research on benchmarking clusters, disseminated knowledge about clusters and cluster initiatives and identified best practices on the national level and abroad to feed into their recommendations for institutions to shape cluster policy in Poland. PARP has also delivered a cluster training project with targets for: training and advising 660 representatives of companies that operate in co-operation linkages; organising 12 study visits to 150 cluster initiatives in foreign clusters; training 1 000 entrepreneurs and business institutions in the subject of clustering (creation and functioning of a cluster); and training and advising 150 animators (brokers and promoters) of co-operation linkages.

An important direction towards cluster development in Poland is stimulating a more international orientation of clusters by encouraging stronger links with research organisations and technology providers and attracting more foreign direct investment (FDI) in knowledge-intensive sectors. Poland takes some actions that promote transnational

co-operation of clusters (*e.g.* participation in the PRO INNO[24] European Cluster Alliance under the PRO-INNO Europe Initiative; the Ministry of Economy and PARP participation in the Baltic Sea Region BSR InnoNet programme). In 2008, Poland was included in Pilot Programmes on Innovation systems and Clusters (PIC) which is the base for learning and knowledge development regarding the design of the full-scale programme on innovation and clusters to be launched in 2009.[25]

Poland undertakes activities to raise the awareness of SMEs about the benefits resulting from participation in cluster initiatives, expecting that it will have a positive effect on the innovative performance of the Polish economy.

Strategic issues for boosting innovation among SMEs and entrepreneurs

The Polish innovation strategy is recent and a number of initiatives within it are geared to improving the innovativeness of SMEs and stimulating the start-up of new technology-oriented enterprises based on the commercialisation of R&D and intellectual property.

It appears that a significant amount of policy emphasis and financial investment is being placed on measures to promote scientific innovation and the innovative behaviour of SMEs, particularly as this relates to R&D, commercialisation, and spin-off enterprises. Poland is encouraged to adopt a broader concept of "innovative activity" that embraces non-technological innovations as well, *i.e.* process, organisational, social and cultural innovations that have equally high potential for growth. By focusing too heavily on technological innovations, the government may be forfeiting the wealth-creating and economic growth potential of low-technology, but innovative, enterprises (Waasdorp, 2002).

The development of incubators is a crucial component of entrepreneurship and innovation policy. Various experiences from OECD countries demonstrate that incubators assist both in the creation and development of SMEs, particularly innovative enterprises (OECD, 2004b). There appear to be a good number of incubators in Poland, but there is no national incubator policy, such as exists in many countries. The Foundation of Academic Incubators of Entrepreneurship is currently in the process of devising standards for operation of incubators in the network. In preparing this, it would be good to consult international best practices (Box 3.2).

Spin-offs are a popular topic in Poland. There is now a law on the sharing of intellectual property between the universities and their spin-offs, but simple rules are required to govern situations where university professors start spin-off companies that begin with the use of university facilities.

As noted in Chapter 1, Poland has some good practice concerning clusters. However, the operational linkages in cluster networks have not been thoroughly studied and there are likely gaps in the effectiveness of cluster activities, for example, in the availability of venture capital and seed funds to support the spin-off of new innovative enterprises. Continuous efforts should be made to examine the effectiveness of Polish clusters and to learn lessons from the experiences of cluster policies and activities in OECD countries and EU member states. In PARP's efforts to benchmark Polish clusters and identify international best practices, they have referred to OECD work in this area, "Competitive Regional Clusters: National Policy Approaches" (OECD, 2007c) and "Business Clusters: Promoting Enterprise in Central and Eastern Europe" (OECD, 2005).

Box 3.2. **Benchmarking the performance of business incubators**

An evaluation of the performance of Australia's Incubator Programme recommended the following indicators to measure the effectiveness and impact of individual incubators:

- number of new businesses graduating from the incubator relative to the length of time the incubator has been in existence;
- number of tenant business failures relative to the level of successful graduated businesses;
- estimates of the total direct employment attributable to the operating incubator; and
- measures of stated and underlying operating profitability of the incubator (sustainability measure).

The evaluation stressed four best practice issues:

- operating incubators as a viable business;
- adequacy of incubator facilities;
- the fundamental role of incubator management; and
- a broad base of support from sponsors and other external stakeholders.

Source: Stevenson and Lundstrom (2002, pp. 148-149)

The key challenges for developing clusters in Poland are to:

- integrate research centres and other key knowledge organisations into thinking about cluster policies;
- adopt bottom-up approaches to the formation of new clusters development (international experience reveals that government actions to create clusters have not met with a great deal of success);
- create framework conditions conducive to enterprise development in general and cluster development in particular (regulation, infrastructure, real estate, barriers to associative activity);
- support local public-private partnerships, with emphasis on private sector leadership;
- identify and address market failures;
- respect that each cluster will present different policy implications;
- become part of an international cluster learning network; and
- professionalise cluster intermediaries to develop their competence in building social capital.

Facilitating access to markets

Improving SMEs' access to markets is an important aim of government policies and programmes in OECD countries and EU member states. The Polish government has prioritised improving SMEs access to markets by encouraging greater participation in public procurement contracts and raising their level of export activity.

SME procurement

In December 2002, the Ministry of Economy approved the document, "Public Procurement for the Entrepreneurial Economy – the Programme for Supporting Small- and

Medium-Sized Entrepreneurs – Potential Participants of the Public Procurement Market in the Years 2003-05". The objective was to enable SMEs to gain a wider and fuller access to information on the public procurement system, including information on tender proceedings; and creation and start up of financial support mechanisms for SMEs that participate in the public tender process. In April 2008, the government made the decision to increase the participation of SMEs in public procurement processes through more transparent rules and training for SMEs. This involved such measures as procedural simplification, issuing small value tenders, and allowing SMEs to use bank guarantees to secure their tender deposits (Ministry of Economy, 2008c).

One of the major obstacles is that the Public Procurement Office does not have any statistical data on the SME client base. The first recommendation is to develop a database of SMEs that have the capacity to bid on government contracts (perhaps using a simple supplier registration system) and then to develop a tracking system to monitor contracts being awarded to SMEs.[26] PARP will start research in this area in 2010 in order to gain knowledge of SMEs' public procurement activities, barriers to accessing procurement opportunities, and the most effective ways to improve their level of participation. Furthermore, SMEs and government procurement officials will be provided with advisory services and training in the field.

International/export markets

The Ministry of Economy strongly believes that promoting exports can have a long-lasting and sustainable effect on economic growth of Poland. Still, only a small percentage of SMEs are involved in export activity (Chapter 1). The Ministry of Economy has therefore invested in developing a range of programmes to support Polish exporters. To better suit their needs, the programmes undergo frequent revisions and amendments. The implemented policy measures include:

- subsidies for obtaining product certificates;
- subsidies for the publishing of promotional materials;
- subsidies for trade promotion programmes;
- subsidies for certain other forms of promotional activity;
- funding of consultancy services to evaluate export market opportunities for individual SMEs;
- export credit services; and
- information to SMEs on export markets and to export markets on Polish products.

Subsidies for obtaining product certificates. The beneficiaries of a product certificate subsidy are SMEs and the subsidy covers up to 50% of such costs as the cost of consulting, translation of product specification, transport and insurance of product samples, conducting tests, and the issuing of product certificates. The annual subsidy limit per SME is PLN 50 000. The support is in the form of *de minimis* state aid and can be applied until the end of 2013 to companies conducting business activity in Poland.

Subsidies for the publishing of promotional materials. The aim of a publishing subsidy is to support the production of promotional materials, such as catalogues, folders, magazines in foreign languages, books and electronic media for a group of enterprises. The evaluation of the project is based on the contents of the material, the group character of the project, its

purpose, circulation, etc. The subsidy covers up to 50% of eligible costs, *i.e.* the cost of paper, printing, composition, layout, cover and CD production. This aid is also provided in the form of *de minimis* support. It is not however limited to SMEs. The support is applied until the end of 2013 to companies that conduct business activity in Poland.

Subsidies for trade promotion programmes. SMEs are offered a subsidy covering up to 50% of eligible costs for participating in trade promotion events. This scheme is directed at trade promotion projects organised by a group of at least four enterprises and must include at least two promotional events, for example trade shows, exhibitions, product sampling, seminars, product shows, etc. The subsidy limit is PLN 50 000 per project and PLN 8 000 per enterprise within a project. This too is provided in the form of *de minimis* support, which can be applied before the end of 2013, and is not limited to SMEs.

Subsidies for certain other forms of promotional activity. An export promotion instrument is also available (Ministry of Economy) to subsidise the cost of seminars, conferences, group product presentations and other promotional events. The purpose of this instrument is to allow some less common forms of promotion to be subsidised, for example a presentation of defence industry products such as weaponry or army vehicles. The subsidy covers up to 50% of eligible costs associated with organising the event and is provided in the form of *de minimis* support until the end of 2013.

The European Union funds are also, via the OP IE, directed at export promotion. The Ministry of Economy is overseeing and participating in the measure to support the Network of Investor and Exporter Service Centres and the measure to promote the Polish economy, and PARP implements the "Passport to Export" measure.

- Investor and Exporter Service Centres: Under the OP IE, funding has been allocated to create a network of 16 Investor and Exporter Service Centres located in Polish *voivodships*, which are to provide companies conducting business in Poland with information about foreign markets and facilitate co-operation with foreign business partners. The budget for this measure is EUR 17.75 million (project launch announced by the Ministry of Economy in August 2009).
- Promotion of Polish products: "Promotion of Polish Economy" is a comprehensive programme, which seeks to increase awareness of Polish products in the global market and to improve the worldwide image of Poland. The programme comprises a number of activities, for example a promotional campaign, the evaluation of the image of Poland in target markets, industry promotion activities, establishing a versatile export promotion Internet portal, all of which will be supported in a consulting sense by Trade and Investment Promotion Sections of Polish Embassies, located all over the globe. This initiative is not specifically directed at SMEs.
- "Passport to Export": The aim of "Passport to Export" is to promote a comprehensive model of entering a foreign market with export goods. The programme is directed at SMEs that want to start exporting their products or SMEs whose export sales are less than 30% of total sales. "Passport to Export" finances a tailor-made consulting evaluation of export opportunities and promotional events required to raise awareness of an exported product in a target market. The total amount devoted to this programme is EUR 121.8 million with a limit of PLN 210 000 per enterprise.

Export credit services. Poland also uses financial instruments to promote exports. The Export Credit Insurance Corporation provides credit insurance with the guarantee of the State Treasury on high-risk markets and high-risk products, particularly those which are not supported by commercial credit insurance companies. Furthermore, the Corporation provides credit facilities to finance offset contracts.

The DOKE Programme is an export credit interest rate support scheme available to Polish companies (including SMEs). It is a stabilisation mechanism for interest on medium- and long- term loans granted by commercial banks for financing exports of Polish goods and investment related services. This programme allows Polish and foreign banks to offer fixed-rate export credits with a maturity period of more than two years, without the risk associated with the increase in floating interest rates during the repayment period. The terms and conditions of fixed rate export credits offered to foreign buyers of Polish goods and services are the same as offered by other OECD countries.

Information on export markets and to export markets on Polish products. Another tool of export promotion is a website, *www.eksporter.gov.pl*, which provides enterprises with free information about markets they are interested in and co-operation offers from abroad. Polish companies can also present their offers, which can then be viewed via the website by the international community. The main aim of this website is to facilitate co-operation between Polish and foreign enterprises.

Strategic issues on facilitating access to markets

The structural distribution of SMEs is a disadvantage in Poland. Micro-enterprises make up almost 99% of all enterprises, meaning that the majority of domestic enterprises have limited capacity to bid on procurement contracts or to pursue international markets. This may be a major limiting structural impediment to increasing the SME share of market growth.

Additional policy measures may be required to support co-operative efforts of SMEs in the area of procurement access and to develop stronger linkages between SMEs and large firms to encourage sub-contracting arrangements in the supply chain, and thus indirect access to export and procurement opportunities (Box 3.3). This should be explored. This would be consistent with the prescribed recommendations of OECD countries in the "OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains" (OECD, 2007d).

Box 3.3. **Good practices in SME procurement initiatives**

Research has demonstrated that SMEs face barriers in accessing government procurement contracts. Not only do SMEs find bidding for public sector contracts an expensive and complex process, but government procurement practices often do not create a level playing field for the competitive participation of smaller enterprises. The potential to use procurement to develop the SME sector by expanding the scale-of-market opportunities available to them and encouraging innovation is immense. Basically, SMEs need to be better informed about awarding processes, enabled to participate in awarding procedures, and able to participate in these procedures at a low cost (both in terms of complexity and financial burden).

Box 3.3. **Good practices in SME procurement initiatives** *(cont.)*

Easier access to government procurement is a topic of special interest in the new Small Business Act for Europe. For proposed solutions, Polish authorities are referred to the "European Code of Best Practices, Facilitating Access by SMEs of Public Procurement Contracts" issued by the European Commission within the framework of the Small Business Act. Governments in several countries have significant experience in implementing SME procurement initiatives. The most advanced of these is the US Small Business Administration (SBA) in co-operation with the SBA Office of Advocacy (which actually sets legal quotas for the proportion of federal government contracts to be awarded to small businesses). Good practice measures also exist in Canada, Denmark, Korea, the United Kingdom, Romania and others. A number of European good practices are noted in the "SMEs' access to public procurement" section of the European Commission 2009 document, "European Charter for Small Enterprises: 2009 Good Practice Selection" (European Commission, 2009).

Good practice scenarios reveal that several important actions are critical to increasing SME participation in public procurement:

- simplifying tendering documents and procedures;
- making use of small contract tenders in selected areas of procurement (with simplified tendering arrangements);
- implementing a SME supplier registration system that also allows SMEs to be pre-qualified as bidders (*e.g.* development of standard pre-qualification documents for use in low-value procurement as a one-time-only requirement);
- implementing approaches to improve SME access to information about procurement opportunities (such as through a dedicated electronic platform for SME procurement, partnering with business and SME associations, etc.);
- training of government procurement officers on the benefits and nuances of dealing with SME suppliers (perhaps through an Office for SME Procurement);
- conducting public awareness, education and promotion activities to create more awareness among SMEs of the opportunities for government contracts and how to participate in tendering processes (*e.g.* public seminars, procurement road shows, events that bring contracting authorities and SMEs, special SME publications on how to do business with the government);
- designing an information system to track procurement awards by size of enterprise and size of award;
- establishing a mechanism to monitor the performance of government departments in awarding contracts to SMEs; and
- developing co-operative agreements between national, regional and local authorities to ensure participation of all levels of government in SME procurement practices.

To assist public procurement agencies in the process of implementing SME procurement programmes and initiatives, the UK government has published "Small Business Friendly Concordat: Good Practice Guidelines" (UK Office of the Deputy Prime Minister, 2004). This concordat lays out the principles of compliance with the National Procurement Strategy and encourages regional and local government procurement to embrace practices that will engage more SMEs in procurement processes. The UK government has further adopted all recommendations in the HM Treasury Report "Accelerating the SME Economic Engine – Through Transparent, Simple, and Strategic Procurement" (HM Treasury, 2008). Small businesses can register (on line) as pre-qualified suppliers of government products and

Box 3.3. **Good practices in SME procurement initiatives** *(cont.)*

services and access information about procurement opportunities from the *Supply2.gov.uk* portal (managed by the Department of Business, Innovation and Skills), which provides smaller businesses and other organisations with access to contract opportunities from across the public sector. The focus of the site is on lower-value contracts (typically under GBP 100 000) and opens up the procurement market to a wider range of suppliers, particularly SMEs.

The US government uses the federal government procurement system to encourage small businesses to explore their technological potential and to profit from its commercialisation through the Small Business Innovation Research Programme (SBIR). By reserving 2% of federal R&D funds (from 11 federal departments and agencies) for small businesses, the SBIR enables small businesses to compete on the same level as larger businesses. SBIR funds the critical start-up and development stages and encourages the commercialisation of the technology, product, or service, which, in turn, stimulates the economy. Since its enactment in 1982, as part of the Small Business Innovation Development Act, the SBIR has helped thousands of small businesses to compete for federal research and development awards. The SBIR awards follow a three-phase process. Following submission of proposals, agencies make SBIR awards based on small business qualification, degree of innovation, technical merit, and future market potential. Small businesses that receive awards then begin a three-phase programme. Phase I is the start-up phase. Awards of up to USD 100 000 for approximately six months support exploration of the technical merit or feasibility of an idea or technology. Phase II awards of up to USD 750 000, for as many as two years, expanding Phase I results. During this time, the R&D work is performed and the developer evaluates commercialisation potential. Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace. No SBIR funds support this phase and the small business must find funding in the private sector or other non-SBIR federal agency funding (see *sba.gov.aboutsba/sbaprogram/sbir/sbirstir/index.html*).

The Small Business Technology Transfer Programme (STTR), a companion US government initiative making use of R&D procurement funds of five federal departments and agencies, supports projects involving public/private sector partnerships between small businesses and the premier non-profit research institutions. STTR's most important role is to foster the innovation necessary to meet the nation's scientific and technological challenges in the 21st century. The STTR also has three phases. During the start-up phase, awards of up to USD 100 000 for approximately one year fund the exploration of the scientific, technical, and commercial feasibility of an idea or technology. Phase II awards of up to USD 750 000, for as long as two years, expanding Phase I results. During this period, the R&D work is performed and the developer begins to consider commercial potential. Phase III is the period during which Phase II innovation moves from the laboratory into the marketplace and the small business must find funding in the private sector or other non-STTR federal agency funding.

Supporting under-represented groups

Governments in many OECD countries and EU member states target special policy initiatives to develop the entrepreneurial potential of particular groups of the population that are underrepresented in entrepreneurial activity and business ownership (compared to national rates). They do so for a number of reasons: to capitalise on the economic growth potential that can be realised from raising the level of business ownership among these

groups; to provide an option for labour market integration of unemployed job-seekers; or to promote social inclusion (Stevenson and Lundström, 2002).

Several official documents in Poland (*e.g.* the OP HC, the National Employment Strategy, and the Rural Development Programme) include policy objectives and measures to ensure that under-represented and marginalised groups are beneficiaries in economic and social development projects. Specific to entrepreneurship, efforts are made to promote the inclusion of women, persons with disabilities, the unemployed, and people in rural and agricultural regions. The objectives are to encourage self-employment and micro-enterprise activity as a vehicle for labour-market integration and employment creation.

Women entrepreneurs

Poland's National Plan of Action for Women 2003-05 included among its list of objectives to: promote and strengthen micro-enterprises and new small businesses run by women and to support women's self-employment; promote and strengthen women's new small businesses; pursue policies to provide services for women entrepreneurs; and create equal opportunities for the realisation of local initiatives and for the promotion of women's and men's entrepreneurship. As an outcome of this action plan, the Central Statistical Office (CSO) conducted an analysis of the situation of women on a number of social and economic variables (CSO, 2007), but this report did not include an examination of the women's self-employment and entrepreneurial activity.

In 2009, PARP (under the Enterprise Europe Network) began participation in the Women for Women Project that provides women with coaching in starting business activities. In 2010, PARP will conduct research concentrating on women's entrepreneurship to define the level of entrepreneurship activity among women, barriers to the development of women's entrepreneurship and instruments to support it. In spite of the government's policy objectives and the recent PARP efforts, there appear to be few policy measures and instruments to address the issue of women's entrepreneurship. Ensuring that women have a level playing field to participate in the global knowledge economy has been a focus of OECD work, and specifically the WPSMEE (OECD, 2001). Poland is encouraged to ensure that the full potential from women's participation on entrepreneurial and SME activity is realised.

Entrepreneurship as an option for persons with disabilities

The Act of 27 August 1997 on Vocational and Social Rehabilitation and Employment of Persons with Disabilities outlines provisions for rendering support through the State Fund for Rehabilitation of Disabled Persons (PFRON) to persons with disabilities who want to start an enterprise (including agricultural enterprises) as an employment option. Such persons may receive a one-time-only PFRON loan for the start up of a new business, or secure co-financing to the level of 50% of the interest on bank credit for continuation of a business (if they have not taken advantage of a start-up loan from PFRON or from the Labour Fund). The person may also apply to PFRON for reimbursement of a part of compulsory social insurance contributions.

The main objective of these measures is to enable vocational activation of persons with disabilities who are unemployed or seeking work by encouraging self-employment activity, taking into account their disadvantaged situation in the labour market.

Entrepreneurship and the unemployed

The 2004 Act on Promotion of Employment and Labour Market Institutions provides authority for a self-employment scheme for unemployed persons. The programme is delivered through the network of local employment offices (PUPs). These local offices offer training on how to start a business, on the regulatory procedures, and on the business planning process, as well as deliver a start-up grant scheme for unemployed people made available through the Labour Fund.[27] Recipients of these start-up funds have to run their enterprise for at least a year as a condition of funding; otherwise, the grant must be repaid.

Although the self-employment measure is taken up by only a small percentage of unemployed persons (just over 1%) and is a costly measure in relative terms,[28] it appears to be one of the most efficient among all employment support measures provided by local employment offices in terms of leading to sustainable employment (Ministry of Labour and Social Policy, 2008). There are some indications that failure rates are low, however precise data is not available. The MLSP is planning to build a system for monitoring the efficiency of different active labour market policies, including the grants to start-up businesses.

Micro-enterprise entrepreneurs in rural areas

The MARD is responsible for an initiative to promote entrepreneurship in rural areas under the Rural Development Programme for 2007-13. The aim of this programme is to promote entrepreneurship as a way to diversify rural economies away from agriculture, create employment, and supplement agricultural income. The offer covers 50% of the eligible costs for entities and investments associated with the setting up or development of micro-enterprises in a wide range of sectors, including services for agricultural holdings or forestry; household services; wholesale and retail; craft and handicraft; construction and installation works and services; tourism services; processing of agricultural products and edible forest products; warehousing and storage of products; production of the energy products from biomass; and accounting, consulting or information technology (IT) services. The budget for this measure is EUR 2 billion and provides up to PLN 300 000 to the enterprise depending on how many jobs are created (PLN 300 000 if at least five jobs; PLN 100 000 if the only job is for the self-employed person).

Strategic issues for supporting under-represented groups

These specific target groups are of interest to different ministries for different reasons, but mainly the promotion of entrepreneurship, self-employment and micro-enterprises is seen as a vehicle for employment creation, labour-market integration and rural diversification and development.

Poland should undertake a comprehensive gender-based study of the challenges affecting entrepreneurs and owners of SMEs with a view to identifying unique or more severe challenges faced by women and any gaps in access to financial and non-financial services.

It would be useful for Poland to carry out an evaluation of the effectiveness of schemes to support self-employment as an option for unemployed people and people with disabilities.

There is no specific identified strategy for the development of young entrepreneurs in Poland, such as is evident in the SME and entrepreneurship policy orientations of many countries (Stevenson and Lundström, 2002) (Box 3.4). The issue of specifying a dedicated

Box 3.4. **Target group policies and measures for women and young entrepreneurs**

The US government has one of the most developed policies to support the development of women entrepreneurs. An Office of Women's Business Ownership was created with the Small Business Administration (SBA) in 1979, solely dedicated to supporting women's entrepreneurship. In 1997, Congress passed legislation to establish an Interagency Committee on Women's Business Enterprise to work across government agency lines to foster the growth and development of women's businesses. Part of the public support framework for women entrepreneurs is a network of over 80 SBA-funded Women's Enterprise Centres that offer training, counselling and mentoring services to potential women entrepreneurs; a special loan guarantee programme for women entrepreneurs; SBA-funded venture capital funds for investment in women-led enterprises; a provision in procurement law that five of all federal government contracts be awarded to women-owned firms; and comprehensive statistical reporting on the state of women-owned businesses in the country.

The Canadian government has several policy initiatives to support the development of young entrepreneurs. This starts with provincial government Ministry of Education initiatives to integrate entrepreneurship in school curriculum and continues with the offer of Student Entrepreneur Loan Programmes by the Business Development Bank of Canada (BDC) and provincial governments to support students' summer enterprises, support for the Canada Youth Business Foundation that delivers entrepreneurship training and start-up support to at-risk and unemployed youth throughout the country, special Young Entrepreneur Loan Funds delivered by the regional development agencies and linked to mentoring, counselling and training support, and many initiatives to promote young entrepreneur role models. These efforts seek to provide an integrated system of support from promoting positive attitudes towards entrepreneurship, to increasing relevant knowledge and skills in the education system, to the provision of dedicated programmes of financial support and start-up counselling, training and mentoring for young people.

Source: Stevenson and Lundstrom (2002).

Young Entrepreneurs Programme should be given very serious consideration by the Ministry of the Economy.

Promoting entrepreneurial attitudes and culture

Promoting an entrepreneurship culture and pro-entrepreneurial attitudes is understood to include efforts to promote entrepreneurship as an employment and career alternative, both as part of public and media campaigns, and of integrating entrepreneurship in the education system. This was not a policy issue in traditional SME policy but is considered a pillar in the more recent emergence of entrepreneurship policy.

Entrepreneurship education

The idea of entrepreneurship being embedded within the wider school curriculum has been recognised and widely adopted as an entrepreneurship policy priority in many countries (OECD, 2008, 2009b). The Polish Ministry of Education and MSHE have initiated efforts to integrate entrepreneurship at all levels of the education and training system (Stevenson and Lundström, 2002).

Entrepreneurship education at the lower and upper secondary level. Entrepreneurship lessons started to be introduced into the curriculum of lower and upper secondary schools in 1999 (Kowalska, Stelmachowicz-Pawyza and Mucha, 2005a). Since 2002, enterprise and financial education have been an obligatory component of the national curriculum framework for pre-school education and general education in each type of school (National Act No. 51/458 of 2002). The aim of teaching at this level is to form entrepreneurial mindsets and transfer learning on the basics of starting a business and the functioning of the market, financial and legal systems.

In 2002, the Ministry of National Education and Sport (MNSE) set entrepreneurship as one of the educational targets and school tasks in upper secondary schools (including vocation and technical vocational schools), offering students the possibility of acquiring knowledge, skills and development of entrepreneurial attitudes that are necessary for their active participation in business life (Ministry of Economy and Labour, 2004).

In 2003, the MNSE issued an order with respect to a new curricular basis for general education in individual types of lower and upper secondary schools, directing schools to introduce the subject "Foundations of Entrepreneurship" and the module "Education for Active Participation in Business Life" as one of the priorities for pedagogical supervision. Inspections were subsequently carried out in the *viovodships* to assess the method of application of these curricula. There are 23 programmes for teaching the subject titled "Basis of Enterprise" in upper secondary level schools.

The new core curriculum for business education defined in the National Act No. 4/17 of 2009 has been recently introduced in each type of school at the upper secondary level. The goals of the new business education curriculum of the upper secondary level are to develop communication skills; enable students to understand the rules of operation of a business enterprise, prepare a simple business plan and estimate the risks involved in different forms of investment; carry out a self-assessment of their strengths and weaknesses taking into account an analysis of the labour market; and know the ethic standards for business operations.

In addition to compulsory national core curriculum on business education there is also an additional subject taught in upper secondary level schools called "Economy in Practice". This course aims at developing entrepreneurial and enterprise establishment skills. The model of teaching in this case is directed towards the entrepreneurial process and is structured around: generation of business ideas, preparation of a business plan, the implementation of a business plan, and assessment of its effectiveness.

Entrepreneurship education in the vocational and training system. The 2003 policy document, *Strategy for the Adult Education Development until 2010*, highlighted the promotion of entrepreneurship as one of the aims of adult education. The training programmes of the National Vocational and Training System were updated in the areas of managing one's own business, trade and marketing, including the development of 89 new modular vocational training programmes, a number that were useful in the training of managers of firms and of persons managing their own businesses (Ministry of Economy and Labour, 2004). One of the main challenges was building the competencies of instructors to deliver the training material.

In 2004, entrepreneurship was made a component of the curriculum set for graduates of two-year vocational schools and subject to qualifying examinations (Ministry of Economy and Labour, 2004). The policy of educational authorities in the field of enterprise

education in vocational schools was that every student should learn how to prepare for enterprising activities and undertaking their own economic activity.

Entrepreneurship in higher education institutions. Stimulating innovative and growth-oriented entrepreneurship is a key economic and societal challenge to which universities and colleges have much to contribute. The OECD publication, *Entrepreneurship and Higher Education*, presents some good practice experiences of the most entrepreneurial universities in North America and Europe and emerging practices in Central and Eastern Europe (Potter, 2008). This publication also provides insights to policy makers seeking to know more about appropriate support initiatives and frameworks.

In the late 1990s, Poland saw the rise of new private entrepreneurship business schools in the country. University students were for the first time able to take elective courses in entrepreneurship and even to choose a specialisation in entrepreneurship. However, only about 2% of business school graduates are starting their own businesses.[29] There is a need to introduce entrepreneurship courses to non-business students.

In 2004, the launch of the Dynamic Entrepreneurship Initiative of the Leon Koźminski Academy of Entrepreneurship and Management[30] enabled the introduction of entrepreneurship courses in non-business areas of study in higher education institutions. This nationwide programme, initiated with EU Structural Funds, was designed to develop the appropriate methodologies and tools for teaching entrepreneurship at the academic level in Poland to fast-track the introduction of entrepreneurship courses at universities, polytechnics, agricultural schools, and other higher education institutions (Cieślik, 2008). The programme has established a network platform to provide resources (*e.g.* textbook, case materials) and mechanisms to facilitate the adoption of entrepreneurship curriculum, and a train-the-trainers component. With funding support from the MSHE in 2007-08, lecturers were trained and received ongoing methodological support in launching entrepreneurship courses. Courses include introduction to entrepreneurship, how to start your own business, as well as international entrepreneurship and technology entrepreneurship.

From 2006-08, pilot courses in entrepreneurship were launched in over 30 higher education (mostly non-business) institutions throughout the country, involving over 1 600 students (Cieślik, 2008). The MSHE has advised that, within the next five years, entrepreneurship courses will be a required part of the new university curriculum.

The Academic Incubators of Entrepreneurship are located at many Polish universities and provide support to students, graduates and academic staff who have ideas for starting businesses or commercialising innovations.

Extracurricular entrepreneurship education initiatives. The Ministry of National Education is responsible for the development of national core curriculum for the schools, including elements of financial and business education mentioned above. However, business and financial education is also offered by other governmental, business and non-government organisations in the form of contests, workshops, social companies, etc. Special mention is made of the National Bank of Poland,[31] the Commission for Financial Supervision, the Polish Economic Association, Polish Junior Enterprise (JE), and the Foundation Forum for Civic Development, which are all active partners of schools in teaching business and financial education. Polish Junior Enterprise started in 1998 and has moved into a number of cities (*JADE Gazette*, 2005). JE programmes are often taught in

co-operation with schools and universities and offer extracurricular entrepreneurship classes and activities for students and young people. In many other European countries, the government supports expansion of JE-type programmes in an effort to build experience and knowledge of young people in the practice of starting and managing a business. In fact, the creation of young entrepreneurship support programmes to follow through on compulsory entrepreneurship education in schools is essential to assisting motivated young people to actually start their own enterprises. It is not clear in Poland that systematic young entrepreneurship programmes exist.

Enterprise promotion programmes

Apart from a policy objective to "promote entrepreneurship among young people in Poland", there are few evident activities to profile entrepreneurship in the public sphere. Apparently, a Parliamentary Team for Enterprise was established in 2002 with the objective of promoting the concept of enterprise development in various environments, particularly among young people (Kowalska, Stelmachowicz-Pawyza and Mucha, 2005b), but little information is available on the activities of this team.

Ongoing initiatives worthy of note are: the "Polish Product of the Future", the Entrepreneurial Poland business plan competition, the Global Entrepreneurship Week in Poland, and the participation of Poland in the European Enterprise Awards and the European SME Week.

- "Polish Product of the Future" Competition: PARP has been co-ordinating this competition on an annual basis since 2002 (the competition has been operational since 1997). The aims of this project are twofold: *i)* to promote a pro-innovative attitude among the individuals, companies and R&D units that are creators of innovative ideas; and *ii)* to encourage people in general to be innovative. The Competition specifically serves to profile and promote the achievements of originators of innovative techniques and technologies that have a chance to become successful in the Polish market. There are two award categories: "Product of the Future" and "Technology of the Future". In the 13-year history of the competition, hundreds of innovative products and technologies in various technical fields have been submitted. The projects come from research and development units, production plants, and natural persons. The majority of awarded projects have achieved commercial success and some have led to exportable products. Since 2004, awarded products have been presented in international showroom events (*e.g.* The World Exhibition of Innovation, Research and New Technology in Brussels Eureka, the International Exhibition of Inventions, New Techniques and Products of Geneva). This appears to be an excellent initiative.
- Entrepreneurial Poland Business Plan Competition: Entrepreneurial Poland, a part of the Foundation for Academic Incubators of Entrepreneurship, has been hosting a business plan competition for the past five years (sponsored by the Ministry of Economy). Over 3 000 submissions have been entered and workshops have been conducted with over 10 000 people interested in setting up a business. Such competitions provide a vehicle for promoting entrepreneurship, stimulating the development of business ideas and transferring entrepreneurial know-how.
- Global Entrepreneurship Week in Poland: Poland became a country partner in Global Entrepreneurship Week (GEW) in 2008. The Polish GEW Committee of public and private partners was chaired by the Ministry of Economy. During the week of 16-22 November

2008, 1 600 events took place all over Poland to promote entrepreneurship and business creation among young people. These events reached up to 100 000 people. Among the 78 countries from all over the world which organised Entrepreneurship Week, Poland was one of the leaders in terms of the number of partners and planned events.

- European Enterprise Awards: Since 2006, the Ministry of Economy has been taking part in The European Enterprise Awards by organising the initial selection of Polish finalists. The European Enterprise Awards identify and recognise the most successful promoters of enterprise and entrepreneurship around Europe, showcase best entrepreneurship policies and practices, raise awareness of the added value of entrepreneurship, and encourage and inspire potential entrepreneurs. The Jury's grand prize is awarded to the most creative and inspiring entrepreneurship initiative in Europe. The project "Potters Village" (Nidzicki NIDA Development Foundation) was a finalist of the competition in 2008, taking second place in the category of "responsible entrepreneurship, promoting social inclusion" and the project "Community Bieliny – Our Power Spot " (Municipal Bieliny) received the special jury prize in the category of European "investments in skills". Both projects were presented during a special workshop with invited guests from participating countries, the EU Committee of Regions and the European Commission.
- European SME Week: The Ministry of Economy submitted 32 Polish events taking place all over the country as part of Poland's participation in the European Commission's inaugural European SME Week in May 2009. These included seminars, workshops, conferences, contests, online activities and fairs. The European SME Week was co-ordinated by the European Commission's Directorate-General for Enterprise and Industry, but most of the events and activities taking place during SME Week were organised by business organisations, support providers, regional and local authorities, and others in the participating countries. The goal of European SME Week is to promote entrepreneurship across Europe and to inform entrepreneurs about support available for them at European, national and local levels. It allowed SMEs to discover an array of information, advice, support and ideas to help them develop their activities.

Strategic issues on entrepreneurship education and promotion

As noted in Chapter 1, almost half of Polish young people (aged 18-24) who responded to the 2007 European Entrepreneurship Survey indicated that they have the desire to become self-employed. Over half of the Polish respondents who were full-time students indicated that they had participated in a course or activity about entrepreneurship or setting up a business, much higher than the 34.3% of positive responses making up the EU25 average. In addition, over one-third agreed that their school education made them interested in becoming an entrepreneur. The fact that entrepreneurship is a required component of the Polish education system, and has been since 2004, may be at least partly responsible for these results. Continuing efforts should be made to foster the entrepreneurial mindset in students and youth and to fully integrate entrepreneurship curriculum in the education system.

However, it may take time for Poland to benefit from the cumulative effect of entrepreneurship education initiatives on the overall level of entrepreneurial skills and capacity in the population. The key will be in converting potential entrepreneurs, who have positive attitudes towards entrepreneurship, desire to start a business and the basic knowledge and skills, into actual entrepreneurs. Efforts should be made to evaluate the impact of entrepreneurship courses and measures on changes in attitudes, confidence

levels, knowledge, and intent to one day have a business, and to track the career paths of graduating students to determine the impact of having taken entrepreneurship courses and whether this produces a higher propensity to become an entrepreneur. Another area of interest is whether post-graduate students exposed to entrepreneurship courses, particularly those in scientific disciplines, are more likely to commercialise their research results. In addition, strong efforts should be made to ensure linkages between entrepreneurship education efforts and the offering of business-support services to graduates who want to start their own enterprises.

The OECD report, "Evaluation of Programmes Concerning Education for Entrepreneurship" (OECD, 2009b), will provide useful guidance to Poland in developing an evaluation approach, including an evaluation matrix. This report also highlights innovative approaches to entrepreneurship education in OECD countries.

International experience demonstrates that the creation of university entrepreneurship centres on campuses of higher education institutions is an important instrument for supporting students who choose to actually become entrepreneurs. Entrepreneurship centres can offer a wide range of assistance, such as start-up and business planning advice and counselling to students (and academic staff), incubation of business ideas, introduction to mentors from the business community, coaching, access to financing, etc., as well as cross-campus promotion of entrepreneurship activities. This concept is currently embedded in the Academy of Entrepreneurship Incubators initiative, which should be fully supported and expanded to accelerate the uptake of dynamic entrepreneurship by graduates.

Polish entities could be doing more to celebrate innovative entrepreneurship through annual award programmes, focused media coverage of successful entrepreneur role models, and so on.

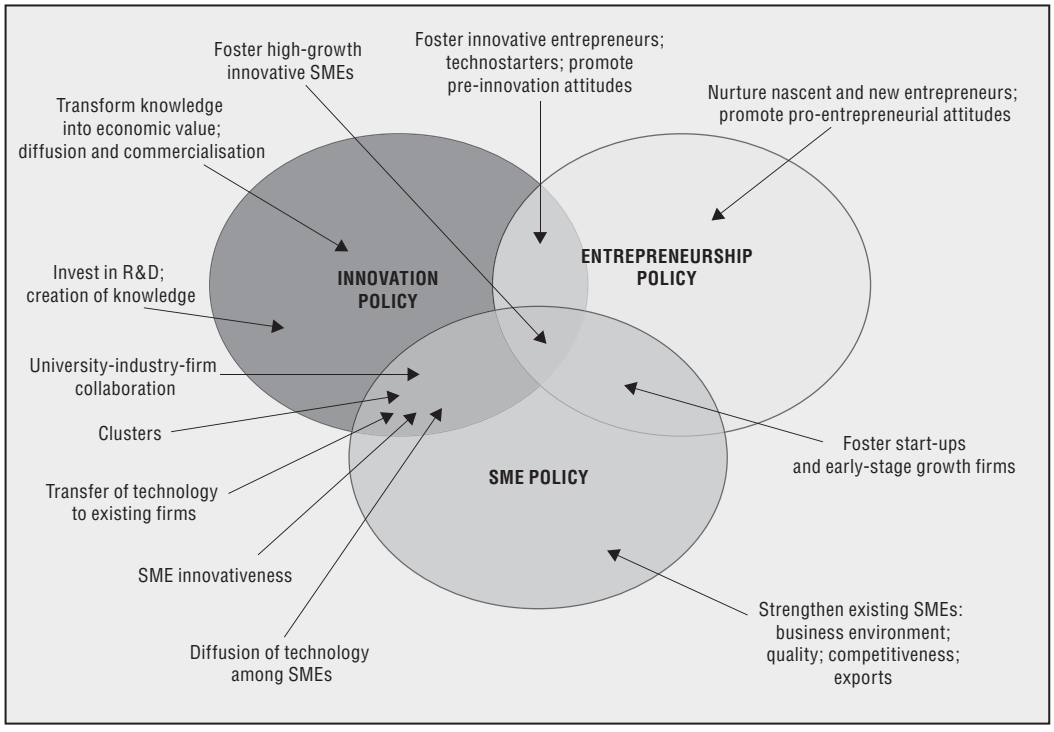
Conclusion

A broad overview assessment of Polish SME and entrepreneurship policies and programmes follows in Chapter 5. At this point, it may be important to make four major observations.

1. Current policy initiatives are very much in line with the priorities outlined in the 2003-06 SME policy guidelines and "Directions of Government Activities towards SMEs in the Years 2003-06". Since that time, increasing emphasis has been placed on improving the regulatory environment for SMEs and entrepreneurs and encouraging innovation-oriented practices and activities in the SME sector. However, many of the SME competitiveness, investment and productivity gaps with the EU, and the structure of the SME sector, remain largely unchanged.
2. Given all of the national level actions in all of the OPs, there is a definite need for a co-ordination mechanism for SME and entrepreneurship policies and measures. The Task Force on Entrepreneurship may be very helpful in this regard, but even its work will be impeded without a comprehensive policy framework. There is no SME and entrepreneurship policy map at the moment which would be helpful in light of the fragmentation of SME, entrepreneurship and innovation policies among a number of ministries and programmes (OP IE, OP HC, OP EPD, ROPs), which leads to policy coherence and co-ordination challenges, as well as possible policy gaps.

3. There is considerable disintegration of SME, entrepreneurship, and innovation policies. Sorting out the overlaps between SME, entrepreneurship and innovation policies is a challenge for many governments and international organisations. Figure 3.2 provides a conceptual framework for how to define the policy spaces and to view their integration. Particularly helpful in the case of Poland would be mapping linkages between innovation policies and SME and entrepreneurship policies.

Figure 3.2. **Intersection of SME, entrepreneurship and innovation policy**



4. Poland is making headway in changes to create a more favourable environment for entrepreneurship and SME activity. However, given the myriad of support programmes, it may be difficult for SMEs and entrepreneurs to access integrated solutions to the challenges facing their enterprises (*i.e.* they have to apply to a number of different programmes to integrate all of the services/assistance they need to implement a project activity that might require employee training, R&D support, and investment, for example).

An updated framework for SME and entrepreneurship policies is very much needed in Poland. The business ownership rate is below the EU average and the SME landscape is overly dominated by micro-enterprises with weak skills and capacity. Net annual growth in the stock of SMEs is slow, early-stage survival rates of new enterprises are very low relative to international standards, and the value-added, innovation and investment contributions of SMEs are below the EU average, as is their use of modern technologies. There are also significant regional disparities in the density and performance of SMEs and levels of entrepreneurial activity.

In spite of ongoing government programmes to support SME competitiveness and training, the overall quality of SME management and competitiveness is still low and there is a need for stronger, more competent start-ups with more capacity to create employment

and pursue growth. In particular, the skills of micro-enterprise owners are in dire need of upgrading and warrant a higher level of attention to improve their competencies. In addition to the current policy of promoting innovativeness among existing SMEs, there may be room for a more coherent strategy to "raise up" the level of micro-enterprises which are stuck in the legacy of the past and largely overlooked as economic generators. Given Poland's enterprise structure (large proportion of micro-enterprises), working with SMEs in clusters may be an effective way to raise the level of performance of these micro-enterprises.

More emphasis is needed to link SMEs in global value and supply chains, including forging linkages between local SMEs and foreign direct investment (FDI) activities. In this regard, application of cluster principles could be used more broadly to promote linkages between SMEs and between SMEs and large enterprises, and to support networks for entrepreneurs.

In light of the global emphasis on environmental challenges, enhanced efforts should be made to integrate a "green growth" focus in relevant areas of SME and entrepreneurship policies (*e.g.* improved SME environmental practices, support for development of new enterprises based on environmental technologies, opportunities for new enterprises created by the need to develop solutions for a range of environmental problems, such as waste reduction, recycling, etc.). Meeting the environmental standards set by the EU and other trading blocs will be essential to SMEs seeking opportunities in export markets.

The Polish government has undertaken many reforms to improve the operating environment for SMEs, but regulatory burden and compliance costs are still high in Poland and simplification and reduction reforms should continue to be a policy priority, as well as fully implementing the "SME test" as part of the RIA regime.

Poland has an extensive network of business support providing organisations throughout the country (with some regional imbalances, discussed in Chapter 4), and adherence to quality standards in provision of those services. However, in light of evidence that this network may not be focusing adequately on facilitation and diagnostic services to help start-ups and micro- and small enterprises overcome their problems (as opposed to primarily offering information), the provision of services being offered to entrepreneurs and SMEs by the KSU and KSI networks should be examined. To encourage the development of more high-growth firms, policy measures will have to be strengthened in the areas of seed and venture capital, advice and counselling, mentoring, diagnostics services, provision of value-added information on technologies, business models and business and market opportunities (both domestic and global). A higher uptake of the various government innovation incentives by promising SMEs would lead to improved productivity and export performance. An evaluation of the response of entrepreneurs to these incentive programmes would be helpful in determining adjustments to be made in their structure or promotion. Such an evaluation might indicate that more extensive awareness campaigns are needed or further attempts to package the various incentive programmes for easier access, for example by linking the good work being done on intellectual property rights and patent protection with seed capital and incubation initiatives (*i.e.* more of a one-stop-shop approach). With regards to financing, the national and regional loan funds and national guarantee system have expanded their reach in recent years, and helped thousands of SME clients. But SMEs continue to face financing constraints and further interventions are needed to address market (and information)

failures. There appear to be a number of good initiatives to promote exports, the challenge is to support a larger number of SMEs to become export-ready and then to strategically pursue internationalisation of their activities.

The level and type of education is very important to SME and entrepreneurship development, a critical issue for improving the knowledge and skills, quality and capacity of SME owners and new entrepreneurs, in addition to ensuring that they have access to appropriately skilled labour to meet the demands of a modern economy. Apart from investments to raise the overall education level of the Polish population, efforts to integrate entrepreneurship in the school curriculum should be accelerated. The quality of the output of entrepreneurship education initiatives have a direct bearing on the future level and quality of entrepreneurial activity, which implies there should be strong ties between the economic ministries and the Ministry of National Education. Opportunities to support students involved in entrepreneurship courses in gaining venturing experiences and building bridges to the world of work should be further explored.

Finally, a higher emphasis should be placed on fostering an entrepreneurial society, to address some of the contradictory attitudes held by Poles about the role of entrepreneurs in society, and to accelerate the uptake of entrepreneurship as a career option. One of the keys for the future will be investing in the entrepreneurial development of the young to prepare an incoming generation of more informed and competent entrepreneurs, such as the instruction and training of non-business students in entrepreneurial skills and mindsets, supported by practical support programmes to engage students and graduates in entrepreneurial activity.

In light of the above, the high-level policy challenges for Poland are to:

- increase the number of entrepreneurs and SMEs (to accelerate growth in the total stock of SMEs);
- improve the capacity and quality of new entrepreneurs (to influence stronger and more opportunity-focused start-ups with higher survival rates and growth potential);
- inject innovative attitudes and practices into existing enterprises, especially micro-enterprises;
- upgrade the management competencies and competitiveness of existing SMEs;
- facilitate the rapid growth of start-ups; and
- increase the number of high-growth and innovation-related firms.

A more rigorous and systematic approach to the assessment of SME and entrepreneurship policies and measures will be needed to measure their impact on improved SME and entrepreneurial performance. To assist in this process, specific goals and targets for SME and entrepreneurship policies will also be needed, an area which appears to be underdeveloped at the current time.

The summary of key recommendations from this chapter are summarised in Box 3.5.

Box 3.5. **Summary of key recommendations concerning SME and entrepreneurship policies and programmes in Poland**

Reviewing the SME and entrepreneurship policy agenda and support structure

- Reconstitute an explicit SME and entrepreneurship policy framework to provide guidance to national, regional and local entities in the implementation of appropriate measures and activities. This framework should take into account the new Small Business Act for Europe and the EU SME policy framework.
- Develop a government-wide policy map of all SME and entrepreneurship policies, programmes and measures showing linkages and relationships.
- Implement mechanisms to build the capacity of regional and local authorities in formulating and implementing SME and entrepreneurship policies through the transfer of knowledge, information, and sharing of good practices. This could take the form of a national-regional working group on SMEs and entrepreneurship, led by the Ministry of the Economy, that holds at least semi-annual meetings dedicated to discussing policy issues and challenges.

Simplifying the regulatory and administrative environment for entrepreneurs and SMEs

- Apply the conduct of Regulatory Impact Assessment (RIAs) on legislative, regulatory and procedural changes affecting SMEs more widely (*i.e.* an SME test). Implement initiatives to achieve a measured improvement in the high compliance costs to SMEs of the regulatory process.
- Given all of the legislative and regulatory changes already completed or underway, ensure that SMEs, entrepreneurs, and members of the advisory networks are fully aware of the current set of rules and procedures.
- Examine the issue of bankruptcy protection for "natural persons" enterprises to ensure natural persons are given a fair opportunity for a "second chance" effort at entrepreneurship.
- Implement the recommendation of the EU Small Business Act to raise the minimum threshold for VAT exemption.

Improving access to SME financing

- Identify and address the barriers to an expanded uptake and reach of guarantee and loan funds with consideration of good practices in OECD countries, particularly in the design of SME guarantee schemes.
- Examine the scope for achieving rationalisation and co-ordination of loan funds to result in more economies of scale in lending, as well as the potential for increasing the capital base of these funds to reach a larger number of SME clients. Develop standards for the operation of guarantee funds and loan funds, including performance benchmarks based on international good practices.
- Further develop the venture capital industry and business angels in favour of investments in start-ups and early-stage high-growth potential enterprises, such as by applying incentives and tools often used by other countries to reduce the added risk taken by private investors.
- Build the capacity of entrepreneurs to attract external financing, including through measures to create more awareness of the benefits of equity financing and to strengthen the competence of entrepreneurs in developing proposals for equity financing.

Box 3.5. **Summary of key recommendations concerning SME and entrepreneurship policies and programmes in Poland** *(cont.)*

Ensuring quality business support services[1]

- Explore the need and potential for introducing new expanded services such as coaching or mentoring through the KSU network, as well as ensuring that KSU staff have the appropriate facilitation and counselling skills.

Strengthening SME skills and management capacity

- Review the issue of whether programme funding for employer and employee training will strategically address the lack of basic skills of most existing micro- and small enterprises owners and managers, such as bookkeeping, financial management, and marketing skills.
- Complement the Akademia online training with some group tutorials or mentoring to assist SMEs in internalising and assimilating into practice what they are learning.

Boosting innovation among SMEs and entrepreneurs

- Develop a national incubator policy that lays out the standards of operation based on international best practices and performance benchmarks.
- In the design of support programmes and measures, broaden the concept of innovative activities to more fully incorporate support for non-technological innovations, such as organisational, process, social and cultural innovations.
- To supplement the law on sharing of intellectual property between universities and their spin-offs, develop simple rules to govern situations where university professors start spin-off companies that begin with the use of university facilities.
- Make continuous efforts to examine the effectiveness of Polish clusters and to learn lessons from the experiences of cluster policies and activities in OECD countries and EU member states as input to a comprehensive cluster policy framework for Poland.

Facilitating access to markets

- To support the government's SME procurement policy, develop a database of SMEs that have the capacity to bid on government contracts (*e.g.* simple SME supplier registration system) and then develop a tracking system to monitor contracts being awarded to SMEs.
- Explore the need for additional policy measures to support co-operative efforts of SMEs in the area of procurement access and to develop stronger linkages between Polish SMEs and large firms to enhance their participation in global supply chains, and, thus, improve their indirect access to export and procurement opportunities.

Supporting under-represented groups

- Undertake a gender-based study of the challenges affecting entrepreneurs and owners of SMEs with a view to improving the factual and analytical understanding of the role of women entrepreneurs in the economy, identifying unique or more severe challenges faced by women and assessing implications for policy and programme design.
- Strengthen the statistical base for carrying out gender-related comparative analysis and longitudinal studies of the impact of development and policies on women's entrepreneurship. Also dedicate efforts to report more fully on sex-disaggregated data on SMEs, including the male/female take-up rates of loan guarantee and loan funds and of KSU and KSI services.

Box 3.5. **Summary of key recommendations concerning SME and entrepreneurship policies and programmes in Poland** *(cont.)*

- Carry out an evaluation of the effectiveness of schemes to support self-employment as an option for unemployed people and people with disabilities.
- Give serious consideration to specifying a dedicated Young Entrepreneurs Programme.

Promoting entrepreneurial attitudes and culture

- Accelerate efforts to foster the entrepreneurial mindset in students and youth and to fully integrate an entrepreneurship curriculum in the education system.
- Evaluate the impact of entrepreneurship courses and measures to assess the extent to which they result in changes in attitudes, confidence levels, knowledge, and intent to one day have a business. Implement an initiative to track the career paths of graduating students to determine the impact of having taken entrepreneurship courses in terms of becoming entrepreneurs and commercialising research results. Guidance on how to approach the evaluation of entrepreneurship education programmes can be sought from OECD (2009b).
- Undertake strong efforts to ensure linkages between entrepreneurship education efforts and the offering of business-support services to graduates who want to start their own enterprises.
- Fully support and expand the incubators initiative to accelerate the uptake of dynamic entrepreneurship by graduates.
- Dedicate more efforts to celebrate innovative entrepreneurship through annual award programmes, focused media coverage of successful entrepreneur role models, etc.

1. Chapter 4 deals more extensively with recommendations in this area.

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland**

Instruments of direct support to SMEs

- **Innovation vouchers:** The innovation voucher instrument, funded from the State budget, is aimed to initiate contact between micro- or small enterprises and R&D units, a practice that is not very common in Poland. SMEs (with less than 50 employees) apply for a voucher worth up to PLN 15 000 to initiate co-operation with an R&D unit to access R&D advisory services to design new or improve existing technologies or products. This programme was launched in mid-May 2009 and is being implemented by PARP. The total budget to 2010 is PLN 9.15 million. Some 22 vouchers have been granted (to June 2009).
- **Innovative investment loans:** Innovation loans are granted to SMEs for the implementation of R&D results, the purchase of foreign licenses or technology know-how, construction or modernisation of buildings and plants necessary for implementing the innovation, and the purchase of research services for the implementation of innovation and new technologies. The loan value covers up to 75% of total qualified costs to a maximum of PLN 2 million for a period of up to ten years (with the purchase of research services accounting for no more than 15% of the total eligible costs). These loans are implemented by PARP.

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland** *(cont.)*

- **Tax relief for purchase of new technologies:** Tax relief for acquisition of a new technology is another tool of R&D support. This initiative has not had significant uptake. In 2007, only 19 taxpayers claimed this tax relief (for an amount of about PLN 4.4 million) and 117 natural persons (for an amount of PLN 66 000). In 2008, 26 taxpayers claimed tax relief for an amount of PLN 7.8 million and only 11 natural persons for the amount PLN 51 000. The big downturn in number of natural persons making the claim was likely caused by the economic slowdown. The overall situation of a very small number of taxpayers and natural persons claiming tax relief for the purchase of new technology seems to be caused by lack of promotion and information on the initiative among entrepreneurs. In a recent survey, only 41% of entrepreneurs knew about the tax relief concerning new technology while 41% admitted not knowing anything about it. The other reason for low uptake is that only a small number of enterprises are using new technology.
- **Support for investments in "goal-oriented" innovation projects:** Under the OP IE (2007-13), SMEs can access funding for "goal-oriented projects" that involve technical, technological or organisational innovations where industrial research assistance is provided by research units. The policy objective is to encourage partnerships between SMEs and the research infrastructure. Funding is covered for both development and implementation phases of the project (up to 70% of the project costs for small enterprises; and up to 50% for large enterprises, with ceilings on the total project costs depending on the type of assistance).

  For SMEs, the rules allow costs for industry-related R&D work, such as: salaries and social security and health insurance contributions of persons directly involved in the implementation of the research project; purchase or use of equipment and apparatuses used for the purposes of a research project; depreciation of buildings to the extent that these are used for the purposes of the research project; acquisition of immaterial assets such as patents, licenses, know-how, and unpatented technical knowledge; purchase of studies, consultancy and equivalent services used solely for the purposes of implementing a research project; and other overhead and operating costs incurred directly in connection with the implementation of the research project up to 20% of the total expenditure eligible for the support.

  Funding also applies to other R&D activities, such as the transformation of enterprises into R&D centres; development of an industrial design or a utility model (and its implementation);[1] investment projects involving a purchase or implementation of new technological solutions in production and services (applied for no longer than three years in the world or whose level of dissemination throughout the world in a given industry does not exceed 15%) that will result in creation of a new or substantially improved product or service;[2] and implementation of individual projects by new micro- and small enterprises (conducting business activity for no longer than one year) to offer services in the electronic form and, possibly, create digital products necessary for the provision of such services.[3]

  The MSHE is the sponsor of the Programme of Funding Goal-Oriented Projects for SMEs 2005-09. These are carried out by NOT. From 2001-08, almost 700 project contracts were signed to a total value of over PLN 131 million (EUR 30 million) (average project size of PLN 188 176). Recipients of the two programmes of supporting SMEs' R&D activity generated an increase of PLN 1.15 billion in turnover and PLN 171.8 million in net profit, and created more than 1 200 direct jobs to the end of 2008. From the point of view of the government of Poland, this is a success.

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland** *(cont.)*

- **Granting of R&D Centre status:** Granting an R&D Centre (RDC) status to enterprises is an instrument intended to support development of the private R&D sector and to increase demand for R&D services by linking RDC status with tax incentives (*i.e.* RDCs are allowed to claim income tax relief). Initially, because of the obligation to meet specific revenue level and structure requirements, the RDC status was more a proposal for foreign investors interested in locating their R&D centres in Poland, national companies with the status of private research institutions, or transformed and commercialised R&D units (RDUs). Amendments to the programme in 2008 reduced the "revenue from R&D services to total sales" requirement for RDC status from 50% to 20%, which should increase the programme uptake.
- **The "Technology Initiative 1":** Implemented by the MSHE through the National Centre for Research and Development (NCBiR), the "Technology Initiative 1" has been in place since 2007. It supports activities in the area of research, innovation, and entrepreneurship to implement new innovative technologies in industry and aims to improve Poland's performance in the commercialisation of R&D results. It also aims to improve Poland's innovation indicators within the European Innovation Scoreboard, stimulate creation of new innovative business enterprises, promote an innovation culture, incite co-operation through consortia, introduce good practices for the operation of technology transfer institutions, and disseminate good practices in regulations on co-operation between scientific and business units. The programme is spending EUR 100 million a year (with average per project funding of PLN 1 million over three years).

  SMEs and other entrepreneurs focused on innovation, as well as scientific research units interested in co-operation with industrial partners can apply for funding through a competitive process. The main goal of the programme is to support connection and co-operation between the science and industry communities, to enhance the transfer of knowledge, and to stimulate the creation of new technologies and product solutions based on Polish scientific and technological achievements.

  A basic condition necessary for a positive decision on project funding is that the project proposal demonstrates how the research results are going to be implemented in a business enterprise. The programme provides support for all project development stages, from the basic and applied research phase, through the development research phase, and up to the preparation work for implementation, including all implementation issues, such as feasibility studies, patent procedures, certification, and normalisation.

  Performance indicators include the number of projects engaging in industrial technology implementation, the number of projects resulting in patent registrations and granting of licences, the number of projects followed by a spin-off/spin-out creation, and the number of projects with continued long-lasting co-operation between the scientific and the business unit. The NCBiR is obliged to report the results of the programme to the MSHE. As a result of the feedback on design of the Technology Initiative I, the MSHE launched the new "IniTech" programme in 2009.
- **Management of intellectual property:** Under the OP IE, SMEs are eligible for support to cover the costs of preparing a patent application, including legal costs, to obtain protection of industrial property (excluding the costs of application to the Polish Patent Office),[4] and to cover the costs related to proceedings with regard to annulment or expiry of a patent, protection right to a utility model or right in registration. This initiative is delivered by PARP, which also offers advice on the patenting process. Further,

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland** *(cont.)*

business environment institutions are eligible for project support related to dissemination of knowledge on the benefits arising from the protection of intellectual property in enterprises (including promotional and information projects intended to enhance the entrepreneurs' awareness of the benefits stemming from the protection of intellectual property, as well as information projects related to the methods and possible ways of protecting intellectual property).

The Polish Patent Office (PPO) is involved in a number of important initiatives to promote the use of intellectual property rights (IPR) protection by Polish enterprises. The PPO has already carried out projects to train staff in the 27 patent information centres (PICs) throughout Poland, the Customs Office and the Ministry of Culture and National Heritage on dealing with IPR protection issues, and organised many conferences and training seminars for SMEs, entrepreneurs, lawyers, and inventors. The PPO is now in the process of obtaining a specialised tool for the evaluation of the economic value and potential of patents – IPscore® for use by the PICs – and training staff on the software operation. The software can be used with success by SMEs to facilitate strategic business decisions.

SMEs in Poland can also participate in the IPEuropeAware – IP Awareness and Enforcement: Modular Based Actions for SMEs. The programme was launched in November 2007 and will run for three years. The objective of this initiative is to raise awareness and knowledge of IPRs, in particular for SMEs, to increase their understanding of the need to integrate IP in their innovation strategies and their business planning, and improve protection of their IPRs. The programme consists of four modules that provide a basic toolbox of IPR awareness and enforcement materials (including manuals, training materials, workshops, etc.), a web portal for SMEs, and local contact points.

Support instruments for business environment institutions

- **Support for establishment of innovation centres:** Funding support is provided for the development and capacity building of innovation centres (individual projects) through Measure 5.3 of the OP IE. Beneficiaries of this programme are highly specialised business environment institutions providing services in support of high-growth and technology-potential projects, including entities managing science and technology parks, technology incubators, advanced technology centres, productivity centres and other centres providing specialist services for entrepreneurs, in particular for SMEs. The measure provides financial assistance to cover the costs of different kinds of activity, such as: *i)* consultancy to prepare a centre development strategy considering the needs of entrepreneurs (*e.g.* feasibility studies, market research in the context of entrepreneurs' demand for highly specialist services); *ii)* consultancy and promotion resulting from the centre's strategy (*e.g.* databases, coaching, matching partners, estimating costs of the implementation of a given project for production by client entrepreneurs, the assessment of the market value of the R&D results); *iii)* investments resulting from the centre's strategy to implement expansion or modernisation of existing technical infrastructure (*e.g.* construction or extension of buildings, connections or extension of technological networks and utilities, purchasing specialist office equipment); and *iv)* promotional activities resulting from the centre's strategy (*e.g.* preparation of audiovisual materials and presentations in the media, organisation of seminars and conferences).

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland** *(cont.)*

- **National Academic Entrepreneurship System:** The objective of the National Academic Entrepreneurship System is to create a consortium of institutions and projects stimulating entrepreneurship in Poland. The network consists of universities, R&D units, technological parks and incubators that are involved in R&D and innovation activities. PARP supports this system by co-organising events, issuing publications, analysing and reporting on the activities conducted by national institutions supporting innovation, maintaining linkages with EU institutions in the field of innovation support, supporting the implementation of Regional Innovation Strategies, and promoting innovative technological solutions by co-organising matchmaking events for entrepreneurs operating in new technologies sector. Higher education entities can apply for up to PLN 15 000 to establish an academic incubator, including the costs of registration, purchase of equipment, and development of promotional and training materials. This measure is intended to address the issue of high employment among university graduates, the lack of entrepreneurial knowledge, practical training and experience of the average student, complicated start-up procedures, and the high cost of starting a business.
- **Supporting new innovative activities:** Further, under the OP IE, PARP administers a programme of funding to support the costs of projects related to research for, and evaluation of, innovative concepts presented by potential entrepreneurs, the preparatory work needed to establish a new enterprise based on such a concept, and capital investment in the newly founded enterprise. The beneficiaries of this programme are the institutions supporting establishment of innovative enterprises, *e.g.* incubators, including academic incubators of entrepreneurship, centres of technology and innovation transfer, technology accelerators, and research and technology parks. To the end of December 2008, 15 projects, totalling PLN 174 million had been funded (average of PLN 11.6 million).
- **Creator of Innovativeness Programme:** The Creator of Innovativeness Programme has the objective to improve science-industry co-operation by supporting initiatives focusing on innovation and entrepreneurship promotion in academic environments. The ultimate goal is to accelerate the commercialisation of R&D results, spin-offs, and innovative start-ups through the transfer of knowledge to entrepreneurs. This is a competitive grant open to higher education institutions for activities such as: creation and development of academic technology commercialisation systems, implementation of IP management procedures, creation of R&D databases, access to R&D infrastructure by entrepreneurs conducting activities based on research results, advisory services and training, and information and awareness-raising activities. This project is managed by the MSHE. The budget for 2007-11 is EUR 11 million.
- **Patent Plus Programme:** The objective of the Patent Plus Programme is to facilitate the transfer of knowledge to the national economy by supporting the costs incurred by academic and R&D institutions to prepare applications (including legal costs) to protect patents and intellectual property rights of their researchers. When (if) the technology is transferred to a private enterprise, the institution is allowed to participate as a business partner in the assisted enterprise. This initiative intends to address the low number of Polish patents and to make it easier for SMEs to acquire patented technologies and be competitive in the market economy.

Box 3.6. **Support instruments to boost innovation among SMEs and entrepreneurs in Poland** *(cont.)*

- **Innovative Enterprises Club:** The Innovative Enterprises Club, managed by PARP, is a discussion and information platform for the promotion of pro-innovative actions (*e.g.* support for clusters in Poland, industrial design, product competitiveness, capital investment as the source of financing), technology transfer, and information sharing between entrepreneurs. It was established in 1998 to raise awareness about the role of innovations in the development of enterprises, especially among SMEs, through promotion of new trends in innovative entrepreneurship like eco-innovation, the new approach to public procurement, innovation in service sectors, and new methods of user-driven innovation. This continues to be supported through funding from the OP HC.
- **Portal of Innovations:** PARP hosts the Portal of Innovations (*www.pi.gov.pl*), which provides information on pro-innovative institutions, innovative policies in Poland and elsewhere, regional innovation, SME R&D investment and support projects, financing of innovation, the National Innovation Network, Foresight Industrial Design and the latest research and news on innovation.

1. The maximum amount of support is PLN 21 million for the investment-related part, PLN 1 million for the training-related part, and PLN 600 000 for the consultancy-related part (Measure 4.2 of the OP IE).
2. Minimum amount of support: PLN 2.4 million (30% of PLN 8 million); maximum amount of support: for the investment-related part: PLN 40 million, for consultancy services: PLN 1 million, for the training-related part: PLN 1 million; value of eligible expenditure no less than PLN 8 million and no more than PLN 160 million (Measure 4.4 OP IE).
3. Funding covers up to 85% of the project's eligible expenditure, not less than PLN 20 000 and not more than PLN 1 million (Measure 8.1 OP IE).
4. Industrial property may be protected in Poland on the condition that the international application procedure is followed and the territory of the Republic of Poland is not the only territory where the applied-for protection would be effective.

Notes

1. The OECD Bologna Charter on SME Policies recognised that SME competitiveness would benefit from: *i)* a regulatory environment that does not impose burdens on SMEs and is conducive to entrepreneurship, innovation and growth (such as good governance in public administration, fair and transparent competition policy, and transparent and non-discriminatory tax regimes); *ii)* education and human resource management policies to foster an entrepreneurial culture, lifelong learning, and adaptation of education programmes to match the skills requirements of labour demand; *iii)* effective access to financial services (such as seed, working and development capital) and innovative financial instruments to reduce the risks and transactions costs of lending to SMEs; *iv)* an environment that supports the development and diffusion of new technologies for and by SMEs; *v)* strengthening public-private partnerships and social and political dialogue among territorial and institutional actors as a tool to exchange information and elaborate policy; and *vi)* cost-effective SME policies that are consistent with national policies and international programmes (OECD, 2000). The Bologna Charter priorities have provided guidance to the Polish government in shaping its own policy framework and actions.
2. The strategic goal is creation of the conditions for the growth of competitiveness of the knowledge-based economy and entrepreneurship, which are to assure an increase in employment and in the level of social, economic and territorial cohesion (Ministry of Regional Development, 2007).
3. The MRD was established in 2006 and also plays the role of a Ministry of Planning. Before the MRD was created, the Ministry of Economy covered regional policy through a dedicated unit.
4. Entrepreneurship as a functional area now falls under the Economy Development Department responsible for the design and development of SME and entrepreneurship policies. The Economic Regulations Department is dealing with tasks related to improvement of the quality of regulations and implementation of the system of modern economic regulations as well as putting its rules in practice. The collection and aggregation of knowledge in fields of SMEs and entrepreneurship for the purposes of evaluation of interrelations between fields as well as preparation of analyses,

assessments, evaluations, forecasts and information are main tasks of the Analysis and Forecasting Department. Economic growth support instruments implementation as well as monitoring lies in the responsibilities of the Support Instruments Department.

5. The self-employed are obliged to pay social-security contributions, namely old-age pension, disability pension, sickness insurance, health insurance, work accidents insurance contributions but also contributions to the Labour Fund and Fund for Guaranteed Employers Benefits.
6. Standard commission and processing fees are in the range of 1.5-2% of the loan guarantee amount (European Commission, 2006).
7. National Loan Guarantee Funds report, *www.ksfp.org.pl/upload/KSFP/Raport%20KSFP.pdf* (in Polish).
8. As a point of comparison, in 2007-08 the average number of jobs created per guaranteed SME loan in Canada was 2.3 (Industry Canada, 2008).
9. Polish banks are insisting that guarantees be provided for 75% of the loan instead of the assumed 50% (*Rzeczpospolita*, 2009).
10. Information provided during OECD study mission to Poland in June 2009.
11. Over 94% of these invested funds were for refinancing or repurchase from previous owners.
12. Act of 4 March 2005 on the National Capital Fund.
13. Preferred enterprises are those that carry out R&D activities in relation to a product or a service, introduce a product or a service to the market for the first time or expand their operations, or develop the market for the product or service or increase their production capacities. The companies should either be in the seed and start-up stage of development, or be in expansion mode, with particular consideration given to SMEs with a substantial development potential, and introducing innovative technologies.
14. Information provided during OECD study mission to Poland in June 2009.
15. As stated in the OP HC Sub-measure 2.2.1 "Improving quality of services provided by business and innovation support institutions."
16. See the National Strategy for Raising Employment and Developing Human Resources in 2000-06; SOP Human Resources Development and Integrated Regional Development OP; National Employment Strategy for the Years of 2007-13; Human Capital Operational Programme 2007-13.
17. PARP was consulted on this target and agreed that it was realistic based on the existing business-support system. The provision of "business support", however, is very broad – just giving information could count as a business-support intervention.
18. Under the SOP-HRD 2004-06, 366 000 employees from 96 700 enterprises received training. Almost 90% of these enterprises were SMEs, but only 26% of the trained employees worked in SMEs.
19. Previously only persons threatened by dismissal could benefit from this measure.
20. "PAED Support for Entrepreneurship and Innovation", presentation to OECD WPSMEE meeting, 4-5 June 2009, Warsaw.
21. Entrepreneurs who receive support under this scheme will be able to decide whether to use an outside contractor of R&D work, scientific institutions, or industrial consortium or to conduct it on their own (if they possess the infrastructural base and other necessary resources).
22. Funding for the Academic Incubators of Entrepreneurship came from the Ministry of Economy.
23. The Foundation of Academic Incubators of Entrepreneurship reports that 2 500 enterprises have been launched from the network of 32 academic incubators. A survey of 850 incubating enterprises in 2008 indicated that they were collectively generating turnover of over PLN 20 million.
24. PRO INNO Europe is a new initiative of European Commission Directorate General Enterprise and Industry which aims to become the focal point for innovation policy analysis, learning and development in Europe, with the view to learning from the best and contributing to the development of new and better innovation policies in Europe. Poland takes part in three projects: BSR InnoNET (Baltic Sea Region Innovation Network), INNET, and CEE-ClusterNetwork.
25. Polish clusters taking part in PIC are: ICT West Pomeranian Cluster, West Pomeranian Wood and Furniture Cluster, Wielkopolskie Furniture Cluster, Baltic Ecoenergy Cluster and the group of scientists and enterprises from the food sector.
26. Good practices on mechanisms for developing these systems exist in Canada, the United Kingdom and the United States, among other countries.

27. The Labour Fund also provides employment creation loans to employers based on the number of jobs created for unemployed persons.

28. In 2006, approximately 35 000 unemployed persons received start-up grants. Self-employment grants consume 18% of all expenditures on active labour-market policies (Ministry of Labour and Social Policy, 2008).

29. Information provided during an OECD study mission interview in June 2009.

30. Noted as a best practice by the EU (European Commission, 2008b).

31. The National Bank of Poland (NBP) promotes the teaching of economic literacy as a priority for the national education system through the NBP Programme of Economic Education. This programme offers training for teachers on economic and financial literacy and partners with Polish Junior Enterprise on projects delivered to lower and upper secondary level students.

References

Cieślik, J. (2008), "University-Level Entrepreneurship Education in Poland", paper presented at the Third International Conference on Economics, Law and Management, ICELM-3, University of Tirgu-Mures, Romania, 4-6 June.

CSO (Central Statistical Office) (2007), "Women in Poland", Warsaw.

CSO (2009), "Conditions of Establishment, Operation and Development Prospects of Polish Enterprises Established in the Years 2003-07", Statistical Information and Elaborations, Warsaw.

European Commission (2006), "Guarantees and Mutual Guarantees", *Best Reports*, No. 3 – 2006, Brussels.

European Commission (2008a), "Think Small First, A 'Small Business Act' for Europe", Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, SEC(2008)2101, SEC(2008)2102, COM(2008)394final, 25 June, Brussels.

European Commission (2008b), "Entrepreneurship in Higher Education, Especially within Non-Business Studies", Final Report of the Expert Group, March, Brussels.

European Commission (2009), "European Charter for Small Enterprises: 2009 Good Practice Selection", Enterprise and Industry, Brussels.

HM Treasury (2008), "Accelerating the SME Economic Engine – Through Transparent, Simple, and Strategic Procurement", UK Government, London, November.

Industry Canada (2008), "Canada Small Business Financing Act Annual Report 2007-08", Ottawa, Canada.

JADE Gazette (2005), "Entrepreneurial Education in Poland: Fostering Young Entrepreneurs", September.

Klos, A. (2008), "KSU – National Service Network for SMEs", presentation made at the Conference on the European Charter for Small Enterprises, 4 June, *http://ec.europa.eu/enterprise/policies/sme/files/charter/conf2008/p69650_en.pdf*.

Kowalska, I., D. Stelmachowicz-Pawyza and K. Mucha (2005a), "Desk Study Report on Comparison of Entrepreneurship at Partner Countries' Schools and Training Centres' Curricula," prepared as part of the Guidance and Counselling for Self-employment Project, Leonardo Da Vinci Community Vocational Training Action Programme, Second Phase: 2000-06, *www.self-employment.ugal.ro/documente.htm*.

Kowalska, I., D. Stelmachowicz-Pawyza and K. Mucha (2005b), "Desk Study Report on State of the Art of Self-Employment in Poland", prepared as part of the Guidance and Counselling for Self-employment Project, Leonardo Da Vinci Community Vocational Training Action Programme, Second Phase: 2000-06, *www.self-employment.ugal.ro/documente.htm*.

Ministry of Economy (2006), "Guidelines for the Regulatory Impact Assessment (RIA)", adopted by the Council of Ministers, October, Warsaw.

Ministry of Economy (2007), "Equity Gap and the Need for SMEs to be Financed with Private Equity/Venture Capital", prepared by ICG, October.

Ministry of Economy (2008a), "National Reform Programme for 2008-2011 to Implement the Lisbon Strategy", adopted by the Council of Ministers, 18 November, Warsaw.

Ministry of Economy (2008b), "Entrepreneurship in Poland 2008", Analyses and Forecasting Department in co-operation with Economic Development Department, Economic Regulation Department, Support Instruments Department, Warsaw, August.

Ministry of Economy (2008c), "The New Approach to Public Procurement, Public Procurement and Small and Medium Enterprises, Innovation and Sustainable Development", adopted by the Council of Ministers, 8 April, Warsaw.

Ministry of Economy and Labour (2004), "European Charter for Small Enterprises and its Implementation in Poland in 2004", Warsaw.

Ministry of Economy, Labour and Social Policy (2003), "Government Policy Guidelines for Small and Medium-Sized Enterprises for the Years 2003-06 in Poland", adopted by the Council of Ministers, 4 February, Warsaw.

Ministry of Labour and Social Policy (2008), "Employment in Poland 2007", Department of Economic Analyses and Forecasts, Warsaw.

Ministry of Regional Development (2007), "National Strategic Reference Framework for 2007-13 in Support of Jobs and Growth: National Cohesion Strategy", adopted by the European Commission, May.

National Bank of Poland (2009), "Information on the Condition of the Enterprise Sector, including the Economic Climate in 2009 Q1 and Forecasts for 2009 Q2", Warsaw.

OECD (2000), "The Bologna Charter on SME Policies", adopted 15 June 2000, *www.oecd.org/document/17/0,3343,en_2649_34197_1809105_1_1_1_1,00.html*.

OECD (2001), *Women Entrepreneurs in SMEs: Realising the Benefits of Globalisation and the Knowledge-based Economy*, OECD Publishing: *http://dx.doi.org/10.1787/9789264193239-en*.

OECD (2004a), "The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs", 3-5 June, *www.oecd.org/document/16/0,3343,en_2649_34197_32020176_1_1_1_1,00.html*.

OECD (2004b), "Promoting Entrepreneurship and Innovative SMEs in a Global Economy: Towards a More Responsible and Inclusive Globalisation", 2nd OECD Ministerial Conference on SMEs, 3-5 June, Istanbul, Turkey.

OECD (2005), *Business Clusters: Promoting Enterprise in Central and Eastern Europe*, Local Economic and Employment Development (LEED), OECD Publishing: *http://dx.doi.org/10.1787/9789264007116-en*.

OECD (2006a), *The SME Financing Gap (Vol. I): Theory and Evidence*, OECD Publishing: *http://dx.doi.org/10.1787/9789264029415-en*.

OECD (2006b), "The OECD Brasilia Action Statement for SME and Entrepreneurship Financing", OECD Global Conference on Better Financing for Entrepreneurship and SME Growth, 27-30 March, Brazil, *www.oecd.org/document/16/0,3343,en_2649_34197_36407440_1_1_1_1,00.html*.

OECD (2007a), "Regulatory Management Capacities of Member States of the European Union that joined the Union on May 1, 2004: Sustaining Regulatory Management Improvements through a Better Regulation Policy", SIGMA, a joint initiative of the OECD and the European Union, principally financed by the EU, *SIGMA Paper*, No. 42, GOV/SIGMA(2007)6, 6 June.

OECD (2007b), *The SME Financing Gap (Vol. III): Proceedings of the Brasilia Conference, 27-30 March 2006*, OECD Publishing: *http://dx.doi.org/10.1787/9789264029453-en*.

OECD (2007c), *Competitive Regional Clusters: National Policy Approaches*, OECD Reviews of Regional Innovation, OECD Publishing: *http://dx.doi.org/10.1787/9789264031838-en*.

OECD (2007d), "OECD Tokyo Statement on Strengthening the Role of SMEs in Global Value Chains", adopted 1 June, *www.oecd.org/dataoecd/44/31/38774814.pdf*.

OECD (2009a), "The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses", Centre for Entrepreneurship, SMEs and Local Development, *www.oecd.org/document/6/0,3343,en_2649_34197_43182598_1_1_1_1,00.html*.

OECD (2009b), "Evaluation of Programmes Concerning Education for Entrepreneurship", report by the OECD Working Party on SMEs and Entrepreneurship, OECD, *www.oecd.org/dataoecd/19/31/42890085.pdf*.

Polish Association of Loan Funds (2009), "Loan Funds in Poland: Supporting Micro, Small and Medium Enterprises as at December 31, 2008", Report No. 11/2009, Warsaw.

Potter, J. (Ed.) (2008), *Entrepreneurship and Higher Education*, OECD Publishing: *http://dx.doi.org/10.1787/9789264044104-en*.

Rzeczpospolita (2009), "Guarantees Do Not Work", p. B1, 7 July.

Stawasz, E. *et al.* (2007), "Entrepreneurship and Innovation Policy in European Countries: The Case of Poland", report prepared as part of the Innovative Policy Research for Economic Growth (IPREG) project, Foundation for the Promotion of Entrepreneurship, Lodz, August, *www.ipreg.org*.

Stevenson, L. and A. Lundstrom (2002), "Beyond the Rhetoric: Defining Entrepreneurship Policy and Its Best Practice Components", Swedish Foundation for Small Business Research, Stockholm.

UK Office of the Deputy Prime Minister (2004), "Small Business Friendly Concordat: Good Practice Guidelines", UK Government, London.

Waasdorp, P. (2002), "Innovative Entrepreneurship: A Dutch Perspective", in *Innovative Entrepreneurship: New Policy Challenges*, EIM Business and Policy Research, Zoetermeer.

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.

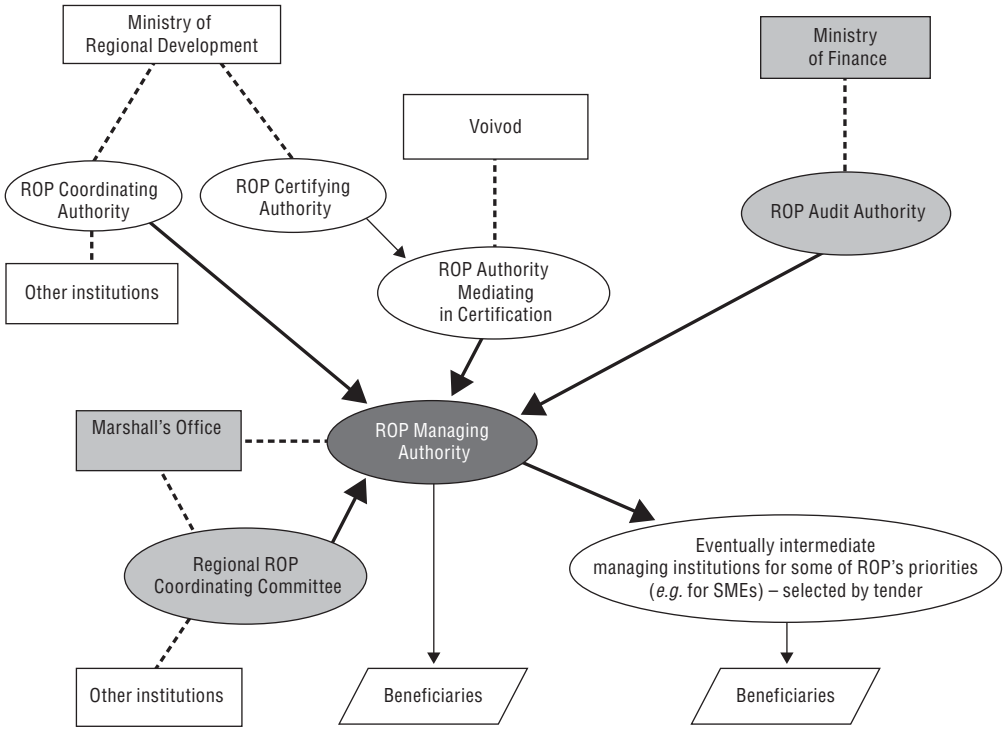
Poland's status as a new member state of the European Union (EU) also has important implications for SME and entrepreneurship policies in the country because of the availability of significant resources from the EU Structural and Cohesion Funds to support national and local objectives. This inevitably 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

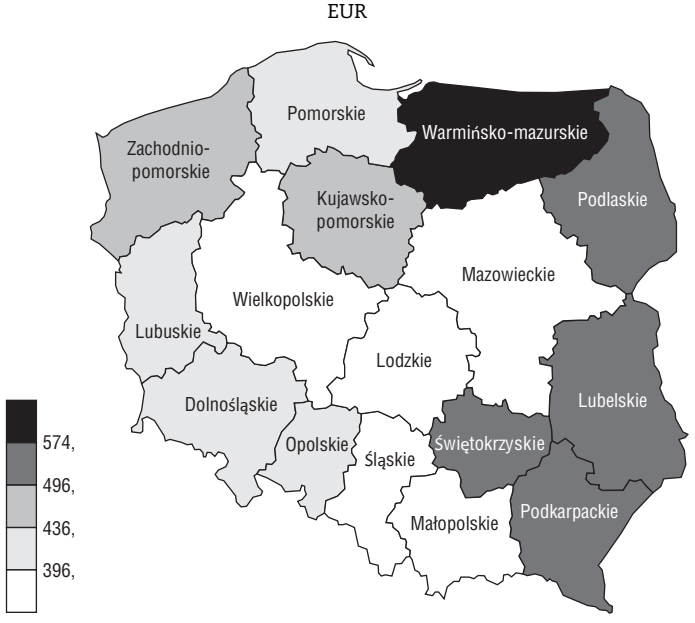
A consistently observed feature of entrepreneurship development in both mature market and emerging market economies is the existence of spatial variations in rates of

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 entities[2] 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 polices 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 or 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 *Kompetennetze.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@vdivde-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 entrepreuneurship 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.

References

Bennett, R. (2006), "Government and Small Business", in S. Carter and D. Jones Evans (eds.), *Enterprise and Small Business: Principles, Practice and Policy*, Second edition, Addison Wesley.

Bennett, R. (2008), "SME Policy Support in Britain since the 1990s: What Have We Learnt?", *Environment and Planning C*, 26, pp. 375-397.

HM Treasury (2004), "Devolving Decision Making: 2 Meeting the Regional Economic Challenge: Increasing Regional and Local Flexibility", HMSO, London.

Mason, C. (1991), "Spatial Variations in Enterprise: the Geography of New Firm Formation", in R. Burrows (ed.), *Deciphering the Enterprise Culture: Entrepreneurship, Petty Capitalism and the Restructuring of Britain*, Routledge, London.

OECD (2007), *The Social Economy: Building Inclusive Economies*, Local Economic and Employment Development (LEED), OECD Publishing: *http://dx.doi.org/10.1787/9789264039889-en*.

OECD (2009a), *The Changing Boundaries of Social Enterprises*, Local Economic and Employment Development (LEED), OECD Publishing: *http://dx.doi.org/10.1787/9789264055513-en*.

OECD (2009b), "Strengthening Entrepreneurship and Economic Development in East Germany: Lessons from Local Approaches", OECD Local Entrepreneurship Reviews, *www.oecd.org/document/31/0,3343,en_21571361_38013663_42202335_1_1_1_1,00.html*.

Piasecki, B. and A. Rogut (1994), "Poland: the Żary and Białystok Regions", in L. Labrianidis (ed.), *The Future of Europe's Rural Peripheries*, Ashgate Publishing, Aldershot and Burlington.

Scase, R. (2003), "Entrepreneurship and Proprietorship in Transition: Policy Implications for the SME Sector", in R. McIntyre and R. Dallago (eds.), *Small and Medium Enterprises in Transitional Economies*, Palgrave Macmillan.

Chapter 5

SME and Entrepreneurship Policy Assessment and Recommendations for Poland

The central issues Poland needs to address are: i) *developing a strategic policy design and building coherence of the institutional structure for both formulating small and medium-sized enterprise (SME) and entrepreneurship policies and programmes; and* ii) *delivering support. The starting point should be the affirmation of the lead and co-ordinating role of a single, appropriately resourced, ministry for SME and entrepreneurship policies. This should be accompanied by the reconstitution of an explicit strategic framework for SMEs and entrepreneurship to ensure coherence, consistency and comprehensive coverage of a broader set of innovation and entrepreneurship issues. The process of developing the strategic framework for SMEs and entrepreneurship also requires better co-ordination among policy-making bodies. At the national level, this should involve an inter-ministerial council, under the Prime Minister, to co-ordinate policy formulation. Priorities for substantive policy action co-ordinated through this strategic framework concern improving framework conditions in the economy; building capacity for entrepreneurship support in infrastructure and institutions; streamlining support delivery processes; better co-ordinating policy support at all levels; reinforcing the Polish Agency for Enterprise Development's focus on supporting enterprise development; and making programme design and delivery of support more effective, including by strengthened policy evaluation.*

Successful national development requires strong enterprises

While Poland has made great progress in its transition to a market economy, the task of catching up in terms of living standards with EU and OECD partners is not yet complete. The Polish authorities recognise this. As set out in the National Development Strategy, notwithstanding the structural and institutional reforms that preceded accession to the European Union, Poland still experiences "[…] a periodical low pace of economic growth, small progress in modernising the structure of the economy, a still low competitiveness and innovativeness of the economy" (Ministry of Regional Development, 2006).

Accession to the EU and the large financial support being provided by the Structural Funds provide Poland with a great opportunity to address these problems and to improve living standards and the quality of life in Poland. As described in Chapter 2, the Polish authorities are focused on taking advantage of this opportunity:

- At the strategic level, clear frameworks have been formulated, both at the EU level (Lisbon Strategy) and in Poland (National Development Strategy), to continue structural reform, strengthen infrastructure, create institutions and build human capacity in order to transform Poland into an innovative, knowledge-based economy.
- At the level of implementation, the various Operational Programmes (OPs) of the National Cohesion Strategy (Ministry of Regional Development, 2007) determine the allocation and distribution of the EU Structural Funds. These OPs are the mechanisms which in practice frame the delivery of practical support as regards both the form of programmes and projects and the target beneficiaries.
- Decisions about the uses of the Structural Funds and selection of the main beneficiaries provide a good indication of the authorities' priorities. Under the current National Cohesion Strategy, these appear to be: *i)* building physical infrastructure, *ii)* investing in human capital; and *iii)* developing an innovative economy. Centrally managed Operational Programmes (OPs) targeted directly at these priorities receive around two-thirds of the Structural Funds.
- There is a significant regional dimension to policy design in Poland and regional disparities are an important concern for the authorities. The OPs allocate around one-quarter of the Structural Funds across all 16 regions, to be managed by the regions themselves, in a way which ensures that no region is neglected. Targeted assistance, mainly for the eastern regions, otherwise constitutes a fairly small share of the total, less than 5%. This suggests that an important subsidiary goal is to avoid worsening of regional disparities, but that eliminating them will not be pursued at the expense of the wider economy.

As an overall framework, this is well considered and coherent. It reflects a transition from a sectoral to a horizontal approach to public policy in which sectoral issues are embedded in other policy domains. But this leaves open the question of how enterprises, and especially small and entrepreneurial ones, fit into the resulting picture.

In many respects the key role of enterprises and entrepreneurship in ensuring the success of this strategy is recognised:

- Since enterprises are the economy's main productive units the general public policy framework affecting the business environment, as determined by legislation and regulatory policies, functions by influencing incentives operating on enterprises.
- The National Cohesion Strategy and other programmes and policies to strengthen the economy provide large amounts of support for enterprises. In particular, as noted in Chapter 2, a large share, around 22%, of the EU Structural Funds has been allocated to programmes that will directly or indirectly benefit enterprises.
- Other large parts of the National Cohesion Strategy resources will provide indirect support to enterprises by strengthening elements of the economy on which they depend. These include higher education, vocational training and physical transport infrastructure.
- Both the Lisbon Strategy and the National Development Strategy explicitly recognise the importance of entrepreneurship and the large role that small and medium-sized enterprises (SMEs) have to play in generating and diffusing new ideas, products and methods throughout the economy and in increasing the presence of Polish enterprises in international markets. This is reflected in the prominence that is given to entrepreneurship in the Innovative Economy OP and in the large share of EU Structural Funds to benefit enterprises that are reserved for or targeted toward SMEs (around 75%). The result is that the funding for SME-related programmes in Poland is far higher than is typical in other OECD countries (Table 5.1).

Unfortunately, the enterprise sector today is weak. It is not clear that it can effectively play its role in turning the Polish economy into the more dynamic and innovative knowledge-based society envisaged in the Lisbon and National Development Strategies without a more strategic effort to build it up.

Table 5.1. **Government spending on support for SMEs, Poland, 2005 and 2007-13**

% of GDP

2005, as reported in OECD (2007)	0.02
Slovak Republic	0.02
United States	0.02
Mexico	0.03
Chile	0.06
Brazil	0.14
Finland	0.16
Poland	0.18
Israel	0.22
Czech Republic	0.42
United Kingdom	
2007-2013 (estimated average)	
Poland (2007-2013)	0.64

Note: Figures are not strictly comparable across countries.
Source: OECD (2007), SMEs in Mexico: Issues and Policies, OECD Publishing: *http://dx.doi.org/10.1787/9789264031791-en*, Figure 3.1; Secretariat estimate – for Poland 2007-13, based on the National Cohesion Strategy.

As noted in Chapter 1, the enterprise sector is dominated, to an unusual degree, by large firms and micro-enterprises, with relatively little in between. The large firms, which are principally a legacy of the central planning period, are socially important for the employment they provide and their output is a vital part of the economy. But they are often in mature, and even declining, industries and seem unlikely to provide fertile ground for the development of new ideas, activities, products and processes on which success of the Strategies will depend. SMEs are better placed in this regard, but their contribution as the sector is presently constituted is likely to remain weak:

- The large micro-enterprise segment mostly consists of self-employed people with few, if any, employees. Education levels of workers in micro-enterprises are generally low.
- Such enterprises have difficulty coping with tax, regulation and lack of financing, all of which encourage a drift into the grey economy and limit prospects for expansion.
- The 10-50 employee class, which would include more dynamic SMEs whose size allows more complex organisation and reflects growth of employment and the underlying productivity and success in the marketplace that encourages such growth, is especially small in Poland. It is well below average by the standards of the EU27.
- As a result, the SME sector displays little of the characteristics that success in the Strategies will demand. It exports little, invests little in research and development (R&D) or innovation, has few resources, is technologically challenged and rarely relies on professional bookkeeping.[1] Overall it generally lacks sophistication to a degree that will make it difficult to contribute much to Lisbon or National Development Strategy goals.

It seems clear that the current policy framework should be reinforced by more focused efforts to strengthen the enterprise sector, especially at the smaller end. In particular, ways need to be found to encourage larger numbers of micro-enterprises to acquire the organisational coherence, productivity and customer bases which allow them to expand into larger size classes. The emphasis placed by the Lisbon and National Development Strategies on R&D, innovation, new products and new activities in an international context should not obscure the scope for non-technological and social innovation and creative undertakings by entrepreneurs with new ideas.[2] Furthermore, advances in productivity can be achieved by bringing skills, organisational methods and productivity levels in Polish enterprises in line with EU and global standards. The remainder of this chapter sets out some policy priorities and recommendations for reinforcing the current strategic framework with a view to strengthening the SME sector and entrepreneurship.

Bring back an explicit framework for policy action

A healthy enterprise sector requires strong SMEs beyond the micro-enterprise class, a larger proportion of small and medium-sized enterprises with coherent organisational structures and a meaningful share with reasonable growth prospects. Building such a sector, given today's high concentration of weak micro-enterprises, requires addressing a broad range of issues in ways that are co-ordinated, complementary and mutually reinforcing. Some issues concern the framework conditions for the business environment in which SMEs operate. Some concern infrastructure and institutions in the wider economy on which SMEs depend if they are to operate successfully. And some concern targeted support policies and programmes.

As described in the review of the evolution of policies towards SMEs in Chapter 3, Poland had an explicit strategic framework for SME policies until recently. This facilitated a

consistent integration of the various policies while highlighting gaps or missing elements. It has now been dropped in favour of the current horizontal framework built around the Lisbon Strategy, in which SME and entrepreneurship policies are embedded across policy domains. There remain the general set of recommendations in "Entrepreneurship in Poland" (Ministry of Economy, 2008), prepared by the Ministry of Economy, and the set of legislative proposals that make up the "Package for Entrepreneurship". At the EU level, considerable emphasis is placed on the "Think Small First" principle, which is reflected in the Small Business Act. But none of these constitutes a comprehensive framework and it is not clear that they have much influence as strategic organising tools.

The overall result of these developments is that both formulation and delivery of policies toward SMEs and entrepreneurship have become dispersed across ministries, agencies and policy domains. This stands in contrast to policies in support of innovation, which has a well-formulated strategy articulated in the Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13 (Ministry of Economy, 2006), and generous targeted funding in the form of a dedicated OP in the National Cohesion Strategy. When the Life-Long Learning Strategy is finished, human resource development will have a similarly well articulated and funded strategic framework.

Innovation and human resource development are important in themselves and the policy frameworks dedicated to them include important support for SMEs and entrepreneurship. But the policy framework that emerges for SMEs and entrepreneurship is something of a residual, a collection of programmes put together with no clear design or necessarily any overall coherence. At best, gaps and overlaps are likely, and there is a high risk of inconsistency and incoherence.

Reconstitution of an explicit strategic framework for SMEs and entrepreneurship could ensure coherence, consistency and comprehensive coverage of a broader set of innovation and entrepreneurship issues. This framework should be less focused on R&D and innovation based on science and technology and more on helping SMEs in Poland to catch up with EU and international counterparts in order to achieve a general strengthening of the middle range of the whole enterprise sector. An important element of such a strengthening should be the development of a new generation of competent entrepreneurs to start high-potential ventures.

This could involve a horizontal policy document of the same status as the Strategy for Increasing the Innovativeness of the Economy. Even without a dedicated OP in a future National Cohesion Strategy, which would presumably begin in 2014, such a document would be designed to increase the coherence of the various dispersed actions carried out as part of implementation of policies in other domains. It would provide an overall framework for integration of SME and general entrepreneurship considerations into policy formulation and delivery in these other domains. This would create a political mandate to officials charged with pressing for such integration to be achieved.

Such a document would also provide a good starting point for authorities at lower levels of government responsible for delivery of support to articulate their own strategies in order to ensure that local and regional policies are complementary to, and reinforce, the national ones. This should involve linking strategy to action plans and to agreed targets, which are discussed and negotiated between national and regional governments and other key stakeholders.

Reduce the main barriers to growth and development of SMEs and entrepreneurship

If the high weight of micro-enterprises is to be reduced in favour of a larger and stronger medium-sized segment, the barriers to their growth, in particular to their expansion into the 10+ employee classes, will have to be reduced. The most important barriers, identified in Chapter 2, appear to be regulatory complexity, administrative burdens, high tax rates (in particular for social security contributions), lack of financing, and availability of human resources in the form of qualified labour and management competence. Difficulties accessing markets is another widely cited problem. The review of the business environment in Chapter 2 confirmed that these are not only important deficiencies in the business environment but that Poland generally performs poorly in these areas in international comparisons.

Most of these barriers impinge to some degree on enterprises of all sizes. But they weigh more heavily on SMEs, and especially micro-enterprises, because these lack the capacity to cope. Much can be done to reduce these barriers without requiring SME-specific policies or programmes. Changes in the laws, incentives and operation of government institutions that make up the framework conditions in which enterprises operate can improve matters, especially where they reflect the "Think Small First" approach and are sensitive to the impact of such changes on the smallest of enterprises. Chapter 2 calls attention to a number of areas where improvements should be made, but several stand out as having the highest priority:

- The "Better Regulations" framework and the "Package for Entrepreneurship" need to be applied consistently, reinforced and made more effective to address regulatory burdens and administrative costs. The new "Regulatory Reform Programme – Better Regulation" and the "SME test" should be implemented as soon as possible. The Ministry of Economy should concentrate on measuring and efficiently reducing administrative burdens on small enterprises, especially in the highest priority areas. Including effects on SMEs as part of the regulatory impact assessment (RIA) process will be an important part of these efforts and this will require further training of administration officials to enable them to carry out RIA processes effectively.
- The administrative burdens reported in Chapter 2 and discussed more extensively in Entrepreneurship in Poland (Ministry of Economy, 2008), notably as regards inspections and reporting obligations, may only be anecdotes. But they are unusual and seem extreme in comparison to the experience of the EU15 and most non-EU OECD countries. It is important that the intentions of the high-level policy documents and frameworks are reflected in developments on the ground, where enterprises operate, and not confined to good principles.
- Poland's human resource base needs to be strengthened to ensure greater availability of qualified skilled labour and management competence. This is mainly a long-term matter of strengthening both the formal and the continuing education systems. Priority areas include ensuring the coherence of institutional arrangements following decentralisation; adapting the system better to the needs of the economy, especially the labour market; fostering entrepreneurial attitudes and culture by fully integrating an entrepreneurship curriculum; and finding ways to provide adequate funding for the growing higher education sector while ensuring that it remains financially accessible to students.

- While the commercial banking system has made great progress in terms of providing reasonable basic banking services to SMEs, better funding for growth and expansion by private financial markets will require significant institution building. Efforts are needed to nurture the growth and development of institutions that can prudently provide reasonable amounts of longer term risk capital, ideally including venture capital, rather than the short-term credits that banks are best placed to provide. These include pension funds, insurance companies and investment funds, which at the end of 2008 accounted for barely one-quarter of the financial system as measured by assets.
- Since the personal income tax burden in Poland is fairly light, easing the cost burden from taxes on SMEs and entrepreneurial firms hoping to expand is a matter of reducing social security contribution rates, which remain high notwithstanding recent reductions. This is especially important where these interact with minimum wages to make it very expensive to take on low-skilled workers. Realistically, this requires reducing social security spending, which is largely funded through these contributions. Bringing early retirement spending in line with the EU25 average and integrating the special scheme for farmers (KRUS) with the main scheme offer some scope for doing this.

Poland has had good, but not exceptional, success in attracting foreign direct investment. Since foreign affiliates frequently pay higher wages than other firms and contribute to technology transfer and higher productivity growth in the economy, it is clear that Poland should make efforts to attract even more of such investment. From the perspective of SMEs, the role foreign affiliates play in integrating the Polish economy internationally, their high propensity to export and their ability to serve as a focal point for cluster development[3] make them an excellent source of indirect access to foreign markets.[4] State aid and some special incentives that continue to be available in Special Economic Zones, at least for the near future, should be avoided as inconsistent with good practice competition policy. But clear commitment to non-discrimination when applying regulations and elimination of legal limits to foreign ownership and special government voting rights, which can be exercised in the event equity is acquired by foreign investors, can play an important role in ensuring that Poland is a welcoming destination for international investors.

Use the EU Structural Funds wisely to build capacity

Many barriers to SME development must be addressed by building infrastructure, institutions and various other types of capacity. Examples include higher education institutions, vocational education and training systems, non-bank financial markets and institutions, various types of physical infrastructure (especially transport-related systems), and business-support service capacity. Some of these will strengthen the business environment across the board, benefiting households and large firms as well as SMEs. Others will be more targeted at the specific needs of start-ups, existing SMEs and potentially rapidly growing small firms.

Building capacity of this kind generally requires resources. Some of these are needed to build or rent physical installations, some to finance services that cannot be viably provided by the market, and some to finance activities that are not yet but will hopefully become viable on a commercial basis. Poland is unusually well placed in this regard since

the EU Structural Funds provide a large continuing flow of outside resources that are being substantially dedicated to this purpose. This raises three sets of issues:

- The positive side of the large budget available for capacity building is that the funding should be readily available for any targeted SME and entrepreneurship programmes that provide net benefits cost-effectively (assuming that they can be placed appropriately within the framework of one of the OPs). The danger is that the absence of tight budget constraints can make it difficult to sustain the discipline required to ensure that wasteful programmes are identified and suppressed or avoided altogether. Pressures for wasteful spending must be resisted even though they are likely to be a fact of life for the foreseeable future.
- The focus of SME and entrepreneurship support policies and programmes should be on developing an entrepreneurial culture, mobilising human resources and building capacity at all levels. Priorities, as noted in the Istanbul Ministerial Declaration in 2004 (OECD, 2004), should include reducing barriers to SME access to global markets (see OECD, 2006a) and improving SME access to financing on reasonable terms (see OECD, 2006b). Programmes need to be carefully designed and adapted to the specifics of the local context if they are to be successful and cost-effective. Direct financing for enterprises themselves should be avoided, especially where it is unconditional. The Polish authorities appear to be fully aware of these considerations.
- Discussions will begin soon about the broad allocation of resources in the next Cohesion Programme. An issue will be whether the high level of support for SMEs should be maintained, reduced or increased. Targeted SME-specific programmes should be funded generously so long as, but only so long as, they are cost-effective and deliver identifiable benefits. Resources for ineffective programmes would be better reallocated to other Cohesion Strategy uses. A strong capacity to carry out policy impact assessments and programme evaluations will be essential to making informed decisions in this domain.

Streamline policy and support-delivery processes wherever possible

A frequent impression of the OECD Review Team was that more than 700 entities participating in some aspect of SME policy design and implementation[5] were more than necessary. The result was often excessive complexity or lack of clarity and fragmented policy/programme initiatives too small or narrowly conceived to be effective in achieving their purposes. Some cases in point:

- The number of strategic documents is large and they often appear to overlap (see Annex B). But even collectively they are not comprehensive. Indeed, not only is something needed to address SMEs and entrepreneurship, as discussed above, but the Ministry of Regional Development is currently working on a new National Regional Development Strategy.[6] Furthermore, their relationship to each other is not transparent. A clearer organisation of the material and hierarchy would be desirable.
- The number of SME support programmes is large, to some degree reflecting the large number of organisations involved in providing them. Many are national programmes, often delivered locally. Others are local or regional programmes delivered locally. Branding and visibility are weak. Fewer programmes provided by fewer organisations would be more transparent to potential beneficiaries.
- The number of loan and loan guarantee funds is large but too many lack effective scale. Of 72 loan funds, many are small or medium-sized with insufficient revolving money to

lend effectively. Well over 50 loan guarantee funds, funded almost entirely by the Polish government or by EU resources, issued only 11 000 guarantees in 2007 and active guarantees amounted to only 113% of the value of the funds' capital.[7] Overall, only 1.7% of SMEs in Poland benefited from these funds in 2007.

- The number of intermediaries in the science and innovation system is large. The 2006 OECD *Review of Innovation Policy in Poland* called for fewer but stronger public research institutions which could be more focused on specific projects. A reduction in the number of intermediate institutions in the science system would allow public support to be linked more closely to performance.

The solution to such problems should start with affirming the lead and co-ordinating role of a single, appropriately resourced, ministry for SME and entrepreneurship policies. At the same time the number of organisations engaged in programme design and, especially, support delivery should be reduced. Institutional capacity of remaining institutions should be strengthened and, where appropriate, more reliance should be placed on regional branches to ensure local accessibility of service locations. Streamlining in other areas would be likely to follow.

Better co-ordinate policy support at all levels

Co-ordination among policy-making bodies

Effective delivery of support to individual SMEs and entrepreneurs requires that the various entities involved co-ordinate smoothly both within and between national, regional and local government levels. The risk to coherence at the national level arising from the dispersion of responsibility across policy domains has already been noted above. To address this, an inter-ministerial council, under the Prime Minister, is needed to co-ordinate the formulation of SME and entrepreneurship-related policies.

A "Consultation Council", under the chairmanship of the CEO of the Polish Agency for Enterprise Development (PARP), already exists to ensure information exchange, to discuss aspects of programme implementation and new initiatives and measures in support of entrepreneurs. It includes members of Parliament, representatives of business-support organisations and government officials, but these are mostly from the operational, rather than decision-making, level. This council meets twice a year and communicates the results of its discussion to responsible ministries, Parliament and to business representatives. The experience of this council could be of use in guiding the higher level policy co-ordinating council suggested above.

In addition, the current approach to regional co-ordination with the national level suffers from a lack of clarity as regards division of responsibilities between different geographic levels and institutions. Some *voivodships* are setting up entrepreneurship/economic development units, so the situation is likely to worsen without a formal co-ordination and sharing mechanism.

The creation of a Task Force on Entrepreneurship was announced in 2008 in order to provide an effective co-ordination mechanism for implementing Operational Programme instruments in the area of entrepreneurship and SMEs. This task force includes regional and local authorities as well as central government ministries and agencies and social and economic partners. However, since the role and mandate of this task force are limited to the Operational Programmes, it will not play a high-level co-ordinating role for the full range of SME and entrepreneurship policies.

Given the limited capacity and experience of regional and local authorities with the formulation and implementation of SME and entrepreneurship policies, it is essential that complementary mechanisms are put into place to build capacity through the transfer of knowledge, information, and sharing of good practices. A national-regional working group consisting of representatives of Marshalls' Offices and PARP was created in 2008 to discuss policy challenges and programme implementation. This is primarily a forum to discuss technical issues and to look for common solutions at regional and central levels. The inter-ministerial council suggested above should provide guidance to regional and local entities in the implementation of appropriate measures and activities.

Co-ordination among support-delivery bodies

The National SME Services Network (KSU) is at present considered one of the best tools of state aid allocated to promote growth and development of SMEs in Poland (Stawasz *et al.*, 2007). Formation of the network has led to an improved quality and range of services and information to SMEs, and to better co-ordination of the delivery of government programmes and EU support. The system undergoes continuous development and upgrading of the experience and skills of service providers to better address the needs of entrepreneurs in setting up and managing private businesses.

However, the proliferation of SME support entities raises issues about overlap, duplication and whether the national centre is able to keep pace with and work with regions to co-ordinate such growth in institutions and whether a coherent business-support system is emerging for entrepreneurs and SMEs at the regional level as a result.[8] Indeed, the Ministry of Economy is currently rolling out a network of 16 Regional Investor and Exporter Service Centres and their relationship and co-ordination with existing services providers, such as the KSU's consultation points, will require careful management. Within regions, numerous development agencies have been established at the sub-regional and local levels often to address localised unemployment problems resulting from deindustrialisation and restructuring in the wake of transition. The difficulty of co-ordinating a growing number of institutions at the regional level has been recognised as an issue regionally.

The assessment of the national, regional, and local dimensions of SME support in Chapter 4 indicates a need to 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 Marshalls' Offices is a positive step, it may not be sufficient for the network to be easily understood and accessed by micro-enterprises, who have a wide range of support needs at different stages of their development. The principle of first-stop shops, one-stop shops and single windows should not be confined to services for start-ups but should be extended to all types of SMEs.

This process would be helped considerably if there were joint branding of nationally and regionally funded business-support services, as part of a move towards increased integration. It is important that the system appears coherent to business users as well as service providers. The branding and quality assurance should be co-ordinated from the national level, and the packages of support to be provided geared to regional needs. The national level can ensure exchanges of staff and expertise as well as the proliferation of good practices between the regions. It is also important to link members of the

SME/entrepreneurship support and innovation systems to achieve better outcomes in the commercialisation of R&D (*e.g.* new entrepreneurial start-ups, spin-offs, etc.).

Reinforce the Polish Agency for Enterprise Development's focus on supporting enterprise development

Since its establishment in 2001 PARP has been the primary agency charged with co-ordinating and delivering support services provided by the central government to SMEs. Its mandate has been interpreted broadly and its objectives, in addition to SME development, now include human resource development, export support and regional development. As a result it now delivers policy support for four main ministries, the Ministry of the Economy (MoE), the Ministry of Labour and Social Policy (MLSP), the Ministry of Science and Higher Education (MSHE) and the Ministry of Regional Development (MRD).

At present, PARP's activities consist mainly of implementing programmes financed by the EU Structural Funds, including the final stages of some pre-2007 programmes.[9] This has resulted in its supporting a very diverse range of projects which have not been restricted to the usual scope of support for enterprise development or entrepreneurship. Examples include support for training for cancer screening, training on environmental protection, road construction, development of ecological public transport in Eastern Poland and broadband Internet access. These are worthy objectives for programmes but they may distract from a focus on enterprise development in PARP. At the same time other parts of the administration may have expertise that makes them better placed to carry out such projects.

In addition to its operational activities, PARP undertakes significant research and analysis which it plans to develop further. To the degree that this provides it with a better empirical basis for delivering its support effectively this is to be welcomed. For example, analysis identifying needs and barriers to SMEs is necessary to provide a good basis for prioritising among programmes. And improving methodology for carrying out any impact assessment studies that PARP carries out is highly desirable. But since accountability will be most effective if policy formulation is separated from delivery, strategic analysis of broader policy issues such as the impact of climate change and macroeconomic developments are best left to the appropriate ministries.

PARP is a strong institution, well-funded and well staffed, which plays a central role in implementing Poland's National Development and Cohesion Strategies. Its effectiveness was recognised in 2008 when the KSU was cited by the European Commission as a good practice in the area of providing public support for SMEs. But its steady accumulation of new roles, activities and ministries for whom it implements policies may raise questions about for what it should be held accountable and to whom. It is important that it remain focused on well-defined core activities of delivering business support to enterprises and entrepreneurial firms and carries them out well. Given these considerations, it would be useful to review and, if necessary, clarify PARP's role, mandate and reporting responsibilities to reinforce this focus. Its staffing and resources, which should include an improved capacity to provide a strong and well-researched analytical underpinning for its operations, should be commensurate with its role and mandate.

Make programme design and delivery of support more effective

SME and entrepreneurship policies and programmes, in particular the business-support system, should be thoroughly assessed with a view to identifying gaps, particularly as concerns strengthening the entrepreneurship culture, building a higher level of entrepreneurial capacity (to be able to pursue innovative activities), and ensuring young Poles with favourable attitudes to entrepreneurship are supported with the knowledge, skills, advice, and financial support that allows them to turn their ideas into viable ventures. A more integrated approach to policy measures and initiatives of different ministries and agencies in this regard would produce a higher degree of assurance that a "cradle to the grave" support structure was in place (*e.g.* policies for developing entrepreneurs, supporting start-ups, nurturing early-stage enterprises to influence higher survival rates, and supporting firm growth) and that "entrepreneurial potential" becomes "entrepreneurial reality" that translates into growth in jobs and value added.

At present, the content of programme support is substantially defined and financed by PARP through its KSU network. Its coverage is very broad and it is difficult to identify any real gaps or areas of support that are not offered or problems that are not addressed. But its transparency to potential beneficiaries is more doubtful, given the lack of strong branding described in Chapter 4. As the regional Marshalls' Offices implement the Regional Operational Programmes, new support institutions, services and support programmes could easily proliferate and aggravate this problem.

In addition, there are reasons to believe that the content and overall design of these programmes can be made more effective, especially those involved in direct funding to enterprises. First, evaluations completed to date, which largely relate to programmes carried out in the 2004-06 period using the earlier programme of EU Structural Funds, suggest a high "deadweight" effect implying that around 65% of supported activities would have taken place even without policy support. Thus a high share of the direct financial assistance to enterprises went into beneficiaries' pockets without generating an extra increment of activity. More effective programmes should generate less deadweight loss.

Second, these evaluations suggest that support for innovative companies was more effective than many other types. Deadweight loss was lower and the range of new innovations from beneficiaries was high (40 developed new products or processes, in many cases totally new in a world context, and 43 penetrated new markets). Success in this area mainly came from larger companies, possibly indicating the limits of most micro-enterprises in this domain. This suggests reinforcing support for highly innovative projects, even if large. It also suggests that efforts should be made to build the capacity of smaller enterprises to enable them to participate in innovation projects. This could involve altering programme criteria to reduce transactions costs for SMEs, especially high-potential early-stage entrepreneurial firms who may be very small, which try to take advantage of these programmes.

Third, the effectiveness of industrial and technology parks, a very diverse set of institutions, in some cases seems ambiguous. Surprisingly, for example, technology transfer associated with technology parks has been relatively low. There is a case for reviewing the design of these parks to see if the jobs they appear to generate are additional to, rather than displacements of, job generation that would have happened anyway; whether they are higher value-added jobs; and whether their contribution to technology transfer can be enhanced.

Fourth, the survey of programmes and support policies in Chapter 3 suggests high variation in terms of reaching beneficiaries. Some are large enough to have a material impact on the overall business sector:

- PARP's KSU has been serving 200 000 clients per year (although there is a great deal of variation in the intensity of the support given, ranging from simple provision of information to facilitation and consulting), and its Consultation Centres 25 000 per year (with a goal to reach 123 000).
- At end 2008, 40 000 people, 55% of them women, had accessed the educational website *Akademia* for information tailored to SME needs.
- Human Capital Operational Programme (OP HC) targets for supporting training are 550 000 workers in 200 000 enterprises while delivering business support to 350 000 SMEs.

But others are so small as to raise questions about how effectively they contribute to strategic objectives:

- As noted above, SME use of the large number of loan and loan guarantee funds is low (either because of overly restrictive criteria, lack of awareness or undercapitalisation of funds).
- PARP funding of seed capital funds from 2007 to March 2009 only benefited 49 start-ups.
- The "Initiating Innovative Activities" programme funded only 15 projects during 2007-08.

A synthesis of recent evaluations covering the early stages of programmes being carried out as part of the horizontal OPs is in preparation. When this is complete, a review of the content of support policies in greater depth than has been possible during this review would be desirable. This should deal with the strategic issues identified in Chapter 3, notably in the areas of improving access to financing, facilitating access to markets, and boosting innovation. At the same time, it should look for ways to reinforce more successful programmes identified in the evaluation synthesis while redesigning or reallocating resources away from the less effective programmes.

Such a review should take account of the following considerations:

- To ensure transparency and visibility of support services to potential beneficiaries, clear and recognisable brands with strong reputations should be established. This will be facilitated by reducing the number of providers and ensuring that their services have a high and standard level of quality. These should be provided by trained suppliers and counsellors, monitored and evaluated, and reflect user feedback.
- The range of available services should be sufficiently varied to allow them to be tailored to the needs of the different target groups of SMEs and entrepreneurs. The balance of their provision should be shifted toward more advisory services, as opposed to simple provision of information. In addition, it should vary from region to region according to the different needs of local firms and entrepreneurs.
- Publicly funded business services should avoid crowding out what can be offered on a commercial basis; and publicly funded services should aim to help businesses upgrade their performance and not make them dependent on external publicly funded support.
- Many types of SME and innovation support benefit from proximity and low access barriers in order to ensure efficiency. This argues for local delivery since spatial proximity allows the building of links and trust between firms and support-service suppliers. However if the support needed is highly specialised, complex or dependent on

unique expertise, cost effectiveness may argue for providing delivery centrally rather than at local or regional levels.

- 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 SME needs requires establishing various forms of dialogue with the business community, and perhaps pilot programmes at the regional level. A formalised mechanism for consulting with the SME community on policy and programme design is desirable.

Further strengthen evaluation of SME and entrepreneurship policies and programmes

Evaluation of SME policies and programmes is relatively new to Poland. However, the European Union requires that evaluation must be part of any programme it supports, so Poland is rapidly gaining experience in this area. Since the managing authorities for all horizontal OPs are part of the Ministry of Regional Development, this ministry takes responsibility for evaluation of all horizontal programmes associated with the National Cohesion Strategy. It employs 150 people who contract out these evaluations. So far some 260 evaluation studies have been prepared, mainly relating to programmes in place before the current National Cohesion Strategy was implemented. From now until 2015, the Ministry expects to spend EUR 60 million on evaluation. In addition, PARP has carried out evaluations of some of its business-support units and each Regional OP has its own evaluation unit attached to its Marshal's Office.

This is a very promising start. But given the large sums involved, important challenges remain:

- While significant provision is in place for evaluations of programmes and projects, more is needed in the area of broader policy evaluation.
- Strengthening and greater standardisation of methodology would be desirable. Notably, most evaluations made through at least 2007 have focused on impact evaluation, measuring changes over time on the basis of declarations by beneficiaries. Analyses of net effects, *i.e.* experience with a programme compared to what would have happened had the programme not taken place, would be desirable.[10]
- The large volume of evaluations that will be needed in the next few years will have human resource implications. Training large numbers of skilled evaluators and developing ways to manage them will be a high priority.

Notes

1. For example, the export share of net revenues for firms with 10-49 employees in 2007 was 7% and only 12% of industrial firms in this size class undertook innovative activities in 2006. Figures for firms with 50-249 employees are somewhat higher but far below those for larger firms. See Tables 1.10 and 1.12 and the related discussion in Chapter 1.
2. For further discussion, see the OECD Innovation Strategy and OECD (2010).
3. Clusters have developed in Poland around inward direct investment especially in electronics, information technology, automotive industries and aviation, as SMEs have benefited from spillover effects.
4. To realise the potential benefits of inward direct investment, which should include transfer of technology and know-how as well as access to markets, more attention needs to be given to building effective linkages between SMEs and affiliates of foreign-owned enterprises.

5. See Chapter 3.
6. Principles were approved by the Council of Ministers in April 2009.
7. International norms for guarantees relative to capital are in the range of 2 to 2.5 times the amount of fund capital.
8. See Chapter 4.
9. Pre-accession PHARE funds and Structural OPs from the 2004-06 Cohesion Funds. 98% of PARP staff are engaged in implementing the use of EU Structural Funds.
10. For discussion of best practices in this area, see OECD (2008).

References

Ministry of Economy (2006), "Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13", Warsaw, August.

Ministry of Economy (2008), "Entrepreneurship in Poland", Warsaw.

Ministry of Regional Development (2006), "National Development Strategy 2007-15", Warsaw.

Ministry of Regional Development (2007), "National Strategic Reference Framework for 2007-13 in Support of Growth and Jobs: National Cohesion Strategy", adopted by the European Commission, Warsaw, May.

OECD (2004), "The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs", 3-5 June, *www.oecd.org/document/16/0,3343,en_2649_34197_32020176_1_1_1_1,00.html*.

OECD (2006a), "The Athens Action Plan for Removing Barriers to SME Access to International Markets", adopted at the OECD-APEC Global Conference in Athens, 8 November, *www.oecd.org/dataoecd/4/17/37818332.pdf*.

OECD (2006b), "The OECD Brasilia Action statement for SME and Entrepreneurship Financing"

OECD (2007), *SMEs in Mexico: Issues and Policies*, OECD Publishing: *http://dx.doi.org/10.1787/9789264031791-en*.

OECD (2008), *OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes*, OECD Publishing: *http://dx.doi.org/10.1787/9789264040090-en*.

OECD (2010) SMEs, Entrepreneurship and Innovation, OECD: Paris.

Stawasz, E. *et al.* (2007), "Entrepreneurship and Innovation Policy in European Countries: The Case of Poland", report prepared as part of the Innovative Policy Research for Economic Growth (IPREG) project, Foundation for the Promotion of Entrepreneurship, Lodz, August, *www.ipreg.org*.

ANNEX A

Chronology of Major SME and Entrepreneurship Policy Events and Initiatives in Poland

1994

- The government launched a Credit Guarantee Fund (transformed into the National Credit Guarantee Fund at the BGK Bank in 1997).

1995

- Government adopted its first policy programme targeting SMEs – "Small and Medium Enterprises in National Economy" for 1995-97 (in practice until 1998).
- Creation of the Polish Foundation for the Promotion and Development of SMEs (became PARP in 2001).
- National Register of Services for SMEs created.
- The first local and regional loan guarantee funds for SMEs were initiated.

1996

- Creation of the Agency of Technique and Technology (merged into PARP in 2002).
- Establishment of the National Services Network for SMEs (KSU).
- Creation of the National Association of Guarantee Funds (KSFP).
- Creation of "over the counter market" (CETO).

1997

- Act on Guarantees Granted by the State.
- Creation of the National Guarantee Fund at the BGK Bank.
- Law of 20 August on the National Court Register.

1998

- Government formed the Working Party on Reducing Bureaucratic Barriers to Economic Activity.

1999

- New government policy programme adopted in May 1999, "Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002". Budget allocation of PLN 140 million.
- Act on Business [Economic] Activity adopted, November.
- Entrepreneurship lessons start to be introduced into the curriculum of lower and upper secondary schools.

2000

- Act of 9 November 2000 on establishing the Polish Agency for Enterprise Development (PARP); launched in 2001.
- The government implemented its first SME Survey drawn from a sample of enterprises in the REGON National Statistical Register. It now takes place twice a year to help define SMEs' problems.
- Creation of Business Counselling Centres within the KSU network.
- Act on Supporting Regional Development.
- Phare 2000 – National Programme for the Development of SMEs.
- Strategy "Increasing the Innovativeness of the Polish Economy until the Year 2006" was released by the government.

2001

- Council of Ministers approved the strategy document, "Increasing Economic Innovation in Poland to 2006", July.
- Regional financial institutions (RFIs) established in each *voivodship*.
- Government released document "National Strategy for Increase in Employment and Human Capital".
- Amendments to the Act on Economic Activity; laid out the first definition of SME in Polish law.
- Act on the National Court Register – all entrepreneurs have to register their economic activity with this register.
- Act on State Aid for Enterprises.
- "The Strategy of Privatization Activities in the Sector of SMEs, within the Areas of Operations of the Ministry of the Treasury", adopted by the Council of Ministers, April.

2002

- Poland adopts the European Charter for Small Enterprises, April.
- Government launches the economic strategy of "Entrepreneurship-Development-Work, 2002-06".
- Council of Ministers approved the "Entrepreneurship First" package, one of the fundamental elements of the economic strategy, "Entrepreneurship Development Work".
- Government adopted "Package of Anti-Crisis Actions for Protection of the Market and Jobs", July.

- Council of Ministers approved the "Capital for the Entrepreneurial" Programme in August (to apply from 2002-06). PLN 170 million for 2003-04; PLN 750 million post 2004. Major goal to build a network of local and regional loan and credit guarantee funds for SMEs.
- Amendments to the Business Activity Law, August.
- Poland joined the CC BEST – Candidate Countries Business Environment Simplification Task Force (EU initiative).
- Poland introduced the rule of conducting regulatory impact assessments (RIAs) on all drafted regulations.
- Act on Financial Support for Investment passed.
- Parliamentary Team for Enterprise established.
- Ministry of Economy approves the document, "Public Procurement for the Entrepreneurial – the Programme for Supporting Small and Medium-sized Entrepreneurs – Potential Participants of the Public Procurement Marked in the Years 2003-05", December.
- Minister of National Education and Sport sets as one of the educational targets and school tasks, offering students the possibility to acquire knowledge, skills and development of entrepreneurial attitudes, which are necessary for their active participation in business life.

2003

- 11 largest organisations representing employers, entrepreneurs and economic self-government join efforts in the creation of the Entrepreneurship Council.
- Council of Ministers adopts "Government Policy Guidelines for Small and Medium-sized Enterprises for the Years 2003-06 in Poland" in February. Budget allocation of PLN 2-2.5 billion.
- Council of Ministers adopts "Plan of Actions Stimulating Growth in the Years 2003-04" (Entrepreneurship Development Work II), referred to as the "Pro-Growth Actions Plan". The Plan specified tasks to stimulate entrepreneurship, promote employment and curb poverty, support innovativeness, develop infrastructure, and restructure and privatise state-owned property.
- Launch of the "Programme of Economic Promotion 2003-05".
- Government adopts the "Economic Strategy of Government: Entrepreneurship Development Work II; 2003-06".
- Creation of the National Innovation Network (KSI).
- Act on Bankruptcy; provisions of the new Bankruptcy and Reorganisation Law entered into force.
- Minister of National Education and Sport issues an order with respect to a new curricular basis for general education in individual types of lower and upper secondary schools – sets as one of the priorities for pedagogical supervision the introduction by schools of the subject Foundations of Entrepreneurship and of the module Education for Active Participation in Business Life, subsequently carrying out inspections in the *viovodships* to assess the method of application of these curricula.
- Update of the training programmes of the National Vocational and Training System in the areas of managing one's own business, trade and marketing.

- First comprehensive country-wide research project to analyse self-employment, "Self-Employment in Poland", commissioned by PARP.
- The Polish Business Angels network starts operations.
- Law of Financial Support for Investments (2002) amended.

2004

- Poland joins the European Union.
- Entrepreneurship becomes part of the curriculum set for graduates of two-year vocational schools and subject to qualifying examinations.
- Act of 2 July 2004 on Freedom of Economic [business] Activity entered into force in August.
- Parliamentary Team for Enterprise initiates public debate concerning the regulation of self-employment.
- Law passed in January giving personal tax payers whose source of income is a non-agricultural business activity the option of the new system of taxation – on the basis of a uniform rate of 19% (as opposed to being taxed on a progressive taxation scale).
- New law on VAT – with special regulations and exemptions for "small taxpayers".
- Law on Promotion of Employment and Labour Market Institutions.
- Act of 14 April 2004 on the EU Credit Guarantee Fund; role of the BGK Bank.
- Provisions of new Banking Law Act come into force.
- Law on Investment Funds entered into force in July.
- Government adopts capital market development strategy "Warsaw City 2010 Agenda".

2005

- Polish government adopted the EU definition of "SMEs".
- Regulation of the Minister of Economy and Labour of 27 January 2005 on the National SME Services Network (setting requirements and standards of services for all units).
- Act of 4 March 2005 on the National Capital Fund; subsequently formed and implemented by the BGK Bank (EUR 34 million of public funding was approved to support seed funds.)
- Act of 29th July on certain forms of support for innovation activity.

2006

- Adoption of the "Regulatory Reform Programme" ("Entrepreneur has the Right"), August.
- Amendments to the tax regulations, Labour Code, EU Guarantee Funds, Act on Public Procurement passed by the government.
- "Act Amending the Act on Certain Forms of Support for Innovation Activities and Certain Other Acts", approved by the Council of Ministers, January.
- "Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13", strategic document accepted by the Council of Ministers in September.
- Guidelines for Regulatory Impact Assessment adopted by the Council of Ministers, October.

2007

- Creation of New Connect – an alternative trading platform outside the regulated market of the Warsaw Stock Exchange.
- Government makes a reduction of the disability insurance premium contribution (to be progressive over 2007-08).
- Amendments to the Labour Code, the Code of Civil Procedures, the Act on Court Cases in Civil Cases, the Act on National Court Register, and the Tax Ordinance Act.

2008

- "Package for Entrepreneurship" starts to be progressively implemented, including:
  - Passing of amendments to the Law on Accountancy (July) to raise the threshold of an obligation to comply with full accountancy rules from EUR 800 000 of yearly revenue to EUR 1.2 million. This amendment broadened the range of entrepreneurs eligible for more simplified accountancy rules and reduced administrative costs related to fulfilment of accountancy obligations.
  - Amendments to the Law on the Polish Agency for Enterprise Development (June) widened the range of activities for PARP in the field of structural funds distribution, giving it new responsibilities for areas concerning: innovation activity, support of enterprise adaptation capability, research on the role of micro, small and medium-sized enterprises in the economy and analysis of barriers for enterprise development.
  - Amendments to the Law on Support for Innovative Activity (June) to stimulate the innovativeness of Polish entrepreneurs, including measures to extend support possibilities to innovative ventures by private resources (*e.g.* technological credit for enterprises to be granted by commercial banks as well as state banks).
  - Amendments to the Law on Freedom of Business Activity (July) introducing a new instrument enabling entrepreneurs to suspend their business activities for a period of up to two years without having to fulfil most of the administrative obligations they have to execute when being active and provisions to strengthen the "clout" of enterprises with administration officers by introducing a regulation that obliges administrative officers to accept incomplete documents.
  - Amendments to the Law on Freedom of Business Activity (December) introducing one-stop shops for start-up procedures and the unification of inspection procedures within the Polish law. The amendment focused on eliminating existing drawbacks in the area of inspection procedures, which as previously executed, were often incoherent and duplicative.
  - Horizontal law on Implementing the Directive on Services (in preparatory stage) to introduce a single point of contact and implementation of the Services Directive (authorisation aspects, free movement of services, and administrative co-operation).
  - Amendments to the Commercial Law (November) including measures to reduce the minimum capital requirements for setting up a limited liability company from PLN 50 000 to PLN 5 000 and from PLN 500 000 to PLN 100 000 for the public limited company. Moreover, the current obligation to transform a civil company into a commercial company when specific terms are met (even without the company owner's willingness) will be derogated.

- Government adopts "Think Small First – Government Actions Towards Entrepreneurship".
- Government adopts "The New Approach to Public Procurement: Public Procurement and Small and Medium Enterprises, Innovation and Sustainable Development", April.
- Act of 30 May 2008 on Certain Forms of Support of Innovative Activity (replaced the Act of 29 July 2005). The objective of the new Act was adjustment of regulations relating to the Technological Credit to the new EU principles of granting regional public aid, changes in the method of granting the technological credit, and a reduction from 50% to 20% in the proportion of sales net revenue coming from R&D services in a company's annual turnover to qualify for tax benefits from being given R&D Centre status.

2009

- Continue implementation of the "Package for Entrepreneurship" (second amendment to the Act on Freedom of Business, amendments to the Tax Act, Act on Public-Private Partnership).
- Government issues "Guidelines for Development of Guarantee and Loan Funds for SMEs 2009-13".
- Amendment to the Act on Guarantees Granted by the State – increased the guarantee level for BGK guarantees to 50% of the loan; expanded guarantee coverage to include lease security deposits, etc.

ANNEX B

Main Strategic Documents and SME and Entrepreneurship-Related Policies Since 2003

	Strategy/Programme	Strategic goals relevant to entrepreneurship and SME policy
1.	National Reform Programme 2005-08 (Microeconomic and structural policy areas)	**Priority 2 – The development of entrepreneurship** ● Improving the quality of regulations. ● Simplification of administrative procedures and a reduction in the costs of business operations. ● Improvement of economic jurisdiction. ● Completion of the main privatisation processes. ● Completing the process of ownership. ● Transformation in the State-owned enterprises operating under the Act of 25 September 1981 on State-owned enterprises. ● Financial strengthening of the loan, guarantee and capital funds. ● Supporting the construction and upgrading of energy infrastructure. ● Supporting the scheme for the promotion of the Polish economy and the system of services for exporters. **Priority 3 – Increased innovativeness of enterprises** ● Development of the innovation market and of the institutional environment facilitating co-operation between the R&D area and the economy. ● Support for the research and development area. ● Development of information and communication technologies in the economy and administration. ● Facilitating the use of eco-technologies, supporting energy efficiency and cogeneration.
2.	National Reform Programme 2008-11[1] (Innovative Economy Priority)	**Measure 1 – Providing a favourable regulatory and institutional environment for enterprise, innovation and investments** ● Identification, measurement and reduction of administrative burdens imposed on entrepreneurs by the law. ● Enhancing and widening the role of consultation in the process of law creation, particularly through guaranteeing the involvement of entrepreneurs' representatives. ● The full implementation of the "Think Small First" principle to the state law creation system. ● Adopting the Industrial Development Strategy based on the competitiveness analysis of industrial sectors. ● Technological foresight aimed at defining future directions in the Polish industry development. ● Appointing the Science and Innovation Board to the Prime Minister. ● Promoting corporate social responsibility (CSR). **Measure 3 – Implementation of solutions supporting pro-innovative activity and research and development (R&D), in particular improvement of knowledge transfer and innovation diffusion** ● Creating and executing the implementation system of the Strategy for Increasing the Innovativeness of the Economy for 2007-13. ● Investments in capital, quasi-capital and debt instruments of risk capital funds for the financing of SMEs, in particular SMEs at early stages of development, taking into special consideration innovative enterprises and those conducting R&D activity. ● Supporting projects to develop entrepreneurs' readiness to invest. ● Preparing and implementing the plan of actions arising from the document "The New Approach to Public Procurement". ● Support for creating and developing industrial clusters. ● Elaborating an instrument to support the user-driven innovation approach. ● Elaborating an instrument for increasing employment of research and development employees in enterprises.

	Strategy/Programme	Strategic goals relevant to entrepreneurship and SMEs policy
3.	National Development Strategy 2007-15	**Priority 1 – Growth of competitiveness and innovativeness of the economy** ● Creating a stable macroeconomic base for economic development. ● Development of entrepreneurship. ● Increasing access to external financing of investments. ● Raising the technological level of the economy by growth of research and development and innovation expenditure. ● Development of the information society. ● Protection of competition. ● Exporting and co-operating with foreign countries. ● Development of the services sector. ● Restructuring of the traditional industrial sectors and privatisation.
4.	National Strategic Reference Framework 2007-13	**Priority 4 – Increasing competitiveness and innovativeness of enterprises, including and especially high value-added production sector and services sector development**
5.	Strategy for Increasing the Innovativeness of the Economy in the Years 2007-13	**Axes 1 – Human resources for the modern economy** ● Strategic area 1: The development of life-long learning. ● Strategic area 2: The transfer of knowledge between the R&D sector and entrepreneurs through an exchange of human resources. ● Strategic area 3: Innovation as an element of the education system adjusted to the requirements of the modern economy. ● Strategic area 4: The promotion of entrepreneurship and innovation. **Axes 2 – Research for the economy** ● Strategic area 1 Financing of enterprises' scientific research and development work. ● Strategic area 2 Focusing public funding on research in strategic areas based on the needs of enterprises (including technological foresight.) ● Strategic area 3 Restructuring the public R&D sphere. ● Strategic area 4 Internationalisation of scientific and innovation activities – European integration. **Axes 3 – Intellectual property for innovation** ● Strategic area 1 Supporting intellectual property management. ● Strategic area 2 Supporting entities registering patents abroad. ● Strategic area 3 Improving the process by which protection as regards industrial property rights is obtained. ● Strategic area 4 Industrial design as a means of gaining competitive advantage. **Axes 4 – Capital for innovation** ● Strategic area 1 Facilitating access to funds for innovation activity. ● Strategic area 2 Supporting enterprises based on modern technologies. ● Strategic area 3 Applying tax instruments to encourage greater expenditure on innovation activity. **Axes 5 – Infrastructure for innovation** ● Strategic area 1 Developing institutions supplying advisory and technical services to innovative entrepreneurs. ● Strategic area 2 Supporting networking among entrepreneurs with a view to innovative undertakings being implemented. ● Strategic area 3 Strengthening co-operation between the research and development sector and the economy. ● Strategic area 4 Promoting the use of information and communications technologies.

1. The table shows only measures directly connected with the implementation of SME and entrepreneurship policies. Other NRP priorities, "Active Society" and "Efficient Institutions" support these measures in the area of human capital and labour force development, as well as creating efficient public services for entrepreneurs and citizens.

OECD PUBLISHING, 2, rue André-Pascal, 75775 PARIS CEDEX 16
PRINTED IN FRANCE
(85 2010 03 1 P) ISBN 978-92-64-08186-4 – No. 57259 2010

OECD Studies on SMEs and Entrepreneurship

Poland

KEY ISSUES AND POLICIES

The rapid growth of entrepreneurship and small firms has been one of the greatest successes in post-Communist transformation in Poland. SMEs have greatly contributed to employment, investment and value added in the Polish economy. However, key barriers to further growth remain in the business environment for SMEs and entrepreneurs. This book sets out the current SME and entrepreneurship climate, reviews SME and entrepreneurship issues and policies at national and local levels, and provides observations and recommendations for improving and supporting entrepreneurship and SMEs in Poland.

Further reading

SMEs, Entrepreneurship and Innovation (2010)

Clusters Innovation and Entrepreneurship (2009)

OECD Framework for the Evaluation of SME and Entrepreneurship Policies and Programmes (2007)

The full text of this book is available on line via this link:
www.sourceoecd.org/regionaldevelopment/9789264081864

Those with access to all OECD books on line should use this link:
www.sourceoecd.org/9789264081864

SourceOECD is the OECD online library of books, periodicals and statistical databases.
For more information about this award-winning service and free trials ask your librarian, or write to us at **SourceOECD@oecd.org**.

OECD*publishing*
www.oecd.org/publishing

ISBN 978-92-64-08186-4
85 2010 03 1 P
9 789264 081864