

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.



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