



Ministry of Economy

ENTREPRENEURSHIP IN POLAND

Warsaw, July 2010

The mission of the Ministry of Economy is to create the best conditions for business activity in Europe.

Prepared by:

Ministry of Economy
Analyses and Forecasting Department

In collaboration with:

Economic Development Department, Support Instruments Department, Economic Regulation Department

TABLE OF CONTENTS

INTRODUCTION.....	5
SYNTHESIS.....	6
RECOMMENDATIONS.....	10
1. MACROECONOMIC SITUATION OF POLAND IN 2009.....	19
1.1 ECONOMIC GROWTH AND ITS FACTORS.....	20
1.2 INVESTMENTS.....	21
1.3 INTERNATIONAL TRADE AND EXCHANGE RATE.....	23
1.4 LABOUR MARKET.....	26
1.5 LABOUR COSTS.....	28
1.6 PUBLIC FINANCES.....	31
1.7 INFLATION AND MONETARY POLICY.....	34
2. CHARACTERISATION OF POLISH ENTERPRISES.....	36
2.1 NUMBER AND STRUCTURE OF POLISH ENTERPRISES.....	36
2.2 ECONOMIC AND FINANCIAL SITUATION OF POLISH ENTERPRISES.....	38
2.3 ANALYSIS OF MICRO-ENTERPRISES SECTOR IN 2008 – WHEN COMPARED TO THE OTHER GROUPS OF ENTITIES.....	41
2.4 INNOVATIVENESS OF POLISH ENTERPRISES.....	44
2.5 QUALITY MANAGEMENT.....	52
3. INSTITUTIONAL ENVIRONMENT OF ENTERPRISES.....	54
3.1 REGULATORY ENVIRONMENT.....	54
3.2 FUNCTIONING OF THE JUDICIARY.....	75
3.3 BUSINESS ACTIVITY FINANCING.....	81
3.4 INSTITUTIONS SUPPORTING SME.....	103
3.5 INFRASTRUCTURAL FACTORS INFLUENCING ENTERPRISE DEVELOPMENT.....	105
3.6 SPECIAL ECONOMIC ZONES.....	114
3.7 OBSTACLES TO BUSINESS ACTIVITY FROM THE PERSPECTIVE OF ENTREPRENEURS.....	117
4. INTERNATIONAL COMPETITIVENESS RANKINGS – POLAND’S POSITION.....	122
APPENDIX.....	126

INTRODUCTION

The report *Entrepreneurship in Poland* has been published annually since 2003. The invariable intention of its authors is to present the condition of Polish companies and development processes supervening therein in comparison with domestic macroeconomic conditions. Such account of the subject, with particular focus put on the institutional environment of business activity of the companies, provides also a sound basis to propose explicit actions aimed at the entrepreneurship development.

The mutual correlation of macro- and microeconomic processes, an assumption so often repeated – found its verification in 2009 once again. The activity of entrepreneurs was in the last year to a significant extent determined by the global economic downturn. Such times are indeed very difficult for the entrepreneurs, nevertheless at the same time highly motivating. Recession enforces review of goals, organisational and operational changes which, while being sometimes of temporary character (aimed at surviving the test of time), are also capable of influencing a long-term competitiveness of the company. In 2009, the entrepreneurs proved yet another time that flexibly responding to the requirements of the market, they are able to generate a good result and that despite the cases of necessary liquidation of activity, which were also noted, the companies who took the challenge, survived and now are stronger and able to determine strategies for the future.

As it is suggested above, the authors of the report identify the entrepreneurship with the whole sector of Polish companies, irrespective of their size. The truth is however, that the entrepreneurship is first of all commonly associated with realisation of "the one's own business activity" idea. Hence, it may seem that the category subject to analysis should be first of all micro-companies, which constitute 96% of the overall structure of enterprises pursuing business activity in Poland. Nevertheless the notion of entrepreneurship goes far beyond the natural tendency of the individual to make business. The basis for entrepreneurship is provided also in creativity, innovativeness, sometimes a tendency to take a risk, but also in responsibility for co-workers or in prospective thinking.

This document, prepared by the Ministry of Economy is of informational character. The report concerns mostly the situation in 2009 and also changes in business environment that took place since the publication of the previous one. As the works on the reform of the legislation are well advanced, this topic was addressed in more detail than in previous editions of the report. Still, the layout of sections and presentation method is very similar.

SYNTHESIS

The last year was a time of impact of the global economic downturn, and even if our economy was not as severely affected as other countries', an economic growth comparable to the preceding years turned out to be entirely out of reach. Yet, 1.8 per cent of GDP was the most favourable result of all the European Union economies, to which Polish entrepreneurs significantly contributed, not yielding to pessimistic atmosphere, even if adopting strategies much more defensive than in preceding years, especially in respect of investments. One cannot dismiss such a behaviour as unreasonable, given the slowdown.

It seems that a relatively sound, despite the poorer macro-economic situation, condition of Polish companies resulted from legislative measures aimed at creation of more friendly economic regulations for the entrepreneurs. It was, irrespective of downturn phenomena emerging in the second half of 2008, a practical response to the postulates put forth by the entrepreneurs' circles for years. The amendments introduced within the Entrepreneurship Package included *inter alia*:

- possibility to suspend business activity,
- facilitation of business activity commencement by way of the so-called '*one-stop-shop*' procedure,
- simplification and limitation of supervision at the companies,
- lowering the level of mandatory share capital in limited liability company and stock-exchange company,
- simplification of public-private partnership formula,
- simplification of VAT regulations,
- broadening the scope of entrepreneurs rights in respect of public administration by way of the order given to the clerks to accept incomplete documents and prohibition to demand documents not provided for in law regulations,
- presumption of taxpayer's honesty,
- broadening of regulations connected with the construction of applicable law.

The above changes, introduced mainly on the turn of 2008 and 2009, were noticed by Polish entrepreneurs and reflected in the improvement of economic position of our country in international competitiveness rankings, while on the other hand remaining overshadowed by the global economic downturn.

The direct response of the government to the disturbances in global economy in the mid-2008 was the *Stability and Development Plan – strengthening the Polish economy in the time of the world financial crisis*, providing for a number of emergency measures. It was adopted by the Council of Ministers on November 30, 2008. On the basis of provisions of the plan as well as the dialogue conducted with social partners, over a span of 2009, specific legislative solutions, aimed at combating the crisis, were prepared and implemented¹. Among other things, in result of the autonomous dialogue conducted within the Trilateral Commission for Social and Economic Matters, the social side put forward a package of thirteen proposals aimed at mitigation of downturn results. The essential response to that initiative was bill of the *Act on mitigation of economic crisis results for employees and entrepreneurs*, passed by the Sejm of RP on July 1, 2009². The regulation provides for a twelve-month settlement period, rationalisation of regulations related to the 24-hour cycle, flexible working hours,

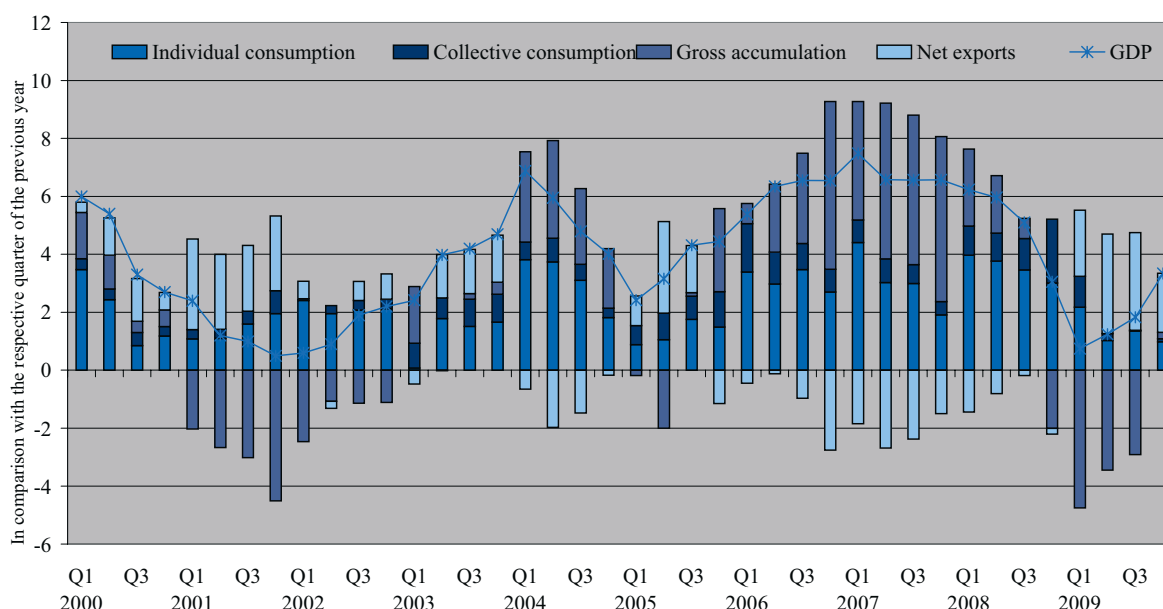
¹ The solutions, as well as the assumptions of the Stability and Development Plan are presented in detail in the last year's edition of the report *Entrepreneurship in Poland* (in Recommendations).

² JoL No. 25 item 1035. The act came into force on 22.08.2019.

stabilisation of the employment by way of application of contracts for definite period of time, creation of the company training fund and subsidised employment as an alternative to group lay-offs. The applications for benefits submitted to the Guaranteed Employee Benefits Fund so far (as at 12.07.2010) amounted to PLN 20.39 million for 11,248 persons, of which the greatest part was related to the business downtime (PLN 8.96 million for 6,290 persons) and reduced work time (PLN 8.48 million for 4,958 persons).

Despite the economic slowdown in 2009, the households did not reduce consumption, but its dynamics went down compared to the preceding year. A significant slump took place in investments. The implementation of investment projects was negatively influenced by tightening of the credit policy and also by the increased uncertainty and deterioration of economic situation, which found its repercussions in difficult financial standing of enterprises, especially small and medium-size ones. On the other hand, good prospects for utilisation of EU funds and still noticeable level of utilisation of the production capacity enabled partial compensation of drop in this category. The investment rate amounted to 21.1%, and was lower than in 2008. (22.3%).

Chart 1 Demand decomposition of GDP growth



Source: AFD ME³ study on the basis of CSO data.

In the situation of the global downturn, Poland did not escape a drop in direct foreign investments inflow – from EUR 10 billion in 2008 to slightly more than EUR 8 billion in the preceding year. Given the significant growth of risk aversion among the investors, such result however still proves the investment attractiveness of Poland.

A relatively lower openness towards international exchange and the trade exchange structure contributed to more significant decline in import than in export. In conjunction with the weakening of Polish zloty, it substantially contributed to the demand taking over the role of the external stimulus for the economy. According to the data of CSO, the volume of export in EUR shrank in 2009 by 15.5%, while import went down by 24.5%.

The economic slowdown also contributed to the deterioration of situation on the Polish labour market. The BAEL (business activity demographic survey) unemployment rate increased

³ Analyses and Forecasting Department, Ministry of Economy.

during 2009 from 7.1% up to 8.2%, and even though it remained lower than the UE-27 average. The employment rate remained at the same level as in the preceding year, whereby an increase of the professional activity rate up to the level of 54.9% was recorded.

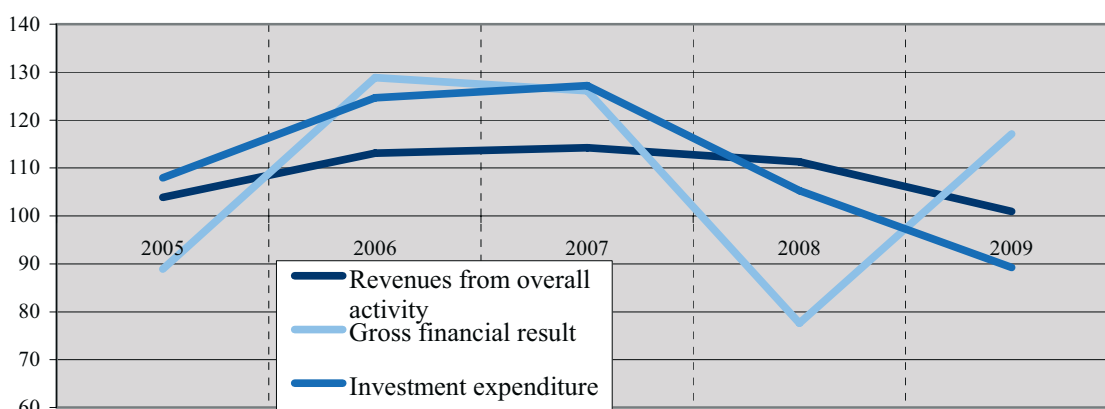
The financial crisis, given the persisting substantial structural deficit of state budget, was accompanied by deep stratification of the state budget expenditures and revenues. In consequence, the government and self-government institutions deficit run at the highest level during the last dozen years or so, namely at PLN 95.7 billion, which is 7.1% of GDP.

In 2009, the inflation was not a threat for business activity. Yet despite the high basis from the preceding year and limitation – due to risk aversion – of the money supply, it remained at a high level. The mid-year inflation, at the level of 3.5% exceeded the expectations, the NBP inflation target and the level provided for in the Budgetary Act.

The number of new business entities registered in 2009 totalled nearly 350 thousand, the highest result since 2000. At the same time, the number of deregistered entities went significantly up, mainly due to the update of REGON statistical register of business activity following the introduction of the new classification of business activity, PKD 2007. The number of active enterprises increased on 2008, whereby their size structure remained unchanged. The SME sector still constitutes 99.8% of all the operating companies.

The enterprises employing more than 9 employees in 2009 recorded a one-per cent increase in revenues from the overall activity. The increase in costs was even lesser, which resulted in the improvement of financial results: by 17% gross and 22% net. The largest companies were the ones who recorded best results.

Chart 2 Dynamics of revenues, gross financial result and investment expenditures in enterprises employing more than 9 employees.



Source: AFD ME study based on the data from INSIGOS database

An obvious outcome of entrepreneurs' adaptation to the economic situation was cutting investment expenditures. These totalled in 2009 PLN 119 billion, a drop of 11% on the preceding year. The entrepreneurs responded also to the slowdown reducing the employment, which was implemented to the greatest extent in large entities.

Enterprises in Poland outlay more and more for investments. In 2008, expenditures for innovations of industrial enterprises increased by one fifth nominally, up to the level exceeding PLN 24 billion. The participation of enterprises in total R&D outlays in turn grows much more slower. In 2008, the said share totalled 26.6%, which was much less than the EU

and OECD average. Yet, the progress in innovations is the case, showing itself in the progression of Poland in the most recent *European Innovation Scoreboard 2009* ranking. According to the findings of the study, Poland moved from the group of catching-up countries to the group of moderate innovators. From the study it also stems that despite a SII lower than the average of all the European Union Member States, Poland is characterised by SII growth rate exceeding the EU average.

In the last two years, many beneficial changes in business environment were introduced. It seems that the reforms were among the factors facilitating the activity of the companies in difficult conditions of the economic slowdown. It was also partly reflected in international competitiveness rankings presented in chapter 4. But the areas of activity not capable of being improved simply does not exist, which is reminded by the entrepreneurs on and on, by indicating various barriers for entrepreneurship, *inter alia* hindered access to the external financing, complex economic law, frequent amendments to the regulations or relatively high quasi-tax strain.

Table 1 Position of Poland in international economy competitiveness rankings.

Ranking name	Current position in ranking	Former position in ranking
<i>Doing Business 2010</i>	72	72
<i>The Global Competitiveness Report 2009-2010</i>	46 ↑	53
<i>Index of Economic Freedom 2010</i>	71 ↑	82
<i>World Competitiveness Yearbook 2010</i>	32 ↑	44
<i>The Lisbon Scorecard X</i>	21 ↑	24
<i>2010 AT Kearney FDI Confidence Index</i>	6 ↑	22

Source: AFD ME study on the basis of the listed rankings.

RECOMMENDATIONS

Poland, as a Member State of the European Union, is an active co-creator of European economic policy, taking into account its own priorities in that field. The related EU policy, determined *inter alia* by so-called Broad Economic Policy Guidelines, Lisbon Strategy or 'Europe 2020' Strategy adopted in June this year, defines priorities to be taken into account in the domestic policy. Activities aimed at development of broadly understood entrepreneurship are good illustration of how the policy of the community fits into solutions adopted at the national level.

The release of economic potential of enterprises, intensely stressed in the renewed Lisbon Strategy, was reflected in the *National Reform Programme for 2005-2008 to implement the Lisbon Strategy*, and subsequently in the *National Reform Programme for 2008-2011 to implement the Lisbon Strategy* (adopted by the CM on November 18, 2008), which is currently applicable. Basic horizontal principles underlying the reforms contained in the NRP are: improvement of the legislation process, support for entrepreneurship and development of a friendly environment for its growth, development of innovativeness as well as taking their influence on the SME sector into account in all the policies. To that aim, within one of the three pillars of NRP 2008-2011 – the Innovative Economy priority – there were *inter alia* following tasks planned to be executed: *application of the Think Small First principle in the process of development of policies related to entrepreneurship; identification, measurement and reduction of the administrative burden imposed by law regulations upon the entrepreneurs; promotion of the Corporate Social Responsibility; further improvement of entrepreneurs' access to external financing sources by means of loan and loan guarantee funds system.* The economic slowdown we are facing now constitutes an additional stimulus for structural reforms, which – once realised – will make it possible to fully utilise opportunities of future economic development, enabling at the same time a mitigation of crisis consequences in a short run.

As the implementation period of the Lisbon Strategy expired, the European Commission launched, in autumn 2009, a discussion on the new social and economic strategy, called Europe 2020. The Strategy in its final shape was adopted by the European Council on June 17, 2010. The fundamental goal of the reforms, which is acceleration of economic growth and the increase of employment in EU countries, did not change. In the Strategy, a strong accent is put on the activities connected with innovativeness, basing on three interdependent and complementary priority areas: the intelligent growth – which means development of the economy based on knowledge and innovations; the continuous sustainable growth – supporting low-emission, efficiently utilising resources and competitive economy; as well as the growth conducive to the social inclusion – namely support for the economy of high employment which ensures the economic, social and territorial cohesion.

Within the Strategy, the following targets at the European Union level were proposed:

- efforts aimed at achievement of the employment rate totalling 75% among women and men aged 20-64;
- overall level of public and private R&D investments totalling 3% of GDP;
- reduction of greenhouse gases emission by 20% (30%, conditionally) in comparison to the emission level of 1990; increase by 20% of the renewable energy share in the overall energy consumption; as well as efforts aimed at increasing the energy efficiency by 20% (implementation of the energy and climate change package);

- increasing the education level, especially by efforts aimed at decreasing, below 10%, the percentage of early school leavers as well as increasing up to 40% the percentage of persons aged 30-34 with higher or equivalent education;
- fostering social inclusion, especially by reducing the poverty level and recovering at least 20 million persons from the threat of poverty and exclusion.

Flagship initiatives executed at the level of EU, Member States and regional and local authorities, which shall be the basic instrument of the Strategy implementation, include:

- *Innovation Union* – focusing the R&D activity and innovations on challenges faced by the society, such as improvement of energy efficiency, demographical changes, health protection;
- *Youth on the move* – improvement of education quality and trainings at all the levels as well as improvement of international recognition of the attractiveness of the European higher education system;
- *A digital agenda for Europe* – durable economic and social benefits achieved thanks to the unified digital market based on the access to the broad-band Internet;
- *Resource efficient Europe* – supporting the change towards low-emission economy, efficiently utilising natural resources, and efforts aimed at decoupling of economic growth dependency on the natural environment degradation;
- *An industrial policy for the globalisation era* – improvement of the environment for entrepreneurship, especially for SMEs, and supporting development of strong industrial base, competitive at the global level;
- *An agenda for new skills and jobs* – development of the environment for modernisation of labour markets by the facilitation of the employee mobility and development of their skills to raise the employment rate and ensure durability of our social models;
- *European platform against poverty* – ensuring economic, social and territorial cohesion by way of helping the poor and socially excluded and making it possible for them to participate in life of the society.

In connection with the important role of micro-, small and medium-size enterprises in the economy and the necessity to ensure them opportunities of optimum functioning and development, the European Commission, on June 25, 2008, published the communication *Think Small First. A Small Business Act for Europe* COM(2008) 394 (SBA), containing a proposal of consistent strategy towards small and medium-size enterprises in the form of specific activities executed both at the community and national level.

The ten priority principles, detailed in SBA Communication and serving as guidelines for the preparation and implementation of SME policy at the community and national levels, included:

- 1) Development of the environment in which entrepreneurs and family businesses may do well and the entrepreneurship pays;
- 2) Ensuring that honest entrepreneurs whose enterprise was subjected to bankruptcy proceedings were given another chance as soon as possible;
- 3) Development of regulations in line with the Think Small First principle;
- 4) Make public administration bodies better respond to the needs of SME;
- 5) Adjustment of public policy instruments to SME needs: facilitation of SME participation in public procurements and improvement of the state support utilisation by SMEs;
- 6) Simplifying SMEs access to the financing and developing legal and business environment conducive to timely payments in business transactions;

- 7) Supporting SMEs in broader utilisation of opportunities offered by the uniformed market;
- 8) Fostering improvement of qualifications in SMEs and all forms of innovations;
- 9) Making it possible for SMEs to transform challenges related to the environment protection into new possibilities;
- 10) Encouraging and supporting SMEs in benefiting from markets development.

Among most advanced, in terms of implementation, actions in Poland that fit in the 10 SBA principles, one should list:

- Actions implementing "Think small first" principle in terms of shaping policy from drafting regulations up to the public services;
- Actions in the scope of development and promotion of financial engineering instruments, aimed at facilitation of SMEs' access to the capital;
- Support for innovative SMEs and actions aimed at encouraging entrepreneurs to adopt innovative solutions;
- Counteracting of enterprises' bankruptcy and another chance policy;
- Facilitation of SMEs' participation in public procurements.

Poland, as a member of the Organisation for Economic Co-operation and Development, undertakes active measures at that forum, *inter alia* in the area of the entrepreneurship policy. In 2009, the Centre for Entrepreneurship, SMEs and Local Development by OECD executed, upon the order of the Minister of Economy, the *Review of SME and Entrepreneurship Issues and Policies in Poland at National and Local Levels*.

The Review, completed in 2009 Q4, was aimed at the assessment of quality of the policy applied towards entrepreneurship, the inspection of consistency of actions undertook at central and local levels and working-out recommendations serving the purpose of more efficient channelling of public interventions on the part of the state. Within the study, the OECD proposed, aside from diagnosis of the present situation, also a catalogue of detailed proposals of solutions and recommendations along with best practices which may provide a basis for the development of assumptions for modern policy towards enterprises and development of the entrepreneurship.

The report contains following recommendations as regards directions of support for SME sector at national and local levels in Poland:

- Restoration of a clear framework for policy of the support for and development of the SME sector;
- Improvement and support of policy of the support for and development of the SME sector;
- Co-ordination of policy of the support for and development of the SME sector both at national and local levels;
- Facilitation of the process of creating assumptions for programmes and strategies to improve the effectiveness of actions at individual levels within the support for the SME sector;
- Improvement of the policy and strategy evaluation process for policies and strategies of support for the SME sector;
- Strengthening of the SME activity environment to reduce barriers for development of small and medium-size enterprises;
- facilitation of the SMEs' access to financing;
- facilitation of the SMEs' access to markets;

- promotion of innovative attitudes in the SME sector and the support for innovative enterprises;
- supporting enterprising attitudes in the society;
- adjustment of the policy and strategy of support for SMEs to the actual local needs.

The framework of a desirable entrepreneurship development policy is therefore determined by mid- and long-term challenges Polish enterprises are facing, but also by current needs, including especially those related to the economic slowdown. The policy towards enterprises is at the same time more and more strongly determined by obligations of the community, and it also derives from the experience and cooperation at other forums, e.g. OECD. Below, there are recommendations presented for the policy of the entrepreneurship development, which take into account findings of this report as well as the factors outlined above, influencing both current and strategic choices as regards supporting instruments. To our satisfaction, we also perceive the fact that a number of actions reducing barriers for the activity of enterprises was implemented, which of course does not release from further, consistent actions in favour of the entrepreneurship development.

* * *

I. Horizontal actions to ensure friendly legal and institutional environment for the entrepreneurship, with special regard to the 'think small first' principle:

- 1) Further **reduction of administrative barriers** for business activity, *inter alia* on the basis of outcomes of the identification and results of measurements of the administrative burden;
- 2) **Simplification and liquidation of certain rationing procedures** in the scope of undertaking and conducting business activity (permits, permissions, licences, etc.);
- 3) **Standardisation of the law creation process based on evidence** (system of regulatory impact assessment);
- 4) **Simplification and ensuring transparency of the tax system**, *inter alia* by unifying the tax base in the income taxation, widening the tax base, broadening the possibilities of the online tax settlement;
- 5) Continuation of activities aimed at the **acceleration of legal proceedings in business cases** by way *inter alia* of creation of conditions for a broader utilisation of state-of-the art technological solutions in proceedings before courts or further dissemination of Alternative Dispute Resolution;
- 6) Development of resources of qualified labour force for the needs of the labour market;
- 7) **Counteracting bankruptcy** of enterprises and conducting "**another chance**" policy;
- 8) Introduction of **systemic solutions**, with special regard to financial support **in favour of the development of social economy entities**.

II. Actions conducive to growth in investments of enterprises, market expansion and improvement of efficiency of their operations:

- 1) Further improvement of enterprises' access to external financing sources, *inter alia* via **loan and loan guarantee funds system**;
- 2) Further simplification of procedures of obtaining monies from **European funds**;
- 3) Promotion of **public-private partnerships (PPP)**;
- 4) Facilitation of **access of enterprises to the Single European Market and foreign markets** by way of *inter alia*: facilitation of the implementation of industry promotional

- projects in the scope of export or sales on UEM, or facilitation of obtaining product certificate required on foreign markets;
- 5) Creation of a comprehensive **system of promotion of Polish economy**, making use in optimum manner of available human and financial resources to support activities of Polish entrepreneurs abroad and attract foreign investments to Poland;
 - 6) Development of the environment for increased access of entrepreneurs to the sources of financing from **venture capital** funds;
 - 7) Fostering broader utilisation of **corporate bonds** in business activity financing;
 - 8) Creation of the environment for development of **sustainable production and consumption** by way of *inter alia* supporting "green" workplaces;
 - 9) Actions undertaken in order to increase utilisation of **energy from renewable sources**, which may provide a stimulus to SMEs' growth and creation of new workplaces and development of new industry fields that would stimulate the economy;
 - 10) Development of the **nuclear power engineering**, which – due to its scale and volume of investments – should constitute a stimulus for the development of enterprises, including also new fields in the industry;
 - 11) Development of **new technologies of coal utilisation** through activities supporting research and development works related to the utilisation of coal for production of liquid and gaseous fuels;
 - 12) Development of legal and organisational framework for actions aimed at the **energy efficiency improvement** in the economy, covering supporting measures and leading to material energy savings;
 - 13) Stabilisation of the business activity environment in **special economic zones**.

III. Strengthening of innovative attitudes among entrepreneurs:

- 1) **Strengthening of technological and scientific base**, by way of restructuring research and development centres and focusing public financing on institutions and organisations with the greatest potential to conduct successful research works;
- 2) Development of an incentive system for the purposes of the implementation of **research and development works** by the entrepreneurs;
- 3) Popularisation of **culture of intellectual property** and supporting the protection of **industrial property** rights;
- 4) Introduction of instruments supporting the **development of staff and didactic potential of higher education institutions** and stimulating the **cooperation of science and economy**;
- 5) Supporting **international mobility** of R&D staff;
- 6) Development of a network of institutions providing **pro-innovative services** (in particular the National Innovation Network);
- 7) Supporting development and popularisation of the idea of creation of **clusters, technological platforms and other co-operation links** between entrepreneurs as well as between enterprises and scientific centres, focused on the completion of investment projects;
- 8) Stimulating innovations via popularisation of **ICT** as well as investments in these technologies.

IV. Other activities conducive to the development of entrepreneurship:

- 1) Development of **business environment institutions** system purposed to ensure high quality of services for business (e.g. improvement of staff qualifications, strengthening of cooperation between centres associated in networks of business environment institutions);
- 2) Strengthening of **the process of consultation** of bills of acts with the entrepreneurs and social partners (focus of the administration on the needs of such entities);
- 3) Continuation of actions aimed at the **improvement of Polish administration performance** by way of implementation of systems ensuring due quality of provided services;
- 4) Further limitation of **discretionary nature** of issued administrative settlements;
- 5) Fostering **strategic management** in enterprises with special focus on formalised development plans;
- 6) Promotion of the **corporate social responsibility**, especially in SME sector;
- 7) Strengthening of **pro-ecological attitudes** through the promotion of environment management system ISO 14001 and EMAS, as well as certified eco-labels;
- 8) Supporting initiatives aimed at **tightening of cooperation between entrepreneurs**, as leading to higher management efficiency.

Due to the fact that the indicated activities are to a significant degree of long-term character, they are in great part corresponding to the postulates presented in the last year edition of the report *Entrepreneurship in Poland*⁴. An unquestionable majority of actions is actually realised, and the most important postulates from 2005-2008 were implemented in great part, which had been already reflected in the last year report (e.g. limitation of supervision at the companies, possibility of suspending business activity, amendment to the Act on VAT). Further on in this report, the general progress of the implementation of recommendations of 2009 is presented in the form of tables.

⁴ Presented for information of the members of the Council of Ministers on July 23, 2009.

Table 2 General status of the implementation of recommendations from the last year edition of report

RECOMMENDATIONS OF 2009	IMPLEMENTATION STATUS AS AT 1.06.2010					
	Implemented	Implementation in course	No progress	New actions/instruments planned	Continuous work/long-term character	
I. Horizontal actions to ensure a friendly legal and institutional environment for the entrepreneurship, with special regard to the 'think small first' principle:						
1) Further reduction of administrative barriers for business activity, <i>inter alia</i> on the basis of results of identification thereof and outcomes of measurement of the administrative burden	x	x		x	x	
2) Simplification and liquidation of certain rationing procedures in the scope of undertaking and conducting business activity (permits, permissions, licences, etc.)		x			x	
3) Implementation of the directive on services on internal market, by way of a horizontal law		x			x	
4) Simplification in the scope of SMEs' access to the public procurement market	x			x		
5) Further simplification of tax system, <i>inter alia</i> by broadening possibilities to settle tax online						x
6) Continuation of actions aimed at the facilitation of legal proceedings in business matters (...)	x	x		x	x	
7) Counteracting bankruptcy of enterprises and pursuing "another chance" policy (...)		x			x	
8) Introduction of systemic solutions, with special regard to the financial support, aimed at the development of social economy entities.			x			
II. Actions to eliminate investment barriers and stimulate growth in investments of enterprises:						
1) Further simplification of procedures of leveraging monies from European Funds	x			x		
2) Further improvement of entrepreneurs' access to external financial sources by means of a loan and loan guarantee funds system		x			x	
3) Fostering public-private partnerships (PPP)		x			x	
4) Improvement of the attractiveness of special economic zones (SEZ) instrument	x					x
5) Increasing availability of support offered within the System of supporting investments of key importance for the Polish economy by broadening the sector catalogue of supported projects, mitigation of			x			

eligibility criteria and shortening the whole procedure							
6) Making it easier for entrepreneurs to access the Single European Market and foreign markets through, <i>inter alia</i> , implementation of promotional industry projects in the scope of export or sales on UEM, or making product certificate required on foreign markets easier to obtain.				X			X
7) Improvement of financial support instruments for exporters through <i>inter alia</i> activation of Export Credit Insurance Corporation operations				X			X
8) Development of a comprehensive system of Polish economy promotion, utilising in optimum manner available human and financial resources to support the activity of Polish entrepreneurs abroad and attract foreign investments to Poland				X			X
9) Development of the environment conducive to the broader access of entrepreneurs to financing activity from venture capital sources				X			
10) Actions aimed at the increase of utilisation of energy from renewable sources, which may constitute a stimulus to SME development, and also the creation of new workplaces and development of new industry branches, which would stimulate the economy				X		X	X
11) Development of nuclear power engineering, which due to the scale and volume of investments should constitute a stimulus to the development of enterprises (...)							X
12) Establishment of legal and organisational framework for actions aimed at the development of energy efficiency of the economy, including supporting mechanism and leading to significant energy savings			X	X			
III. Strengthening of innovative attitudes among entrepreneurs:							
1) Strengthening of technological and scientific base by restructuring research and development units and focusing public financing on institutions and organisations with greatest potential to conduct successive research works				X			X
2) Development of an incentive system for the implementation of research and development works by entrepreneurs			X	X			X
3) Supporting the protection of industrial property rights				X			X
4) Introduction of instruments supporting the development of staff and didactic potential of higher education institutions and stimulating cooperation of science and economy sectors				X		X	X
5) Development of a network of institutions providing pro-innovative services (in particular the National Innovation Network)				X			X
6) Supporting development and popularisation of the idea of creation of clusters, technological platforms and other cooperation links between entrepreneurs as well as between enterprises and scientific centres, focused on the completion of investment projects				X		X	X

7)	Stimulating innovations via popularisation of ICT application as well as investments in these technologies			X				X
IV. Other activities conducive to the development of entrepreneurship:								
1)	Development of a system of business environment institutions purposed to ensure the high quality of services for business (e.g. improvement of staff qualifications, strengthening the cooperation between centres associated in networks of business environment institutions)			X				X
2)	Strengthening of the process of consultation of bills of acts with the entrepreneurs	X		X			X	X
3)	Continuation of actions aimed at the improvement of Polish administration performance by way of the implementation of systems ensuring due quality of provided services	X		X			X	X
4)	Further actions aimed at the minimisation of corruption in economy, <i>inter alia</i> by way of actions undertaken in order to reduce the discretionary character of administrative settlements	X		X				X
5)	Promotion of the corporate social responsibility, especially in the SME sector			X				X
6)	Strengthening of pro-ecological attitudes through the promotion of environment management system ISO 14001 and EMAS, as well as certified eco-labels			X			X	X

1. MACROECONOMIC SITUATION OF POLAND IN 2009

The financial crisis that spread throughout the global economy translated into the deterioration of main economic indicators. Diversity of the economies of individual countries, their structural features and specificity of institutional systems marked out the scale and severity of the downturn impact. Stimulation packages introduced by respective countries often helped to survive tough times, but increased at the same time their long-term liabilities. **Practical solutions and policies applied in Poland resulted in the noticeable crisis immunity of Polish economy in comparison with the other EU Member States.** The subdued response of Polish economy to the downturn confirms that the economy grows in a balanced manner.

The status of Polish economy, both in comparison to Euro zone countries as well as countries of our region, seems favourable. Poland, as the only EU country, generated economic growth. **The Gross Domestic Product in 2009 went up by 1.8%. Despite the economic slowdown, households did not limit consumption, even if its dynamics was lower than in the previous year. While, a significant slump took place in investments.**

The financial crisis brought clearly out deficiencies of financial supervision in many countries, proving at the same time the advisability of Polish regulations. Nevertheless, to a certain extent also a lower development level of Polish financial market caused that we did not experience directly the slump of global financial market slump.

The crisis was also partly mitigated by the reduction of labour costs and personal income tax in 2009. Positive consequences of this policy are visible on the labour market. What is more, benefits stemming from this decision should be sensible also in a longer run.

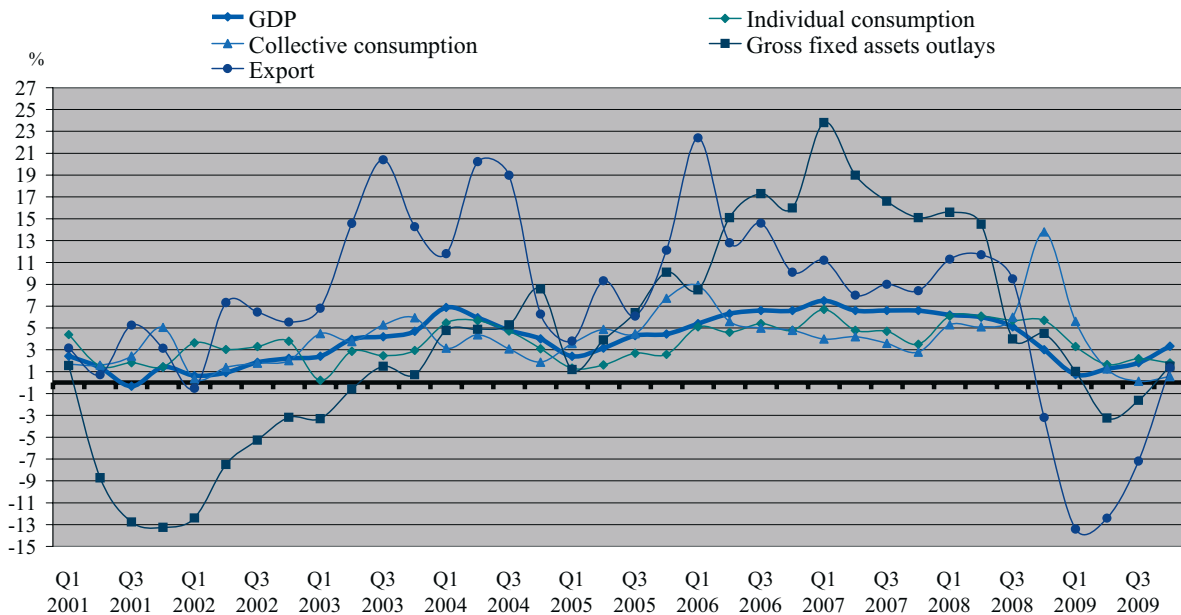
The domestic demand no longer exerts the positive influence of the GDP shaping, making it at the same time possible for external demand to act as the growth stimulator. **A relatively lower openness towards the international exchange and the trade exchange structure contributed to the lower decrease in export than in import.** Weakening of zloty was also of considerable importance.

Poland is among the countries benefiting to a substantial extent from the attractiveness of their economy. The fact that the crisis has only limited influence on the economy is the reason for the still considerable inflow of FDIs. In 2004-2008, foreign direct investments in Poland totalled nearly EUR 62 billion. Unfortunately, the situation on the global market is not without importance in this respect. The volume of inflowing **foreign direct investments** in 2009 amounted to EUR 8.4 billion and was lower on the preceding year (EUR 10 billion). The accumulated equity and reinvested profits totalled EUR 96.2 billion (an increase by EUR 8.4 billion when compared to the level of 2008).

1.1 Economic growth and its factors

2009 and the situation on the global market left no place for doubt that what we are facing is a global downturn. Poland, leaving alone being the only EU economy to record growth, is affected by the scope of devastation caused by the crisis in terms of long-term economic growth trajectory. **In 2009, the GDP increased by 1.8%** when compared to 2008, which is a significantly lower result than in preceding years.

Chart 3 Economic growth, consumption, and gross fixed capital formation (% change in relation to the corresponding period of preceding year)



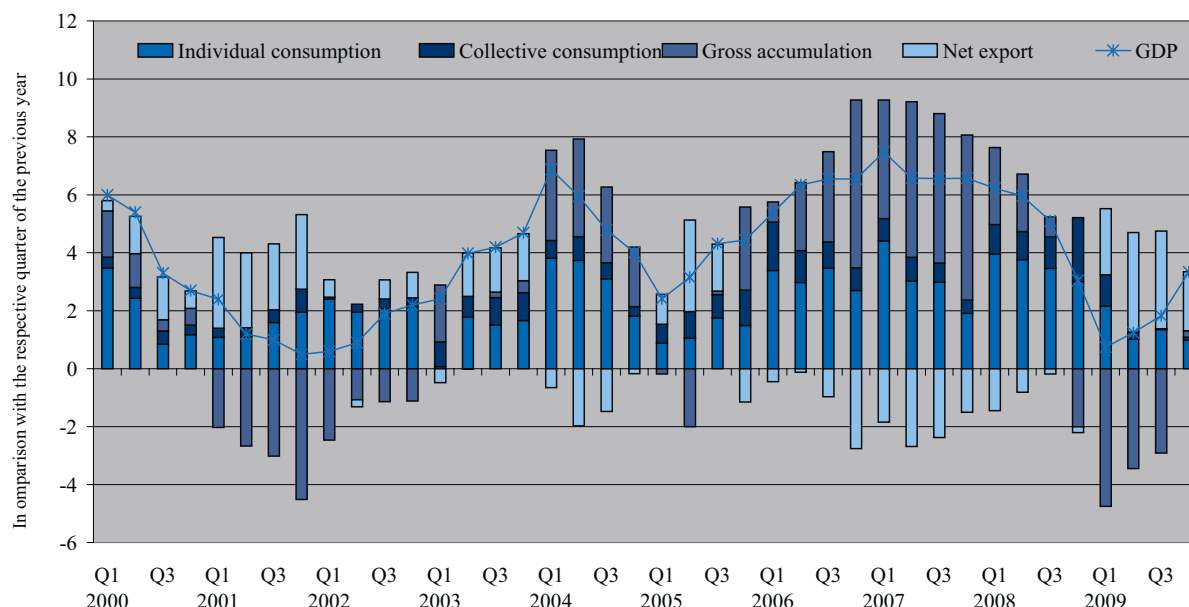
Source: AFD ME study on the basis of CSO data.

The decrease in growth dynamics of real salary of households and less favourable financial condition of enterprises, as well as more difficult access to credit financing, negatively influenced consumption expenditure of the households. In turn, it was pension indexation and PIT premiums lowering which was decisive for restraining this downward trend. But in result, the consumption dynamics witnessed a decrease.

The limitation occurred in the investments. These were negatively influenced by tightened conditions of granting credits, and also the increase of uncertainty and the recession, which found its repercussions in difficult financial condition of the enterprises. On the other hand, favourable prospects of utilising European Union funds, and still high level of utilisation of the production capacity, enabled a partial compensation of this category decline.

As a result of the adjustment of inventories to the limited dynamics of the economy, the domestic demand ceased to be the main driver of economic growth. Similarly as in times of crisis in 2000-2001, its contribution to the growth was negative. The role of economy stimulator was taken up by external demand.

Chart 4 Demand decomposition of GDP growth



Source: AFD ME study on the basis of data by CSO.

Changes in the structure of domestic and foreign demand remain in close relationship with the role played by respective sectors of the economy in its growth during subsequent years. In 2009, the tertiary sector, which had been developing dynamically for a couple of years, retained its positive contribution to the creation of added value. It is also worth noting that this sector, as the only one in the period of the economic stagnation, had a positive impact onto the GDP. At the same time, the contribution of the industry into the GDP became negative, a situation analogous to the crisis of 2001-2002.

The building industry, given the situation on the global real estate market, developed surprisingly well. Despite unfavourable economic conditions, the added value growth in this sector was recorded, but within a somewhat lower dynamics. Such results indicate that downturn in investments in the period of economic stagnation, constituting the main cause of negative contribution of the building industry to the GDP growth in 2001-2002, will not repeat. The contribution was kept positive mainly due to infrastructural investments, especially those connected with the organisation of EURO 2012 tournament.

When analysing the above one should notice however, that despite the economic slowdown, the number of newly established companies (and enterprises of natural persons in particular), raised in the last year. There was significant increase in the scope of service enterprises. It should be stressed, however, that companies coped with declining turnover also due to the intensified competition on the market. During the year, we witnessed the reduction in the scope of inventories, hence their expected replenishment.

1.2 Investments

In 2009, gross outlays on fixed assets dropped by 0.8%. In the first quarter of the year, a decrease in investments by 0.8% was recorded. A similar movement was recorded also in the two following quarters – respectively by 3.3% and 1.4% down, while in the last quarter there was a return onto the path of slow growth (1.1%). In this case, situation seems different than

that from 9 years before, when, during the Argentinean crisis, the strong appreciation of zloty resulted in the drop in profits, and limitation of investments to follow. These experiences, and also outlined favourable prospects of EU funds utilisation, enabled to plan investment expenditure in a more reasonable way.

On the other hand though, the unstable situation of enterprises, especially in Q1, also contributed to the deceleration of the investment activity. The investment projects in execution were negatively influenced by the tightened crediting policy, and also deepening uncertainty and recession, affecting especially the key trade partners of Poland.

The dynamics of investment expenditure remain in close correlation with changes on the labour market. Growing investment outlays of 2006-2007 absorbed labour resources, resulting in strong raise in the employment. Changes in the employment proceeded in the same manner as those in investment outlays. Retaining favourable trends in investments is therefore the main task of the economic policy. The downturn on financial markets made it difficult to finance the extension of production capacity of the economy, and the slump in trade exchange because of recession affecting main partners of Poland additionally limited the possibilities of letting out the merchandise, additionally deepened by the appreciation of zloty (however to a lesser extent than expected).

Table 3 Gross investment outlays of private sector as % of GDP

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Poland	17.3	15.3	14.9	14.7	14.8	15.7	17.4	17.5	15.7
EU-15	17.8	17.2	17	17.2	17.7	18.2	18.6	18.2	16.2

Source: EUROSTAT, STRIND.

In 2009, in opposite to the preceding years, both in Poland as well as in the group of most developed economies of the EU, there was a significant drop of gross investment outlays by private sector enterprises to GDP ratio. A unidirectional change did not influence the trend to the equalisation of these indicators. There was also a substantial decline in utilisation of industrial production capacities. Limitation on the part of EU-15 was significantly higher than in the case of Poland, which resulted, at the end of 2009, in the situation that the level of utilisation of production capacity in Poland was higher than in the case of EU-15 countries.

Table 4 Industrial Production capacity utilisation (in the last quarter)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Poland	66.0	72.2	75.7	77.7	78.1	80.0	81.9	79.6	73.4
EU-15	81.5	81.1	81.1	82.0	81.2	83.9	84.1	81.5	72.7

Source: EUROSTAT.

The gross fixed assets outlays to GDP ratio totalled 21.1%, which is lower result than in 2008 (22.3%), and even than in 2007 (21.6%). Hence, the gap between domestic savings and investments started to close up, similarly as in times of crisis 2001-2002. Among external sources of capital, the main role was played by foreign direct investments, and also transfers from the EU.

In 2008, inflow of FDIs to Poland totalled EUR 10 billion. The amount of reinvested profits were negative, whereby in 2007 it totalled a record of 6.8 million, constituting the main part of the FDI inflow for the first time ever. The negative value recorded in 2008 was a result of the global downturn, resulting in financial losses of enterprises, including also foreign

investors. According to preliminary estimates of the NBP, the FDI inflow to Poland amounted in 2009 to EUR 8.3 billion, reaching therefore the lowest value since 2004.

Table 5 Foreign direct investments in Poland (annual inflows and their share in GDP)

	2001	2002	2003	2004	2005	2006	2007	2008	2009*
FDI in EUR billion	6,372	4,371	4,067	10,237	8,330	15,741	17,240	10,030	8,251
in % of GDP	3.0	2.1	2.1	5.0	3.4	5.8	5.5	2.8	2.7

Source: AFD ME calculation on the basis of data by NBP and Eurostat.

* initial data.

The decline of inflowing and outgoing foreign investments, evident in Poland of 2008, affected to comparable extent also developed EU countries. A significant acceleration of capital inflow to the markets of emerging countries in 2006-2007 was brought to a halt by the financial crisis affecting the developed countries. The indicator illustrating the average inflow and outflow of foreign investments is presently running at the level similar to the one recorded in 2001, which ended the preceding period of investment acceleration in Polish economy.

Table 6 Net foreign investments (as % of GDP in Poland and in EU-15)

	2001	2002	2003	2004	2005	2006	2007	2008
Poland	1.5	1.1	1.2	2.7	2.3	4.2	3.4	1.6
EU 15	2.6	1.4	1.4	1.1	2.0	2.6	4.0	2.3

Source: EUROSTAT, STRIND.

Inflow of the foreign capital by way of the increase in investment expenditure, contributes to the increase of the potential of Polish economy. It is at the same time one of the main channels of transferring technologies to Poland. The transfer of technologies which are not localised at the so-called technological limit, is one of the main factors stimulating the convergence. Among remaining ones, one should put stress on the research and development expenditure.

1.3 International trade and exchange rate

The global financial crisis that reached our country in the end of 2008, caused serious changes in Polish commercial turnover. Due to nearly ultimate slump in the import demand, especially on markets of key importance to Poland, as of November 2008 an exceptionally deep decline in export occurred, and in the wake of it – with two-month delay – even deeper decline in import.

In 2009, the internal demand growth rate in economically developed countries went down by 3.4% in comparison to the increase by 0.1% in 2008. In Germany, which is the most important of our export markets, a drop by 1.8% was recorded, while in the preceding year, there was a growth by 1.7%. The domestic demand in turn, which is one of the most important factors of our internal trade, decreased in 2009 by 1.0% in comparison to 5.6% growth of 2008.

The above conditions translated into significant decreases in the trade turnover recorded in 2009. According to the data by CSO, the volume of export expressed in EUR decreased in

2009 by 15.5%, compared to its increase by 14.1% year before. On the other hand, import dropped by 24.5 %, compared to the increase by 18.3% in 2008.⁵

Disproportionally deeper decline in the import as compared to the export that had been recorded since the beginning of 2009 (9.0 p.p., at average) did not result in withholding the raising trade exchange deficit dynamics that lasted for the two last years (at average by 9.0 p.p.), but plainly speaking, in its sweeping reduction by nearly EUR 17.0 billion (the data by CSO).

According to the NBP estimates, a similar downturn was observed in trade exchange in 2009, that is by 17.1% in export and by 25.4% in import. So (as per NBP data), there was a breakdown in trading when compared to GDP. While on the one hand in 2000-08 the share was moving up to 23.2 p.p., that is to 83.7%, on the other, it went down to 77.7% in 2009.

Table 7 Export to GDP ratio in 2000-2009 (goods and services)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP dynamics in %	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.8
GDP in PLN billion	744.4	779.6	808.6	843.2	924.5	983.3	1 060.0	1 176.7	1 275.4	1 344.0
Export in PLN	201.6	210.6	231.4	280.7	346.4	364.7	427.5	479.5	508.7	522.5
Export/GDP in %	27.1	27.0	28.6	33.3	37.5	37.1	40.3	40.7	39.9	38.9

Source: AFD ME study based on the data of NBP and CSO.

The downturn caused significant changes in geographical structure and supply and demand proportions in commodities, export in particular. On the one hand in difficult downturn circumstances a diversified resistance to the crisis, as well as import absorbency of individual markets was observed, while on the other – diversified export resistance of respective commodity groups against markets' weakening. As it may be assessed that relatively more favourable export outcomes are recorded in developed markets, it may be also assessed that at the same time relatively higher resistance to crisis is observed in export of better processed goods, which are usually more advanced, in general.

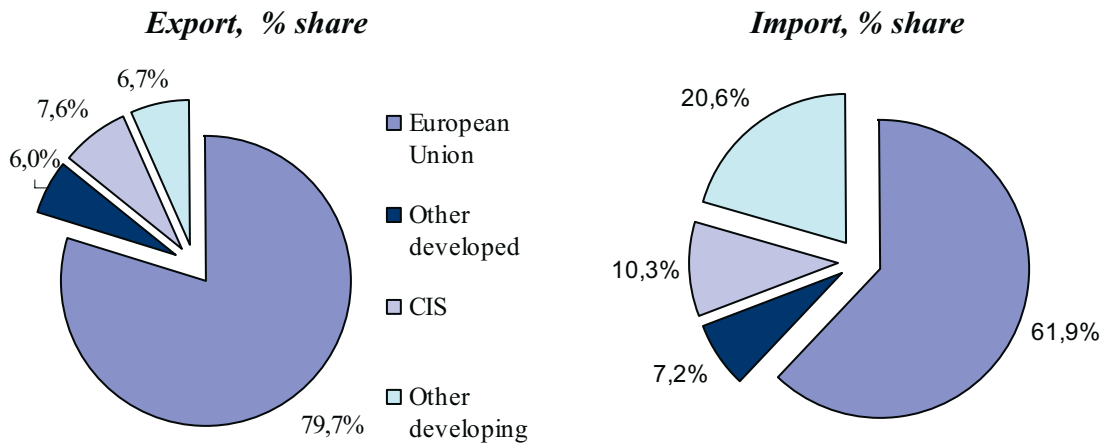
Economically developed countries are the prevailing recipient of Polish merchandise, with the overall share in export of 85.6% in preceding year, which is by 2.5 p.p. down 2003. In the preceding year, the balance of trading in commodities with developed countries totalled EUR 9.8 billion. It was therefore the most favourable in the whole membership period and significantly ahead of 2003 with a deficit at EUR 5.1 billion.

Share of Member States dominating in the group of EU countries decreased in 2003-2009 by 2.4 p.p. down to 79.9%. At the same time, there was substantial improvement in balance of commodities traded within the said markets. The deficit of 2003 at the level of EUR 3.1 billion transformed into the surplus of EUR 11.8 billion of 2009.

⁵ After the period of steep downturn in 2009, after five months of this year, there was a revival recorded in international goods trading. In that period, export increased and import decreased correspondingly by 17.8% and 16.2%. This relatively high growth rate was to a significant extent a result of relatively low base of reference, that is the same five months of the preceding year.

In 2009, the scale of general deficit in Polish commercial turnover (EUR 9.3 billion) was determined traditionally by deeply negative balance of exchange with developing countries, including especially China (EUR 8.9 billion).

Chart 5 Geographical Structure of Polish export and import in 2009.



Source: AFD ME study on the basis of the data by CSO

During the membership in the European Union, there were significant changes in supply and demand proportions in Polish export of goods, which consisted in growth of share of relatively better processed products. While in 2003, electrical machinery products included into three sections (XVI, XVII and XVIII) constituted approx. 39% of export in general, then in 2009 their share went up to 44.8%. Similarly in chemical industry products, the share of which in total export from Poland increased from 10.5% in 2003 up to 12.1% in the preceding year. When compared to all commodity groups, the export of agricultural and food products (sections 1-IV) also changed in favourable manner, with their share growing from 2003 up to 11.8 on preceding year.

At the same time in 2003-2009 in the general Polish export there was a decrease in light industry products share, that is by 3 p.p. up to 3.8% in 2009 as well as stationery products, namely by 1.8 p.p. until 5.3% in 2009.

As for import, the biggest change in 2003-2009 was downward, in the case of share in electronic machine products by 1 p.p. until 39.1% as well as upward, in the case of share in agricultural and food products up to 8.7%.

In the period of two years preceding the downturn there was an appreciation tendency in PLN, which reversed radically in 2009. The diametric appreciation trend of exchange rates were mostly due to the outflow of capital from Poland because of the global economic crisis. In result, our currency, when compared to the two reference currencies – EUR and USD – was significantly depreciated. The average EUR exchange rate as compared to PLN strengthened by 23.1% as compared to its weakening by 7.0% in 2008. At the same time, the USD was even more strengthened – correspondingly by 29.3% in 2009 and 12.9% in 2008. Although deep depreciation of PLN did not compensated the results of the slump in global markets, it however enabled their easement both by related pro-export impact (strengthening of price

competitiveness and widening the profitability margin of the exported products), as well as by way of restraining import (the price-cost shock caused by cutting PLN depreciation).

The depreciating PLN trend in comparison with the two base currencies – EUR and USD – lasted from 2008 to 2009, and then in March of 2009 were stopped and renewed appreciation trend of our currency started. The trend lasted until the present year April, and then devaluation of PLN started again. In 2010, the weighted exchange rate average of EUR run at the level of PLN 5.1025, while of USD – at 4.1025 and when compared to the exchange rate from the beginning of the year (January 2010), was stronger than PLN correspondingly by 0.7% and 17.7%.

1.4 Labour market

Decreased economic growth contributed to deterioration on Polish labour market, as it is demonstrated by the increasing of the BAEL unemployment ratio from 7.1% in 2008 to 8.2%.⁶

The employment ratio remained in 2009 at the same level as in preceding year. There was only slight growth of it observed, from 42.8% to 43.1%, among women. Traditionally lower level of the ratio in women population than in men (58.5%) constitutes a social problem. Its slow growth, observable since 2003, may prove however that the process of increasing women professional activation is in the course.

⁶ The data quoted in this part of the report related to the labour market are the results of BAEL survey and refer to the people of 15 years of age and more.

Table 8 Situation on the Polish labour market in 1996-2009 (semi-annually)⁷

Description ⁸	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Professional activity ratio	58.2	57.7	57.3	56.7	56.6	56.3	55.4	54.7	54.7	54.9	54.0	53.7	54.2	54.9
Employment rate	51.0	51.2	51.3	48.8	47.5	46.1	44.4	44.0	44.3	45.2	46.5	48.5	50.4	50.4
Unemployment level according to BAEL surveys	12.4	11.2	10.6	13.9	16.1	18.2	19.9	19.6	19.0	17.7	13.8	9.6	7.1	8.2
The unemployment rate as at the end of the year	13.2	10.3	10.4	13.1	15.1	17.5	18.0 20.0	20.0	19.0	17.6	14.8	11.2	9.5	11.9

In 2002, the adjustment of unemployment rate based on demographic data, data on agricultural population and activity from the Census. In table concerning 2002 there is value before (18.0%) and after the adjustment (20.0%) is provided.

Source: AFD ME calculations of the basis of the data by CSO.

At the same time, after decreases in 2006-2007, there was an increase of professional activity ratio recorded in 2008-2009. In 2009, the ratio reached the level of 54.9%, which was the result by 0.7 p.p. higher than in the preceding year. Such situation was connected with a drop in number of people professionally passive by approx. 181 thousand and the growth by approx. 268 thousand in the number of professionals. It proves significant growth in the interest in labour and urge to ensure income in the situation of deteriorated economic climate and necessary savings in the state budget, e.g. in the scope of social benefits.

Despite the deterioration on domestic labour market in 2009, Poland reduced its distance to other EU countries affected by the economic downturn, in respect of all the basic characteristics of this economy segment. The employment rate run at the level 59.3% (growth by 0.1 p.p. on the preceding year). After the regular incline of that ratio since 2002, its value for EU-27 decreased in 2009 on the preceding year by 1.3%. Poland, Germany, Luxemburg were the only EU-27 countries, which recorded the employment ratio increase in the last year.⁹

Also the unemployment rate in Poland ceased to be one of the highest among EU-27 countries. Despite the increase from 7.1% to 8.2% it run below the average of all European Union (8.9%) and below the value of the ratio for such countries as France (9.4%), Ireland (11.8%), Estonia (13.8%) and Hungary (10.0%).

The year 2009 was first since the integration with the European Union, when in the sector of enterprises in Poland, average employment drop were noted. In relation to 2008, the employment went down by 1.2%. Observed deterioration of the situation on the labour market was first of all the result of economic slowdown in Poland caused by the global economical

⁷ Due to the fact that manner of conducting BAEL surveys was changed in 1999, comparability of data from before 1999 with data from 1999 is limited. What is more, due to the fact that surveys were not conducted in 1999 Q2 and Q3, the data calculated for this year are data from two remaining quarters.

⁸ Professional activity ratio is a percentage of persons professionally active (employed and unemployed) in the general number of population of a given category (15 years of age and more). Registered unemployment covers persons, who in accordance with the Act on Employment and Counteracting Unemployment are defined as unemployed and registered in relevant poviats office of employment.

⁹ Data by Eurostat for persons of 15-64 of age.

crisis. In result of decrease in demand, both on domestic as well as international market, enterprises lowered their production volume, adjusting the employment correspondingly. However the scale of reduction in respective companies was not significant: nearly 70% of surveyed enterprises declared staff reductions in the period autumn 2008 – spring 2009 at a level not higher than 5% of the staff.¹⁰

As a result, staff supply on the market increased. In the light of surveys among employers, lower and lower number of them declares problems with enlistment of employees. In 2007, nearly 60% of surveyed entrepreneurs did not manage to find potential employees for the vacancies, while in Spring 2009, only every third employer faced that problem.¹¹

Other important phenomenon, characteristic for Polish labour market in last years – migrations of Polish employees – is difficult to estimate¹². According to the most recent data published by CSO, the number of Poles leaving to the countries of Western Europe decreased with coming of economic crisis in the end of 2008. Due to difficulties with job finding, also returns of Poles to Poland intensified, mainly from the Great Britain, Ireland and United States. As a result, number of persons staying temporarily abroad decreased when compared to the preceding year. Shall this trend become fixed – it will result not only in the increase of employee availability on the domestic market, but also general improvement of their qualifications and competences, as emigrants are better educated than Polish society in general¹³.

1.5 Labour costs

Costs of labour in Poland, in qualitative account, run still at relatively low level in relation to the other EU countries. Nevertheless, this factor loses weight as regards developing a competitive position of Polish economy, especially after the accession of Romania and Bulgaria to the EU. Gradual process of convergence to the level average for all the European Union is also in the course.

In the costs structure, tax and quasi-tax loads in relation to the whole costs of work remain relatively high, which constitutes a certain barrier limiting the employment growth in Poland. Nevertheless, last years brought significant improvement of situation in that matter. High dynamics of wages observed since 2008, was substantially slowed due to the global crisis. In 2009, the average monthly salary in national economy increased when compared to 2008 by 5.5%. In enterprises sector, the growth were lower and totalled 4.4% in nominal account (real account of 1.1%). At the same time, there was increase of work efficiency noted in Poland (as one of the three EU countries, according to Eurostat, where such increase was noted). It is worth underscoring that limitation of the wage growth rate coupled with simultaneous growth of work efficiency exerts favourable influence onto revenues of enterprises, which in consequence enables to retain their competitiveness at a high level. In particular, it was particularly important in the last year, when the enterprises had to undertake a lot of adjustment activities in relation to the financial crisis.

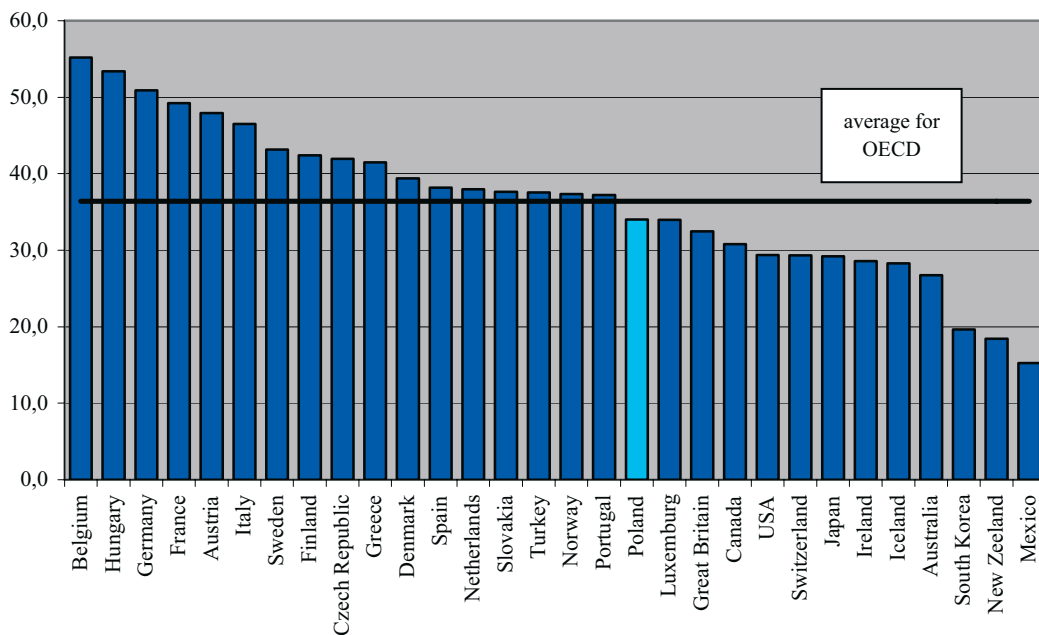
¹⁰ *Flexibility on the labour market – choice or necessity?*, survey of 2009 by KPMG.

¹¹ *Ibid.*

¹² The notion does not contain all what is essential to the phenomenon. The 'emigration' should be referred only to those who depart and stay abroad more than 1 year. In the Report it is applied to the all departing for work.

¹³ Such a conclusion may be drawn from the outcomes of PSDB and GfK final report: *Impact of EU funds on balance of internal and external migrations*, Warsaw, February 2009.

Chart 6 Tax wedge in Poland and other countries being a members of OECD in 2009¹⁴



Source: Taxing Wedges 2008/2009: 2010 Edition, OECD, 2010.

In 2009, quite an important changes took place as regards costs of work. They were mainly focused on the side of tax system. On January 1, 2009, the hitherto three-level PIT scale with 19, 30 and 40% rates was changed into new, two-level scale with 18 and 32% rates. The threshold between them was defined at the level of PLN 85.528 thousand. The free of tax amount did not change, but introduced changes caused slight growth in net salaries (by 1.0% in the case of domestic average).

On the side of the costs of work connected with financing of social security system, there was no significant changes noted, and remaining ones were limited exclusively to specific groups of employees. To the most important changes in this scope one may include the decrease of costs of hiring employees from 50+ and 55+ age groups, and also women returning to work after maternal leave and child care leave during 36 following months. These activities fitted into implementation of the programme of employment supporting and professional activation of aged persons.

¹⁴ For a single with average salary.

Box 1 Lower costs of work in times of crisis.

In relation with the global economic downturn experienced by Polish economy in 2009, the government undertook a number of initiatives aimed at mitigation of the crisis consequences. A number of them was focused on temporary lowering costs of work for employers, which was aimed at limitation of dismissal pressure onto employers by the companies, which found themselves in difficult economic situation.

In August 2009, an act came into force, within the so-called emergency package, in the scope of changes in the labour law. The regulations of the *Act on Mitigation of Economic Crisis Consequences for Employees and Entrepreneurs*¹⁵ for enterprises not being in arrears with public law charge and Labour Fund premiums, not threatened with bankruptcy, and facing temporarily financial difficulties, namely if their revenues dropped by 25 per cent at least, provide for:

- Benefits financed from GEBF earmarked for partial fulfilment of employee remuneration in the period of economic downtime (so-called down-time leaves) in a period not exceeding 6 months in total up to 100% of unemployment allowance (PLN 575 in 2009),
- Benefits financed from GEBF for partial compensation of lowering the amount of working time in a period not exceeding half a year in total, in the amount of 70% of unemployment allowance (PLN 402.50 in 2009).

In both above cases the employer is obligated to cover from their own funds the this portion of the remuneration, in order for the total amount of the remuneration was equal to the minimum wage (PLN 1,276 in 2009).

Moreover, from the Labour Fund monies, each of employees may be granted a scholarship in the amount of 100% of unemployment allowance, provided that the employee was referred by the employer for training (not longer than 6 months) or post-gradual studies (up to 12 months), substantiated with their present or future needs. The value of training or postgraduate studies in the amount not exceeding 80% of its value, however not longer than triple average remuneration in the preceding quarter, may be also – upon the request of the employer – financed from the Labour Fund means.

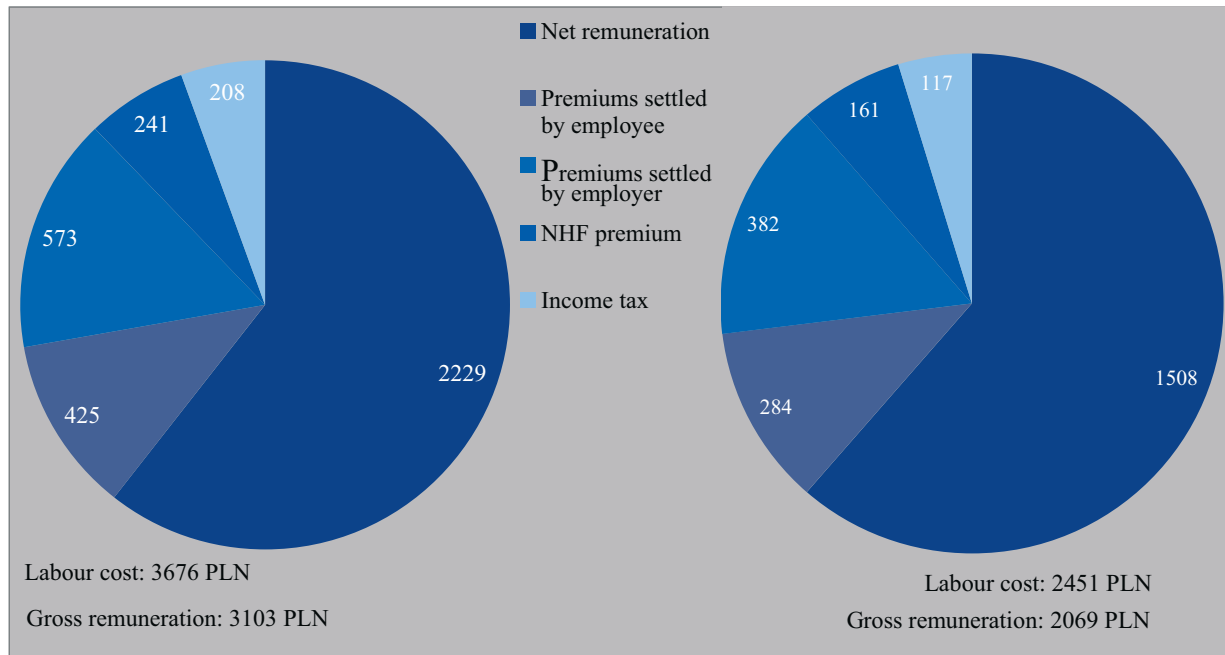
The introduced changes caused that the share of tax and quasi-tax loads in costs of work (the so-called tax wedge) was reduced for yet another year in a row. The tax wage for the average salary in Poland totalled in 2009 34.0%, a drop by 0.52 p.p. in relation to the preceding year.¹⁶ When compared with the other countries of our region, it is the lowest one (e.g. by 3.6 p.p. lower than in Slovakia, the country next to Poland in ranking). It is also worth noting that the specificity of the tax wedge in Poland (lower than proportional growth along with the growth of salaries¹⁷) indicates also the substantial taxation burden in the case of persons with lowest wages.

¹⁵ JoL 2009.125.1035

¹⁶ In reference to the tax allowance introduced in 2008 for persons bringing up children, the tax wedge for a married couple with two children, generating revenues at the level of domestic average, where even lower and amounted to 28.4%.

¹⁷ The essential part of work costs – apart from the net remuneration – is constituted by social insurance premiums settled by the employer and the employee. The role of income tax is insignificant in the lower income brackets.

Chart 7 Structure of labour costs for average salary and 2/3 (of average salary) in the national economy in 2009.



Source: AFD ME study.

Difficult economic situation observed in 2009 caused lightening of the pressure on salaries (and costs of works) present in preceding years. Nevertheless the situation of groups in specific circumstances on the labour market, especially of employees without qualifications, certain group of aged persons, and young persons entering the labour market without professional experience, deteriorated – this time due to the weakening of economic climate. These groups are characterised by low productivity and low growth potential, generate relatively higher labour costs, which is partly caused by the present structure of the social insurance system. The situation may find however a gradual improvement, first of all after overcoming negative effects of economic slowdown thanks to implemented programmes, which improve the professional activity, and programmes promoting the employees belonging to the above mentioned groups.

1.6 Public finances

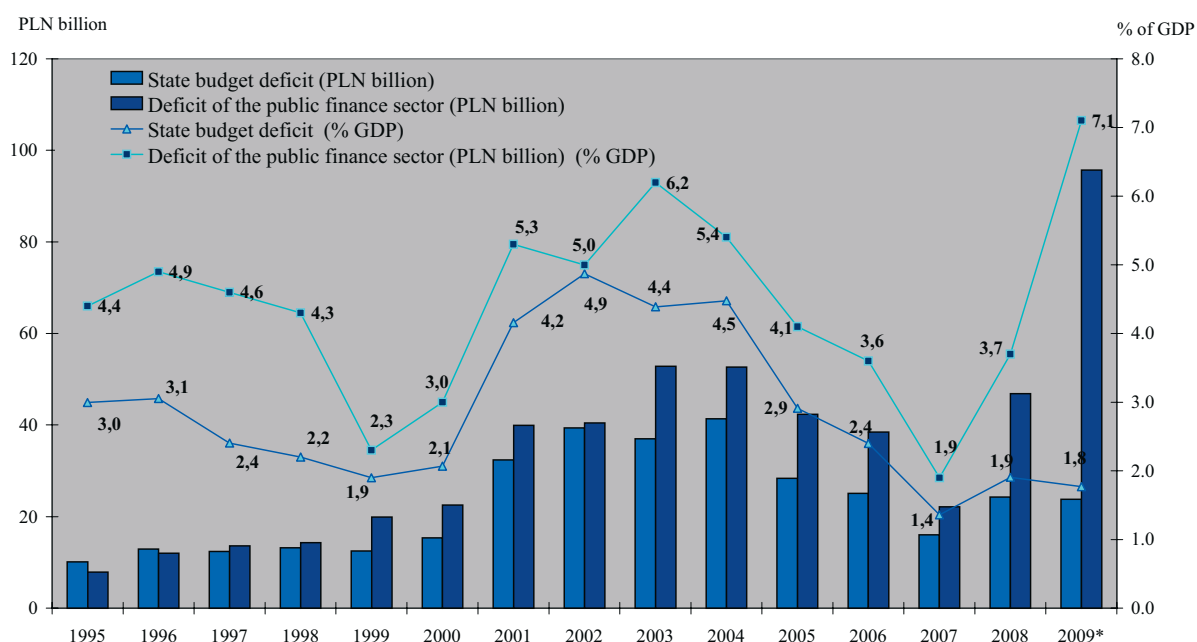
To ensure the possibility of flexible expenditures, increase of the share of pro-development expenditure, with stable budget income guaranteed, is one of the key challenges of fiscal policy. The situation in this scope is of importance both for the sector of enterprises not only in terms of creation of the sustainable and durable macro-economic environment, but also increasing credit needs of the state. The necessity to finance the public debt is connected with leveraging – by the state – funds from the financial sector by means of improved sales of treasure securities. It limits the possibility to utilise these funds by business entities. What is more, tax allowances to be introduced, expected by the enterprises, which limit proceeds to the budget are difficult in implementation especially in the case of increased needs to spend financial resources of the state budget.

Despite the increasing trend in **general and local government institutions deficit**, the level of this ratio was in the distinct downward trend in 2003-2007. The gradually improving

economic situation, stemming among others from the accession of Poland to the European Union, allowed significant limitation of budget imbalance of the whole public finance sector. In 2007, its share in GDP totalled 1.9%.

The reversal of the positive trend took place in 2008. Together with coming of financial crisis, given high, persisting level of structural deficit of the state budget and limited possibilities for automatic economic situation stabilisers to operate effectively resulting from it, a substantial stratification of central budget income and expenditure levels took place. In consequence, the highest, in the last dozen years or so, deficit of the sector of government and self government institutions was recorded in the amount of PLN 95.7 billion, that is 7.1% of GDP. It should be indicated here that 2009 was very unfavourable year for financing public debt costs, both in terms of micro- as well as macroeconomic situation. Risk aversion, high fluctuations of exchange rates – generating additional costs of debt serviced in foreign currencies – as well as governmental stimulation emergency packages significantly determined the increase of the nominal indebtedness worldwide.

Chart 8 State budget deficit¹⁸ and the deficit of general and local government sector (PLN billion and % of GDP).



* ME estimates on the basis of CSO provisional data.

Source: Eurostat

¹⁸ In 2004, the manner of classification of transfers compensating the SIF (Social Insurance Funds) premiums shortage was subject to a change. Until 2003, the transfer from the state budget compensating the SIF premiums shortage due to the transfer of a part of premiums of persons covered with pension reform to OPFs, was financed in the form of a subsidy from the state budget. Statutory regulations allow financing pension reform costs with proceeds from privatisation. With regard to the above, the amount compensating the shortage has been since 2004 recorded under outflows from the state budget, while in SIF, a new item in revenues appeared, "Reimbursement due to the transfer of premiums to OPFs.". The above change influenced directly the level of expenditure from the state budget, and therefore the budget result. With regard to that, the data of 2004 are not fully comparable with the data from preceding years.

Table 9 Public debt (PLN billion and % of GDP)

		2001	2002	2003	2004	2005	2006	2007	2008	2009*
State public debt	PLN billion	302.1	352.4	408.3	431.4	466.6	506.3	527.4	597.8	669.9
	% GDP	38.8	43.6	48.4	46.7	47.5	47.8	44.8	46.9	49.8
General and local government institutions debt	% GDP	37.6	42.2	47.1	45.7	47.1	47.7	45.0	47.1	50.9

* ME estimates.

Data fully comparable as of 2001.

Source: Ministry of Finance.

Table 10 State budget expenditure structure (%)

	2001	2002	2003	2004	2005	2006	2007	2008
Determined expenditure	66.8	73.5	74.9	71.3	72.5	74.3	73.1	72.7
Flexible expenditure	33.2	26.5	25.1	28.7	27.5	25.7	26.9	27.3

Source: Ministry of Finance.

The present structure of the state budget expenditure implies limited freedom of the government in the scope of shaping of the state budget deficit. A unquestionable and repeatedly increasing majority of expenditures is constituted by the determined expenditure, related with the public debt service, service of subsidies for local government units or special purpose funds and their administrators, especially SII and KRUS (farming social insurance fund). Social transfers, determined with legal framework, require committing a dominant part of expenditures in the Polish public finance system. Hence, only a limited part thereof may be earmarked by the government for infrastructural investments, research and development, active labour market policies and improvement of public services operating quality.

Box 2 Convergence programme – Update 2009

On February 2010, the Council of Ministers approved the Convergence Programme - Update 2009. The priority of the Government's economic policy is to create conditions for fast economic growth, and limit the negative influence of crisis onto the economy. Actions of the Government will be targeted at limiting fiscal burden and also a change in structure of expenditure and growth of effectiveness of disbursing funds. Also, measures aimed at accelerating privatisation, liberalisation of economy, and boosting occupational stimulation will be implemented. Preparing the Polish economy for introduction of the euro was deemed the medium-term strategic priority of the government.

Poland presented the Convergence Programme – Update 2009 which presents the three-year perspective of the country's economic development to the European Commission. According to the newest projections, retaining the downward trend of the relation of deficit to GDP will allow achieving the medium-term objective (MTO, -1% of GDP) in 2012. The objective of debt management strategy in the years 2010–2012 will be minimising debt servicing costs in the long run with the adopted limitations as to the level of: re-financing risk, exchange rate risk, interest rate risk, state budget liquidity risk, other types of risk (particularly loan and operational risk), as well as the distribution of debt servicing cost in time.

The estimated deficit of the general government institutions sector in relation to GDP in the years 2010–2012 amounts to: 6.9% of GDP; 5.9% of GDP; 2.9% of GDP; and 2.9% of GDP, respectively. The debt of the general government institutions sector in the years 2010–2012 estimated with the use of the same methodology amounts to: 53.1% of GDP; 56.3% of GDP; 55.8% of GDP, respectively.

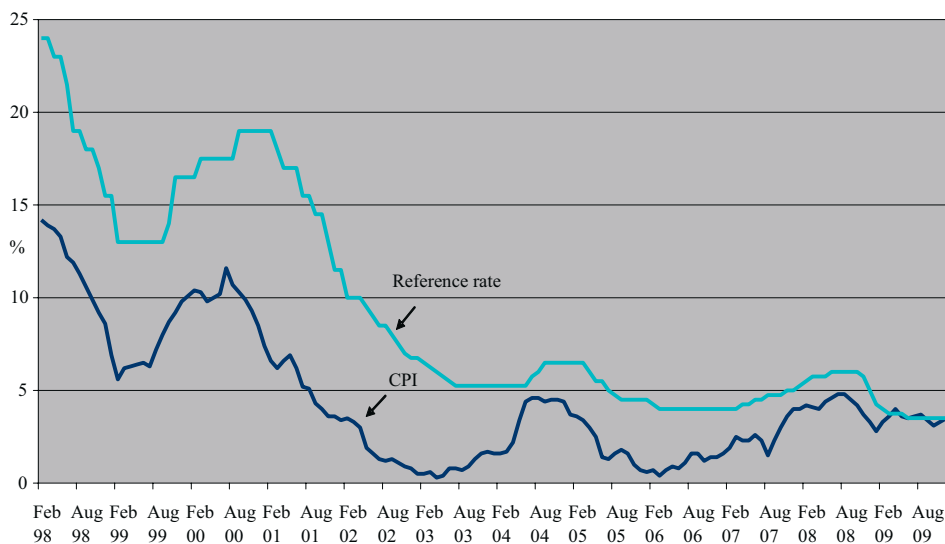
According to the fiscal notification of March 2010, the deficit of the general government institutions sector in 2009 amounted to 7.1% of GDP and its debt run at 50.9% of GDP.

1.7 Inflation and monetary policy

Price stability is one of the significant factors characterising the environment of enterprises as it influences the decisions of entrepreneurs on the production volume, the employment and investment outlays. The course of inflation processes is nevertheless impacted by various external and internal factors. While the former ones are under the influence of monetary authorities, the influence on the course of the latter ones is very limited and identification of their character and intensity is also problematic. **In 2009, the course of inflation processes was mainly influenced by internal factors in the form of price regulations, and external ones - linked with globalisation.**

In 2009, the inflation did not constitute a threat to pursuing economic activity. At the same time, while the base of preceding year was high and the money supply was limited due to the risk aversion – resulting from the global economic downturn – the inflation remained at a high level. In effect, the semi-annual inflation at the level of 3.5% was higher than expectations, the NBP inflation target and the level assumed in the budgetary act. Main factors contributing to the inflation growth were first of all higher prices of imported goods (strong PLN depreciation), as well as the increase of regulated prices and the excise tax on alcohol and tobacco products in the first half of the year. Both deceleration of the domestic supply growth during the year, as well as a drop in wage pressure, which accompanied the limitation of employment, were not able to materially compensate the growth of consumption goods and services price index. Thus, it enforced a necessity of the adjustment on the part of Polish economy, and - in consequence - also enterprises.

Chart 9 NBP reference rate and inflation

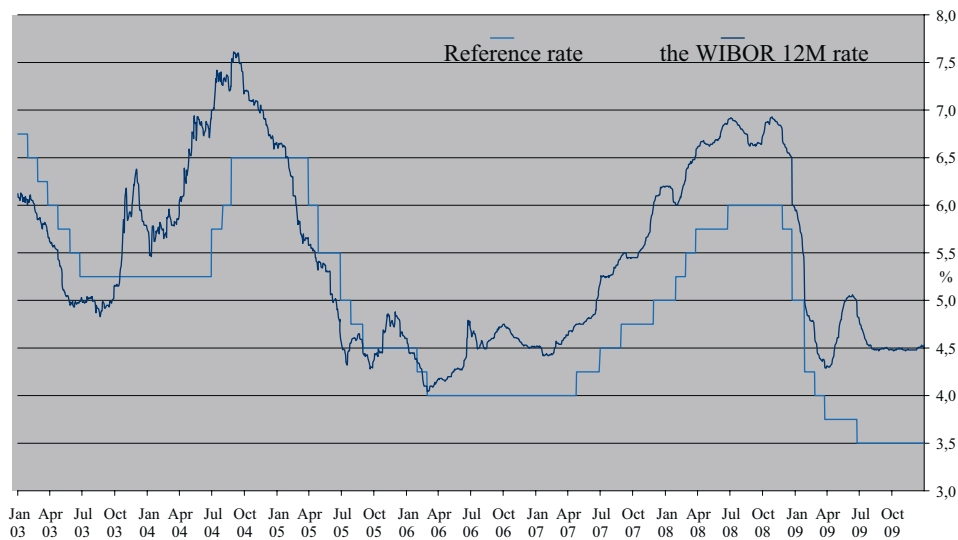


Source: NBP.

The global economic downturn was the main determinant shaping situation on the money market in Poland in 2009. Posing a threat of materialisation of the wide spectrum of uncertainties and the risk directly connected with shaping the economic situation in the country and abroad, it actually limited the demand for domestic production. A significant slowdown in activity of enterprises stemming therefrom, with, *inter alia*, an increase in unemployment and a drop in employment as a result, caused loosening of money policy,

aimed at stimulation of activity of business entities. The instruments characteristic for the monetary expansion were used mainly in the first half of 2009, that is in the period deemed to be the climax as regards costs arisen in connection with the global financial crisis. The Monetary Policy Council lowered the interest rates four times then (by 150 base points in total). In the second half of the year, the MPC did not change basic interest rates, deemed the hitherto changes to be sufficient, and thus conducive to the return of Polish economy onto the path of possible growth rate.

Chart 10 The WIBOR 12 M index and the reference rate



Source: NBP.

By shaping the interest rate, the central bank indirectly influences the interest rate on loans and deposits in commercial banks. As at the end of 2009, the average interest rates on loans granted to enterprises and denominated in PLN were decreased from 7.2% to 6.1% at the end of 2008, in line with the new methodology according to ECB standards. In all the segments of the credit market there was strong limitation of credit supply. Banks severely tightened the criteria for granting all types of credits, and raised credit margins. Such changes in credit policy was due to the very high degree of uncertainty as regards future economic situation, which made the appropriate assessment of credit risk very difficult. In addition, many banks had to limit the growth rate of their credit activity due to the escalating limitations in capitals.

2. CHARACTERISATION OF POLISH ENTERPRISES¹⁹

2.1 Number and structure of Polish enterprises²⁰

As at the end of 2009, there were 3,742.7 thousand of the national economy entities (without persons running individual agricultural holdings) were registered in the REGON system, that is by 14 thousand less than as at the end of 2008²¹. Of all the registered entities, 120.5 thousand belonged to the public sector (by 3.2% less than in 2008), while 3,622.2 thousand to the private sector (a decrease by 0.3%). There was an increase in the number of commercial companies and foundations, and a decrease in the number of registered civil law partnerships, natural persons conducting business activity, cooperatives and state enterprises.

Microenterprises, that is the companies employing from 0 to 9 persons, constitute unquestionable majority of **active enterprises**, that is enterprises actually conducting business activity. In 2008, their number totalled 1,787 thousand, which constituted 96% of all the active enterprises. Small companies (from 10 to 49 employees) constitute 3% of the companies (54.9 thousand entities), while less than one per cent (16.3 thousand) is constituted by medium-size (from 50 to 249 employees) companies. A minute part of the general number of companies (0.2%) is constituted by large enterprises (employing at least 250 employees). In 2008, there were 3.2 thousand of such companies.

When compared to the structure of companies pursuing their activity in EU-27, what is worth notice is almost two times higher percentage of small companies in the EU (7%), somewhat similar percentage of medium-size companies (1.1%) and the same share of large companies (0.2%). Thus, the share of micro companies is noticeably lower in Poland (91.8%)²². It may be a sign of certain structural problems of microenterprises in Poland, preventing some of them to reach the higher development level (reaching the size of above 9 employees).

The biggest number of active enterprises per thousand of citizens was recorded in Zachodniopomorskie (63 companies) and Pomorskie voivodship (58 companies). Mazowieckie voivodship ranked third in this scope. The less favourable are positions of Lubelskie and Podkarpackie voivodships (respectively 33 and 36 companies per thousand of citizens).

2.1.1. Newly registered and deregistered entities

In 2009, the number of newly registered entities totalled 349.6 thousand, the highest result since 2000. When compared with 2008, the number of newly registered enterprises went up by 10%, whereby the highest growth was observed among limited liability companies (an increase by 15%), while in the case of civil law partnerships there was a slump (by 17%).

¹⁹ Detailed data (tables) to this section (in the scope of subsections 2.1–2.4) are contained in the **Annex**.

²⁰ Data accordant to the PKD 2004 classification.

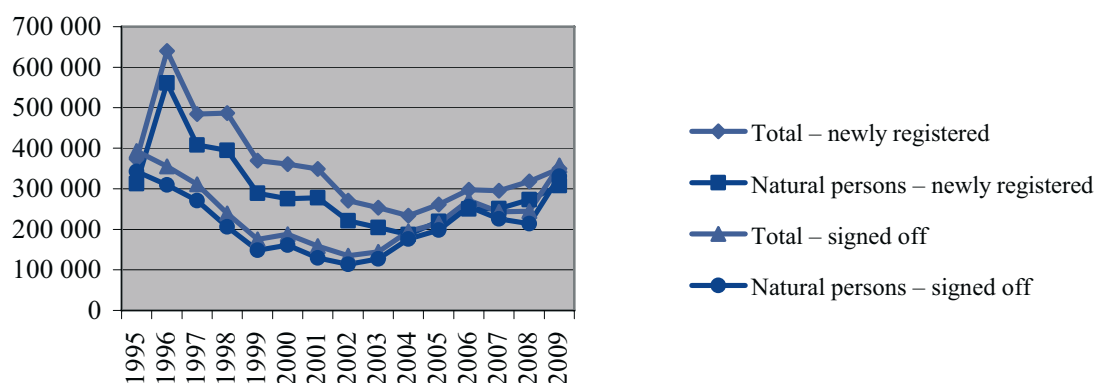
²¹ One should bear in mind that the status of REGON register is not a good indicator of the scale of entrepreneurship in Poland - only approx. 50% of entities registered in the system actually conducts business activity. The data related to the "active" enterprises presented by CSO are available with a delay of more than one year.

²² Data by Eurostat for 2004 for EU-27.

The number of newly registered entities increased in most sections: with the biggest growth in *mining industry* (by 40%), *hospitality industry*, and *fishery*. While, there was a drop in number of newly registered entities in the *construction* and *financial intermediation*.

In 2009, there was a substantial increase (from 245 to 357 thousand) in the number of deregistered entities, which was caused among other things by the introduction of new PKD 2007 classification and REGON register update stemming therefrom. The growth in number of deregistered entities might be also influenced by economic slowdown, resulting in *inter alia* serious problems of a part of enterprises in maintaining liquidity²³.

Chart 11 Newly registered entities and those signed off from the REGON system²⁴



Source: Central Statistical Office: *Structural changes in groups of entities in the national economy in 2009*.

The number of deregistered entities in Łódzkie voivodship in 2009 was two and a half times higher than in 2008. Also in Kujawsko-Pomorskie and Mazowieckie voivodships, the growth in number of deregistered entities was significant. On the other hand, the number of deregistered entities decreased in: Lubuskie, Małopolskie and Pomorskie voivodships.

Sections in which the growth in number of deregistered entities was highest are: *financial intermediation*, *health care*, *agriculture*, *hunting and forestry*, and *construction industry*.

²³ Signing off from the registry should be discerned from the bankruptcy. According to the report of Euler Hermes group of February 2010, in 2009 Polish courts announced bankruptcy of 673 enterprises, which is by 58% more than in 2008. In 2009, the amount of turn-over in bankrupting companies was well above the corresponding total of 2008. Authors of the report indicate that small companies are more flexible than large ones in respect of managing downturn situations, but on the other hand they are not adequately secured with sufficient assets. Such a situation may lead to the impossibility of obtaining borrowings necessary for the smaller companies to maintain liquidity, and thus to their bankruptcy. Euler Hermes forecasts as regards the number of bankrupting entities in 2010 are not very optimistic. The company estimates that the number may reach even approx. 1500.

²⁴ Number of deregistered entities includes also sing-offs performed on the basis of the update survey conducted in connection with the introduction of PKD 2007 classification.

2.2 Economic and financial situation of Polish enterprises²⁵

In 2009, the enterprises had to cope with substantial difficulties – a decrease of demand, hindered access to the external financing, or simply general uncertainty on the international markets. In spite of that, they managed to slightly increase the revenues and even to generate a profit bigger than in 2008. However, the Companies did not earmark that profit to increase the fixed assets (the amount of investment outlays was lower than in the preceding year), but to reduce the indebtedness (short-term liabilities) or to feed short term investments (on financial markets).

In the face of crisis, entrepreneurs had to cope with the challenge – to cut costs, reorganise operations, determine new targets. Undoubtedly in the case of many companies one should rather not consider their situation stable or their growth dynamic in times of favourable economic conditions. Nevertheless, some industries, by implementing saving programmes, managed to take control over the costs and strengthened their position, achieving quite good financial results.

2.2.1. Financial situation of economic entities

Revenues and costs

The enterprises employing more than 9 employees in 2009 recorded insignificant growth of revenues from total operations (by 1%, from PLN 2,300 up to 2,322 billion), while the costs remained virtually at the level of 2008. In the case of enterprises from the public sector, both revenues as well as costs went down, while going up in the companies of private sector. The growth in revenues was recorded by large companies (employing more than 249 employees) and medium-size ones (from 50 to 249 of the employed). In both cases the growth was of 1.5%. In the group of small entities (from 10 to 49 employees) there was a drop in revenues (by 1.8%).

The highest growth in revenues was observed in services (in particular in *professional, research and technical activity*, as well as *healthcare and social care and activity connected with culture, entertainment and recreation*). While in *industrial processing, mining industry, transportation and trade* the revenues were lower than in 2008. Costs of total operations went down in turn in *transportation, industrial processing and mining industry*.

²⁵ In the group of enterprises maintaining accounting books (with the exclusion of banks, credit unions, insurance companies, offices and brokerage houses, investment companies and funds, and pension fund companies), with the number of employees exceeding 9. The data are presented in accordance with classification PKD 2007.

Chart 12 Dynamics of revenues and costs of public sector enterprises

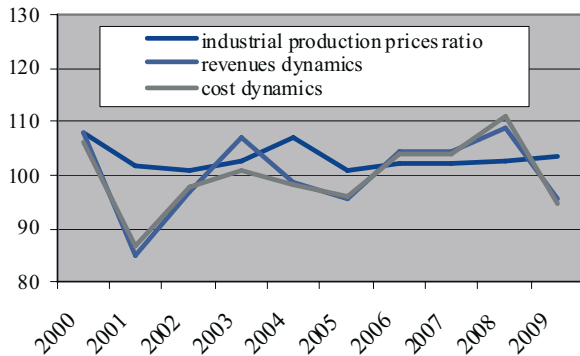
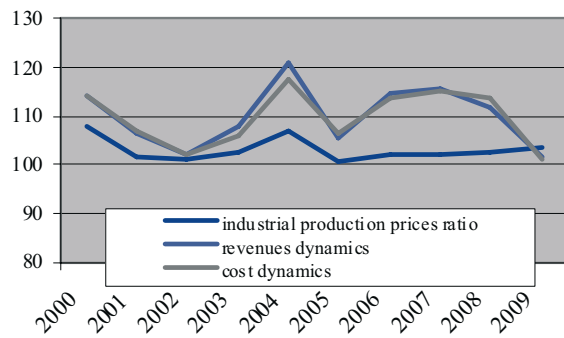


Chart 13 Dynamics of revenues and costs of private sector enterprises



Source: AFD ME calculations on the basis of the data by PONTINFO on the F-02 basis (2000–2002) as well as by CISG on the GUS F-01 basis (2003–2009).

Chart 14 Comparison of dynamics of revenues in enterprises as per the number of employees.

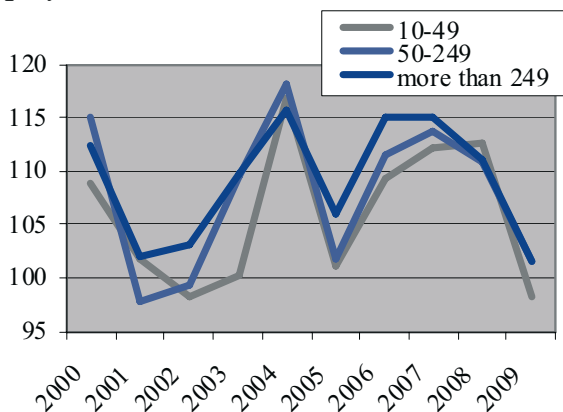
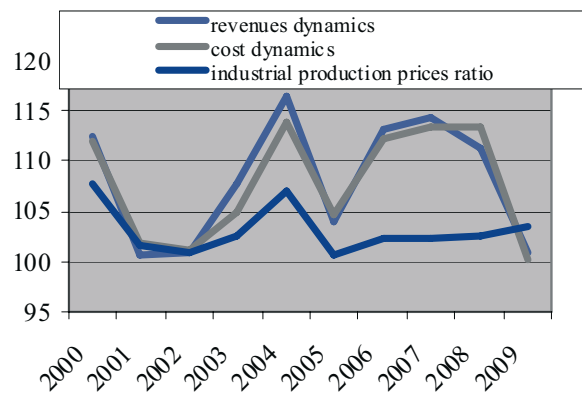


Chart 15 Dynamics of revenues and costs of enterprises with the number of employees of above 9.

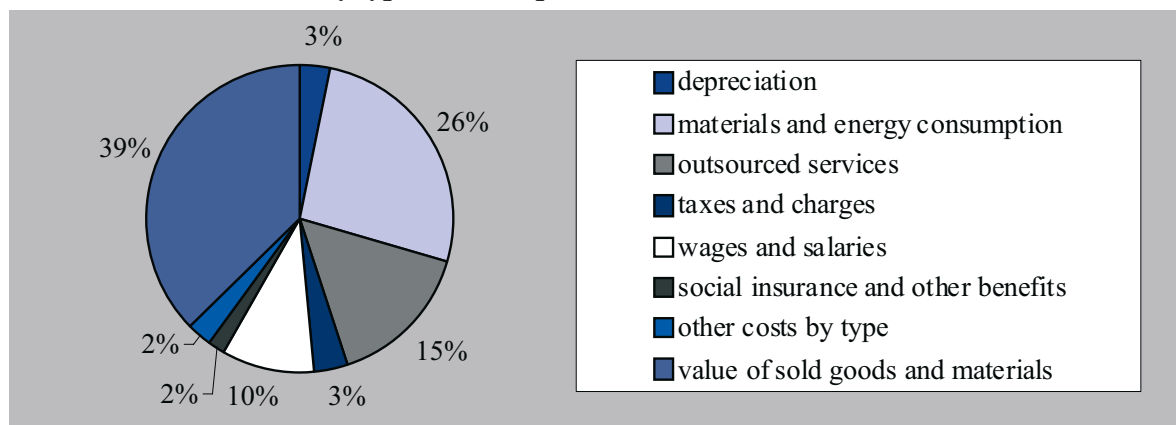


Source: AFD ME calculations on the basis of the data by PONTINFO on the F-02 basis (2000–2002) as well as by CISG on the GUS F-01 basis (2003–2009).

Costs by types

The structure of costs of operating activity in 2009 was almost the same as in the preceding year. The share of energy costs increased a little bit (from 1.7% to 1.9%), the materials and energy consumption costs dropped (in 2008 it amounted to 27.3%, while in 2009 – to 26.3%), which proves that the economy is less and less material-consuming.

Chart 16 Costs structure by types in enterprises



Source: AFD ME study on the basis of CISG on the F-01 basis (2009).

Financial results

Despite of the dynamics of revenues which was significantly lower than in the preceding year, the financial result in enterprises increased, which was the result of a low growth in costs (only in small enterprises the financial result went down). Also the financial surplus in enterprises was higher than in preceding years (increase by 11.4%, from PLN 170.9 up to 190.5 billion).

Among the entrepreneurs of the public sector the financial result went up by nearly PLN 3 billion (from PLN 10.8 to 13.7 billion), while in the group of companies from the private sector, the growth was of PLN 14 billion). In result, there was higher gross profit rate noted as well as a higher assets profitability rate (both among companies from the public sector as well as the private sector). The financial net result grew similarly as gross result.

Similarly as in the preceding year, a diversified dynamics was observed in the gross financial result between various economy sectors. In *transportation* it went four times up, in *agriculture* and *energy production* – two times up. In *mining industry* in turn, the gross financial result dropped by nearly 40%, in *trade* by 13%, and in *construction industry* by 6%. As in the preceding year, there was a drop in share of profitable entities among the entrepreneurs of the private sector (from 78.1 to 77.3).

Liabilities and financial liquidity

As opposed to 2008, a period of substantial growth of the level of liabilities in enterprises (both short- and long-term liabilities), there was only a slight incline of liabilities in 2009. It was due to the increase in long-term liabilities by 5% (from PLN 237 to 248 billion) and a drop, by 2%, in short-term liabilities (from PLN 533 to 522 billion). The enterprises also increased provisions for liabilities by 11% (from PLN 64 to 71 billion), and an increase in prepayments and accruals took place.

The relation of liabilities to the volume of assets in enterprises was slightly lower than in preceding year (in the group of medium-size companies it remained at the same level). A similar situation took place in the case of liabilities to equity ratio. The enterprises improved also indicators describing financial liquidity – they are higher than in preceding years, which is a result of growth in short-term investments.

Export activity

Revenues from export sales of enterprises increased in 2009, in nominal account, by 1.6% (similarly as in the preceding year). In the group of medium-size companies the revenues from export increased by 7%, in the group of small enterprises – they dropped, while the group of large entities did not face any change. Revenues from export in section *financial and insurance activity* increased more than five times, there was also a significant growth noted in *agriculture, energy production, activity related to the real estate market service*, as well as *trade*.

Investment activity

The amount of investment outlays in enterprises in 2009 totalled PLN 118 billion – less by 11% on 2008 (and also significantly less than in 2007), whereby the decreases fluctuated from 10% in large companies to 12% in medium-size and small ones. It seems therefore that the companies, despite the increase in financial surplus, approached the investments in quite conservative manner and decided to earmark generated funds for reduction of short-term liabilities and to spend them also on short-term investments (mainly in financial assets). The assessment whether such activities are reasonable is not obvious. If the companies expect slower economic growth in the years to come, then they may adopt more conservative strategy to avoid overinvestment. But this may lead in the future to the problems with satisfying demand, shall it turn out to be bigger than expected by the companies adopting more conservative investment strategies.

Working staff

The number of working personnel in enterprises employing more than 9 persons dropped first time since 2003, when compared to the preceding year, and totalled 4.9 million persons. Such drop (by 1.8%) ensued from the significant reduction of the number of the employed in large entities – by more than 140 thousand persons (by 5.1%). In small and medium-size enterprises the number of working staff was higher than in 2008 by more than 2%. In 2009, in all the groups of entities, the average number of employees per one enterprise was lower than in 2008 (in the case of small and medium-size enterprises, the number of enterprises grew faster than the number of their employees).

The biggest drop in the number of employees (by 7%, from 1,893 thousand to 1,761 thousand persons) took place in industrial processing. The number of employees decreased also in financial activity, activity connected with real estate service, energy production, mining industry, agriculture and transportation. In other sections, the number of the employed increased.

2.3 Analysis of micro-enterprises sector in 2008 – when compared to the other groups of entities²⁶

2.3.1. Employment and salaries

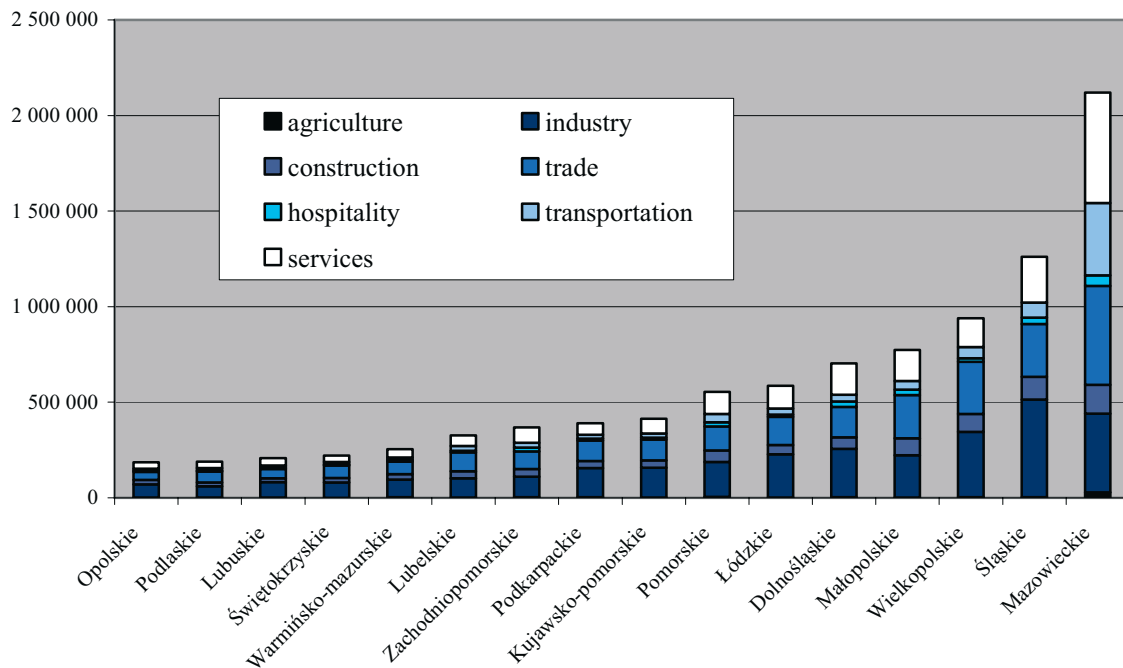
The number of the OTJs in the whole sector of enterprises in 2008 totalled 9.5 million persons (when compared to 2007, there was an increase in the number of employees by 500 thousand). 40% of people worked in micro-enterprises, 12% - in small companies, 18% - in medium-size and 30% in large ones. The average number of the OTJs totalled nearly 6.9

²⁶ On the basis of the data from the publication *Non-financial enterprises activity in 2008*, CSO, Warsaw, February 2010. Classification PKD 2004. Presented information are related to 2008, as the data of micro-enterprises sector are available with a delay of more than one year.

million of persons. Every fifth employee worked in micro-enterprises, 16% - in small companies, while every fourth – in medium-size companies. The most numerous group of the OTJs (more than 39%) worked in large enterprises.

In Mazowieckie voivodship, 22.3% of the general number of the OTJs worked – and it was approximately the same percentage as in the eight voivodships with the least number of the OTJs (despite the fact that these voivodships have twice as many residents as Mazowieckie voivodship). Both in absolute as well as relative account, the most industrially advanced voivodship is Śląskie, where there are 500 thousand persons employed in industry. The lowest percentage of people employed in industry is recorded in Mazowieckie voivodship, in which the greatest percentage of the employed works in services. While in less developed voivodships, such as Podlaskie or Lubelskie, relatively high percentage of people works in trade (more than 30% of OTJs).

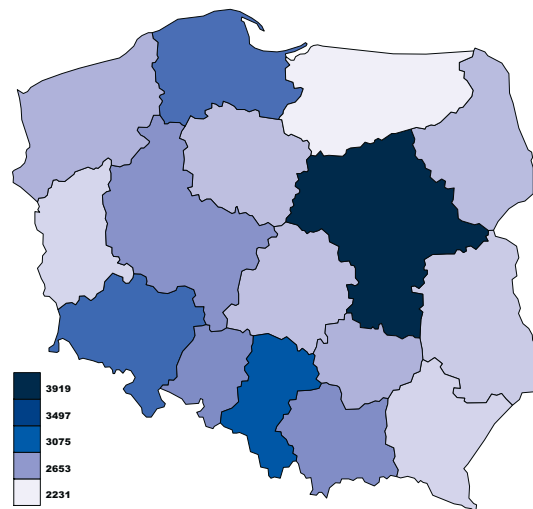
Chart 17 Structure of the number of OTJs in voivodships by types of conducted activity.



Source: AFD ME study on the basis of "Non-financial enterprises activity in 2008." by CSO

The average monthly salary per one employed person in 2008 totalled PLN 3 thousand, that is nearly PLN 300 more than in the preceding year. The salaries grew in all the groups evenly. There is still a disproportion between the salary in large companies (in 2008 it was PLN 3,715), and micro-enterprises, where the average salary amounted to PLN 1,726. As it is shown on the chart on the right, high differences in salaries are the case also between regions. For the average monthly salary in Warmińsko-Mazurskie was nearly a half lower than in Mazowieckie voivodship.

Chart 18 Average monthly gross salary in enterprises in 2008 (in PLN).



Source: AFD ME study on the basis of "Non-financial enterprises activity in 2008" by CSO

2.3.2. Revenues, costs and investment outlays

In 2008, the total revenues in enterprises for the first time exceeded the amount of PLN 3,000 billion (similarly as the costs). The highest share in revenues was this of large enterprises (nearly 41%), while micro-enterprises worked out one fourth of the revenues.

The gross profit totalled nearly PLN 265, which was by PLN 12 billion more than year before. The total growth in profit was generated by small enterprises (employing up to 49 employees), for in medium-size and large entities the profit was lower than in 2007. In result, nearly a half of the gross profit amount was attributable to micro-enterprises.

While when compared to the whole economy, large enterprises worked out the largest percentage of revenues, there were some sections where micro-enterprises dominated. Such situation was the case for example in *financial intermediation*, where the smallest companies generated three fourths of revenues. Also in *real estate service*, *hospitality industry*, and also in *construction*, *trade* and *education* as well as *healthcare*, their revenues were bigger than those of other groups of companies. Large companies in turn absolutely dominated in *industry*, generating two thirds of revenues in total in this section.

The investment outlays in enterprises in 2008 totalled above PLN 160 billion (which was by approx. PLN 16 billion more than in the preceding year. When compared to 2007, the outlays went up most in small enterprises (20.1%) and large ones (15.3%). In micro-companies, the investment expenditure went up by 11.1%, while in medium-size entities there was any growth scarcely (0.5%). The share of companies from Mazowieckie voivodship in the investment expenditure in total amounted to 30%.

2.4 Innovativeness of Polish enterprises

The capability of the economy to create and adapt innovations is one of the major factors influencing its competitiveness, especially in the long-run. The innovations exert multiplanar influence onto operations of the enterprises – from increasing the revenues from sales and share in the market, up to the growth of effectiveness and efficiency. The innovative activity undertaken from various reasons by the entrepreneurs is dependent upon knowledge resources of a given entity, technologies used, style of management, human and financial resources.

The enterprises in Poland designate more and more expenditures for innovations. In 2008, the innovative activity expenditure of industrial enterprises totalled PLN 24.3 billion²⁷, a growth by 20.0% YoY, nominally.

The increase in total outlays for innovative activity was recently taking place accompanied by a very slight increase in the number of entities participating in such activity. The share of companies (with number of employees above 49), which pursued innovative activity (that is incurred expenditures onto such activity) in 2008 totalled 31.9%, a growth in comparison to 31.8% of 2007. The share of innovative enterprises (with number of employees above 49) in the industry, that is those which introduced new or substantially improved products and/or processes in 2006-2008 amounted to 37.7% of the general number of entities²⁸, a result by 1 p.p. higher than in 2005-2007.

One should assess as disturbing in the light of postulates to tighten bonds between the scientific sector and the enterprises, that the percentage of companies cooperating with other companies or institutions in the scope of innovative activity dropped. In 2006-2008 it totalled 19.6%, a result by 1.4 p.p. less favourable than in 2005-2007.

In 2008, no significant changes occurred in the structure of sold production of enterprises by levels of technology. One should however note a drop in the common share of products of high and medium-high technology, accompanied by simultaneous increase in the share of low-medium and low technology from 68.5% in 2007 to 68.9% in 2008.

In Poland, the share of budget funds in the total outlays designated for R&D activity in 2008 totalled 56.1% (in 2007 it was 58.5%, in 2006 – 57.5%, in 2005 – 57.7%, in 2004 – 61.7%, in 2003 – 62.7%, in 2002 – 61.9%²⁹). It was definitely higher than the average of OECD countries, where the share of the funds in 2004 amounted to 29.5% and in EU-25 countries – to 35.3%. It confirms that the high share of budget funds in financing the R&D activity is a feature of less developed countries.

In Poland, we have relatively low share of funds of business entities in the total outlays for R&D activity, even if the situation improved in 2008, where the ratio totalled 26.6%, being higher than the corresponding ratio in 2007 (24.5%), 2006 (25.1%) and 2005 (26.0%). According to the most recent available data, in 2005 the share of funds of business entities in OECD countries was 62.7% at average, and in EU countries – 54.1%. In contrast to the budget funds, the low share of funds of business entities in total expenditure earmarked for R&D activity is a feature of less developed countries.

²⁷ In the industry (section C, D and E according to PKD 2004), entities with number of employees above 49.

²⁸ CSO data.

²⁹ CSO data.

Important criteria of innovative processes are indicators connected with the industrial property protection. The number of inventions submitted for patent protection in the Patent Office of the Republic of Poland by so-called residents totalled 2,488 in 2008 and increased when compared to the preceding years.

The European Innovation Scoreboard is the annual account of basic indicators of innovativeness of individual Member States. On such basis, there are analyses of innovativeness level of individual countries conducted, as well as the analyses of effectiveness of their innovations policy and their strengths and weaknesses. The EIS is a synthetic instrument of assessment of the effectiveness of the innovation policies implementation as well as the monitoring of changes in the indicators in respective Member States and the European Union as an entirety.

When compared to the previous editions, in the newest account – **EIS 2009** – Poland advanced from the group of *catching up countries* to the group of *moderate innovators*. In this group, Poland ranked next to last position before Czech Republic, Portugal, Norway, Spain, Greece, Italy, Malta, Slovakia and Hungary, ahead of Lithuania. In accordance with the study results, Poland is characterised by lower than average result of all the European Union countries when it comes to the level of *Summary Innovation Index – SII*, but higher than the average result when it comes to the SII level growth.

When compared to the preceding EIS 2008 report, one should stress the improvement of the following indicators for Poland:

- growth of "Share (%) of persons with higher education in 25-64 age group" ratio from 18.7 to 19.6,
- growth of "Access of enterprises to the fixed Internet connections (with throughput of at least 144 Kbit/s) (% of companies)" ratio from 53.0 to 59.0,
- growth of "Number of new community industrial patents per one million of citizens" ratio from 45.5 to 49.8,
- growth of "Share (%) of high-medium and high technology in the total export" ratio from 48.9 to 51.1.

Innovativeness supporting instruments in 2009

The biggest catalogue of instruments supporting innovative activity is contained in the *Innovative Economy Operational Programme, 2007-2013* (IE OP), the main goal of which is the development of Polish economy based on innovative enterprises. In knowledge based economy, innovativeness is one of the factors of competitive edge, and designing new products and technologies is necessary to compete on the global market. Within the IE OP first of all these investments are supported, as a result of which new or substantially improved products are created. Support is granted mainly for investments in the scope of product and process innovations. It is a priority in the IE OP to support innovations of possibly short period of hitherto use in the world or those characterised by the greatest potential of dissemination, as such innovations are of biggest importance for the Polish economy as a whole, for its modernisation, improvement of its competitiveness on the international market and ability to create workplaces based on knowledge.

Actions undertaken within the IE OP are contributing to increasing the number of enterprises pursuing their activity on the basis of innovative solutions, to facilitating the access to the external sources of financing with particular respect to innovative SMEs or SMEs conducting R&D activity, to increasing the level of innovativeness of enterprises by way of stimulating

modern solutions in enterprises, by way, *inter alia*, of implementation of R&D works results, ensuring high quality services and infrastructure for the entrepreneurs, strengthening and utilising their innovative potential, strengthening of competitive position of enterprises by means of the development of cooperation relationships, improvement of the Poland's image as an attractive business partner, a place to establish valuable business contacts, a place for investing, and for conducting business activity and developing tourist services.

The total allocation of the Operational Programme amounts to EUR 9.71 billion (approx. PLN 38.1 billion), of which EUR 8.25 billion (approx. PLN 32.4 billion) originates from the European Regional Development Fund.³⁰

Programmes implemented with use of structural funds are not the only activities to contribute to the development of innovative enterprises. In 2009, the Polish Agency for Enterprise Development continued the implementation of the pilot programmes financed from the state budget: "Bill for innovations" and "Innovation Express" programmes. The aim of the "**Bill for Innovations**" pilot programme, implemented in 2008-2010, is initiating the entrepreneurs' contacts with science. From the programme, micro- and small entrepreneurs may benefit, who in the year of submitting the application as well as within 3 calendar years preceding the year of submitting the application for support within the Bill for Innovations programme, did not utilise services of any research unit in the scope of research and development works. The entrepreneur can obtain support of up to PLN 15,000. In 2009, to meet the needs of possible beneficiaries, the catalogue of eligible services covered with the support was broadened. Since 2009, the support within the bill for innovations may be granted not only for research and development services (as it was in 2008), but also general services in the scope of innovations – related to the implementation or development of a product or technology. For the purposes of implementation of the programme in 2009, the funds were earmarked in the amount of PLN 7.65 million. The deadline for entrepreneurs submitting the applications was September 15, 2009. From among 585 of submitted applications, 512 applicants were recommended for support. The agreements were concluded with 461 beneficiaries for the total amount of PLN 6.8 million.

The pilot programme called "**Innovation Express**" ensured support for the international cooperation of clusters with foreign partner in the scope of research, technological development or innovations. The programme was implemented together with foreign partners within the INNET project, financed from the funds of the 6th EU Framework Programme, whereby each of the partners financed clusters in their country/region. Within the competition, the PAED accepted on continuous basis the applications for granting support up to the exhaustion of allocated funds. The assessment and selection of applications eligible for granting support took place in two stages:

- stage I – assessment at the European level – performed by the INNET consortium partners electronically,
- stage II – assessment at national level – performed by the assessment commission appointed by the President of PAED.

In 2009, funds in the amount of PLN 3.15 million were earmarked for implementation of the programme. 14 applications were filed for granting support by 9 coordinators. 7 applications were recommended for the support and agreements totalling approximately PLN 2.8 million were signed, of which around PLN 2.6 million were paid out. The implementation of the

³⁰ Amounts in PLN – according to the exchange rate by the ECB from the working day before last of the April 2010, that is 3.9153 PLN/EUR.

above mentioned pilot programme ended in 2009. Presently, support for the a/m goals is available within the measure 5.1 IE OP.

In 2009, a work was initiated on the introduction of a new instrument of support for entrepreneurs submitting project applications within international innovation programmes. Due to the minute participation of Polish micro-, small-, and medium-size enterprises in the international programmes, especially those subsidizing cooperation of research units and companies in the scope of scientific research and creation of innovative solutions, the Ministry of Economy together with the Polish Agency for Enterprise Development prepares the programme called: "**Grant support**", which shall be implemented in 2010-2014, with the budget planned in the amount of PLN 8 million. The entrepreneur who submitted a project application (as either a coordinator or a partner) in response to the competition announced within an international innovation programme and was granted official, positive assessment of the application, will be authorised to make an application to the PAED for support in obtaining the grant to cover the expenditure connected with the preparation of the application. The programme is to encourage SMEs to participate in international innovation programmes.

In 2009, the entrepreneurs could use the services of the Enterprise Europe Network (EEN), partly financed within the competitiveness and innovations framework programme (CIP). In Poland, there is 30 centres of the EEN network, grouped in four consortiums³¹.

The EEN offers, among other things, a professional support to companies and institutions looking for recipients of their technologies and know-how abroad, or searching for innovative solutions that are not available on local markets. The EEN customers find partners for technical cooperation, to licence agreements, joint venture agreements, production contracts, technical and trade cooperation or joint further research.

In the period from 1 January 2008 to 30 June 2009, services of 30 centres operating within 4 consortiums were utilised by nearly 20 thousand entities, including more than 15.5 thousand SMEs, 3.4 thousand persons commencing their business activity and 450 scientific institutions. 551 technological profiles were prepared and published, 334 entities interested in the purchase of and offering technologies were matched, 433 technological audits were conducted, 500 workshops, trainings and seminars concerning various subject matter areas were organised, nearly 500 profiles and offers of Polish entrepreneurs were contained in the offer database of the European Commission.

In 2009, the support of the Ministry of Economy for the Academic Business Incubators was continued. Public and non-public higher education institutions were entitled to submit applications for subsidizing the task consisting in creation of new or supporting already existing ABIs. The amount of subsidy for creation of a new or support for already existing ABI could not be higher than PLN 15 thousand. In response to the competition announced in June 2009, the applications for support were submitted by 9 high schools. Contracts were signed with all the Applicants for the total amount of approx. PLN 134.5 thousand.

A strong incentive for the enterprises to conduct innovative activity are instruments contained in the Act of May 30, 2008, on *certain forms of supporting innovative activity*. The instruments introduced under the Act are: technological credit, granting the Research and Development Centre (RDC) status and tax allowance for new technologies.

³¹ CP-BSN (Central Poland - Business Support Network), BISNEP (Business and Innovation Support for North-East Poland), B2Europe West Poland and BSN South Poland.

Technological credit is an instrument consisting in a commercial loan granted by banks for the completion of a technological investment and partial repayment of that loan by Bank Gospodarstwa Krajowego from public funds. The amount repaid from public funds is called technological bonus. A technological investment consists in the purchase and implementation by the entrepreneur of a new technology in the form of industrial ownership rights or non-patented technical knowledge, or the entrepreneur's own new technology. The technological bonus is paid out after the completion of the technological investment up to the amount of 70% of the expenditure incurred for the execution of the investment (depending on the voivodship, where the investment is executed, in line with the regional support map), however in each time not exceeding PLN 4 million as well as not exceeding the sales value of products created in result of the completion of technological investment documented by the borrower with paid invoices.

In 2005-2008, the technological credits were granted from public funds and partially remitted by Bank Gospodarstwa Krajowego on the basis of the Act of July 29, 2005, on *certain forms of supporting innovative activity*. In these years, 72 technological credit agreements were signed for the total amount of PLN 195.7 million. Thus, all the budgetary funds earmarked for that purpose were utilised. The number of applications for technological credit was three times higher than possible credits. The majority of technological credits was granted for investment in developing industry sectors, that is power engineering sector (including also fuel power industry), electro-power engineering, mining, aviation, arms, machinery, construction, heating, water treatment, tele-IT, data transmission, TV and radio transmitters and wire telephony and telegraphy devices sector.

In the scope of increasing the competitiveness of enterprises, technological credit brought expected results and encouraged to further investments in innovations. Entrepreneurs who were awarded a technological credit:

- achieved turnover increase from 10 to couple of hundreds per cent and increase in profit from 50% to 80% in the case of majority of them;
- employed approx. 10 new employees at average;
- declared readiness to compete by way of further implementations of new technologies.

The Act of May 30, 2008 *on certain forms of supporting innovative activity*, appointed commercial banks as entities granting technological credits, while Bank Gospodarstwa Krajowego the institution repaying them. The amount of granted credit is not subject to any limitations, while the amount of repayment (technological bonus) is limited in the same manner as in the case of technological credits granted in 2005-2008. Other terms and conditions of granting technological credit did not change. Presently, the technological bonus is paid out from the structural funds allocated for the purposes of implementation of measure 4.3 of the Innovative Economy Operational Programme (the allocation of EUR 336 million). Technological credits have been granted upon new conditions since July 2009.

There are currently works underway on the bill of the *Act on the amendment to the Act on certain forms of supporting innovative activity, the Act on corporate income tax and the Act on natural person income tax*. Amendments in regulations in the scope of technological credit cover first of all the annulment of the obligation of documenting sales for the purposes of the technological bonus payout. Thanks to the a/m amendment the terms and conditions of the technological bonus payout will be analogous to the terms and conditions of subsidizing within other measures of the IE OP (documentation of incurring eligible costs and completion of the investment).

The Research and Development Centre Status is a mechanism aimed at the development of the private research and development sector and at the increase of the private research enterprises' outlays for scientific and development works as well as at increase of the supply of R&D services on the market. The RDC status is granted to the entrepreneur generating at least EUR 1.20 million of yearly revenues from sales of commodities, products and financial operations as well as at least 20% of revenues from sales of research and development services created by them or from industrial property rights. The entrepreneur who was granted the RDC status is released from the real property tax (including agricultural and forest property), with regard to the real estates occupied to conduct research and development works. At the same time, such entrepreneur can create the innovation fund from the monthly write-off totalling not more than 20% of the revenues. The funds written-off to the innovation fund constitute for the RDC the costs of generating revenues and their spending must be completed until the end of the fiscal year. Such mechanism allows a one-off reduction of the taxable base by the costs of fixed assets and current costs prior to their actual incurring. Fixed assets financed from the innovation fund cannot be depreciated. Current costs financed from the innovation fund are not included to the revenues generation costs. There are presently 19 RDCs operating, *inter alia* in the following fields: IT and telecommunications, mining industry, coke engineering, bio-materials, medical and orthopaedic products, construction machinery, extraction and production of copper and silver, industrial design, spatial data and cadastral systems.

The current legal situation makes it possible for RDC to charge the operating costs with funds written-off to the innovation fund (and to reduce the taxable base as a result), however after the above mentioned charge, the RDC cannot include the research or development labour costs to revenue generation costs, neither it can depreciate fixed assets whose purchase was financed from the funds of the innovation fund. The RDC's privileging consists in deducting the costs of research that was financed from the innovation fund prior to their actual incurring (in the month of execution of the write-off to the innovation fund instead of the month of their incurring) as well as possibility of one-off including of the accumulated depreciation write-offs amount to the operating costs.

The Act of March 18, 2010 on the amendment to the Act on natural person income tax, the Act on corporate income tax and other acts (JoL No. 75, item 473) prolongs by one year the period in which the funds from the innovation fund created by the research and developments centres, pursuant to the Act on certain forms of supporting innovative activity, may be utilised, without the necessity to determine the operating revenues.

Tax allowances in corporate and natural person income tax were introduced with the Act of July 2005, *on certain forms of supporting investment activity* as well as the amendment of May 12, 2006, to the a/m act. The act of 2005 is not in force, however the amendments introduced with the said legal deed to the primary legislation remain in force. Any entrepreneur may take advantage of the tax allowance. It is conditioned upon usability of the new technology for the statutory activity of the tax-payer as well as upon obtaining an opinion of a scientific entity (a higher education institution, association, research and development unit), that the technology is a new one. A technology is considered new when it is comprised by technological knowledge in the form of intangible assets or purchased on the basis of agreement, which has not been applied in the world for a time longer than 5 years. 50% of the new technology price may be deducted from the taxable base.

Table 11 Number of tax-payers and consequences (in PLN) for the state budget due to the allowance for purchase of new technology

Fiscal year	2006			2007			2008		
	number	amount		number	amount		number	amount	
		average	total		average	total		average	total
Legal persons	12	154.800	1.848.000	19	44.270	841.130	26	57.346	1.491.000
Natural persons	no data	no data	no data	117	564	66.000	11	4.636	50.996

Source: MF

The low utilisation of the allowance stems among others from its insufficient promotion. The survey conducted on a sample comprising 100 entrepreneurs operating in sectors where the allowance was most frequently used revealed that 43% of entrepreneurs do not know about the possibility of such allowance. Another reason seems to be low absorption of new technologies in Polish enterprises. The large decrease in the number of natural persons utilising the allowance in 2008 should be attributed especially to the economic slowdown and also a drop in the number of investments. The tax allowance for the purchase of new technologies is an easily accessible tax instrument for every entrepreneur. The only administrative burden is constituted by the necessity to obtain the opinion of a scientific unit. In order to raise the number of entrepreneurs using the allowance, it is however necessary to improve their awareness of the possibility.

To increase the innovativeness and competitiveness of enterprises as well as the whole economy also the development of the **space sector** may contribute. Thus, the Ministry of Economy undertakes also initiatives on the basis of the *Programme for European Cooperating States (PECS)*, signed on April 27, 2007. Thanks to this agreement, Poland obtained the status of ESA ECS as well as the right to take part in programmes and activities of the Agency as a scientific, technological and industrial partner. Detailed areas of cooperation and joint ventures are defined in the so called PECS Charter, signed on April 28, 2008. Within the programme 20 projects were granted subsidies so far, whose coordinators signed contracts with the European Space Agency. In 2009, the Ministry of Economy and the ESA conducted together first review of implementation of PECS projects, with favourable outcomes. What is more, the Ministry of Economy continued in 2009 the works on preparation of "**The Programme of Space Technology Development and Use of Satellite Systems in Poland**". It is related to the fact that the space sector, which is one of the most advanced sectors, and its significance for the global economy grows. Many countries notice

benefits which the development of the space sector may bring to their economies, especially in terms of increasing their innovativeness and competitiveness.

Other activities supporting innovativeness adopted in 2009:

- 1) **Analytical works related to the new forms of innovations** were launched.

In order to manage to fulfil the requirements imposed by the economy onto the enterprises, a change of approach to the innovations and innovativeness is necessary. Hitherto concepts of supporting R&D as a source of competitive edge are important, however not sufficient in the light of necessity to build the knowledge based economy. Innovations should be perceived not as specific projects implemented by the enterprises, but as a constant process in the course within the organisations at the level of creation of new products and better adjusted organisational structure. New trends in innovativeness regard both the process of creation of goods (products and services) whether the technological solutions are based on R&D activity or user-driven innovations, as well as changes taking place within the enterprise structure (non-technological innovations: organisational or marketing ones). New innovation forms such as non-technological innovation, *user-driven innovation*, *open innovation*, or *social innovation*, on the one hand require new skills from the business entities, while on the other conducting active innovation policy, stimulating creation of such innovations.

- 2) Activities were adopted with an aim to increase the awareness of the entrepreneurs in the scope of benefits stemming specifically from the **demand approach to innovations** (*user-driven innovation - UDI*).

In the light of globalisation processes underway, the role of consumer grows not only as the purchaser of the product, but also as its co-creator. The result of the approach under consideration is better adjustment of production/service provision to the expectations of the end user as well as reduction of costs connected with the innovation development. The above approach is the very *user-driven innovation*, which is at the present the most important known method of implementation of the innovations, focused on creation of new ideas and solutions based on the consumer knowledge and needs. Other methods use the consumer feedback mainly for confirming or verifying already prepared solutions. The UDI concept is based on better understanding and recognition of evident and hidden requirements/expectations/needs of the consumers. It is realised by creation of efficient mechanisms of obtaining and utilising consumer feedback, and very often by using consumer's ideas and ready solutions. The *user-driven innovations* are today, beside supporting technological innovations, the second pillar of programmes supporting the innovative activity.

- 3) Steps were undertaken to **recognise the potential and possibilities to support creative industries in Poland**.

Creative industry is perceived as a predecessor of new economic forms: dynamic and mobile enterprises organise themselves into networks to produce, with support of high-tech solutions, goods whose central point is creativity. The level of advancement of the creative industry and its significance for the potential of economic growth of a city/region is a result of many factors, such as multiculturalism, human and intellectual capital, presence of R&D sector, volume of demand for products/services or economic environment (including the closeness of other creative companies). Creative industry influences in turn the development of other economy sectors, increasing even more the attractiveness of a given field. Creative sectors

attract highly qualified and skilled human resources, facilitating creation of the attractive place to live and operate for citizens and business entities. The specificity of creative activity is openness towards innovation, which are decisive in terms of diversification of the proposed offer. With the potential of the creative industry for the improvement of competitiveness of the economy in mind, works were launched aimed at analysis of needs and development of creative industries in Poland in terms of their innovativeness.

2.5 Quality Management

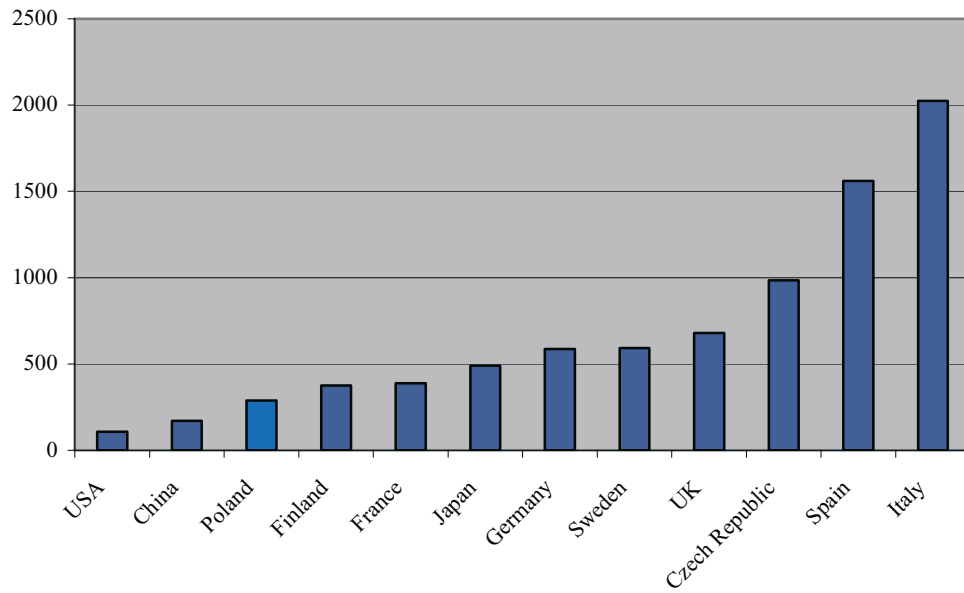
Today, active enterprises have to cope with new challenges. They have to meet not only the competitive requirements, but also follow customer predilections and fulfil environmental expectations. Enterprise resources are closely examined in order to optimise them more efficiently at each level of functioning of the entity. A state-of-the-art company utilises not only innovative systems supporting the activity of all its departments, but also ensures high quality of provided services or goods to the recipients, which is confirmed, *inter alia*, by means of successful implementation of quality management systems. Such implementations evidence on the one hand the high level of quality, while on the other, due to the required commitment of the employees in the system implementation, they contribute to the establishment of a pillar of organisational culture based on management by quality.

The quality management is supported by the systems presenting the set of quality standards, and implemented on the basis of individual solutions prepared for a given organisation, production process or service. ISO 9001:2000 is the most popular standard. The interest in ISO 14001 standard, related to the environment protection, is growing constantly. The Quality Management System based on ISO 9001:2000 standard is characterised by focus on the customer needs, management responsibility, high commitment of employees, process approach in organisation and systemic approach in management, constant improvement and positive relationships with suppliers.

According to the ISO Survey 2008³² until the end of 2008, approx. 934 thousand of certificates were issued all over the world, confirming the implementation of the quality management system compliant with ISO 9001:2000 standard, while at the end of 2002 the number of issued certificates was couple of times lower (approx. 123 thousand). The biggest number of certificates was issued in China (approx. 225 thousand), Italy (approx. 118 thousand) and Spain (approx. 69 thousand).

³² www.iso.org

Chart 21 *Number of ISO 9001:2000 certificates per million of citizens in selected countries as at the end of 2008*



Source: AFD ME study on the basis of The ISO Survey 2008.

3. INSTITUTIONAL ENVIRONMENT OF ENTERPRISES

3.1 Regulatory environment

3.1.1. Regulatory reform

The regulatory environment still remains in the catalogue of factors hampering the growth of entrepreneurship in Poland. Too complex and incomprehensible law is indicated in the public surveys as a barrier for starting business. And even if one manages to force oneself through the labyrinth of formalities, it turns out that the law imposes excessive obligations onto entrepreneurs, causing unnecessary costs on their side – those are most common experiences of the entrepreneurs. The enterprises – because of their very nature – are not prepared for regulatory risk and thus perceive frequent law amendments as activities aimed against them.

In 2002, the European Commission developed the *Better Regulation*, a programme of improved legislation process, aimed at the improvement of regulatory EU environment. Main goals of the programme included:

- Impact Assessment – IA – as analytical method of assessment of benefits and costs of proposed legislative and non-legislative actions,
- social consultation of legislative solutions,
- simplification of applicable EU legislation and
- timely and proper implementation of the EU law into the national legislation systems of the Member States.

The *Better Regulation* programme was updated and improved. The *Improvement of Regulatory Environment in the scope of Economic Growth and Employment in the European Union*, the communication published in 2005, was of great importance to the development of this programme. The European Commission recommended therein the inclusion of costs of disclosure obligations into the process of integrated impact assessment. Then, in 2007, the European Commission presented the *Administrative Burden Reduction Programme*, aimed at measurement and reduction of administrative burden imposed onto the entrepreneurs in the EU by 25% until 2012. The commission recommended the *Standard Cost Model (SCM)* for the purposes of measurement of the administrative burden. The programme of actions in the scope of the administrative burden reduction in the EU was approved on the European Council's session in March 2007.

The *Better Regulation* programme is aimed not only at the improvement of the EU law quality, but also at the improvement of the quality of national law of Member States. The European Commission, within the *Better Regulation* initiative, recommended to the Member States preparation of their own policy of law quality improvement, which would be adjusted to domestic social and economical, legal and political conditions. Such a policy in each case should take into account: impact assessment, social consultation, law simplification and reduction of administrative burden. With regard to the latter, the Commission urged the Member States to set the national reduction targets which would be equally ambitious as 25% reduction proposed by the Commission as a target to be realised until 2012. Moreover, their are obligated to perform measurements of administrative burden imposed by the national regulations transposing the EU law as well as by local legislation, and therefore to develop appropriate proposals to reduce them.

In connection with the European Commission recommendations related to the field of the law quality improvement, also in Poland activities are undertaken which are aimed at the improvement of the national regulatory environment. Works on the improvement of the impact assessment system, administrative burden reduction and raising the efficiency of consultation in legislative process, namely on the main pillars of regulatory reform are consistently executed by the Ministry of Economy (Economic Regulation Department). The actions undertaken are aimed at creation of efficient and reasonable system of law in Poland, which would stimulate the country's economic growth.

Presently, a project has been prepared of the *Regulatory Reform Programme 2010-2011 "Better law"*, which is the continuation of the Programme of 2006. The aim of the new programme shall be creation of stable, evidence-based legislative process and reduction of barriers for the entrepreneurship. It will be focused on such tasks as: change of the law-making system, improvement of the impact assessment system, reduction of administrative burden and simplification of existing law regulations³³.

Impact Assessment (IA) as instrument of law quality improvement

Elements of impact assessment, called Regulatory Impact Assessment (RIA), were introduced to the Polish legislative system as early as in 2001, by way of *Resolution no. 49 of the Council of Ministers of March 19, 2002 – The Council of Ministers Occupational Regulations* (M.P. No. 13, item 221). The RIA constitutes an integral part of the process of preparation, evaluation, conciliate and consider draft normative acts adopted by the Council of Ministers. According to the Article 9 of the Council of Ministers Occupational Regulations, the applicant authority, ahead of preparation of the draft normative act performs the assessment of expected impact of the regulation, and the RIA results are included into the substantiation of the normative acts.

The RIA is an analytical tool serving the purpose of improvement of the statutory law by means of ensuring systematic assessment of benefits and costs of possible solutions. The RIA performed at appropriately early stage of works supports decision-making process in legislation and prevents costly regulations from being introduced. Assumptions for draft normative acts prepared on the basis of adequately executed RIA contribute to the swift law improvement and operation. Experiences of the European Union Member States indicate that systematic RIA results in better tailoring of legislation to market requirements as well as in facilitation of functioning of the legal system as a whole, and – in consequence – increases competitiveness of the economy.

Principles of the RIA preparation are contained in the *Regulatory Impact Assessment Guidelines* developed by the Ministry of Economy in October 2006. The RIA process is a very extensive one and includes following elements:

- identification and analysis of issue;
- goals definition;
- alternative solutions;
- consultation process;
- costs and benefits analysis;
- implementation plan;
- comparison of options and recommending the best of them.

³³ More information on the Regulatory Reform in course in Poland may be found on www.reforma-regulacji.pl

The scope of RIA is determined depending on the subject and extent of impact of the draft normative act (principle of proportionality). The scope of assessment should be each time adjusted to the extent of issue under consideration, in accordance with the principle of proportionality mentioned above.

Regulatory Impact Assessment Guidelines indicate that regulation should not be deemed the only and best measure of state interference, as also alternative regulatory instrument should be considered, for example:

- restraining from regulation,
- self-regulation,
- auto regulation,
- shared regulation,
- co-regulation,
- information campaign,
- financial incentives,
- fees,
- mediation,
- quality marks,
- recommendations,
- certificates and licences,
- codes of good practices,
- development of standards,
- other.

An extremely important element of the RIA is presentation of benefits and costs of proposed legislative and other actions in terms of their impact onto various social and economic areas, as for example public finances, competitiveness of economy, rural development, etc. Quantitative methods enabling quantitative estimation of consequences of the proposed regulatory actions (as well as alternative legislative instruments), include the analysis of relation of benefits to costs and cost efficiency analysis.

The first one comes down to calculation of general, overall benefits connected with a given regulation and comparing them with the general overall costs of the regulatory action. If it is established that the benefits exceed the costs, one should deem introduction of a given regulation advisable. The benefits stemming from the introduction of a given regulations might be positive consequences (e.g. savings, additional income) of introduction of a given regulation, whereas costs – its negative consequences (additional outlays, expenditure). The comprehensiveness of the analysis of benefits to costs ratio consists in necessity of analysing all the aspects of a given regulation. One may not randomly examine only desired benefits or selected costs.

While, cost efficiency analysis is aimed at examination of the relative costs to be incurred by the society in result of selection of different options of realisation of a given goal, i.e. estimation of costs of alternative actions per unit of benefits. The criterion for the decision here is minimisation of action costs per unit of benefits with defined coefficient of costs efficiency. An advantage of this method is that the individual costs of relative benefits reflect both positive as well as negative effects of legislative processes. The main difference between this method and costs and benefits analysis consists in the fact that when applying the first of them it is not necessary to precisely estimate costs. The measure of cost efficiency determines

the cost per unit of benefits, not presenting the results of these calculation, e.g. reduced mortality as an outcome of better nutrition, in pecuniary terms. Application of this method eliminates therefore the necessity to execute hard task of valuation of benefit categories, which takes place in the case of costs-benefits analysis method. The cost efficiency analysis is a useful RIA tool only when the base costs efficiency coefficient of a given action was successfully determined.

To improve the RIA system in Poland in 2009, the following actions were undertaken:

- ensuring efficient training system to guarantee raising of awareness and competences of government administration personnel in the scope of creation of law based on evidence;
- development of an electronic platform facilitating preparation of the RIA by means of generally accessible analytical tools and good practices;
- introduction of a mechanism of verification of the quality of prepared RIA (RIA audit, RIA ex-post).

Law simplification

The Ministry of Economy is aware of the issue of high extent of rationing and high number of regulatory burdens, incommensurate with the needs stemming from the consumer safety, economic turn-over, national safety and other social and economic conditions. Analysis performed by the Ministry of Economy confirmed that the rationing can be indeed by far reduced and thus, in last year, actions with main aim of the simplification of law were continued. Realisation of the above goals takes place mainly within the *Entrepreneurship Package*.

The main goal of the Package that contains more than 20 amendments to the acts of law, concerning mainly the broadly understood commercial and tax law, is facilitation of the commencement of and conducting business activity. When creating legislative solutions, the Ministry of Economy takes into account the necessity of development of friendly regulatory environment of micro-, small and medium-size enterprises (SME). Simplifications related to SMEs covers such fields, as: access to capital, commercialisation of technologies, conducting research and development activity and establishment of technological companies. The liquidation of superfluous or doubled and often contradictory regulations, reduction of rationing, increasing the freedom of business activity as well as improvement of transparency and clarity of applicable regulations are to contribute to development of a regulatory environment friendly for citizens and entrepreneurs. Until mid-2009, sixteen acts presented in the table with Package acts below were introduced.

Table 12 Acts introduced within the Entrepreneurship Package

Item	Title and effective date of the Act
1	1 st Stage of amendment to the act on freedom of business activity (20.09.2008)
2	on amendment to the accounting act (22.08.2008)
3	on amendment to the Tax Ordinance act (01.01.2009)
4	on amendment to the Act on commercial chambers (27.01.2009)
5	on amendment to the Act of foreign exchange law and Civil Code (24.01.2009)
6	on amendment to the Code of Commercial Companies (08.01.2009)
7	on amendment to the Code of Criminal Procedure (24.02.2009)
8	on amendment to the bankruptcy and rehabilitation law (31.03.2009)
9	on public-private partnership (PPP) (26.02.2009)
10	2 nd Stage of amendment to the Act on freedom of business activity (07.03.2009)
11	on the amendment to the Act on PAED (17.07.2008)
12	on amendment to the Act on special economic zones (04.08.2008)
13	on certain forms of supporting innovative activity (17.07.2008)
14	on packaged goods (30.06.2009)
15	on amendment to the Labour Code (05.08.2009)
16	on graduate internships (28.08.2009)

Source: ME

The activities connected with the execution of this tasks shall focus on further review and amendments to the commercial law regulations by means of:

- elimination of obsolete or superfluous regulations;
- application of "horizontal" regulations instead of sectoral ones, improvement of their consistency, extension of *vacatio legis* period;
- verification of possibility and manner of arrangement of the commercial law acts;
- reduction of the level of rationing of business activity (number of licences, concessions and permits, simplification thereof at national level or simplification proposals at the community level);
- introduction of "fast-track" solutions to eliminate so-called "junk laws".

Simplifications and de-rationing amendments in the commercial law shall be successively introduced within the *Entrepreneurship Package*. In particular, the *Act on Reduction of Administrative Barriers for Citizens and Entrepreneurs*, the so-called de-rationing act, shall be introduced. Amendments will be executed with particular regard to their impact onto small and medium-size entrepreneurs sector (SME).

Reduction of administrative burden in key legal areas

Taking into account the recommendations of the European Union as well as assumptions of the Programme for reduction of administrative burden in European Union, the Council of Ministers, on March 11, 2008, set the administrative burden reduction target at the level of 25% until the end of 2010. The reduction is to take place in seven key legal areas:

- environment;
- spatial planning and development;
- commercial law;
- social security;
- hallmarking act;
- tourist services;
- and labour law.

In the first quarter of 2010, the Ministry of Economy prepared the *Report on implementation progress of reduction of administrative burden in seven key legal fields*. The document presents both actions already undertaken as well as planned for respective resorts and aimed at the reduction of administrative burden.

Aside from reduction of the administrative burden in the seven indicated legal fields, the Ministry of Economy, realising assumptions of the reform of regulations, prepares reduction plans for remaining fields of the commercial law. In relation with realisation of that task, the disclosure obligations were identified in the commercial law acts in 2009. Nearly 6 thousand of disclosure obligations were identified in 482 legal acts. The base measurement with use of *Standard Cost Model* was accomplished in June 2010. Preparation of legislative proposals aimed at the reduction of administrative burden is planned for 2010-2011. The application of the *Standard Cost Model* consists in examining four factor serving as a basis for the calculation of the overall disclosure obligation (DO) cost at the level of the whole economy. These activities include: duration of fulfilment of the obligation by the average entrepreneur, cost of employees hired to fulfil the obligation, number of employees hired to fulfil the obligation as well as the frequency of its fulfilling during the year. Then, the analysis shall enable to identify the target of the reduction in this field and to execute appropriate legislative amendments.

The SCM provides for division of legal acts into a determined number of measurable elements. At the same time, the model does not refer to the targets of regulations and does not serve the purpose of assessing if a given solution is substantiated, for its purpose is to measure costs of necessary actions of the entrepreneur, undertaken in order to fulfil the disclosure obligations stemming from these regulations.

Consultations of government documents

When analysis the actual practice of consultations in Poland, the Ministry of Economy conducted, in 2006-2007, a survey aimed at the assessment of hitherto manner of consultation of newly prepared legal acts. Surveyed were entrepreneurs and their organisations, and during the surveys in 2007 also labour unions, administrative officers and representatives of the Parliament.

The analysis of the survey outcomes made it possible to establish that the process is characterised by many defects causing that it is not transparent for social partners and thus discouraging them from participation. The following defects were signalised most commonly:

- already prepared draft documents are consulted and not the assumptions on the basis of which the drafts will be prepared;
- consulted entities have not got enough time to analyse the documents and give answers (in certain cases the drafts were delivered to the addressee when the deadline for submitting comments already lapsed);
- consulted entities are not sufficiently informed about the results of the consultations, thus not recognising their influence on the final shape of the document;
- currently applicable consultations of legal acts are not treated by the administration as a source of information, but only as a burden imposed by the act onto the administrative officers.

Introduction of clear rules of consulting and putting the legal status in that scope in appropriate order will contribute to the improvement of consultation process quality. Thus, in the form of a manual (guidelines), the list of rules of consulting legal acts was prepared. The

process involves two stages of consultation: preparation of assumptions and consulting prepared drafts. The manual, entitled *Principles of consultations conducted in preparation of government documents* was approved by the Committee of the Council of Ministers on 30 July 2009 as a supplement to the *Guidelines of Assessment of Regulations Results*.

Consultation process includes *inter alia* following stages:

- defining consultation goal,
- identification of target groups,
- selection of consultation method,
- ensuring sufficient time for answer,
- communication with stakeholders,
- feedback on consultation results.

It is important to define goal of consultations prior to the their commencement. For, on the defined goal the selection of consultation method and identification of target groups depend. Goal of consultations is highly dependent on the stage of works at which the examination shall be conducted. In the beginning of works on the RIA, the most important task is to gather data necessary to identify the issue. At the stage of option analysis it is mandatory to take advantage of the social partners support when identifying possible and acceptable solutions, and also gathering data necessary to assess costs and benefits. At further stages, when the whole RIA or bill of an act is prepared, the consultation's goal is verification of developed solutions and the costs and benefits estimated with regard to them, to avoid possible errors.

The involvement of relevant social partners constitutes one of main factors determining the quality and efficiency of consultations. Consultations may be open (available for every stakeholder willing to express their opinion), restricted to a determined group of respondents (e.g. entrepreneurs) or addressed to specific entities. The next stage of consultations consists in selection of consultation method. There are 2 types of consultation methods, namely qualitative and quantitative surveys. The first one includes public meetings, request for opinions, public hearings, online consultations and focus groups. While, the qualitative examination includes questionnaire surveys, civic panels, written consultations and e-mail consultations.

When conducting consultations, it is necessary to ensure sufficient time for respondents to analyse important matters, formulation of the answer and its delivery. The duration depends on the selected consultation method. Shortening of consultation period may take place only in exceptional situation, namely in the case of adoption of the urgent mode of work on the bill of act (in accordance with art. 123 of the Constitution).

To conduct the consultations properly, it is necessary to establish and maintain contact with respondents. An optimum solution may be making use of the Public Information Bulletin (www.bip.gov.pl) as a contact point for the whole administration. On the internet page information on all the consultation underway should be published, as well as on the manner of conducting thereof and possibility to take part in them. Also feedback for respondents should be published there.

The final stage of consultations is ensuring feedback on results thereof. It serves as a prove that a given body values the time and effort of respondents spent on helping the administration. The information strengthen the trust of social partners towards the administration and are conducive to involvement in future consultations. The information on

manner of utilisation of the stakeholders' contribution helps to create the image of administration serving the citizens' interests. The RIA along with substantiation is a synthetic form of feedback conveying. In order to ensure appropriate information on the consultations one may consider publishing or distributing the survey report containing a reference to the comments, to as many respondents as it is possible. If it is possible under circumstances, one may also consider organising a public meeting devoted to the consultation results.

What is more, the Ministry of Economy developed in 2009 assumptions for a new project, the essence of which shall be creation of a pilot online consultation system with an aim to enhance transparency of the legislation process by way of efficient supporting the procedure connected with the evaluation of bills of legal acts.

3.1.2 Reporting obligations of entrepreneurs

Numerous disclosure obligations are imposed onto the entrepreneurs in the act on public statistics (JoL of 1995, No. 88 item 439 with further amendments). Pursuant to art. 30 of the act, each entity of the national economy is obligated to conveying information and statistical data connected with the activity conducted and results thereof³⁴.

Irrespectively of regulations providing for the reduction of the entrepreneurs' reporting obligations load, the number of research topics and statistical report forms determined in PSSRP grew systematically within last couple of years.

Even though the entrepreneurs do not consider the reporting to CSO the biggest barrier for business activity, the reporting is still a large burden especially for small and average enterprises. Completion of all the required reports requires involvement of a numerous group of employees, and huge amounts of time and work spent on completing all the documents. Therefore, for a big entity, obligations related to the reporting means the necessity to employ a few people more. While, in small enterprises there is often no competent person who can complete all necessary reports.

In 2009, reporting obligations of the entrepreneurs were defined by the *Public Statistics' Statistical Research Programme introduced by the Ordinance of the Council of Ministers of December 2008 (JoL No. 221, item 1436 with further amendments)*. It contains 230 research topics in total (in 2008 there were 226, in 2007 - 218, in 2006 - 211 of them). The scope of research was complemented inter alia with topics related to the young people entering the labour market, the unregistered work, people aged above 50 on the labour market, national health accounts, the extent of fixedness of prices in the national economy. In result, in 2009 entrepreneurs fulfilled their disclosure obligations on the basis of nearly 500 reporting specimen forms, questionnaires and statistical surveys³⁵.

The entrepreneurs often point out the fact that a lot of accounts prepared by them is doubled. They convey information on their finances to the Inland Revenues, information on employees

³⁴ Such rules are detailed in the public statistics' statistical research programme, established annually by way of relevant ordinance by the Council of Ministers and ordinance of the President of Council of Ministers on defining reporting form specimens, determining manner of completing thereof as well as questionnaire and statistical survey specimens used in research provided for in the research programme.

³⁵ Determined ordinances of the President of the Council of Ministers of May 5, 2009 on determining reporting specimen forms, explanations as regards the manner of completing thereof as well as specimens of questionnaires and statistical surveys applied in statistical research, determined with the public statistics statistical research programme for the year 2009 (JoL No. 85, item 1436 with further amendments)

to the SII, and then convey that data once again in the reports sent to the CSO. The repeatability of variables is also visible in CSO forms, often containing identical data. There is no doubt that not all the information contained in one report may be used in another one. However, taking into account the need of ensuring necessary statistical data, one should strive for constant reduction of the load of reporting obligations stemming also from the act on public statistics, imposed onto the respondents.

A positive example of such activities are methods of collecting data in the General Agricultural Census and the Nation-wide General Census of Population and Residential Premises in 2011, planned for the current year. According to the information of the Central Statistical Office, in order to minimise the costs of GAC 2010 and reduce the number of respondents, the number of farms covered with the study shall be reduced to the level ensuring the fulfilment of international obligations and meeting the needs of domestic recipients. Whereas the necessary data, aside from the traditional method of collecting information by census representatives, shall be obtained from all available administrative sources via Internet recorder and phone surveys. There will be approx. 1.8 million entities in total covered with the GAC 2010 study (compared to approx. 3 million of farms included into censuses of 1996 and 2002). The GNC in 2011 shall be conducted in a similar way. It will be realised with use of the mixed method, i.e. with use of public administration information systems and data gathered within the full and representative research.

The efficient economy management system requires high quality statistical data. At the same time, such statistics must keep up with new challenges aimed at the improvement of regulatory environment. One should then strive for creation of relevant IT systems ensuring connectivity between all the registers and their users. Only then it will be possible to put in practice the concept of cohesion and identity of information entered into the registers, using thereof as well as a substantial reduction of the reporting obligations load imposed onto the respondents.

3.1.3 Fiscal system

Tax Ordinance

With the Act of November 7, 2008, on the amendment to the Act – Tax Ordinance and other acts (JoL No. 209, item 1318), which entered into force on January 1, 2009, there were amendments introduced to the Act of August 29, 1997, the Tax Ordinance (JoL of 2005, No. 8, item 60 with further amendments), aimed at the improvement of conditions to conduct business activity.

Main directions laid out in amendments to the Tax Ordinance concern the principles of withholding tax decision and notifying of the intention to commence the inspection. The amendments modify in radical way the principles of tax collection and performing fiscal control, basing on the fundamental assumption of taxpayer honesty and taxpayer's inclination to voluntary fulfilment of tax obligations.

Instead of the applicable principle of unsatisfactory decision enforceability, there were two principles introduced:

- withholding the execution of the decision for the time when the appeal proceedings are in the course. The unsatisfactory decision may be provided with immediate enforceability rigour. Premises for providing the decision with immediate enforceability rigour are connected first of all with the material condition of the party to the

proceedings, its attitude to fulfil the financial obligations and prospects for the fulfilment of obligations stemming from the decision. The immediate enforceability rigour shall be conferred in a situation when the fiscal authority makes believable that the liability stemming from the decision will not be settled.

- however, the execution of the decision is subject to withholding for a period of time when the proceedings before the administrative court are in the course, in the case when there is a "voluntary" security for the execution of the decision (broadened catalogue of voluntary security forms is determined by art. 33 d) or when a mandatory mortgage or fiscal pledge was established.

On January 2009, the regulations of art. 282 b and 282 c of the Tax Ordinance entered among other into force, establishing the institution of controlled notifying of the intention the commence the control by the controlling authority. The Act introduced then a new institution – notification on the intention to commence the control, serving the purpose of improvement of trust to fiscal authorities and making it possible for controlled entities the appropriately organise the operations in relation to the planned control. Such changes make it possible for the taxpayer to prepare for the inspection, which is no longer a surprise disorganising the company's operations. As a matter of principle, the notification on the intention to commence the fiscal control should be submitted 7 days ahead of the control. From the general principle of notification of the control exceptions of subject matter character were provided for (when for example the subject to the control is the validity of VAT reimbursement) as well as of entitative character (related e.g. with an earlier fiscal crime record of the taxpayer).

Provisions of the said Act contain also many other amendments aimed at the improvement of relations between fiscal authorities and taxpayers as well as the enhancement of taxpayer rights protection. One should mention here *inter alia* the liberalisation of the tax settlement form by micro-sized companies, introduction of the reduced rate of interest on arrears stemming from adjustments of tax statements submitted by the tax-payer at their own initiative (without any actions on the part of the fiscal authority) or exclusion of fiscal liability of the partners for personal tax arrears of other partners due to their company operations,

In April 2009, the Ministry of Finance launched a service enabling submission of annual PIT-37 statements for the year 2008 via the Internet without the necessity to hold a secure qualified digital signature by the taxpayer. Moreover, as of January 1, 2010, without the necessity to hold a secure qualified digital signature taxpayers may submit the following annual statements for 2009: PIT-36, PIT-36L, PIT-37, PIT-38, PIT-39.

Aside from launching the new possibility of submission of the tax statements, also other facilities important for the taxpayers were introduced. Persons holding a secure qualified digital signature may submit tax statements in electronic form with no formalities at all. Besides, also the procedure of granting power of attorneys to sign electronic tax statements was simplified. Both the power of attorney as well as its cancellation are submitted to the Head of Inland Revenues competent in matters of taxpayers records. In addition, the power of attorney to sign the statements in electronic form is free of stamp duty.

Act on Principles of Maintaining Records and Identification of Taxpayers

On March 31, 2009, art. 14 of the Act of December 19, 2008, on the amendment to the Act on Freedom of Business Activity and the amendment to certain other acts entered into force (JoL of 2009, No. 18, item 97), containing the amendments to the Act of October 13, 1995, on principles of maintaining records and identification of taxpayers (JoL of 2004, No. 269, item

2681 as further amended). The purpose of the amendments was to facilitate commencement and conducting of business activity by way of shortening and simplifying the procedures. The scope of amended act on principles of maintaining records and identification of taxpayers covered *inter alia*: shortening of time limits for issuing the decision on granting NIP number to natural persons commencing business activity, liquidation of the obligation to enclose documents confirming the information covered by the identification application, both in the case of the identification application as well as data update, as well as mandatory application of the "one-stop-shop" institution in the case of making entries to the register of entrepreneurs or to the business activity register.

Moreover, pursuant to the Act of November 7, 2008 on the amendment to the Act – Tax Ordinance and other acts (JoL No. 209, item 1318) as well as pursuant to the a/m Act of December 19, 2008, on the amendment to the Act on freedom of business activity and the amendment to certain other acts, a number of significant changes was introduced to the inspection procedure in 2009³⁶.

Fiscal Control Act

In the scope of provisions of the Act of September 28, 1991 on fiscal control (JoL of 2004, No. 8, item 65 with further amendments), one amendment important from the perspective of entities conducting business activity was introduced. A new regulation was added, that the interest on arrears are not calculated for the period starting as of the date of commencement of the control proceedings until the date of delivery of the decision issued by the first instance, if the decision has not been delivered within 6 months of the date of commencement of the control proceedings. This regulation however shall not apply if to the delays in issuing the decision the controlled entity or its representative contributed or the delay arouse due to reasons beyond the control of the fiscal control authority.

Act on VAT

The Act of December 2, 2009, on the amendment to the Act on VAT (JoL No. 215, item 1666) introduces amendments in the scope of increasing the amount of PLN 50,000 up to PLN 150,000 of the yearly turnover limit entitling the taxpayers to VAT exemption. According to the a/m act, the limit shall be increased gradually: in 2010 – it amounts to PLN 100,000, in 2011 – the limit will reach the amount of PLN 150,000. The increase of the limit will facilitate business activity of taxpayer – with minor turnovers, and affect in favourable way the development of small business.

Act on Corporate Income Tax and Act on Natural Person Income Tax

With the Act of November 6, 2008, on the amendment to the act on natural person income tax, act on corporate income tax and certain other acts (JoL No. 209, item 1316), there was, *inter alia*, the obligation cancelled to settle the advance payment for the last month in the amount of the tax advance due for the last month as well as the tax advance due for the last quarter in the amount of the tax advance for the preceding quarter. In result of this amendment, the deadline for settlement of the last tax advance currently payable until 20th day of the last month (of the quarter) shall be prolonged to the 20th day of the first month of the following fiscal year, unless the taxpayer submits the annual tax statement and settles the tax due earlier. The last tax advance shall be determined on the basis of actual results for the

³⁶ Changes in the scope of control of enterprises are described in subsection 3.1.4

period from the beginning of the year until the last day of the fiscal year. Nevertheless, due to the amendment to the interim regulation of the a/m act introduced with the act of November 23, 2009, amending the act on the amendment of the act on natural person income tax, the act on corporate income tax and certain other acts (JoL No. 201, item 1542), the amendments described above shall apply to the income generated from January 1, 2012 on, and not as of January 1, 2010.

With the Act of March 5, 2009, on the amendment to the act on natural person income tax and the act on corporate income tax (JoL No. 69, item 587), implementing the Stability and Development Plan, instruments were introduced with the aim to enhance the inclination of companies to invest, especially in the case of small companies and entities commencing their activity:

- a) the definition of small taxpayer was changed for the purposes of income taxes, by way of increasing the limit of revenues conditioning the said status from EUR 800,000 to EUR 1,200,000 which means that the group of these taxpayer is bigger now. It also means that a greater number of taxpayers shall have the possibility to take advantage of one-off depreciation and quarterly settlement of income tax advances.
- b) for the years 2009-2010, the amount of one-off depreciation was raised to EUR 100,000. In general, the limit totals EUR 50,000 during the fiscal year. The right to the one-off depreciation is exercised by small taxpayers and taxpayers commencing the activity. The latter, if they commenced the activity in 2008 or 2009, might/may take advantage of this right also in the second year of business operations.
- c) it was made possible for the taxpayer to select the manner of inclusion of costs of development works into the tax costs. The taxpayers may include these costs to the tax costs in the month, in which they were incurred or as of this month in equal portions within a period not longer than 12 month, or once in the fiscal year after they end, or via depreciation charges on intangibles, shall they take a decision about the depreciation. Ahead of the amendment, the costs of development works completed with positive result was subject to the inclusion to intangible assets and subject to the depreciation not shorter than 12 months. While, it was possible to include the costs of development works completed with negative result directly to the tax costs for the fiscal year in which they were completed.

Pursuant to the Act of July 1, 2009, on mitigation of economic crisis results for employees and entrepreneurs (JoL No. 125, item 1035), the entrepreneurs, as at August 22, 2009 were granted a possibility to include training fund premiums to the tax costs, which enables earlier inclusion of the training costs to the tax costs.

With the Act of October 23, 2009 on the amendment to the act on natural person income tax and the act on corporate income tax and the act on flat-rate income tax on certain revenues generated by natural persons (JoL No. 201, item 1541), amendments were introduced in the scope of rules of taxation on revenues generated by natural persons on payable disposal of certificates of renewability of the source of electric energy. The revenues from payable disposal of certificates of renewability of the source of electric energy, received upon the request by the entrepreneur dealing with generation of electric energy in renewable sources are included under the item Sources of Revenues – Other than agricultural business activity.

The Act of February 19, 2010, n the amendment to the act on natural person income tax and the act on corporate income tax (JoL No. 57, item 352) makes it possible to include the VAT due to commodities conveyed free of charge to the costs of generating revenues in the case,

when the only condition of their conveying is prior purchase of the commodities or services by the recipient in a determined amount or value. It is the so-called bonus sales.

Another amendment (March 18, 2010) to the act on natural person income tax and the act on corporate income tax and certain other acts (JoL No. 75, item 473):

- a) prolongs by one year the period in which the monies of innovation fund created by research and development centres pursuant to the act on certain forms of supporting innovative activity, may be utilised without the necessity to determine the operating activity.
- b) introduces the amendment resulting in the situation that the right to the taxation per flat 19% income tax rate paid by natural persons shall be retained by the entrepreneurs who will generate in the fiscal year revenues from the provision of services for the former or existing employer which correspond to the duties they fulfilled within the employment relationship in the year preceding the financial year. The right will no longer be vested only in these taxpayers, who fulfilled or fulfil these duties in the same fiscal year.
- c) increases to PLN 200 (from PLN 100) the limit of the amount of exemption related to the one-off value of free-of-charge benefits received from the benefits provided in relation to the promotion and advertisement, which will result inter alia in a reduction of disclosure obligations imposed on the entities – providers of benefits.

Act on Excise Tax

On March 1, 2009, the Act of December 9, 2008 on excise tax entered into force (JoL of 2009, No. 3, item 11, with further amendments), dictated with the necessity to harmonise Polish regulations with regulations of the community, implementing solutions related to the taxation on power engineering products and electric energy, and also the possibility of application of temporary tax exemptions and reductions by certain entities in respect of power engineering products and electric energy. Moreover, the Act of 2008, introduced new legal solutions in the scope of the excise based on experiences gained during the applicability of the hitherto act and took into account the postulates of business circles.

On July 10, 2009, the Act of May 21, 2009 on the amendment to the act on excise tax came into force (JoL, No. 98, item 819). The act, due to unfavourable financial and economic situation, broadened the scope of application of flat-rate security onto other business entities than those stemming from the act on excise tax of 2008 as well as onto other activities subject to the excise taxation. In result of the amendment, the flat-rate security may be applied: by the entity running the fiscal warehouse, the registered merchant and the intermediating entity. The Act of December 6, 2008, on the excise tax limited the scope of applicability of the flat-rate security exclusively to the entities running the fiscal warehouse and only to the flat-rate security of tax liability due to the production and introduction of excise goods to the fiscal warehouse. The flat-rate security, whose amount were determined in the act on excise tax at the level of 30% of the general security the entity applying for the consent to use thereof should submit, does not require the balancing, thus being fairly more simple in use than the general security.

The above amendment introduced also the solution aimed at limitation of creation of excessive inventories of cigarettes or smoking tobacco marketed at home, ahead of introduction of raises of the excise tax rates applicable for these products. As per principle, in a given calendar year only these tobacco products will be marked with excise stamps, whose year of production printed on the stamp corresponds to the current year. An exception from this rule is the possibility to collect the excise stamps for the next calendar year in the end of

the preceding year in order to ensure efficiency and continuity of the process of supplying tobacco products on the turn of the year. The introduced regulation shall serve the purpose of stabilisation of budgetary inflows due to the excise tax, and also enhance their predictability. Besides, it makes possible for tobacco companies to manage the rational production planning.

Act on Tax on Civil Law Transactions

As of January 2009, favourable amendments to the Act on tax on civil law transactions came into force in relation to the civil law transaction tax in capital associations, especially in the scope of exclusion from the taxation obligation of the transactions constituting, in the light of the directive of the Council No. 2008/7/EC of February 12, 2008, the restructuring activities of the companies.

These amendments are conducive to transfers of assets and liabilities in capital associations, including within the merger, spin-off and transformation of the companies, and the so-called "exchange of shares" as well as transferring the actual management centre or registered office of capital associations on the territory of the Republic of Poland from other Member States. The solutions adopted, according to the EU law, related to the one-off taxation on capital in capital associations serve the purpose of free flow of capital within the common market and reduce the costs of activities on the part of entrepreneurs. Such changes may stimulate incorporation of new companies and improvement of their condition by means of restructuring activities.

A trend is also observed towards overall abolishment of the capital tax by way of gradual reduction of activities subject to the capital taxation. For that reason, Member States are obliged to present to the Commission, once every three years, the information concerning inflows from tax on capital contributions to the capital associations.

Act on Stamp Duty

As of April 8, 2009, the powers of attorney to sign statements submitted to fiscal authorities via electronic communication means are exempted from the stamp duty. The change serves the purpose of popularisation of submitting tax statements in electronic form and liquidation of barriers in contacts of entrepreneurs with tax authorities.

3.1.4 Inspection and supervision of entrepreneurs

On 9th March 2009 the amendment to the Act on freedom of business activity³⁷ entered into force, standardizing provisions regulating the process of inspection and supervision of business activity and amending, with respect thereto, 58 further acts. Key modification regards the determination of control subject matter – the Act indicated that it should not encompass the entrepreneur but only business activity conducted by this person. Main assumptions concerning the control in companies included *inter alia* a shorter duration of control, prohibition on conducting more than one control with respect to the same entrepreneur at the same time, and also application of sanctions against authorities in the cases of controls incompliant with the law. The purpose of these changes was to improve the situation of controlled entrepreneurs who for many years reported the issue of relatively frequent and burdensome controls. Small- and medium-size enterprises in particular felt this barrier to be significant and considerably contributing to higher costs and risk related to business activity.

³⁷ Act of 19th December 2008 on *amending the Act on freedom of business activity and on amending several other acts* (Journal of Laws of 2009 No. 18, item 97).

Box 3 Changes in inspection under amendment to the FEA Act of December 2008.

Modifications of FEA Act with respect to inspections of entrepreneur's business activity include *inter alia*:

- 1) lowering the time limit of entrepreneur's business control depending on company's size (total time of all controls with respect to an entrepreneur during one calendar year cannot exceed: 12 days in the case of micro-sized enterprises; 18 days – small-sized enterprises; 24 days – medium-size enterprises; 48 days – other enterprises);
- 2) further specification of factors excluding application of restrictions with respect to the number of simultaneous controls of entrepreneur's business activity and the duration of control (the exemption from the prohibition on conducting parallel control by more than one control authorities has been limited only to a control undertaken within the proceedings performed under the provisions of the Act on the protection of competition and consumers);
- 3) introduction of objection to undertaking and performing by control authorities actions violating the provisions of articles 79-79b, article 80 items 1 and 2 and article 82 item 1 and article 83 items 1 and 2 of the act;
- 4) imposition of sanctions against a control authority by establishing absence of grounds for conducting control in the cases when authorisation to conduct a control does not meet statutory requirements;
- 5) regulating situations when an entrepreneur evades the obligation to appoint an authorised representative in the case the entrepreneur cannot personally participate in the control;
- 6) allowing control authority to hold the control for the time necessary to examine product samples;
- 7) regulating the issue regarding control of an entrepreneur who conducts business activity in many locations (e.g. retail chains);
- 8) introduction of an additional standard under which certain provisions of the Act with respect to control would not apply to the following types of control:
 - a) control subject to special tax supervision and veterinary supervision,
 - b) control of fisheries administration,
 - c) control related to assigning customs-approved treatment to products, which is conducted in customs office or other place appointed or acknowledged by customs or fitosanitary control authority,
 - d) control of mobile means of transport,
 - e) control of sales conducted outside the point of permanent location (van selling and peddling at market places within the meaning of the article 15 item 2 of the Act of 12th January 1991 on local charges and taxes),
 - f) control based on purchasing products or services to verify the quality of service under the Act of 15th December 2000 on trade inspection (so-called controlled delivery).

Considering great number of entities that are authorized to control entrepreneurs and difficulties with generalising on the tendencies with respect thereto, data on control proceedings of specific institutions, especially of National Labour Inspectorate, fiscal control offices and Inspectorate of Environmental Protection has been presented below.

National Labour Inspectorate (NLI) is responsible for supervision and control of the compliance with labour law, especially with respect to adhering to occupational health and safety provisions and rules. In 2009, NLI conducted about 88,000 inspections (app. 10% more than in the previous year) of 60,000 employers who employed together 3.8 million people³⁸. With respect to established cases of law violations over 354 thousand order decisions were issued, which is 0.5% less than in 2008. Almost one third of all these decisions were effective

³⁸ www.pip.gov.pl and rop.sejm.gov.pl (information based on the *Report on National Labour Inspectorate activities for 2009* submitted to Labour Protection Council on 18th May 2010).

immediately due to the protection of human life and health. Most common sanctions (65%) imposed due to the violations of employee's rights were penalty fines (covering total amount of PLN 25 million, which was not significantly higher than in 2008). Petitions to court constituted 15% of sanctions, and 20% of sanctions regarded educational measures. This year again, as in the previous years, the share of these latter sanctions increased.

In 2009 increase in the rate of irregularities regarding payment of remuneration was reported. The rate of violations of provisions concerning applying employees for social insurance also rose. It seems that deterioration of the situation with respect to aforementioned aspects resulted from the world-wide economic downturn. Inspectors reported cases of illegal employment in every fifth of 20 thousand controlled workplaces. Most of these cases were detected in transportation, hotel and restaurant and construction industries.

The improvement in turn was reported with respect to compliance with the provisions on working time. Moreover, in 2009 the number of persons injured in occupational accidents was lower (in all sections of economy).

In 2009 **Fiscal Control Offices** conducted a total of over 10,000 inspections – which is about 4% less than in the previous year and 18% less than in 2007. The inspections regarded in particular these areas which were identified as most vulnerable to tax irregularities. That is why last year's tax control was conducted primarily in relation to:

- evading payment of excise duty, in particular with respect to taxation of liquid fuels trading
- VAT tax frauds in intra-Community trade, including carousel fraud
- VAT tax frauds by means of fake invoices
- evading payment of income tax by transferring income to related entities
- detecting and fighting the grey zone, also with respect to Web trade and services and failures to reveal incomes, partial or full, and sources thereof.

Under the inspections over 14,500 proceedings connected with documents verification of contractors of controlled taxpayer and 3,265 hearings were performed. For the purposes of verification of documents collected during inspection, controllers 3,088 times requested from financial institutions the disclosure of information constituting bank secrecy and the amount of such requests continues to rise. There were also cases of securing properties, in the amount of PLN 502 million (18% higher than in the previous year) in order to pay outstanding tax liabilities³⁹

The findings of fiscal controls conducted in 2009 amounted to PLN 2.43 billion, and the findings for which decisions were issued amounted to PLN 2.16 billion, which is 42% more than in the previous year. Furthermore there is a noticeable regular increase in average amounts of findings per one inspection. In the previous year this was the amount of PLN 239,000 as compared to PLN 161,000 in 2008 and PLN 157,000 in 2007. Such increase is possible due to more effective selection of entities for inspection and improved specification of areas vulnerable to irregularities, which is also possible thanks to the application of IT analytic tools. Due to more effective selection of entities for inspection the duration of control has been considerably shortened which makes inspections less troublesome for the taxpayers. In 2008 the number of long-term inspections declined by 35% (with respect to the preceding year) and in the previous year by another 12%.

³⁹ 'Fiscal Control in 2009' – report, Ministry of Finance, Treasury Control Department, 2010.

Box 4 Fiscal control priorities in 2010.⁴⁰

Fiscal controls will be aimed at excluding from the market these entities whose operations are based on tax offences and simultaneously ensuring effective enforcement of tax liabilities from the entities operating legally on business market. Control proceedings will focus on the detection of organized tax crime and fighting and reducing the broadly defined phenomenon of gray zone.

Main directions of fiscal control proceedings in 2010:

- Inspections of taxation on excise commodities trade, in particular the trade of liquid fuels.
- Inspections of VAT tax payments in intra-Community trade.
- Prevention of evasion of income tax payment by transferring incomes to related entities.
- Disclosure and reduction of gray zone.
- Control of persons whose incomes are not reflected in revealed sources of income or come from sources which were not disclosed.
- Performance of preparatory proceedings according to proceeding and material principles of penal fiscal law.
- Regular performance of statutory actions, especially these aimed at discovery of irregularities in recording via cash registers.
- Inspections of the management of public funds and the property of State Treasury.
- Monitoring business activity conducted via Internet (e-trade).

Offices of the **Inspectorate of Environmental Protection** under control activities in 2009 executed tasks with respect to control of observance of law and conditions specified in administrative decisions with specific consideration of priority tasks specified in work agenda for 2009, i.e.:

- control of selected industrial sectors which require an integrated permit (production of cement clinker and lime, intensive pig breeding, installations for power generating fuels combustion),
- implementation of the Regulation of the European Parliament and of the Council concerning the establishment of a European Pollutant Release and Transfer Register (PRTR),
- control of the implementation of the Regulation of the European Parliament and of the Council on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

In the previous year Inspectorate's Offices conducted a total of 30,054 inspections (over twice as many as in 2008). 12,874 of these inspections were conducted on the basis of documents, and 17 180 in the field. Highest number of the conducted inspections was reported in Mazowieckie voivodship (4824) and the lowest in Opolskie voivodship (470)⁴¹.

⁴⁰ Source: *Excerpt from the tasks of fiscal control offices for 2010*, Ministry of Finance, February 2010.

⁴¹ *Information on execution of tasks of the Inspectorate of Environmental Protection in 2009*, Main Inspector for Environmental Protection, May 2010.

3.1.5 Labour law and social security

Analysis of the value of EPL (*Employment Protection Indicator*)⁴² index shows that regulations of the Polish labour market are less restrictive than in other countries. Most restrictive regulations regard temporary employment. And the least restrictive regulations, as indicated, concern mass lay-offs. According to OECD, within 2003-2008 the regulations of labour law in Poland became significantly more restrictive, as compared to majority of countries, where the level of restrictiveness of such regulations did not change considerably. Modifications which most significantly impede business activity were introduced in this period with respect to temporary employment. Whereas the regulations concerning mass lay-offs were simplified. Therefore the values of EPL index prove that the Polish labour law, as compared to other countries, is considered as not very restrictive and viewed as not significantly hampering business activity by imposing limitations regarding hiring and dismissing employees.

The stakeholders of Polish business market in general believe that the labour law includes too many regulations and barriers impeding business activity.

The major impediments for entrepreneurship development are too rigid regulations of labour law. The obligation to maintain paper copies of employment records pose also a significant problem. However, the modifications introduced under anti-crisis package in 2009 with respect to employment relationships are valued as positive. Improved flexibility of regulations on working time and allowing settlement period extension to 12 months and changing the rules for working day calculation to the benefit of employers were especially approved of. Aforementioned regulations were introduced for 2 years, however employers are already demanding to implement these norms permanently. Furthermore the employers assessed as positive modifications of the Act on temporary employment which contributed to improved flexibility and reduced bureaucracy of solutions regarding temporary work.⁴³

Entrepreneurs' demands are consistent with the concept of improving flexibility and security on labour market (*flexicurity*), which is supported by European Commission and implemented by Poland. The concept of *flexicurity* is based on four elements: flexible employment system, comprehensive strategies of life-long learning (*life-long learning*), effective labour market policy which helps to cope with dynamic changes on labour market, advanced social security system which facilitates employment and mobility on labour market.

Need for improving flexibility and security on labour market increased due to the financial and economic downturn in Europe and economic slowdown in Poland. Deteriorated economic conditions and decrease in domestic demand contributed to temporary decline in the volume of production and employment in many enterprises. As a result it was necessary to introduce legal solutions which would enable to adapt to changing supply-and-demand conditions.

For this purpose, on the basis of the 13-point "Anti-crisis package", accepted by way of the dialogue between autonomous social partners, the Act on mitigating economic downturn effects on employees and entrepreneurs was developed, which came into force on 22nd August 2009. Solutions included therein are directed at improving flexibility of work process, lowering costs of work for enterprises affected by the downturn and also increasing

⁴² OECD *Legislation, collective bargaining and enforcement: updating the OECD employment protection indicators* (2008).

⁴³ See: *Black List of Barriers 2010*, PKPP Lewiatan, Warsaw, April 2010.

investments in human resources. These solutions are temporary and shall remain valid till the end of 2011. The following forms of support are assumed for all entrepreneurs:

- extending settlement period of working time up to 12 months, which would allow to improve flexibility of employees' working time management – depending on demand for work in various months;
- introducing different hours for starting and finishing work in various working days, however another working hours in the same working day shall not be regarded as overtime hours; such solution can also be applied at the request of an employee who takes care of a child (up to 14 years old) or a family member who, due to health condition, requires personal care from the employee;
- application of limitation on employing the same employee under employment contract for a definite period of time would base on allowing to remain in such employment relationship for the total period not longer than 24 months.

Under the Act on mitigating economic downturn effects on employees and entrepreneurs there were also other support instruments introduced, which can be applied only for employers who temporarily have financial problems⁴⁴.

In pursuance with the regulations, in such cases it is allowed to:

- temporarily (up to 6 months) reduce employees' working time and proportionally reduce remuneration for work (without the requirement to submit the so called notice of change), however employee's working time cannot be lower than ½ of the full working time of this employee;
- obtain financial support for the remuneration paid to employees whose working time has been reduced or who have been encompassed by economic downtime. According to the regulations, for the downtime period employees shall receive a compensation for lost remuneration up to 100% of unemployment benefit and the remuneration from this employer in the total amount of minimal salary, established on the basis of separate regulations considering employee's working time. At the same time, in order to include an employee in economic downtime, it is necessary to obtain written consent of this employee. In the case of working time reduction, employees are entitled to receive funds from Guaranteed Employee Benefits Fund up to 70% of the benefit, depending on the level of employee's working time reduction. Employer will also receive funds to pay social insurance contributions for employees due from the employer. Benefits mentioned above will be paid during the total period not longer than 6 months with respect to one employee and granted on the basis of support legibility conditions *de minimis*
- obtain greater support for employers' investments in improving employees' qualifications during the downtime or in the case of reduced working time. Support is designed for employers who have established training funds, however in order to further encourage the employers to set up training funds, a new beneficial solution has been introduced, namely the provision that payments for training fund are included in the operating costs of employers' business activity. The amount of financial support from Labour Fund is expected to be 80% of costs of trainings or postgraduate studies, however not more than 300% of average remuneration per person, provided that the training or studies are motivated by present or future needs of the employer. Within the duration of training or studies the employee is entitled to a scholarship financed from the Labour Fund. In the case entitlements to various benefits paid from public funds (scholarship or partial

⁴⁴ Employer whose economic turnover, within 3 subsequent months after 1 July 2008, decreased, however not less than by 25 % as compared to the respective 3 months within the period from 1 July 2007 to 30 June 2008.

compensation for lost remuneration due to downtime or working time reduction) overlap, employee is entitled to only one, higher, benefit.⁴⁵

The Act imposes on the employer the obligation to return received financial support with accrued interests, in the case of failure to perform contract's obligations, including but not limited to termination of employment contract due to reasons related to the employer in the period of receiving benefits by an employee, and also in the period of 6 months following directly the period of payment of these benefits. Under the Act such funds must be returned immediately also in the case when such support is used against its intended purpose, i.e. when such funds are not transferred to employees who are entitled thereto.

Due to deteriorating economic conditions and increasing unemployment rate measures encouraging entrepreneurs to increase employment have also been undertaken. On 1st July 2009 regulations supporting employment of persons who are over 50 years old became effective. Employers who, after this date, temporarily (for 12 months) hired an unemployed person who is over 50 years old are discharged from the obligation to pay contributions for Labour Fund and Guaranteed Employee Benefits Fund. Moreover, the obligation to pay contributions for these funds has been annulled with respect to all employed persons who are over 60 (men) and 55 year old (women).

Moreover, the Ordinance of the Minister of Labour and Social Policy of 20 August 2009 on detailed conditions of undergoing internship by the unemployed (Journal of Laws No. 142, item 1160, whose regulations became effective on 17 September 2009, revoked previously applicable Ordinance of the Minister of Economy and Labour of 24 August 2004 on detailed conditions of an apprenticeship and vocational preparation in the workplace (Journal of Laws No. 185, item 1912 as amended) and introduced significant changes intended to improve conditions for undergoing internship by the unemployed. These changes included *inter alia*:

- specification of maximal working time limits for the unemployed;
- reduction of the number of unemployed persons undergoing internship in one enterprise;
- introduction of principles of equal treatment of persons undergoing internship in compliance with rules for employees in the Polish Labour Code;
- imposition upon the internship organizer the obligation to ensure safe and healthy working conditions according to the rules designed for the employees;
- specification and simplification of elements of contract concluded by district governor with internship organizer and of the data required for internship organizer's application.

In order to improve flexibility on labour market, also measures directed at adjusting qualifications to labour market demands were introduced. On 2 January 2010, the Ordinance of the Minister of Labour and Social Policy of 3 December 2009, on reimbursements of costs of trainings, remunerations and social insurance contributions related to the reimbursed remunerations from the Labour Fund, entered into force (Journal of Laws No. 215, item 1669). Provisions which were previously applicable assumed only the possibility to finance specialist trainings. Current regulations allow to finance general trainings as well.

⁴⁵ Detailed conditions for granting financial support to employers for trainings and postgraduate studies for employees were specified in the provisions of the Ordinance of the Minister of Labour and Social Policy of 24 August 2009 on detailed conditions for financing from Labour Fund trainings and postgraduate studies and on detailed conditions for financing scholarships and social insurance contributions (Journal of Laws No. 136, item 1119), which entered into force upon its announcement, i.e. 26 August 2009.

The employer is also not obliged to develop half-yearly trainings plans any more, due to which the previously applicable dates for submitting applications for reimbursement twice a year were revoked. The possibility to submit applications by the employer to the governor of a district relevant due to the location of business activity has also been enhanced as an alternative to previously applicable specification of relevant governor due to the registered office of employer. Such solution is more beneficial for labour offices as well as for employers, especially in the case when employer's registered office is located elsewhere than the actual location or locations where business activity is conducted.

Under the amendment to the Act on temporary employment of 23 October 2009 (Journal of Laws No. 221 item 1737) significant simplifications were introduced with respect to temporary employment. This regulation, facilitating application of the Directive of the European Parliament and of the Council 2008/104/EC of 19 November 2008 on temporary employment, gave grounds to making temporary employment options more available on labour market and to improve practical operations of temporary employment agencies. During economic slowdown temporary employment allows entrepreneurs, who cannot anticipate target number of employees in their enterprise, to more flexibly adjust to changing demand conditions. New regulations:

- allowed employers who made mass lay-offs to use services provided by temporary work agencies. New regulations allowed, *inter alia*, employers who have subsidiaries to hire employees in these subsidiaries, where there were no redundancies.
- extended the period of work performance for one employer from 12 to 18 months. Twelve-month period was assessed by employers executing long-term tasks as insufficient.

Significant change with respect to enhancing work of entrepreneurs whose business activity is based on temporary work agency concerned the introduction of the obligation to issue "collective" employment separation certificate to temporary workers. The obligation to issue "collective" employment separation certificate (once on 12 months) supersedes the previous obligation to issue such certificate after termination of each, even very short, temporary employment period.

The idea to create flexible solutions and increase security on labour market has been also reflected in the National Action Plan for Employment (NAPE) for 2009-2011. This document specified tasks attributed to the state in relation to the employment policy.

Box 5 National Action Plan for Employment for 2009-2011

The document distinguishes 4 priorities executed in the course of tasks included in NAPE for 2009–2011:

Priority 1: Increased activity, by means of:

- developing a public system life-long education and a system of incentives to improve skills and qualifications all life long,
- building a consistent labour market.

Priority 2: Efficient labour market, by means of:

- supporting flexible and alternative forms of employment,
- developing advanced system of social security with respect to labour market,
- forming new relations on labour market,
- developing system of labour market monitoring,
- employment restructuring to make it more oriented towards innovative economy,
- developing migration policy for the purposes of labour market.

Priority 3: Enhancing active labour market policy, by means of:

- extending utilization and improving assignment of the instruments of active labour market policy and application of individualized approach towards persons who use public employment services,
- strengthening staff and competences and professionalization of public employment services,
- professional monitoring of the effectiveness of active labour market policy.

Priority 4: Mitigating economic downturn effects and preparation of labour market to economic recovery, by means of:

- developing conditions facilitating fast adaptation by entrepreneurs to changing business conditions,
- creating new jobs in the course of supporting entrepreneurship and increasing the inclination to invest in the conditions of dynamic economic changes.

Changes introduced in the scope of social insurance regarded *inter alia* persons conducting business activity not related to agriculture. On 1 September 2009 provisions the Act of 24 April 2009 on amending the Act on social insurance system and the Banking Law Act (Journal of Laws No. 71, item 609) entered into force. According to these provisions persons conducting business activity not related to agriculture who are at the same time subject to social insurance due to other reason specified in the Act on social insurance system (e.g. employment relationship, mandate agreement) will acquire, due to this other reason, the right to maternity benefit or a benefit in the amount equal to maternity benefit, and will then be subject to mandatory insurance (pension and disability payment) due to the received benefits (social insurance contributions will be then financed from the national budget funds). These persons may voluntarily and at own request apply for pension insurance with respect to business activity which is not related to agriculture.

3.2 Functioning of the judiciary

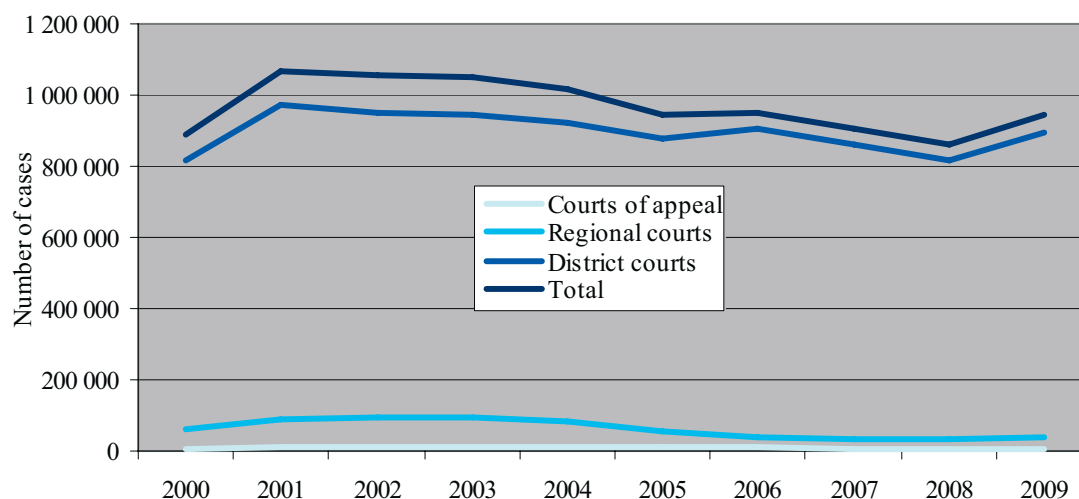
Judiciary regarding economic issues is one of the key elements of institutional environment in which entrepreneurs conduct their business activity. The critical area, especially from the perspective of small- and medium-size enterprises, is dispute resolution. This field is still problematic, although within last years there have been undertaken various tasks, which already bring first positive effects. The improved effectiveness of proceedings regarding economic issues is evident on the example of, *inter alia*, minimal amount of complaints on economic proceedings lodged in 2009 to the European Court of Human Rights in Strasbourg.

Last year a total of 126 such complaints were communicated to the government, including only two complaints which concerned prolonged duration of proceedings of economic issues.

Last year saw the increasing inflow of cases to common law courts. In total, 11.9 million cases were submitted (6.1% more than in 2008). At the same time the number of settled cases increased by 8.3%. In consequence the index of controlled inflow of cases amounted to 101.6 (as compared to 99.5 in 2008).

The results of court proceedings with respect to economic issues in 2009 should be assessed taking into account the highest in several years inflow of these cases, which amounted to 945,000, i.e. 9.8% more than in 2008. The increase in these cases' inflow as compared to 2008 was reported by all court instances, and the highest increase was reported by regional courts⁴⁶ (by 23.4%) and the lowest by courts of appeals (by 4.8%)

Chart 19 Number of economic cases by court types within 2000-2009



Source: AFD ME study on the basis of data provided by the Ministry of Justice.

In 2009 all court instances settled more cases than in 2008 (by 8%). The highest increase of the settlement rate was reported in regional courts (by 17.9%). Despite the increase of settlement rate, increase of the level of remaining cases (to be settled) by 13,000 (20.5%) as compared to 2008 (64,000) was reported. Thus the increase in remaining cases was considerably lower than the level of increased inflow of cases.

At the end of 2009 the number of oldest cases (which remain unsettled for over 3 years) in regional courts declined by 16%, and in district courts by 14% as compared to 2008. The number of insolvency proceedings which remain unsettled for over 3 years also considerably decreased and amounted to 709 at the end of 2009, as compared to 791 as of 30 June 2009.

The improvement is also visible in the proceedings of Land and Mortgage Register Divisions. It is, *inter alia*, due to gradual implementation of IT system for establishing and maintaining land and mortgage registers. At the end of 2009 the number of Land and Mortgage Register

⁴⁶ Regional Courts together with the Court of Competition and Consumer Protection, and also the Community Trademark and Design Court.

Divisions amounted to 347 in the entire country, whereas the New Land and Mortgage Register System (NKW), gradually implemented since 1 October 2003, encompassed 243 divisions. In the remaining 104 divisions the implementation of NKW system is scheduled for 2010. According to the repertories, the number of land and mortgage registers on 31 December 2007 was 20 million. During 2009 there a total of 3.41 million entry applications were filed, 3.52 million applications were settled and the average duration of land and mortgage register proceedings was 1.6 month.

According to statistical data on the project “Informatisation of Land and Mortgage Register Divisions” (as of 7 June 2010) the number of land and mortgage registers which has been transferred into the structure of land and mortgage register maintained in IT system is app. 9.51 million, whereas the number of land and mortgage registers recorded in Land and Mortgage Register Divisions is app. 2.57 million.

In 111 Land and Mortgage Register Divisions all registers has been in full transferred into the structure of land and mortgage register maintained in IT system. In 2010 the NKW system, under the project “Informatisation of Land and Mortgage Register Divisions”, is planned to be implemented in the remaining 104 divisions (pursuant to the IE OP project). Furthermore in June 2009 the service of browsing land and mortgage registers via Internet was launched. There are also plans to launch in 2011 the service which would allow to handle electronic applications for issuing a certified copy or for making an entry into land and mortgage register.

Table 13 Number of economic cases in 2002-2009

Specification	2002	2003	2004	2005	2006	2007	2008	2009
courts of appeal								
ECONOMIC CASES	10 335	11 606	12 603	12 295	8 426	6 477	5 992	6 279
2nd instance								
appeals	3 093	3 330	4 107	4 618	3 338	2 637	2 211	2 188
complaints	5 755	6 536	6976	6 325	4 290	3 108	3 135	3 482
general	24	21	23	91	30	39	28	30
appeal against court decision (WSC Record)	1 463	1 719	1 469	1 160	664	623	559	532
petition to rule a court decision unlawful (WSC Record)	•	•	•	•	40	49	27	10
complaints against court proceedings (S Record)	-	-	28	101	64	21	32	37
regional courts								
ECONOMIC CASES	95 095	93 166	83 821	52 984	40 087	35 124	35 109	41 599
1st instance								
trial	25 839	25 504	22 100	12 572	8 568	7 717	7 932	9 328
non-trial	22	22	30	23	35	45	15	16
injunction and admonition	50 904	47 068	37 728	14 020	8 097	7 499	8 339	12 632
insolvency	11	5	1	1	6	2	-	2
2nd instance								
appeals	3 659	4 458	6229	7 895	7 473	6 843	6 627	7 048
complaints	9 230	10 005	11098	12 224	10 725	7 632	7 235	7 456
general	5 061	5 755	6194	5 856	4 829	5 082	4 700	4 880
appeal against court decision (WSC Record)	369	349	342	188	137	94	109	81
petition to rule a court decision unlawful 1 st instance(WSC Record)	•	•	•	•	89	20	4	2
petition to rule a court decision unlawful 2 nd instance(WSC Record)	•	•	•	•	•	109	72	59
complaints against court proceedings (S Record)	-	-	99	205	128	81	76	95
district courts								
ECONOMIC CASES	951 999	943 306	920 485	878 484	903 846	863 675	819 019	894 616
trial	56 249	53 877	72 940	71 534	39 866	30 824	28 986	35 128
simplified trial	22 372	29 799			24 845	21 024	22 096	26 339
non-trial	1 042	1 128	688	904	870	323	261	244
registration – total	431 072	465 766	501 628	487 897	564 350	583 098	528 118	538 063
-Pledge Register	201 276	190 091	176 708	145 765	129 847	124 561	106 661	97 881
-National Court Register	225 522	271 963	324 870	342 132	434 503	458 537	421 457	440 182
-Other	4 274	3 712	50	189	169	x	x	x
injunction and admonition	414 839	360 073	307 542	278 588	239 779	199 156	211 183	262 916
general	16 169	20 056	25 743	27 120	22 905	20 822	20 169	21 554
legal aid	780	1 021	1 122	1 269	1 474	1 260	1 331	1 712
prohibition to conduct business	648	x	28	25	1	x	x	x
insolvency and reorganisation	9 476	11 582	10 794	11 172	9 579	7 133	6 854	8 638
appeal against court decision (WSC Record)	-	4	-	-	-	-	-	-
petition to rule a sentence unlawful (WSC Record)	•	•	•	•	8	35	21	22

Source: Ministry of Justice

Legislative and organisational changes for the improvement of economic court proceedings

On 26 June 2009 the Act *on amending the Act on land and mortgage register and mortgage and some other acts* (Journal of Laws No. 131, item 1075) was enacted and it will become effective on 20 February 2011. New provisions provide entrepreneurs with new opportunities due to very profound and substantial changes with respect to regulations concerning land and mortgage registers and mortgage, starting with revoking the distinction between ordinary mortgage and collateral mortgage, which is supposed to facilitate application of this security through limiting the principle of mortgage specificity (introduction of the possibility to secure with one mortgage several liabilities due to various legal relationships attributed to the same creditor) and revoking the principle of mortgage advancement to the introduction of new legal solutions with respect to mortgage administrator (possibility to secure with one mortgage several liabilities due to various entities and used to provide financing for the same enterprise) or entitlement to manage vacated mortgage premises.

Significant change of the Polish Civil Code is the introduction, since 1 January 2010, of *electronic admonition proceedings* (Act of 9 January 2009 *on amending the Act – the Civil Code and some other acts* – Journal of Laws No. 26, item 156) which applies also to cases between entrepreneurs. Petition in such proceedings is filed as an on-line form via electronic access portal “e-court”. This allows to save on mail expenses and also makes the petition immediately available to court (eliminating the time needed to deliver the petition to court by post office). The aforementioned Act amended also the provisions of the Act of 28 July 2005 on legal expenses in civil proceedings (Journal of Laws No. 167, item 1398 as amended), introducing the obligation to pay one fourth of the payment for each petition filed in electronic admonition proceedings (in ordinary admonition proceedings the petitioner is obliged to pay full payment, $\frac{3}{4}$ of which is reimbursed to the petitioner after a court order becomes effective). Under the amendment there is no obligation to make any payments for lodging a complaint against court referendary’s decision and complaint in electronic admonition proceedings. Thus these changes contribute to reduction of claim assertion costs for the parties.

In order to develop further incentives to use electronic admonition proceedings and also to simplify and accelerate the procedure, the Ministry of Justice conducts legislative works with respect to changes of civil proceedings code which assume, *inter alia*, allowing to submit a petition to terminate proceedings in specific cases, greater consideration for parties’ preferences regarding local jurisdiction of a court or discharging from the obligation to pay supplementary fee for a petition.

On 1 July 2009 the Act of 5 December 2008 *on amending the Act – the Code of Civil Procedure and some other acts* (Journal of Laws No. 234, item 1571) entered into force, which revoked article 479^{8a} of the Code of Civil Procedure which allowed, in the economic cases, to reject the motion which served to commence the proceedings due to formal defects without appealing for proper completion thereof. Now the president, upon identification of formal defects in such document orders to complete it or otherwise rejects it, and only then after the lapse of specific period without any effects, orders rejection of such motion. The article 130² paragraph 3 of the Code of Civil Procedure was also revoked. According to this article court rejected unduly paid and taken by an attorney, legal advisor or patent agent means of appeal or means of challenge subject to fixed payment or a relative payment calculated on the basis of challenged subject matter value indicated by a party, without requesting for payment. These changes contribute to making the formal requirements in economic proceedings less restrictive, which makes it easier for entrepreneurs to assert their claims before courts.

The Act of 17 December 2009 *on amending the Act – the Code of Civil Procedure and some other acts* (Journal of Laws No. 7 of 2010, item 45) modified, *inter alia*, the content of article 326 paragraph 1 of the Code of Civil Procedure, by means of the entry which specifies that adjournment of court order announcement may occur only once and last for up to two weeks. In the previous version the provision did not include the limitation of number of adjournments of court order publication. This modification will thus contribute to improving proceedings efficiency.

With respect to insolvency and reorganisation law, on 2 May 2009 the Act of 6 March 2009 *on amending the act on bankruptcy and remedial, Act on bank guarantee fund and Act on National Court Register* (Journal of Laws No. 53, item 434) entered into force. Introduced enhancements concerned undertaking remedial measures by entrepreneurs with small debt and whose debts are temporary. The procedure of concluding composition agreements in the case of bankruptcy has also been simplified. The limitations of entitlements of an administrative receiver regarding employment have been revoked by the introduction of a general rule stating that the receiver is obliged to take actions with due diligence in a way which allows optimal utilization of bankrupt properties in order to satisfy creditors at the highest possible level, particularly by minimizing the costs of proceedings. The entry specifying, that the purchaser of bankruptcy estate items is not liable for tax liabilities of the bankrupt party which emerged also after the announcement of bankruptcy has been added. Number of categories of satisfying creditors by means of distribution of bankruptcy estate funds has been increased from four categories to five. The catalogue of orders ruled by the official receiver which can be challenged has been extended.

With respect to court proceedings efficiency of significant importance is the Act of 20 November 2009 *on amending the Act on registered pledge and pledge register* (Journal of Laws No. 215, item 1663) which entered into force on 18 January 2010. Under this Act an entry was introduced specifying that certified copies and certificates bearing secure electronic signature, issued by central information on registered pledges in electronic form, have the effect of official documents. Previously such copies, unlike these issued in paper, were deprived of the effect of official documents.

At the present moment works are being conducted to develop *procedural measures for court proceedings informatisation*. These works are performed by the Court Proceedings Informatisation Team and concern, *inter alia*, informatisation of proceedings to assign enforcement clause to bank writs of execution and informatisation of enforcement proceedings with respect to seizure of claims on bank account in the electronic form, electronic delivery of instruments in the course of enforcement proceedings and electronic auctions of public chattels.

Furthermore, the works on the bill of the *Act amending the Act – Code of Commercial Companies* are reaching their final stage. These works are focused on the implementation of a new model of limited liability company. Such company would be registered on the basis of a normative contract template on which the following data would be filled in: name of the company, registered office, partners' data, and amount of initial capital (paid exclusively by financial contributions), value of one stock, number and value of stocks per partner, subject matter of business activity. The bill includes the option to pay financial contributions after company's registration within the period specified in the act and the possibility to register such company by electronic means and also traditionally – by submitting paper documents. The limited scope of company's agreement control by the court of registration shall make the

company registration process last no longer than 24 hours. Implementation of changes will allow entrepreneurs to quickly incorporate and register a limited liability company, which is especially important in the cases where there is a need to conclude a transaction or start business activity in a new area.

On 29 April 2010 Polish parliament passed the bill of the *Act on amending the Act – Code of Civil Procedure, with respect to electronic minutes*, which assumes the possibility to record trials with audio and video recorders. In the case of such recorded report, minutes in the written form will be limited to the indication of date, place and participants of a sessions and orders and decisions issued during the session, and also to parties' actions which impact court's decision. This will allow to shorten the duration of a trial and enable accurate presentation of its progress which would result in the elimination of requests for correction or supplementation of the minutes.

Legislative works are also being conducted with respect to the bill of the *Act on amending the Act – Code of Civil Procedure and some other acts*, which has been prepared by the Civil Law Codification Commission. The bill includes a solution which assumes the elimination of separate proceedings in economic cases and making these cases subject to the same trial rules which apply to "regular" civil proceedings, which will practically result in considerable reduction of formal procedures of such civil proceedings and at the same time contribute to substantial simplification thereof. Despite the reduction of proceedings in economic cases the bill assumes that commercial courts will be preserved as the divisions of common courts.

In order to simplify and accelerate the civil proceedings and also to enhance works of courts implementation of changes in the Code of Civil Procedure is also planned. These changes will regard enhancing the delivery of court instruments by the introduction of legal options of electronic confirmation of reception of mail sent by courts.

In 2010 the Minister of Justice will continue the direct supervision over all bankruptcy proceedings whose duration exceeds 3 years

Furthermore the measures aiming at promotion of alternative methods of dispute settlement, i.e. mediation, arbitration courts, are being continued in order to relieve the common courts, including commercial courts. Popularization of information on these institutions among entrepreneurs should help to unburden the courts of cases which can successfully be resolved by means of mediation of arbitration.

3.3 Business activity financing

Access to funds is the key factor at each stage of company's development – starting from the registration through growth, to reorganisation or modification of activity profile. The sources of funds used for improving competitiveness, expansion and new technologies determine presence of the company on the market, especially in the current conditions of progressive specialisation and intense pursuit of market niche. At the same time accessing the basic form of external financing, i.e. bank credit, poses a significant problem, especially – according to the so called financing gap hypothesis – for small- and medium-size companies⁴⁷. In the case of Poland it is particularly important, since our economy is characterized by one of the highest

⁴⁷ Por. Gregory, B.T., Rutherford, M.W., Oswald, S., and Gardiner, L., *An Empirical Investigation of the Growth Cycle of Small Firm Financing*, Journal of Small business Management 43(4) 2005, p. 382-393.

shares of micro-sized companies which hire up to 10 employees in the overall number of manufacturing industry companies among all the OECD countries (88.3% in 2007).⁴⁸

The uncertainty resulting from economic disturbances, continuing lack of trust towards financial markets and introduced regulatory restrictions in the bank sector strengthened the importance of own capital in the financing structure in Poland in 2009. **Two overlapping phenomena** may be observed with respect thereto: **traditional reluctance of companies to take the risk with respect to incurring formal obligations and, resulting from adverse economic conditions, reluctance of banks to incur credit risk.** Although banks' reluctance to incur risk started to decline last year in Poland, still the conditions of the global economy and increasing percentage of loans at risk, especially those for enterprises, resulted in the need for improving the bank system stability in the course of implementation of international (MIFID, Basel) and domestic (e.g. T Recommendation) regulations. In 2009 we also witnessed effects of the downturn on the market of alternative financing sources, such as leasing or factoring. In this case financing from EU structural funds, which does not depend on economic conditions, was of extreme importance.

Survey conducted by NBP⁴⁹ proves that, even though in the first quarter of 2009 the percentage of companies planning to use bank loans for financing investments came considerably closer to the share of companies that for this purpose use own capital (30.6% vs. 38.6%), still the following periods were marked by the effects of the downturn. **In the second quarter the percentage of companies planning to use bank loans dramatically fell and was compensated by significant increase of the percentage of companies that use own funds** (25.2% and 46.5% respectively), whereas in the second half of the year the first value continued to decline and the second stayed at the similar level – at the end of the year both values reached respectively 23.0% and 43.2%. The downturn did not however influence the percentage of companies planning to finance investments from non-bank and other sources – this value stayed between 28.4% and 33.8% and was rising at the end of the year.

3.3.1 Situation on the deposit and loan market

In the fourth quarter of 2009 some industries (manufacturing, transport and services) already witnessed the improvement of financial conditions, although due to the persistent low-level demand this change was not substantial as compared to the previous year. Despite this fact the **dynamics of nominal value of bank liabilities due to companies were in 2009 over twice as high as in the preceding year.** At the end of December 2009 the nominal value of banks' liabilities due to companies hiring at least 9 employees reached PLN 166.5 billion which constitutes increase by 10.3% (as compared to 4.6% in 2008). In the case of micro-sized companies the increase of deposit volume reached 7.1% (as compared to 2.8% in 2008) and amounted to PLN 23.4 billion at the end of December.

However the dynamics of nominal value of loans granted to companies declined considerably. Due to banks' more restrictive credit policy this value for micro-sized enterprises rose three times slower than in the previous year (11.9% vs. 43.2%) reaching at the end of December 2009 the amount of PLN 38.4% billion. The nominal value of loans granted to larger enterprises fell by 4% to the amount of PLN 207.4 billion as compared to the record increase in 2008 which was 28.7%.

⁴⁸ Based on: Structural Business Statistics, OECD

⁴⁹ *Information on the condition of companies sector with specific consideration of economic conditions* (quarterly study; applied publication for first quarter of 2010). Sample dominated by large-sized companies.

Chart 20 Deposits and loans of larger enterprises in banks in the years 1999–2009

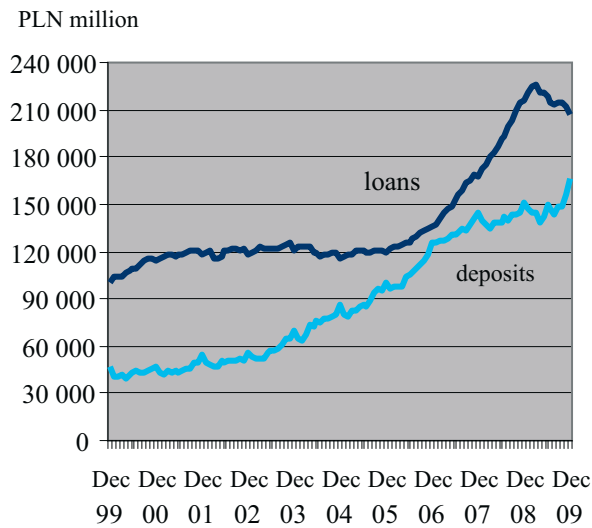
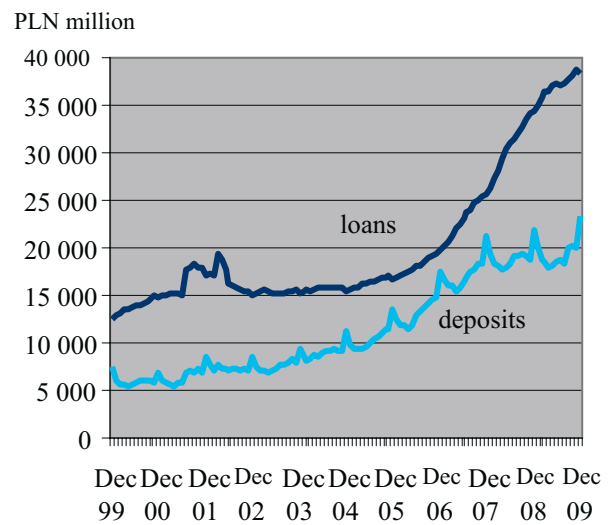


Chart 21 Deposits and loans of micro-sized enterprises in banks in the years 1999–2009

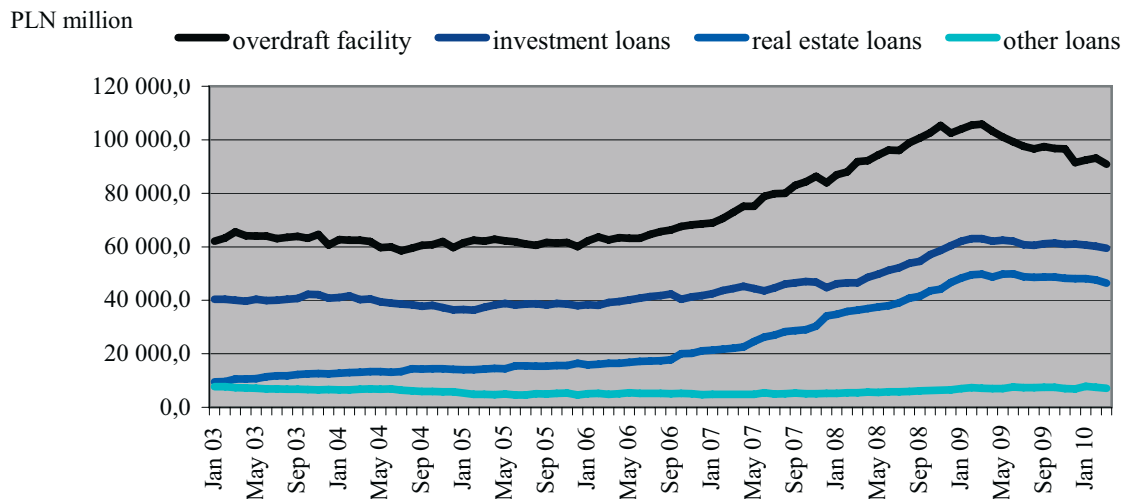


Source: AFD ME study based on NBP data.

As of March 2010 the method of presentation by NBP of liabilities and receivables of monetary financial institutions changed.⁵⁰ With respect thereto **the largest group of loans granted to larger enterprises (over 44%) in 2009 were the overdraft facilities** which comprise two previously applied categories: overdraft and operating credit. However application of current methodology to previous time ranges would lead to the conclusion that the share of such loans in the structure of all loans fell, as compared to the previous year, by almost 11%. The increase of investments credits, as compared to the previous year, was slight (0.9%), little less than the increase of real estate credits (3%). Highest increase (by 5.7% as compared to the previous year) of the share was reported in the case of other credits which include, *inter alia*, export and discount credits. Last year's dynamics did not affect the general structure of loans granted to larger enterprises – overdraft facilities are still followed by the investment credits (share of 29.4%) and, slightly lower, real estate credits (23.2%) and other loans and facilities which definitely constitute the smallest group (3.3%).

⁵⁰ Detailed description of the changes on www.nbp.pl

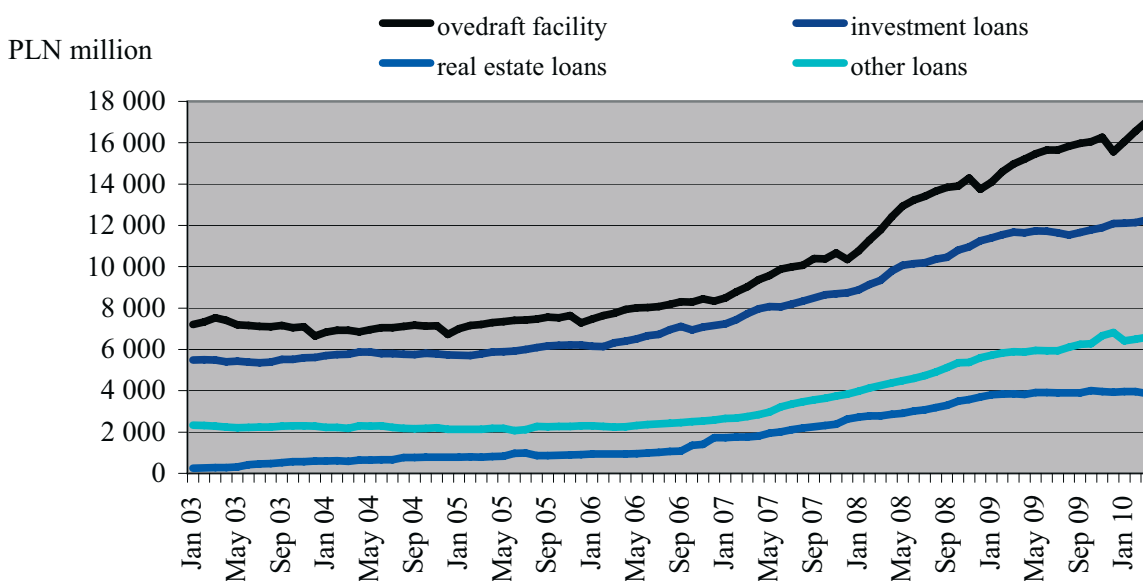
Chart 22 Loans extended to larger enterprises, by categories



Source: AFD ME study based on NBP data.

In the case of micro-sized enterprises, 2009 witnessed the increase of all types of loans. This however did not change the general structure of credits: overdraft facilities (40.5% of all loans) and investment loans (31.5%) remain the largest groups. Third largest group comprises – unlike in the case of larger enterprises – other loans (17.8%) and the smallest group are the real estate loans (10.2%). Even though the loans’ structure remained unchanged, the dynamics of specific groups varied as compared to the previous year: in the case of other loans dynamics rose by 22%, overdraft facilities by 13.2% and the real estate and investment loans only by 6-7%. Therefore one may conclude that the real estate loans are characterized by, not only the smallest share in all loans, but also the slowest increase of all the loans extended to micro-sized enterprises.

Chart 23 Loans extended to micro-sized enterprises, by categories



Source: AFD ME study based on NBP data.

A survey conducted by the Ministry of Economy among SMEs⁵¹ shows that in the second half of 2009 ¾ of surveyed companies used loans to conduct their business activity. The most popular type of credit is the **overdraft facility**.

In the second half of 2009 every fourth of the surveyed companies applied to bank for and investment or operating loan. The percentage of positively resolved applications was 45% which was more or less the same as in the first half of the year. Acquisition of a loan was most difficult for micro-sized enterprises – in this group only 37% of surveyed companies had their applications positively resolved, which was several percents more than in the first half of the year. In the group of small- and medium-size companies this value constituted two third of all applying companies. Younger company owners (max. 40 years old) had easier access to loans (half of applications resolved positively) than older persons (in the group of company owners aged 40-60 years 46%, and in the group of owners over 60 years old only 36% of applications were positively resolved).

Company's history was an important factor and criterion in the process of granting loan to a company. Banks noticeably preferred companies that has been operating for a longer time, registered before 1990 (in this group the positively resolved applications constituted 60% of all applications) and between 1990 and 2000 (57% of applications were positively resolved). Whereas in the case of companies that has been operating for 10 years and less this value reached only 37%.

Similarly as in the previous years, majority of credits (95%) were granted in local currency. As compared to the earlier survey, average interest rate on credits extended to enterprises was 1.5 % higher and reached 10.6%⁵²; micro-sized companies paid 12.2% interests, small companies 8.3% and medium-size – 7.2%.

According to the survey results, 10.5% of SMEs used bank loans (in 2008 this was 23%), 6.8 used leasing (13% in the previous year) and 2% used EU funds (as in the previous year). 69% of entrepreneurs used own capital⁵³.

3.3.2 Leasing

Even though leasing continues to be one of the most popular sources of financing investments for Polish enterprises, after midyear growth of leasing market at the level of 32% in 2004-2007 – ahead of the expected economic slowdown – the volume of leasing transactions decreased significantly. **This decrease extended to the following year and did not slow down until the fourth quarter of 2009, mostly due to the public infrastructure investments co-financed from EU funds.** However in general it reached app. 30% as compared to the previous year.

⁵¹ *Development trends of SME sector in the second half of 2009*, Ministry of Economy (Analyses and Forecasting Department), Warsaw, March 2010.

⁵² Value of the median was almost identical (10.0%).

⁵³ In the survey conducted by the Ministry of Economy the surveyed company could indicate more than one source of investment financing (not only one source of financing, as in NBP survey).

Box 6 Leasing

Leasing is a civil-law agreement, regulated by the Civil Code, under which the lessor transfers to the lessee the right to use a specific asset (tangible asset) that lessor owns for specific payments, the so called leasing rentals. Period of exploitation of leasing subject matter is precisely defined. Form of leasing agreement is similar to lease agreement.

Leasing allows to complete investment without significant capital contributions since the costs of leasing subject exploitation are covered from current incomes of a company, earned due to the exploitation of leased asset. This enables the company to save funds needed for operations and investments.

Real interest rate of leasing is usually higher than that of bank loan, however leasing has many other advantages which in general makes it less expensive than the loan. Advantages of using this form of financing business activity include:

Tax-related benefits:

- in the operating lease, leasing rentals constitute in full the revenue-earning costs, due to which the taxes paid are lower;
- in the case of financing by means of capital lease it is the client who depreciates the leased asset during the leasing contract period;

Balance-related benefits:

- operating lease is not included in the value of assets subject to balance sheet, thus the total value of assets remains unchanged with the simultaneous increase of profits;
- operating lease is not included as liability in the balance sheet of the lessee, it does not contribute to the growth of debts and helps to maintain a strong image of the company;

Improvement of financial statements:

- possibility to deduct leasing rentals in the case of income tax improves financial reports;

Easier tangible assets management:

- leasing contract is concluded for a definite period which allows to precisely specify the assumptions of tangible assets management, which is especially important in the case of long-term budgets determination;

Frozen funds release:

- sale-and-leaseback allows to release funds frozen in purchased asset, which is very beneficial to company's cash flows;
- simple and quick procedures;
- average time of leasing contract execution, from the decision through contract conclusion to the acceptance of leasing subject matter is 7 days. For the sake of comparison: in the case of credit it is on average 2-3 weeks.

The dynamics of leasing market in Poland reflect the specific nature of this financing form. Due to the fact that the leasing rentals are based on the expected future incomes and the so called tax shield is considerably important, **in the adverse economic conditions the entrepreneurs are very reluctant to conclude such agreements anticipating decline of incomes and taxes to be paid.** According to Leasing Companies Association (present name: Polish Leasing Association)⁵⁴, after years of intensive growth (50% in the record-breaking 2007) the leasing market dynamics in Poland slowed down in 2008 to 1.3% and at the end of 2009 observed the decrease in transactions volume by almost one third. The value of new transactions on the moveable assets market in the previous year amounted to PLN 20.9 billion, and on the real estate market – 2.1 billion (total value of the market PLN 23 billion as compared to PLN 33 billion in the previous year). This decline is mostly attributed to the market of vehicle leasing (average decrease by 34.9%), which is most sensitive to changes of economic conditions: the decrease of the large goods vehicle market reached 54.2%, and of the passenger cars – 40%. Significant slowdown of the transactions volume decline was also

⁵⁴ www.leasing.org.pl

observed on the market of leasing of industrial machines and equipment with the fall by 21.3%. Annual reductions would have been even higher had it not been for the results of the fourth quarter when the dynamics improved in almost all categories. The highest increase of the transactions volume was reported in the delivery vehicles (up to 3.5 t) segment, mostly due to the restored option to deduct VAT tax in the case of vehicles with the cargo partition. The segment of planes, railway and ships witnessed increase by 6.2% as compared to the previous year mostly due to large orders at the end of the year, but its share on the moveable assets market is not significant.

Table 14 Results in the leasing-moveable assets industry

	2008	2009	change
Vehicles	18 625	12 117	-34.9%
OSD	10 450	8 242	-21.1%
Large goods vehicles	7 243	3 317	-54.2%
Other vehicles	931	559	-40.0%
Machines	9 717	7 649	-21.3%
IT	538	469	-12.9%
Planes, ships, railway	512	544	6.2%
Other chattels	261	141	-45.9%
Chattels total	29 653	20 920	-29.4%
Real estate	3 274	2 073	-36.7%
Leasing total	32 927	22 994	-30.2%

Source: Polish Leasing Association

2009 witnessed a substantial change of the structure of real estate market due to the increase by 21% (from 34 to 55%) of the share of leased commercial and servicing sites in the market (however the overall value remained unchanged), and simultaneous, similarly strong, decline of the share of industrial premises (from 34 to 14%). The market of office premises leasing decreased by 12%.

3.3.3 Factoring

Factoring, although based on the mechanism which was used already in the ancient times, started to gain popularity in the Western Europe (which is now the largest factoring market) after the 2nd World War. In Poland it is still marginal, although its average growth dynamics are quite high. The mechanism of this financial service is based on purchasing accounts receivables of a company due thereto from trade debtors, and connected with other services such as financing, collecting liabilities or taking over the solvency risk of the recipients. Due to its flexible requirements factoring is an alternative to popular financing forms, and for smaller companies it is often the only source of trade working capital available.

Table 15 Polish factoring market statistics

Year	Turnover in PLN million	Share of domestic factoring	Share of export factoring	Share of import factoring	Clients number	Debtors number	Financed invoices number
2005	14 175	91%	6%	3%	1 400	35 000	1 400 000
2006	17 000	87%	11%	2%	1 600	38 000	1 410 000
2007	30 717	84%	15%	1%	1 608	49 024	1 626 844
2008	47 900	78%	21%	1%	2 031	47 913	1 888 403
2009	50 275	75%	23%	2%	1 702	47 805	1 977 700

Source: Polish Factors Association

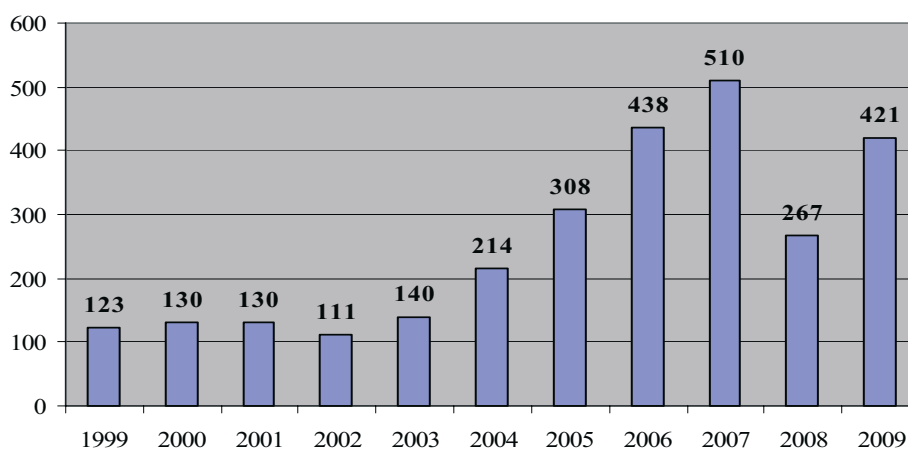
Similarly as in the case of other forms of financing, also the factoring market was affected by the downturn in 2009. **After the growth of turnover by 56% in 2008 (as compared to the previous year), in the following year this growth declined ten times (to 5.5%)** and the number of clients fell by 16%. This means that factoring services are still used by a small portion of companies – according to the estimates of the Polish Factors Association the turnover value of entire factoring market reached PLN 50.2 billion. Last year the market share of full factoring, i.e. such factoring in which the factor takes over the risk of non-payment by their client’s contractor, remained at the same level. This type of service constitutes already half of the factoring market⁵⁵.

3.3.4 Warsaw Stock Exchange

The public capital market is designed for mature and recognized companies with appropriate organizational structure and favourable development perspectives. Listing of a given company significantly increases its credibility in the eyes of potential providers of financing services. It also facilitates brand marketing and entering into new commercial relationships. However currently other benefits resulting from listing the company on stock exchange seem more significant: alternative to bank loan access to financing and reduced costs of obtaining capital. We may conclude that in the times of economic recovery after the downturn these advantages outweigh institutional requirements and costs related to the process of listing the company on stock exchange. This may also serve as a method to gain advantage over competitors who, after the economic slowdown, are not able to meet the requirements of public capital market.

These statements may be proven by the pace in which stock market recovered from the drops in 2008. Whereas, as a result of global financial crisis in 2008, WIG index fell by 51%, in 2009 it rose by 47% reaching the level of almost 40,000 points. The number of companies debuting on the Warsaw Stock Exchange (WSE) in 2009 was still significantly falling (by 61%), however due to the length of the preparation of company’s debut on stock market this fact may be perceived as a delayed effect of the economic downturn. This is confirmed by the decrease in the number of withdrawals and strong increase in capitalisation (by 54%, whereas the dominance of domestic companies rose to the level of 59%).

Chart 24 Capitalisation of domestic companies listed on the WSE (in PLN billion)



Source: AFD ME study based on WSE data

⁵⁵ www.faktoring.pl

Table 16 Basic data on stock market on WSE

	2002	2003	2004	2005	2006	2007	2008	2009
WIG index*	14 367	20 820	26 636	35 601	50 412	55 649	27 229	39 986
YoY change (%)	3.20%	44.90%	27.90%	33.70%	41.60%	10.40%	-51.10%	47.00%
Number of listed companies*	217	203	230	255	284	351	374	379
YoY change (%)	-6%	-6%	13%	11%	11%	24%	7%	1%
Number of IPOs	6	5	36	35	38	81	33	13
YoY change (%)	-44%	20%	500%	-3%	9%	113%	-59%	-61%
Number of withdrawals	19	19	9	10	9	14	10	8
YoY change (%)	375%	0%	-53%	11%	-10%	56%	-29%	-20%
Total capitalisation (PLN million)*	110 565	167 716	291 698	424 900	635 909	1 080 257	465 115	715 821
YoY change (%)	-15%	52%	74%	46%	50%	70%	-57%	54%
Including capitalisation of domestic companies*	110 565	140 001	214 313	308 418	437 719	509 887	267 359	421 178
YoY change (%)	-15%	27%	53%	44%	42%	16%	-48%	58%

* as of the year end

Source: WSE.

On 30 August 2007 new stock market named NewConnect was launched within the Warsaw Stock Exchange. It is an alternative trading platform organised and maintained by the WSE. The new market constitutes a platform for financing the development of relatively young enterprises with high growth potential which would be unable to meet the criteria of the regulated market, but have the potential of dynamic development. New Connect is generally intended for companies operating in the field of new technologies, although listing of companies operating in other sectors is also possible.

Box 7 NewConnect market⁵⁶

NewConnect is intended for companies:

- with high growth dynamics,
- operating for no longer than 3-4 years or just emerging; developing their own “history”,
- expected capitalisation up to app. PLN 20 million,
- seeking capital from several hundred thousand zlotys to dozen million zlotys,
- representing innovative sectors, based mostly on intangible assets (e.g. IT, electronic media, environmental protection, biotechnology, telecommunications, alternative energy, advanced services),
- with a vision and probability of debut on stock exchange in the near future.

NewConnect:

- modern market financing dynamic enterprises,
- not restrictive formal requirements (regarding admittance and information obligations),
- low costs of IPO and quotations,
- excellent company’s exposure to investors,
- prestige and reputation of market organizer,
- promotion and recognition of the company.

Since its establishment NewConnect market has been continuously growing, **with respect to both the number of listed there companies and capitalisation.** At the end of 2009 these

⁵⁶ www.newconnect.pl

indices reached, respectively, the following values: PLN 107 billion and 2.5 billion. However the economic downturn effects were visible with respect to the rate of return which was lower than before the recession (30.14%) and the falling number of IPOs (26 including 2 foreign, fall by 48% YoY). In turn the dynamics of NCIndex in the discussed period may be only partially explained with the economic downturn, since the rapid changes of the index occurred earlier and were primarily related to the unsteadiness typical of the initial stage of market testing and turnover. Initial level of the index in 2007 was established at 100 points, and fell within a month to 84 points to close the year with the growth to 144 points. In the following year the index was regularly falling from its peak in January of 145 points to 38 points at the end of the year. Last year index fluctuations diminished and the index slowly started to reduce a backlog.

On 30 September 2009 new bond market Catalyst was launched within the Warsaw Stock Exchange capital group. Since January 2010 it has been operating on four platforms⁵⁷ (separate platforms for regulated and alternative market for retail and wholesale clients), which are used for trading in non-Treasury debt instruments.⁵⁸ Due to such structure Catalyst market allows companies and local government entities to issue debt and investors to implement investments of various sizes and character. Execution of all transactions is guaranteed by the National Depository for Securities, and the issuers are subject to information obligations. The market gives authorization also to the entities whose debt instruments are already being traded.

After 63 sessions the Catalyst market closed the first quarter of its operations with the overall value of issued instruments of PLN 10 691 with the turnover amounting to PLN 5 148 million (97% of which in package transactions). By the end of last year the market was dominated by corporate instruments, with respect to both the value of issuance (91%) and turnover (63% for session transactions and 98% for package transactions). In relation to the session transactions number the market was divided into corporate and municipal instruments in the following proportion: 44% to 56% respectively, and 98% of package transactions concerned corporate instruments. Thus the municipal debt attracted mostly minor investors, whereas larger investors focused on corporate securities. Catalyst market is still at its start-up stage, therefore – similarly as in the case of NewConnect market – we may expect further changes of turnover value and structure due to, *inter alia*, this year's launching of alternative wholesale market.

3.3.5 Private Equity/Venture Capital

Private equity (PE) is a term encompassing all investments on the non-public capital market with the purpose of earning medium- and long-term profits from the capital value growth. PE investments are analysed on the basis of a project and aim at earning superior profits due to increased risk. They are intended for companies not listed on the public stock market and often assume the form of hybrid instruments. Venture capital (VC) is a variety of private equity. These are investments executed at early stages of company's development which contribute to the start-up or expansion of such enterprise. Venture capital is an important source of financing investments for the companies with substantial development potential, especially in the area of new technologies.

The character of PE/VC funds is similar, in its essence, to strategic, long-term investments and is connected with acquiring a share in company's equity and board. Recognition of the market, industry and specific companies operating therein is a significant part of PE/VC

⁵⁷ In 2009 the alternative market for wholesale clients was not operating yet

⁵⁸ Municipal bonds, corporate bonds and mortgage bonds

investors' actions. Proper identification of most promising products and services, competitive advantages, but also of limitations stemming from defective law, low market liquidity or inability to resell stocks, is of key importance for the term and value of return on investment. Thus such investment activity requires in-depth, highly specialist analysis, which in turn limits the increase in the number of PE/VC investors.

According to EVAC⁵⁹ data, PE/VC investments in Poland in 2008 amounted to EUR 628 million, which is equivalent to the decline by 8% as compared to the record-breaking 2007. Dominance of investments at later development stages was significant – EUR 501 million were allocated for buyouts (80% of all investments), and EUR 72.5 million for expansion (17.2%). From the perspective of economy innovativeness, it is negative that investments in start-ups and seed companies constituted very slight portion of investments: respectively 0.6% and 2.4%. In 2008 there were no investments at reorganisation and refinancing stages. Industry analysis of PE/VC investments shows that investors were most interested in such sectors as transport (27.6%) and consumer goods production and distribution (22.6%), whose share in the structure grew considerably. Decline was reported with respect to interest in financial services (from 12.3% to 7.3%), medical, pharmaceutical and biotechnology industry (from 15% to 9.6%) and production for businesses (from 20% to 13%)

With respect to exits of investments the EVAC data indicate, that in 2008 funds withdrew from 17 Polish companies (as compared to 30 in 2007), selling shares of initial value of EUR 73 million, which is equivalent to decline by 58% as compared to 2007 (EUR 175 million). Most popular method used for such exits, similarly as in the previous year, was sale to other PE/VC funds (37% of overall exits' value in 2008 as compared to 54% in 2007)⁶⁰.

2009 was one of the most difficult periods for PE market, even though during the whole year growing optimism could be observed: PE funds optimism index prepared by Deloitte almost returned to the levels reported before the recession, reaching 117 points.⁶¹

The period of recovery from the economic downturn is a good moment for risky investments, among others due to the increased amount of possibilities for investing capital, which results from deterioration of financial conditions in many companies. PE/VC market and the number and selection of potentially profitable industries have been, already since last year, dependent mainly on funds' assessments concerning current conditions and their forecasts regarding the future of global economy. Optimistic scenario assumed that most profitable would be investments in industries sensitive to changes of economic conditions (e.g. transport, construction industry). As far as the location of investments is concerned, Poland, since 2009, is perceived in our region as one of the most attractive markets for private equity funds, mostly due to its resistance to the effects of the recent downturn.

Furthermore the EU Measure 3.1. *Initiating innovative activities* of the Innovative Economy Operational Programme contributes to strengthening the demand; it develops the supply of companies which may be interesting for venture capital funds. Co-financing options offered under this measure include two components – grants for incubation and investment in a newly established enterprise (in the form of shares acquisition). Capital entry occurs in the situation, when, after the incubation period, opportunities for commercial success of an emerging company, whose operations are based on innovative idea, are identified.

⁵⁹ European Private Equity and Venture Capital Association.

⁶⁰ EVCA data based on: Polish Private Equity Association (www.psik.org.pl).

⁶¹ Central Europe Private Equity confidence survey, Deloitte 2009

National Capital Fund

National Capital Fund (pl.: Krajowy Fundusz Kapitałowy – KFK) is a registered company established by way of the Act of 4 April 2005 on the national capital fund (Journal of Laws No. 57, item 49), whose sole shareholder is Bank Gospodarstwa Krajowego (BGK). KFK is the fund of funds that supports the development of Polish venture capital market. KFK financing sources include state treasury funds, European Union structural funds and other sources (e.g. foreign institutions).

KFK's support is provided to capital funds that invest in the SME sector, including in particular the investments in innovative companies conducting research and development activity in the following forms:

- acquisition and purchase of stocks and shares of capital funds,
- participation in capital funds operating as limited partnerships, limited joint-stock partnerships or other organizational units which do not have legal personality,
- purchasing investment certificates or capital funds' participation units,
- purchasing bonds, shares-convertible bonds, senior bonds and subscription warrants issued by capital funds,
- non-returnable benefits to cover partial costs incurred by the capital fund with respect to investment preparation and investment portfolio monitoring.

Moreover KFK participates in the project implemented under SPPW regarding the improvement of business environment and access to capital for small- and medium-size enterprises by supporting venture capital funds. Estimated value of the project planned for 2009-2017 will amount to CHF 53 million.

In 2007 KFK received restricted grant from state budget in the amount of PLN 54.3 million and announced its first Open Tender in the course of which 3 capital funds were selected to receive financial support from the Fund⁶².

EU structural funds constitute main source of KFK financing. Under the Measure 3.2. *Supporting venture capital funds* within the Innovative Economy Operational Programme 2007-2013, EUR 180 million were allocated to KFK operations. On 30 April 2009 KFK announced the Second Open Tender for capital funds and additional PLN 300 million are planned to be allocated for this purpose.

⁶² The regulation on the financial support provided by KFK was issued in June 2007 (required the notification of European Commission) and entered into force on 14 July 2007. Only then KFK was allowed to start the investment activity and organized the First Open Tender.

3.3.6 Loan funds and guarantee funds

Loan funds⁶³

At the end of June 2009 there were 70 loan funds operating in Poland and holding loan capital of PLN 978 million. Since the commencement of their activity, they extended 180 200 loans of the total value of PLN 2,994.9 million.

As compared to 31 December 2008, the slowdown of growth of loan capital and extended loans may be observed with respect to both volume and value. In the analysed period, loan capital increased by PLN 31.5 million (i.e. by 3.3%), the number of loans by 9000 (i.e. 5.2%) and the value thereof by PLN 178.2 million (by 6.3%). The growth rate of number and value of extended loans was lower as compared to the period 2007-2008. The average value for all loans extended until 30 June 2009 amounted to PLN 16 400⁶⁴.

The loans extended since the commencement of funds' operations until 30 June 2009 were dominated by:

- Loans for investment purposes – they comprised about two-thirds of all loans both in terms of their number and value;
- Loans extended to trade and service companies – loans for commercial activity constituted less than half of the total number of extended loans;
- Loans up to PLN 10,000 – over two-thirds of the total number of disbursed loans and almost one-fourth of their value, with the simultaneous increase of loans of PLN 50,000 – 120,000. They constituted 8.1% of the total number of extended loans and 40.7% of their total value;
- Loans extended to companies which employ up to 9 persons – 96.3% of the total number of extended loans and 85.6% of their value.

For the last several years the extension of the period for which loans are extended may have been observed. The average maturity period of loans was 33.2 months and in the case of loans for investment purposes 35.8%. Within the first six months of 2009 the average period of loans maturity was 43.6 months and in the case of loans for investment purposes 47.1 months.

New jobs are the direct effect of financial support provided to small and medium-size enterprises by loan funds. By extending to entrepreneurs loans in the amount of PLN 2,994.9 million, funds allowed to create 59 900 new jobs. In the first half of 2009, due to extending loans in the amount of PLN 178.2 million, 2600 new jobs were created (as compared to 6000 in 2008).

Loan guarantee funds⁶⁵

In 2008 the number of operating loan guarantee funds amounted to 49 funds, that together had almost PLN 606 million to extend, which is over two times more than three years earlier (disbursements of grants from the Sectoral Operational Programme "Improvement of the Competitiveness of Enterprises" and contributing of stocks and taking up shares by BGK are the main reasons for the growth of funds' capital). In 2008 guarantee funds granted 5 684

⁶³ On the basis of data included in "Report on Loan Funds in Poland as of 30 June 2009".

⁶⁴ Highest value loans were extended by Lodz Regional Development Agency – PLN 162 200 and Fundusz Górnośląski SA – PLN 104 900.

⁶⁵ Based on data from "Report on Loan Guarantee Funds in Poland as of 31 December 2008", the National Association of Guarantee Funds.

guarantees of the total value of over PLN 745 million. With respect to the number and value of active guarantees – at the end of 2008 there were 8 831 active guarantees amounting to PLN 864 million. Both these values increased considerably during 2008. The analysis of guarantees' structure in 2008 by the type of guaranteed liability indicates a significant dominance of working capital credits (77% - in terms of value, 75% - in terms of the number of guarantees). Second group comprised investment loans (respectively 20% and 13%). The sectoral structure is dominated by trade (36%) and services and transport (32%). Another level of structure is occupied by production (14%). Almost 67.4% of guarantees were granted to entrepreneurs employing up to 10 persons and 28% of beneficiaries were entrepreneurs employing between 11 and 49 persons.

Among the aforementioned guarantee funds which operate in Poland the strongest group comprises regional and local loan guarantee funds with BGK's equity interest, that cooperate within the organization called Krajowa Grupa Poręczeniowa (National Guarantee Group) (22 entities). Their guarantee capital amounted to PLN 436 million at the end of 2009. Since the operations' commencement they granted 19 667 guarantees for the amount of PLN 1958 million at the end of 2009.

3.3.7 State aid⁶⁶

The general level of state aid provided in Member States increased almost 5 times in 2008⁶⁷, which was caused by the activation of support in relation to the crisis and intended for the financial industry.

Total amount of aid provided by Member States in 2008 reached EUR 279.6 billion, and in the terms of relative values – 2.2% of GDP of EU -27⁶⁸. Anti-crisis measures reported by Member States in 2008 amounted to EUR 212.2 billion, i.e. 1.7% of GDP. In 2008 thirteen Member States implemented the crisis aid for the financial industry – Belgium, Denmark, Germany, Ireland, Spain, France, Latvia, Luxembourg, Netherlands, Portugal, Finland, Sweden and the United Kingdom.

Excluding the anti-crisis measures the total amount of state aid reached in 2008 app. EUR 67.4 billion, i.e. 0.54% of GDP of EU-27. Five countries, that granted the highest amounts of aid, extended a total of EUR 40.5 billion, i.e. 60% of overall aid amount (excluding anti-crisis means). The support granted by Germany reached EUR 15.7 billion, i.e. 23% of the total aid amount. Next states, in terms of the granted aid value, were France (EUR 10.3 billion, i.e. 15%), Italy (EUR 5.5 billion, i.e. 8%), Spain (EUR 5.2 billion, i.e. 8%) and United Kingdom (EUR 3.8 billion, i.e. 6%).

In Poland the overall value of state aid provided to entrepreneurs in this period reached PLN 14,383.1 million⁶⁹ (i.e. EUR 4,090.1 million, according to the average exchange rate in 2008:

⁶⁶ State aid is the support granted by a Member State or from state sources in any form which breaches or may breach competition by favouring certain enterprises or production of certain products to such an extent which may affect trade between Member States.

⁶⁷ Based on the document:: Commission's Reports, State Aid Scoreboard, Report on State aid granted by the EU Member States – Autumn 2009 Update (COM (2009) 661)

⁶⁸ Total amount comprises the aid for production, service, agriculture, fishery industries and part of transport industry; it does not include aid for rail industry nor the aid for compensations for services of general economic interest.

⁶⁹ Report on state aid provided to entrepreneurs in Poland in 2008, Office of Competition and Consumer Protection, December 2009. Amount of state aid for Poland includes aid in transport, but it does not include the

EUR 1 = PLN 3.5166), and in the terms of GDP its share amounted to 1.13%. The value of granted aid, excluding financial support for the transport industry, reached PLN 11 521.9 million, which constituted 0.91% of GDP. The structure of state aid within EU-27 and Poland according to its designation in 2008 is presented in the following table:

Table 17 Structure of state aid according to its designation

Type of aid	Average share for EU states (%)	Average share for Poland (%)
Horizontal aid	61.8	42.7
Regional aid	25.8	35.1
Sectoral aid	12.4	21.9

**Sectoral aid includes the rescue and restructuring aid*

Horizontal aid constituted the largest portion of overall value of aid provided in most of the EU states. Almost half of the total aid value (app. 49.5%) was designated for such areas as: SME development, research and development and environmental protection. In Poland 13.2% of total aid value were provided for these activities and the highest part of horizontal aid was granted to support employment – 25.7% of total aid value, whereas within EU-27 the employment aid constitutes on average app. 6.1% of total aid value. Only Denmark reported higher share of aid to support employment than Poland – 65.7%.

The percentage value of regional help with respect to the overall state aid structure in Poland was higher than within EU-27. The positive trend of regional help in Poland, namely the regular growth of value of such aid type and its share in the total aid value, has been reported since 2001. The highest amount of aid with such designation was provided by the President of Polish Agency for Enterprise Development under the Innovative Economy Operational Programme – 57.3% of the regional help value. Similarly as in the previous years, fiscal authorities provided significant portion of aid for the purposes of regional development, in the form of income tax reliefs to entities operating within special economic zones – 26.7% of the regional aid value. Among EU countries the lowest share of regional aid was reported in Denmark and Malta (less than 1%), whereas the highest amounts for regional activities were allocated in Greece – 75.6% and Lithuania – 73%.

Share of sectoral aid in Poland was almost twice as high as in EU-27. Major part of this aid was provided to energy producers as compensation for voluntary termination of long-term contracts of power and electricity sales (69.4% of sectoral aid value) and also to reimburse entities within coal mining industry for extraordinary costs (23.3% of sectoral aid value)

Within EU, active aid in the form of subsidies is preferred. Until 2004 in Poland passive aid was a dominant form of aid, which consisted in diminishing inflows due to the budget. Since 2005 considerably more aid has been granted in the form of direct spending than in the form of budget inflows depletion.

aid for agriculture which is not indicated by the Office of Competition and Consumer Protection in annual reports. Furthermore the value of aid granted in Poland in 2008, unlike in the case of data on EU, includes aid measures from structural funds.

Table 18 Structure of state aid according to its form in EU-27 countries and in Poland*

Forms of aid (%)						
	Subsidies	Tax subsidies	Capital and investment subsidies	Soft lending	Deferred payments	Suretyships and guarantees
EU-27	53.0	42.0	0.0	3.0	1.0	1.0
Poland	63.7	17.7	0.03	0.1	0.2	0.0

* For EU-27 countries, the average value of aid granted in the production and services sector in the years 2005–2007 was presented on the basis of Commission staff working document “Accompanying the Report from the Commission State Aid Scoreboard – Autumn 2009 Update – Facts and figures on State aid in the EU Member State” (SEC (2009) 1638). Data for Poland concern 2008; they were quoted on the basis of the “Report on state aid granted to the entrepreneurs in 2008” prepared by the Office of Competition and Consumer Protection.

Growing share of state aid granted in the form of subsidies in the overall aid value is a positive phenomenon, since subsidy is the most transparent form of state aid. Structural funds have become the stimulus for domestic spending in this form.

Low share of passive forms of aid (diminishing budget revenues) results mainly from significant limitation of state aid for rescue and restructuring which, in case of large enterprises (and this was the dominant type), may be granted solely upon obtaining a positive decision of the EC

3.3.8 Structural funds as a chance for development of enterprises

With respect to the economic downturn the structural funds from European Union proved to an important factor for Polish economy, especially since – in relation to new financial programming period – in the recent years our country benefited from funds provided under two financial perspectives. Many economists agree that EU structural funds played an essential role in mitigating the effects of the global economic crisis in Poland.

Within 2000-2006 there were four Structural funds operating that implemented the EU cohesion policy:

- European Social Fund
- European Agricultural Guidance and Guarantee Fund
- European Regional Development Fund
- Financial Instrument for Fisheries Guidance

Furthermore, the EU financial instrument outside the group of Structural funds and implemented at the level of specific countries and not regions, is the established in 1994 Cohesion Fund. It aims at facilitating integration of underdeveloped countries through the development of transport networks and environmental projects of supra-regional importance.

Financing from structural funds have been distributed under operational programmes. In the financial perspective 2004-2006 Poland was encompassed by five one-fund sectoral operational programmes (SOP):

- Improvement of the competitiveness of enterprises (SOP ICE),
- Human resources development (SOP HRD),
- Restructuring and modernisation of food sector and rural development (SOP Agriculture),

- Fishery and fish processing (SOP Fish),
- Transport infrastructure and maritime management (SOP Transport).

Financing from EU funds was also provided under the two-fund Integrated Regional Development Operational Programme (IRDOP) which was implemented at the level of voivodships. Moreover the Technical Assistance Operational Programme was applied to support the process of implementation of Structural funds.

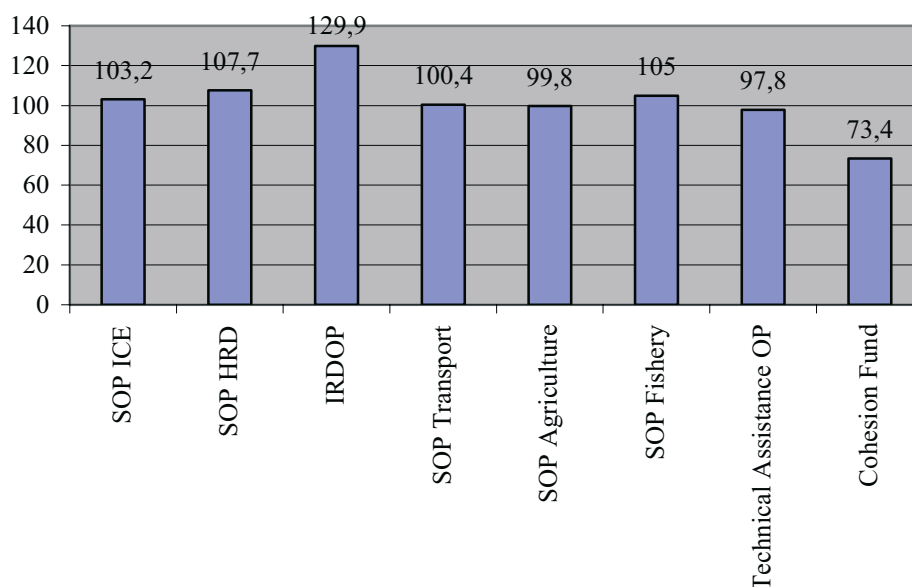
The structure of programmes within 2004-2006 was specified in the *Community Support Framework* (based on the *National Development Programme*), according to which the strategic purpose is to develop competitive economy based on knowledge and entrepreneurship which ensures growth of employment and improvement of economic, spatial and social cohesion.

Under the financial perspective 2004-2006 entrepreneurs leveraged primarily the SOP ICE (within the measure 2.3 *Improvement of the Competitiveness of Small- and Medium-size Enterprises by Investments*, measure 2.2 *Supporting Production and Technology Competitiveness of Enterprises* and measure 2.4 supporting enterprises obliged to adopt their infrastructure to environmental protection requirements). An important source of entrepreneurship financing was also the SOP HRD (within the measure 2.3 *Development of Personnel of Modern Economy* and measures under 1. Priority of SOP HRD *Active Labour Market and Professional and Social Inclusion Policy*) and IRDOP (within measures 2.5 and 3.4 supporting incorporation and effectiveness of micro-sized enterprises), and on rural areas – SOP Agriculture (within the measure 2.4 *Diversification of agricultural activities and activities close to agriculture to provide multiple activities or alternative incomes*).

30 June 2009 was the final date of eligibility period for all (excluding three completed by the end of December 2009) programmes implemented with the structural funds within the financial perspective 2004-2006. According to the Ministry of Regional Development beneficiaries received funds amounting to over PLN 35 billion which is at present equivalent to 107% of EU allocation⁷⁰. In the case of the Cohesion Fund the final eligibility date for expenditures incurred under projects is 31 December 2010. By the end of 2009 Poland received EUR 3.7 billion, i.e. 66% of available allocation under the Cohesion Fund.

⁷⁰ This level results from the application of over contracting mechanism and changes of exchange rate during the entire programming period.

Chart 25 Level of 2004-2006 operational programmes implementation as % of allocation (payments made to beneficiaries with respect to the part corresponding to EU contribution)



Source: The Ministry of Regional Development

Table 19 Utilisation of funds under National Development Programme

	Allocation in EUR million	Utilisation in EUR million	Utilisation in %
SOP ICE	2860.1	2951.6	103.2
IRDOP	4230.1	4555.8	107.7
SOP Transport	1563.4	2030.9	129.9
SOP HRD	1978.5	1986.4	100.4
SOP Agriculture	2729.5	2724.0	99.8
SOP Fishery	373.6	392.3	105
Technical Assistance OP	37.7	36.9	97.8
Cohesion Fund	5635.4	4136.4	73.4

Source: AFD ME study based on NBP data based on Ministry of Regional Development data and www.dotacjue.org.pl

SOP Transport is characterised by the highest level of EU funds utilisation, SOP Fishery and SOP ICE by an outstanding level. These are those programmes that are primarily intended for entrepreneurs. IRDOP, which addresses large infrastructural enterprises, is also characterized by a high level of utilisation.

It should also be mentioned that in the 2004-2006 financial perspective the sectoral programmes were accompanied by the community initiative CI EQUAL which was directed at eliminating inequalities on the labour market.

Within 2007-2013, due to the reform of cohesion policy, the number of Structural funds has been limited to the European Regional Development Fund (ERDF) and European Social Fund (ESF). The Cohesion Fund has been preserved and is currently subject to similar rules as structural funds.

Within the current financial perspective in Poland the following national programmes are being implemented:

- Infrastructure and Environment Operational Programme
- Human Capital Operational Programme
- Innovative Economy Operational Programme
- Eastern Poland Development Operational Programme
- European Territorial Cooperation Programmes
- Technical Assistance Operational Programme
- and 16 Regional Operational Programmes.

The objectives of measures within the new financial perspective have been included in the *National Strategic Reference Framework (NSRF)*. The strategic objective of NSRF is to create conditions enhancing the competitiveness of economy based on knowledge and entrepreneurship ensuring growth of employment and increased level of social, economic, and spatial cohesion. Apart from its strategic objective, the NSRF assumes accomplishment of horizontal goals stemming from EU strategic guidelines and SWOT analysis of Polish economy, inter alia, the improvement of enterprises' competitiveness and innovativeness.

According to data of the Ministry of Regional Development, since the activation of programmes until the end of December 2009 27 184 contracts were concluded with beneficiaries for projects of the eligible expenditures' value of almost PLN 104 billion, for which co-financing provided by EU amounts to over PLN 72.8 billion.

Innovative Economy Operational Programme 2007–2013 (IE OP) is the key instrument under NSRF designed to enhance competitiveness of enterprises through an increased innovation. The total amount of state funds involved for the implementation of the programme in the years 2007–2013 will amount to over EUR 9.7 billion, of which EUR 8.3 billion will be provided from EU funds (ERDF). Over 90% of funds will be allocated for measures in the following areas: research and development, innovations, information and communication technologies (40% of funds allocated for direct support of entrepreneurs).

Under the IE OP supported are the measures with respect to product, process, marketing and organisational innovativeness which contribute, whether directly or indirectly, to establishing and development of innovative enterprises, at least at national or international level. Entrepreneurs may apply for support for, inter alia, the following ventures:

- highly innovative ventures, regardless of the size of a company or industry, apart from sectors excluded under separate regulations,
- highly innovative projects of high value, e.g. investments exceeding EUR 2 million,
- providing business to business (B2B) electronic services and activities from the field of electronic economy conducted by newly established small- and medium-size enterprises,
- support for entrepreneurs operating on the Single European Market,
- research and development activities commissioned by entrepreneurs,
- implementation of R&D works' results and new technologies,
- investments connected with R&D activity of enterprises,
- initiating new enterprises of high innovation potential,
- supporting corporate relations.

From the perspective of Polish enterprises, actions assumed in IE OP are complemented with other programmes conducive to the development of entrepreneurship and implemented under NSRF, such as

- ***Human Capital Operational Programme (HC OP)***

The main objective of the Programme is to increase employment and social inclusion. To achieve this objective, the following six strategic objectives are implemented:

- increase in professional activity level and better employment opportunities for the unemployed and those economically inactive,
- reduction of the areas of social exclusion,
- improvement of adaptability of enterprises and employees to the changes in economy,
- promotion of education of the society at all education levels with simultaneous enhancing of the quality of educational services and strengthening their relation to the needs of the knowledge-based economy,
- enhancing the public administration potential in the area of policy formulation and provision of high quality services as well as strengthening partnership mechanisms,
- enhancing territorial cohesion.

HC OP anticipates actions complementary with measures supported at central and regional level aimed at strengthening personnel potential of enterprises by holding specialist trainings and development of advisory services targeted at the specific needs of entrepreneurs. About EUR 2.4 billion which translates into 25% of allocation for the whole HC OP (EUR 9.7 billion) was designated to support broadly defined entrepreneurship. Including domestic funds, almost EUR 11.5 billion were allocated to the implementation of HC OP.

- ***Infrastructure and Environment Operational Programme (IaE OP)***

The objective of the programme is to enhance the investment attractiveness of Poland and its regions through the development of technical infrastructure while at the same time preserving and improving the condition of the environment and health, preserving the cultural identity and developing territorial cohesion. The programme provides support, among others, for the undertakings associated with construction of transport and energy infrastructure and with adjustment of enterprises to the environmental protection standards. Furthermore, IaE OP provides support for projects connected with energy security and development of higher education. EUR 37.6 billion are earmarked for the implementation of the programme, of which EUR 27.9 billion will be provided by the European Union (of which EUR 22.1 billion from the Cohesion Fund and EUR 5.7 billion from ERDF). Enterprises (also the large ones) will be able to absorb ca. EUR 2.9 billion under the IaE OP.

- ***16 Regional Operational Programmes (ROPs)***

The objectives of the ROPs were established at the regional level with reference to the voivodship development strategy and areas requiring support identified therein. The overall objective of all 16 programmes concerns the development of the region or improvement of its competitiveness. Above all, ROPs provide for undertakings targeted at:

- economy and entrepreneurship support,
- environmental protection,
- eliminating disproportions and building cohesion,
- infrastructure/transport system development,
- improvement of citizens living standards and quality of life,
- social infrastructure development,
- tourism development.

Regional Operational Programmes provide for, inter alia, direct financial support for enterprises' investments, supporting participation in fairs, exhibitions and domestic and

foreign missions, as well as supporting business environment institutions. The share of 16 ROPs in the total allocation of cohesion policy funds amounts to 24.9% (i.e. EUR 16.6 billion), whereas almost ¼ of funds from ROPs (app. 23.9% of allocation, i.e. app. EUR 4 billion) were earmarked for the area: *Technical development and research, innovations and entrepreneurship*. Thus ROPs constitute a very significant source of support to companies operating on local and regional markets.

- ***Eastern Poland Development Operational Programme (EPD OP)***

The programme is intended to accelerate the pace of socio-economic development of Eastern Poland (i.e. Lubelskie, Podkarpackie, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie voivodships) in accordance with the sustainable development principle. The main objective of this programme will be achieved through the implementation of the following specific objectives:

- stimulation of development of competitive knowledge-based economy,
- improved access to broadband internet in Eastern Poland,
- development of selected metropolitan functions of voivodship cities,
- improved accessibility and quality of transport connections of Eastern Poland voivodships,
- increased role of sustainable tourism in economic development of the macro-region,
- optimisation of the implementation process of the Eastern Poland Development OP.

Under Priority I – Modern economy the following ventures are co-financed: building and extending industrial parks, technology parks, etc., comprehensive preparation of area for production investments and modern services and production, establishing a cooperation network in the field of innovative business activity (e.g. establishing new and developing the existing cluster initiatives).

Implementation of EPD OP will involve EUR 2,675.05 million, including EUR 2,273.79 million from ERDF and EUR 401.26 million from domestic state funds.

Apart from the structural funds, entrepreneurs could also apply for funds under, *inter alia*, the 7th Framework Programme on Technical Development and Research. The enterprises operating on rural areas and enterprises dealing with fisheries may also benefit from funds provided under EU's Common Agricultural Policy in the form of specialist programmes implemented instead of previous structural programmes⁷¹:

- ***Rural Development Programme 2007–2013 (RDP)***

The RDP 2007-2013 is a document setting forth measures intended to accelerate the modernisation process in Polish agriculture and the development of rural areas. RDP 2007–2013 measures will be implemented in the framework of four axes: Axis 1: Improvement of the competitiveness of the agriculture and forestry sectors; Axis 2: Improvement of the natural environment and rural areas; Axis 3: Improvement of the quality of life in rural areas and diversification of rural economy; Axis 4: Leader.

The total amount of funds earmarked for implementation of RDP 2007–2013 amounts to EUR 17.2 billion, of which over EUR 13.2 billion will be provided from the European Agricultural Fund for Rural Development (EAFRD) and about 4 billion from the state aid budget. RDP 2007–2013 support targeted directly at development of entrepreneurship on rural areas will be provided in the framework of:

⁷¹ Restructuring and modernisation of food sector and rural development – Sectoral Operational Programme (SOP Agriculture) and Financial Instrument for Fisheries Guidance from 2004-2006.

- Axis 1 –Measure 1.6 Increasing the added value of basic agricultural and forestry production (limit of funds for the measures– EUR 1.10 billion);
- Axis 3 – Measure 3.1 Diversification into non-agricultural activities (limit of funds for the measures – EUR 345.58 million) and Measure 3.2 Creation and development of micro-enterprises (limit of funds for the measures – EUR 1,023.58 million).
- **Sustainable Development of the Fisheries Sector and Coastal Fishing Areas OP 2007-2013**

OP FISH 2007-2013 functions within the European Fisheries Fund and its overall objective is to develop, in the course of sustainable utilisation of resources, a competitive, modern and dynamic fisheries industry. Funds earmarked for this programme amount to almost EUR 1 billion, of which 75% is provided from EU budget. Support for investments with respect to fishing boats, aquaculture and processing and for diversification of fishery activities is addressed directly to entrepreneurs.

Table 20 Utilisation of funds under NSRF

Programme	Co-financing agreements				Requests for disbursements		
	Number	Eligible expenditures value (EUR thousand)	EU co-financing (EUR thousand)	Allocation utilisation level for 2007-2013	Value of expenditures determined as eligible (EUR thousand)	EU co-financing (EUR thousand)	Allocation utilisation level for 2007-2013
IE OP	2 837	5 891 172	3 755 209	45.49%	525 869	323 569	3.92%
IaE OP	496	6 064 030	4 693 641	16.81%	1 223 587	1 027 181	3.68%
HC OP	14 575	3 961 511	3 273 647	33.72%	1 208 602	1 010 231	10.41%
TA OP	131	179 360	152 456	29.51%	85 210	72 428	14.02%
EDP OP	77	813 976	621 078	27.31%	133 508	118 459	5.21%
ETCP	88	139 761	115 991	28.50%	3 627	2 649	0.65%
National - total	18 204	17 049 810	12 612 022	25.70%	3 180 404	2 554 518	5.21%
Regional - total	8 980	8 162 566	5 038 368	30.43%	1 946 276	1 322 772	7.99%
TOTAL NSRF	27 184	25 212 377	17 650 390	26.89%	5 126 680	3 877 290	5.91%

Source: AFD ME study based on data of the Ministry of Regional Development

According to the Ministry of Regional Development, since the activation of programmes implemented under NSRF 2001-2013 until the end of 2009, app. 101 500 applications (compliant with formal requirements) were submitted for the total amount of financing of EUR 56.6 billion (domestic and EU funds). By the end of 2009, 42 300 were accepted for implementation for the total amount of co-financing of EUR 26.8 billion. Since the commencement of NSRF 2007-2013 implementation, 27 184 agreements have been concluded. The value of eligible expenditures for these projects amounted to EUR 25.2 billion, whereas EU co-financing – EUR 17.6 billion. Value of expenditures specified by beneficiaries in the requests for disbursements and assessed as eligible, as of the end of 2009, reached EUR 5.1 billion, including EU financing in the amount of EUR 3.9 billion.

3.4 Institutions supporting SME⁷²

Institutions from the business environment in Poland operate on three levels: national (Polish Agency for Enterprise Development), voivodship (Regional Financing Institutions) and direct service providers including, *inter alia*, organizations registered in the National Services Network (NSN) for SME (i.e. for example Consultation Points, Loan Guarantee Funds, Loan Funds, National Innovation Network) and Enterprise Europe Network centres. The institutions operating within the entrepreneurship support system in Poland have various interrelations with respect to organizational structure and competences, e.g. some centres belonging to the Enterprise Europe Network maintain at the same time Consultation Points registered in the NSN.

Polish Agency for Enterprise Development (PAED), as a government agency reporting to the Minister of Economy, implements economy development programmes supporting innovative and research activities of small- and medium-size enterprises (SME), regional development, growth of export and human resources development. Within 2007-2013 the Agency is responsible for implementation of various measures under the following operational programmes: Innovative Economy, Human Capital and Eastern Poland Development. PAED, within its spheres of competence, promotes innovative attitudes and encourages entrepreneurs to apply advanced technologies in their companies. To accomplish these purposes various informative and promotional actions are involved, e.g. Polish Product of the Future – competition, Polish Innovation Portal⁷³, Innovative Entrepreneurs' Club. The Agency, under its implemented programmes, provides also subsidies and loans for the implementation of innovative solutions in enterprises.

Polish Agency for Enterprise Development closely collaborates with the representatives of local governments. The key component of this cooperation consists in the exchange of information on the support for small- and medium-size enterprises from state funds (including HC OP, IE OP or RPOs). In order to ensure the cohesion of information exchange system, PAED entered into agreements on cooperation with Marshal Offices⁷⁴.

Regional Financing Institutions (RFI) are regional partners to Polish Agency for Enterprise Development, collaborating by the implementation of programmes addressed to enterprises, SME in particular. Elementary tasks of RFI include:

- providing information on available subsidies' programmes and requirements for participation therein,
- administrative support of implemented programmes, including collecting and verifying applications, concluding agreements with beneficiaries,
- collaboration with PAED with respect to subject and financial monitoring of implemented programmes,
- subject and financial reporting,
- maintaining database regarding programmes' participants.

⁷² Based on, *inter alia*: *Information on institutional support for small- and medium-sized enterprises within the activities of the Polish Agency for Enterprise Development*, PAED, Warsaw, 14 May 2010.

⁷³ www.pi.gov.pl

⁷⁴ Until now there were 10 agreement concluded, for the following voivodships: Pomorskie, Łódzkie, Lubelskie, Opolskie, Podlaskie, Małopolskie, Mazowieckie, Lubuskie, Kujawsko-Pomorskie and Warmińsko-Mazurskie, as of 5 May 2010.

The level of direct service providers comprises the largest group of entrepreneurship support institutions in Poland. These are most of all the centres of the National Services Network (NSN) which was established in October 1996. Its operations are currently based on the Ordinance of the Minister of Economy and Labour of 27 January 2005 on the National Services Network for Small and Medium-size Enterprises. The thematic and organizational support for the centres registered in NSN is provided by Polish Agency for Enterprise Development.

National Services Network for Small- and Medium-size Enterprises is the network of 214⁷⁵ collaborating, non-commercial organizations that provide services for entrepreneurs and people planning to start their own business activity. NSN's mission, drawn at the end of 2009 / beginning of 2009, is the development of entrepreneurship by ensuring the highest quality services on key areas that require state aid.

NSN includes, *inter alia*, such institutions as Consultation Points, Loan Guarantee Funds, Loan Funds or the National Innovation Network.

NSN's activities focus on the following areas:

- providing information on running business and possibilities of obtaining financial support from external sources, including state funds,
- pro-innovative consulting services including technical audit and technology transfer,
- financial services based on granting loans and credit guarantees.

On the basis of entrepreneurs' needs analysis, there are plans to extend range of services provided by NSN and add, *inter alia*, consulting service concerning optimisation of costs of conducting business activity (activated in 2010).

Polish Agency for Enterprise Development supervises the operations of NSN. PAED developed and controls service provision standards, examines knowledge and qualifications of consultants and also organizes trainings adjusted to their needs. PAED performs also actions aiming at creation of effective and recognized entrepreneurship support system in Poland.

Consultation Points of National Services Network (NSN CP) provide free information services for entrepreneurs and persons planning to start their own business activity concerning broadly defined entrepreneurship development and available forms of support for entrepreneurs. CPs are managed by entities registered in the National Services Network for Small- and Medium-size Enterprises. Currently there are 111 Consultation Points operating within the NSN CP network (on the basis of concluded agreements with PAED) that are managed by 96 organizations and 22 centres of National Innovation Network. Consultation Points operating under the network provide to entrepreneurs and persons planning to start their own business activity the information on:

- administrative and legal aspects of conducting business activity (including start-up, performance and termination),
- rules and conditions of leveraging state aid programmes and other external sources of business activity financing,
- options and rules of using network's specialist services, e.g. trainings, consultations, technology transfer, obtaining loans and guarantees, etc.,
- contact data of institutions which support company's development.

85% of Consultation Points' clients are micro-sized enterprises.

⁷⁵ As at 14 May 2010.

Loan Guarantee Funds are non-profit institutions whose main objective is to provide to entrepreneurs and persons starting business activity easier access to external financial support in the form of bank credits and loans for conducting business activity. These funds grant guarantees for financial liabilities of entrepreneurs who are credit-worthy, but do not have collateral required by financial institution.

Loan Funds provide entrepreneurs alternative way of obtaining external financing. They grant loans primarily to micro- and small-sized enterprises and persons starting their business activity, that have difficult access to commercial financing (e.g. bank loan) due to lack of required collateral or credit history. Loan funds grant loans for the purposes connected with starting, conducting and developing business activity.

National Innovation Network is a group of service providers delivering pro-innovation consulting services in compliance with a specified and examined standard. This standard is identified in the Ordinance of the Minister of Economy and Labour of 27 January 2005 on the National Services Network for Small- and medium Enterprises. According to the National Services Network Development Strategy, the National Innovation Network (NIN) should provide services in the identified area of market gap with respect to innovations. Currently these services include in particular:

- performance of technical audit, and
- support of technology transfer process, which would include:
 - development of a proposal or request for technology,
 - review of technology recipients' and providers' profiles,
 - contacting technology recipient or provider,
 - advisory support by implementation of technology or negotiations and concluding agreements between technology provider and recipient,
 - monitoring technology implementation or agreement execution and other aspects of post-implementation support.

Enterprise Europe Network centres combine experience and advantages of both former networks that provided support to SMEs: Euro Info Centres and Innovation Relay Centres. The network offers to small- and medium-size enterprises comprehensive services which are supposed to help them achieve their full potential and develop innovative features. Enterprise Europe Network is also the agent which provides European Union institutions better insight into the needs of small- and medium-size enterprises. Network's centres are affiliated by various organizations that support economic development, such as chambers of trade and commerce, regional development agencies, entrepreneurship support centres, etc. These are non-profit organizations and their operations are financed from EU and state budget funds. Currently there are almost 600 centres of Enterprise Europe Network operating in Europe and Mediterranean countries. In Poland there are 30 centres grouped in four consortia.

3.5 Infrastructural factors influencing enterprise development

Cooperation between business entities, speed of products and services deliveries are important factors of enterprises' competitiveness which are unquestionably dependent on transport infrastructure, especially roads. Unsatisfactory flow capacity and low quality of Polish roads are the main problems of road transportation. Another essential factor which impacts the development of entrepreneurship is the telecommunications infrastructure.

Investments supported with EU funds constitute an opportunity for development of road infrastructure and improvement of Polish regions' spatial accessibility, which is especially vital due to the oncoming European Football Championship EURO 2012. At the same time uncontrolled growth of traffic in urban and suburban areas, which may be observed in the recent years and results primarily from accelerated suburbanisation processes⁷⁶, poses another challenge for road transport development.

3.5.1 Road transport

The condition of road infrastructure remains unsatisfactory, although the road surface condition and traffic safety have been improved, and many new sections of expressways and motorways have been opened for use. However it is alarming that many new investments were not commenced or were significantly delayed due to tender disputes or banks' credit policy.

The basic problems concerning road infrastructure are still present. Among them we can list the lack of comprehensive network, roads not adjusted to the load of 115 kN per axle, extensive traffic volume in built-up areas, insufficient number of bypasses, unsatisfactory technical condition of roads. Safety on roads emerges as one of the most urgent problems, which may be proved by the fact that Poland has one of the highest rates of fatal accidents.

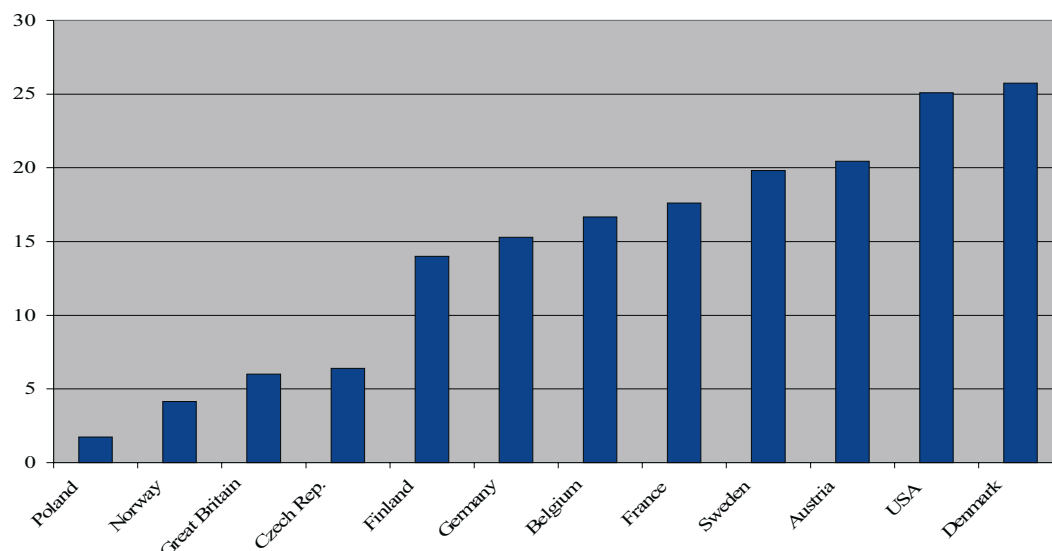
At the end of 2009 there were 837 km of motorways in use (9.31% more than in 2008) and 501.9 km of expressways⁷⁷ (increase by app. 12.48% YoY). In 2009 88.9 km of motorways and 125.7 km of expressways were put into operation. At the end of 2009 783 km of national roads were being renovated and repaired and works for construction of new roads, including 335 km of motorways, 261 km of expressways and 113 km of bypasses, were being executed. 74 km of existing network were reconstructed under the "National Roads Construction Programme for 2008-2012". 13 sections of motorways, 21 sections of expressways and 15 bypasses were being constructed. On 6 November 2009 the tender for construction of 41 km of A4 Rzeszów Wschód – Jarosław motorway was announced. This is the last of the tenders for projects and construction of motorways which are planned to be constructed for EURO 2012.

Since 8 June 2009 the Act of 22 May 2009 *on amending the Act on toll motorways and National Road Fund and on amending some other acts* has been applicable. Pursuant to this Act the new model of financing road investments has been developed on the basis of the existing National Road Fund. The new model constitutes a flexible tool for financing national roads construction, which will also contribute to more effective utilisation of state funds.

⁷⁶ These are based on the migration of people (mostly from middle class) from the inner city centres to suburban areas.

⁷⁷ Source: General Directorate for National Roads and Motorways.

Chart 26 Length of motorways in km per 100,000 citizens in selected OECD countries in 2008



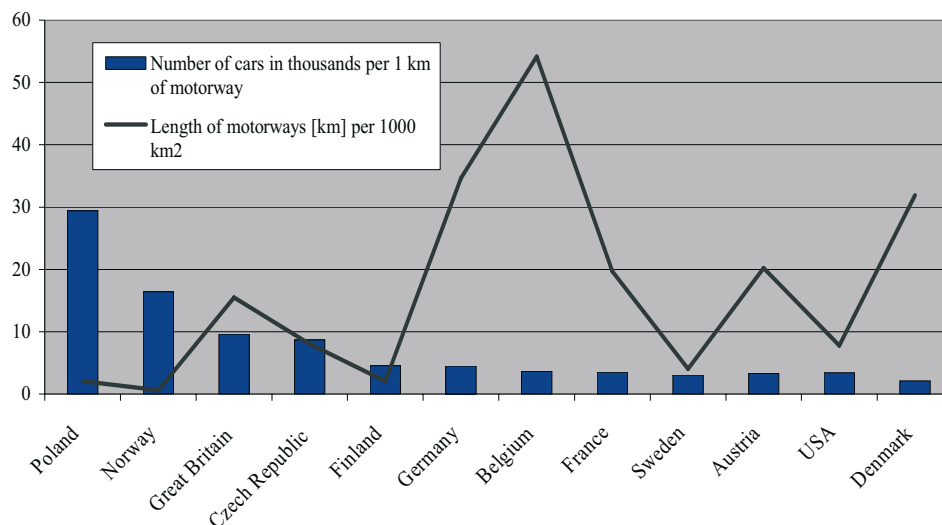
Source: AFD ME study based on IRTAD Database OECD.

With reference to other OECD countries, Polish roads are characterised by the highest car density per 1 km of motorway (29,000/km). At the same time motorways' density in Poland is similar to that in Scandinavian countries, which due to natural conditions related to geolocation and hindered access to many areas, is very low.

Within the recent years the condition of road surface has been improved which is indicated in the data collected in the course of regular measurements of operating parameters via the so called Road Surface Condition Verification System (Polish name: System Oceny Stanu Nawierzchni - SOSN). In 2009 the share of roads in good technical condition increased, whereas the percentage of roads in inadequate and bad condition fell. According to the data of the General Directorate for National Roads and Motorways⁷⁸, at the end of 2009 59.6% of national roads were in good technical condition, 21.5% in unsatisfactory condition and 18.9 in bad technical condition (in 2000 these values were, respectively: 23.6%, 41.6%, 34.8%). Concluding, app. 40% of national roads network requires various types of renovation works – beginning with floating to surface works. In the case of approximately 1/5 of national roads such works should be performed immediately. Relatively highest quality of roads condition is observed in the following voivodships: Podlaskie, Lubuskie and Zachodniopomorskie, and the worst in: Małopolskie, Kujawsko-Pomorskie and Wielkopolskie.

⁷⁸ Report on technical condition of asphalt and concrete surfaces of national roads at the end of 2009, General Directorate for National Roads and Motorways, Warsaw, March 2010.

Chart 27 Traffic volume on roads and motorways' density in selected OECD countries in 2008



Source: AFD ME study based on IRTAD Database OECD.

3.5.2 Railroad transport

Railroads still require substantial investments. Less than 1/3 of railways are qualified as good in terms of technical condition. On many routes there are speed limits applied due to the adverse technical condition of the infrastructure, which affects the competitiveness of this sector. Positive initiative which allows to hope for the improvement of this situation is the fact that in 2009 PKP PLK applied ten investment projects for financing from EU funds, although only two thereof directly concern the construction of infrastructure, whereas remaining eight consist in preparatory works.

Moreover the deficiencies of railroad infrastructure, including insufficient number of logistic centres, equipped with state-of-the-art logistic systems and low level of railway involvement are the reasons for scarce popularity of intermodal transportation. In Poland the market of intermodal transport is estimated at app. 2% in railroad transport, which suggests – comparing to the proportions in EU-27, where the average is 25% – significant growth potential.

PKP Cargo, after poor results in 2009, when transport decreased by 22.2%, witnessed improvement of the situation in the first months of 2010. In the structure of company's transportation the lowest declines in 2009 were reported in hard coal transport (by 13.6%) and in the transport of stone, gravel and lime (by 15.2%). In the first quarter of 2010 the revenue increased by 19% (YoY) and reached PLN 1.09 billion. At the same time the increase of costs was much lower (by 1.5%). The expected value of net profit for 2010 has been determined at PLN 40 million.⁷⁹

In the railroad transport the volume of transported loads has been regularly falling. In 2008 the share of railway transport in the transport of loads in ton-kilometres amounted to 18.6%, whereas the share of other transport types was as follows: vehicle transport – 62.4%, maritime

⁷⁹ Source: www.pkp.pl

transport – 10.9%, inland water transport – 0.5%, pipeline transport – 7.6%, airway transport – 0%. The share of vehicle transport in Poland has been regularly increasing, at the cost of other types of transportation, including railway⁸⁰. However railway in Poland is still more significant than, at average, in European Union, for it fulfils almost 1/5 of transportation needs with respect to the load transport, which is twice the average share in EU.

3.5.3 Maritime transport

More than 90% of EU external trade and 40% of intra-Community trade is based on maritime transport. Despite fast technological development of airway transport, the maritime transportation of loads remains the cheapest and most popular way of transporting commodities in international transportation.

Maritime and coastal transport fleet in Poland in 2009 comprised 142 ships of total load-bearing capacity of 2662.5 thousand tons and gross tonnage of GT 1955.3 thousand, including 120 units of the tonnage of 2661.7 thousand tons and gross tonnage of GT 1950.8 thousand were the units of maritime transport fleet and 22 ships of gross tonnage of GT 4.5 thousand of the maritime coastal fleet. Ships for dry load transportation were dominant and their number in 2009 reached 95.

At the end of 2009 18 ships were sailing under the Polish flag (i.e. 15% of the overall number of maritime transport fleet units) of the total load-bearing capacity of 37 400 tons and gross tonnage of GT 49 700. In 2009 the average age of a ship was 24.4 years (in the case of ships sailing under the Polish flag – 33.2 years, whereas in the case of ships sailing under foreign flags – 18.2 years).

The load turnover in the Polish sea ports in 2009 amounted to 45.1 million tons, i.e. 7.7% less than in the previous year. The greatest share in the load turnover was reported by 4 ports: Gdańsk (41.6%), Gdynia (25.2%), Świnoujście (15.6%) and Szczecin (15.5%). The share of remaining ports reached 2.1%. The greatest share in the load turnover structure was reported in the case of bulk dry loads – 42.6%, bulk liquid loads – 28.4% and containers – 11.3%. In 2009 the increase in load turnover was reported in Darłowo (eight times higher) and by almost 10% - in Gdańsk.

3.5.4 Inland water transport

The inland water transport, due to its environment-friendly character and low costs, constitutes a reasonable transportation option, unfortunately its importance in Poland is incomparably lower than in other EU countries. Its share in the load transportation, in comparison to the EU average values, is 6 times lower.

The low share of this transport branch in nation-wide transportation is mainly attributed to regular deterioration of inland routes condition. Due to the permanent lack of funds for maintenance and renovation of water routes' infrastructure, majority thereof do not meet standards specified in the classification. In some cases, within longer period of navigation season, sailing is impossible. In Poland app. 3700 kilometres of rivers is recognized as navigable, and the share of inland water transport, conducted only on the bottom section of Odra River, in the national transport is marginal (0.5%), whereas the dominant part comprises

⁸⁰ Transport – activities results in 2008 r., Central Statistical Office, Warsaw, 2009. The data concern transportation of loads expressed in ton-kilometres.

transportation of sand, gravel and coal. It should be observed that the load transport by inland water ways in 2009 amounted to 5.6 million tons, i.e. 8.5% more than in the previous year.

3.5.5 Air transport

In 2009 the market of air transport services for passengers for the first time reported decline which severely affected the entire aviation industry. On the global level the year 2009 was assessed as one of the worst in few dozen years. The problem of decreased number of passengers affected many international and regional carriers. The end of 2009 and beginning of 2010 witnessed improvement of situation and the carriers expect for the entire 2010 an increase in flights number. The adverse factor affecting the aviation market are the clouds of volcanic ash from Iceland volcano flowing over Europe and paralysing the air transport. Airlines estimate losses due to cancelled flights in consequence of closed airspace in millions of euro.

Number of served passengers fell in 2009 by 8.25%, i.e. 1,704 thousand persons and amounted to 19 million, of which app. 85% were the passengers of regular transport⁸¹. Still the dominant number of customers comprises the customers travelling by the so called low-cost airlines, which in the regular transport served app. 8.3 million of passengers. Polish carriers⁸² transported 4.6 million passengers. In 2009 in Poland 16 charter and scheduled-carriers served over 100,000 passengers. The low-cost carriers constitute half of the ten largest regular carriers. According to the forecasts prepared by the Civil Aviation Office, by the 2020 the number of served passengers will rise two times.

PLL LOT – the largest carrier on the market, in 2009 reported marginal increase in its share in the market. At the same time Centralwings, company owned by PLL LOT, on 26 March – by the decision of PLL LOT Management Board, was liquidated. On 9 March court declared Centralwings to be insolvent and bankrupt. In May 2009 LOT established within its structure LOT Charters, and on 1 June performed the first charter flight. PLL LOT (4.5 million passengers), with 28.4% share in the market, is followed by Wizzair (21.7%) and Ryanair (19.5%). Last year was another good year in a row for EasyJet (reported among others the highest increase in the number of passengers in 2009⁸³). Polish passengers most often travel to United Kingdom, Germany and Ireland.

The role of regional airports has been regularly becoming more and more significant. The critical issue is still the overloaded local infrastructure and lack of cohesion in means of transport in the airport zones, and also low quality or lack of intermodal transport. It is worth to notice the presence of local routes development plans, which can improve the competitiveness of regions. In 2009 the number of passengers of regional ports fell by 4.9%. However this value increased in the case of Rzeszów – Jasionka airport (by 18.6%). Whereas the highest decline rates were reported in Zielona Góra (by 43.6%), Wrocław – Starachowice (by 10.5%) and Kraków (by 8.1%)

The largest airport in Poland is the Frederic Chopin Airport in Warsaw (Okęcie), which in 2009 served app. 44% of all passengers in Poland, i.e. 8.3 million. The decrease in the number of served passengers, as compared to 2008, amounted to 12.2%. Okęcie airport is regularly extended, and the renovation of the runway is planned for September 2010. The issue of

⁸¹ Civil Aviation Office.

⁸² PLL LOT, Centralwings, DirectFly, Sprint Air/SkyExpress, Jet Air.

⁸³ Civil Aviation Office.

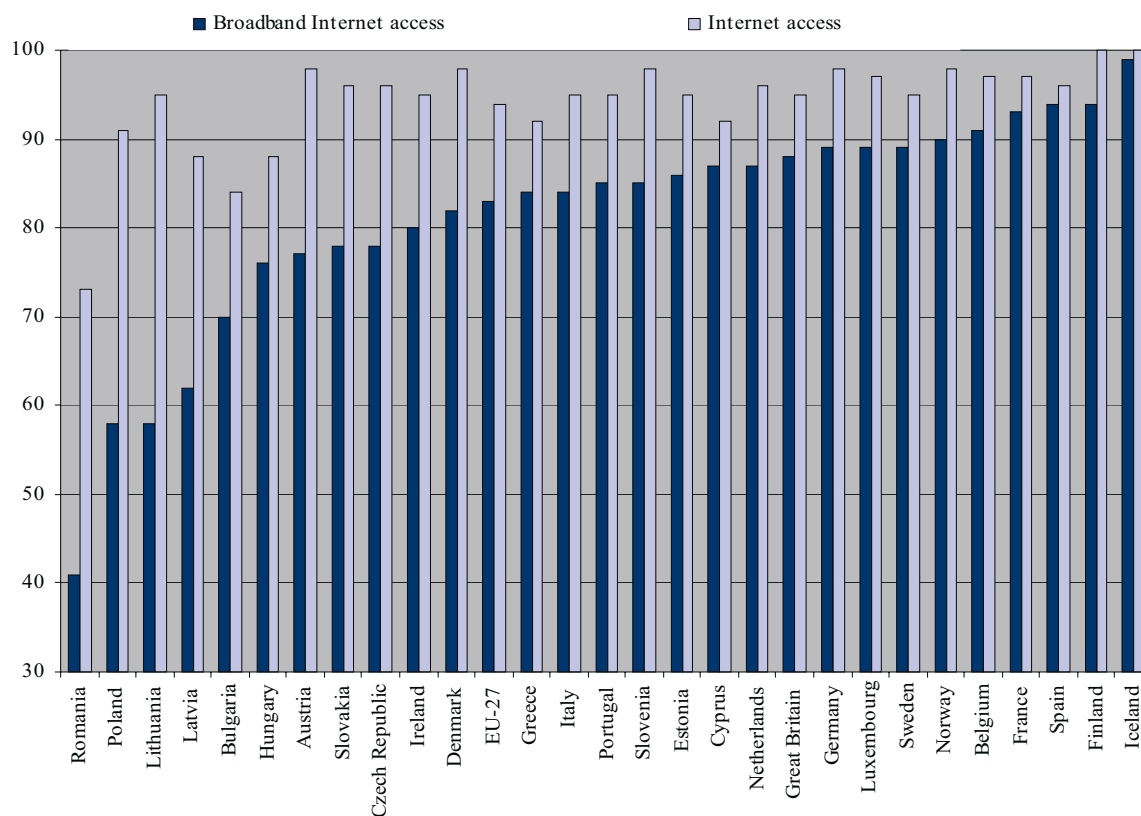
central airport construction will be resolved after completion of the study titled *The concept of central airport for Poland – analytical studies*.

3.5.6 Information and telecommunications infrastructure

Access to knowledge, mutual communication, streamlined management – these are only some of the benefits of the information and communication technologies. ICT industry, associated with new and enhanced information and communication technologies, is one of the most important pillars of modern economy. The ICT products and services diffusion to other economy sectors not only accelerates the economic growth, but also supports the development of information society. The processes ongoing in the ICT sector are particularly dynamic and attentively observed not only by entrepreneurs but also by consumers.

Although the access to Internet is systematically broadened, still the development of information society in Poland, as compared to other EU countries, is not satisfactory. Poland has one of the lowest values of indicators which measure the Internet access in enterprises.

Chart 28 Share of enterprises with more than 9 employees with Internet access in 2009



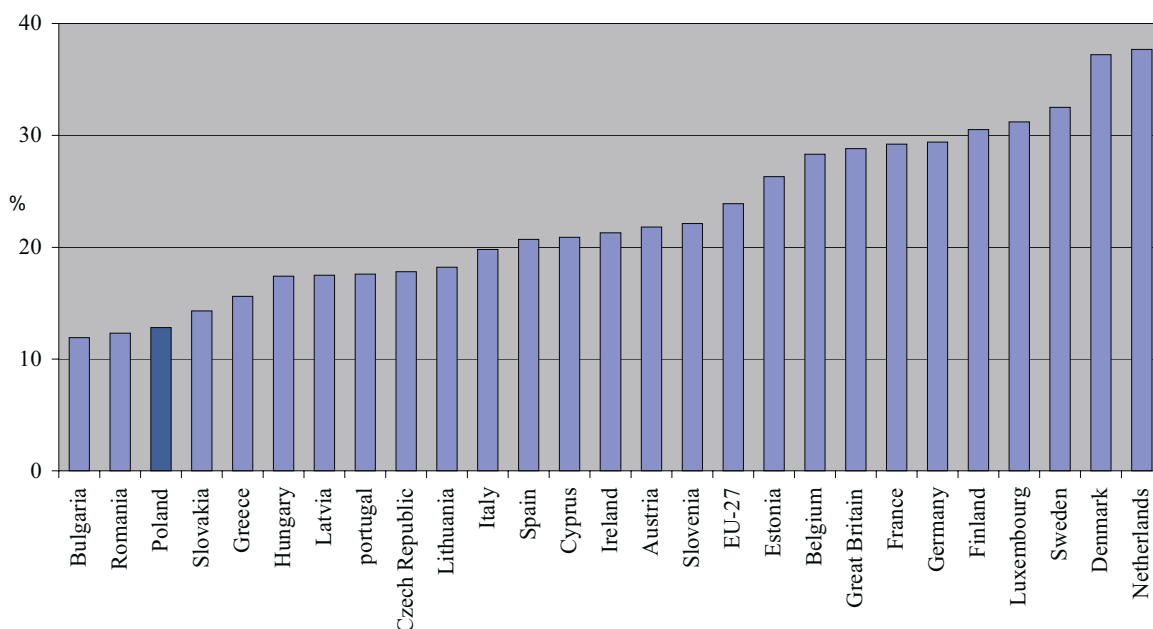
Source: Eurostat.

In 2009 there were no significant changes in the ICT equipment and Internet access in enterprises in Poland. 92.6% of Polish enterprises were equipped with computers, 90.1% had Internet access and 58.1% broad band Internet access. Services most frequently provided via

Internet were bank and financial services – over $\frac{3}{4}$ of respondents indicated these services, and educational and training services – app. $\frac{1}{4}$. More and more entities notice the benefits of Internet and treat it as marketing tool, and almost 60% of surveyed enterprises have own Website. Data with respect to more advanced ways of Internet exploitation, such as e-trade, are less optimistic. In 2008 the percentage of enterprises purchasing commodities and services via Internet fell to 11.9% (from 19.9% in 2007), and in the case of large enterprises with over 249 employees reached 29%. E-trade is most often used by companies representing information and communication industry and trade companies.

In the European Union the development of broadband links is measured, *inter alia*, with the penetration index. In the case of Poland this index has been regularly rising (12.8% in 2009, 1.9% in 2005), although it still has not reached the desired level.

Chart 29 Penetration index of broadband links in 2009



Source: Eurostat.

The development of broadband links is also measured with the Broadband Performance Index – BPI, published by the European Commission for the first time in 2008. According to this index Poland in 2009, with respect to Internet access, is at the last but one position, before Cyprus. The authors of report highlighted high prices in Poland and deficiencies in the infrastructure as main inhibitors for Internet development⁸⁴.

Modern enterprise is not only equipped with fast and efficient Internet, but also supports its activities with advanced management systems. Benefits of the application of automated tools

⁸⁴ The OECD data (as of October 2009) show however, that Polish consumers are qualified as users who pay one of the lowest average prices for fixed Internet provision excluding the purchasing power parity; including the PPP Poland is in the middle of classification). They also confirm the data presented by the Office of Electronic Communications (*Analysis of service prices for local Internet provision in Poland in comparison to European Union countries*, the Office of Electronic Communications, June 2010).

are: higher quality of provided services, increased customer satisfaction, streamlined logistics, production processes optimisation and administrative costs reduction. Successful implementation of adequate IT solution is above all dependent on individual identification of needs and specific nature of a given organization. The MRPII (Manufacturing Resource Planning) including materials management, production, sales, demand management constitutes a good example of modern business system which supports management. IT system which integrates and supports almost all functional areas of an enterprise in a comprehensive way, including among others the financial and HR departments, is the ERP system (Enterprise Resource Planning). In 2008 every seventh small-sized enterprise applied this system to collect and store information on customers, every fourth – medium-size enterprise and every second – large enterprise. Current directions of development of management-supporting systems concern mainly the technical aspects, i.e. increasing computing power (servers) and security enhancements.

Electronic trade, both in terms of B2B (business-to-business) and B2C (business-to-consumers) is a new, dynamically growing market. In 2008 7.1% of sales revenues of enterprises in Poland came from sales via computer networks. The higher turnover in electronic trade generates demand for mail and delivery services. On-line transactions' security is still a separate issue. Only 2% of enterprises used secure protocol while accepting orders via Internet⁸⁵.

On 27 April 2010 the Polish Government passed the bill on electronic signatures, prepared by the Ministry of Economy. This law allows to choose e-signature of varied security level. The solutions introduced under the bill would enable to reduce costs of implementation and use of electronic signature, by both the entrepreneurs and natural persons.

*The Action Programme For Supporting Electronic Trade and Services for 2009-2010*⁸⁶ aims at accomplishment of strategic national objectives which focus on facilitating business activity by using Internet and other means of electronic communication, creating legal conditions for application of ICT tools in business activities, facilitating the process of remote professional skills improvement. The programme fosters the changes of IT market structure in Poland to increase the share of IT services and software production market.

In the near future the most crucial factor in the process of backlog reduction and development of advanced ICT services provided via Internet will be the Act on supporting the development of telecommunications networks and services, which in May 2010 was signed by the Speaker of the Sejm Mr. Bronisław Komorowski, acting President of the Republic of Poland. The Act not only facilitates the investments in telecommunications infrastructure and improves competitiveness on the market, but also eliminates legal and administrative barriers with respect to access to areas and buildings.

The Act assumes that technological channels, in which it would be possible to place telecom cables, will be built along constructed and renovated roads. Under the act, roads managers – in this case the General Directorate for National Roads and Motorways and local governments – are obliged to build such channels. The Act aims at eliminating investment barriers, simplifying procedures of obtaining construction permits and establishing transparent legal basis for local authorities to perform their tasks with respect to telecommunications.

⁸⁵ Application of ICT technologies in enterprises and households in 2009, Central Statistical Office, 1 April 2010.

⁸⁶ Adopted by the Government on 30 December 2008.

3.5.7 Mobile and fixed telephony

The conditions on the telephony market become more and more stable. In 2008 the mobile telephony acquired 874,000 new subscribers and users, i.e. by 2/3 less than in the previous year.

In 2009 the number of subscribers and users of mobile telephony (measured by the number of active telephone cards) amounted to 45 millions in Poland, 2% more than in 2008. In Poland there were 117.8 subscribers for every 100 citizens⁸⁷. In the first quarter of 2010 the number of subscribers and users increased as compared to the end of December 2009, by 0.5%, i.e. by app. 200,000⁸⁸.

The market of fixed telephony is still regularly falling. The number of main lines in the public cable telephony amounted to 8.3 million people, i.e. 10% less than in 2008, whereas at the end of first quarter of 2010 – 8.1 million. It should however be emphasised that a similar trend may be observed in other European countries.

At the same time in 2009 the costs of telecom services were falling, which was related with market saturation and fight for customers and the carriers' activities. In this area as well the revenues were diminished, which resulted from, *inter alia*, the economic slowdown, Polish currency exchange rate and competitive fight.

3.6 Special Economic Zones

Special Economic Zones (SEZ) are isolated administrative areas in Poland, where entrepreneurs implementing new investments may benefit from income tax exemption with respect to the incomes earned in such zones. The conditions and rules for investing at the area of SEZ and benefits resulting from conducting business activity there are specified by *the Act of 20 October 1994 on special economic zones* (Journal of Laws of 2007, No. 42, item 274, as amended) and executive acts thereof.

In Poland there are 14 special economic zones. At the end of December 2009 the total area of SEZ reached 12 632.87 ha. The zones were located in 129 cities and 174 municipalities.

At the area of SEZ entrepreneurs may use state aid in the form of tax exemptions with respect to the costs of new investment and creation of new jobs. The amount of such support depends on the maximal intensity of aid specified for a given area, where the investment is implemented and the amount of costs eligible for the support. In the case of entrepreneurs who choose the aid due to new jobs creation, the costs eligible for the support would be the two-year labour costs of new employees, whereas in the case of entrepreneurs who decide to use investment support – these would be the costs of new investment. The maximal aid intensity in the case of investments implemented in the following voivodships: Lubelskie, Podkarpackie, Warmińsko-Mazurskie, Podlaskie, Opolskie, Świętokrzyskie, Małopolskie, Lubuskie, Łódzkie and Kujawsko-Pomorskie amounts to 50%, and in the remaining voivodships – 40%. Warsaw is an exception – here the level is 30%. In the case of small entrepreneurs the aid may be increased by 20% and in the case of medium entrepreneurs – by 10%. This does not apply to enterprises in the transport industry.

⁸⁷ Information on the social and economic situation in Poland 2009, Central Statistical Office.

⁸⁸ Information on the social and economic situation in Poland. 1st quarter of 2010, Central Statistical Office.

The basis for applying for state aid is the permission for conducting business activity at the area of a specific zone. The permissions are granted by the companies administering the zones by way of combined tenders and negotiations. The method and rules for conducting public auctions are specified – separately for each zone – by the Ordinances of the Minister of Economy and Labour of 2004 on the combined tenders and negotiations and evaluation criteria concerning investments to be implemented by entrepreneurs within the area of a given zone.

In relation to the amendment to the Act on SEZ of 30 May 2008, it was necessary to issue new regulations which specify development plans for various zones and regulations under which the right to grant permissions and perform entrepreneurs' control with respect to the execution of permissions' terms is transferred to the companies that administer the zones. The regulation on the development plan for the Kostrzyńsko-Słubicka SEZ was issued on 26 June 2009, and the development plans for other zones – on 31 August 2009.

Since 27 January 2009 the adopted by the Government *Conception of special economic zones development* has been applicable. This document specifies the rules of including in the zones areas belonging to the zone administrator, State Treasury, local government authority or municipal association, and also the criteria, according to which the investment projects located at these areas will be evaluated. Under the *Conception* at the areas belonging to the abovementioned entities which have been incorporated in the zones since 2009, only investments which meet at least one of the below criteria may be located

1. Innovativeness criterion.
2. Priority sectors criterion.
3. Criterion of supporting the development of cluster, industrial and technological parks.
4. Industrialisation level criterion.
5. Unemployment rate criterion.

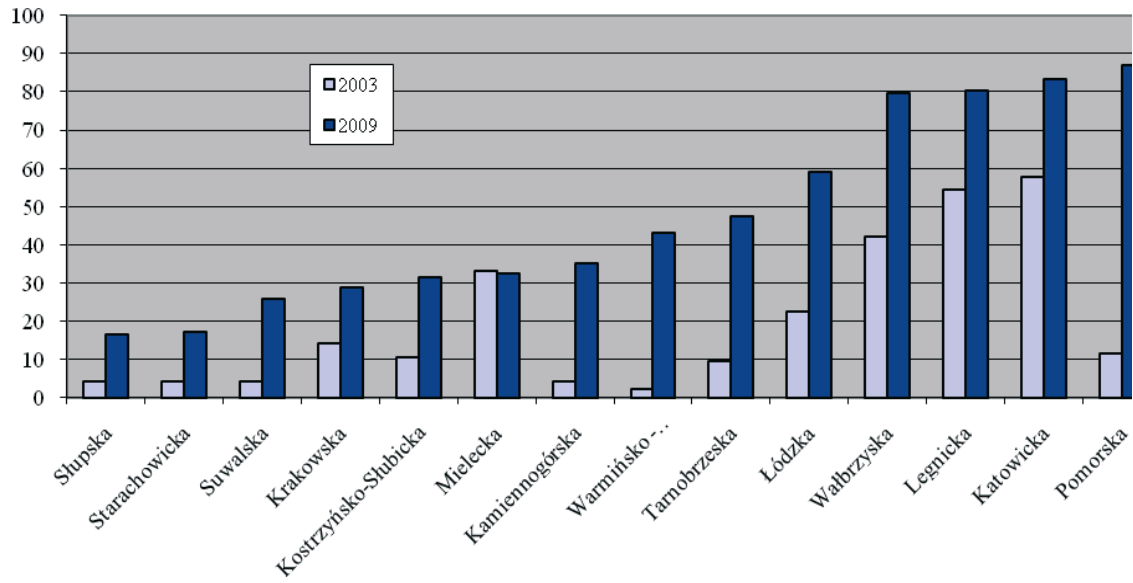
As at 31 December 2009 there were 1253 applicable permissions for conducting business activity in the zones. In the same year 2009 131 permissions were issued, which constitutes over 10% of all permissions.

By the end of 2009 the entrepreneurs operating in the zones invested almost PLN 66.6 billion. These entrepreneurs provide a total of 208,500 jobs, of which 150,000 (72%) are new jobs created by investors after acquiring permission to conduct activity in the zone, resulting directly from new investments implementation.

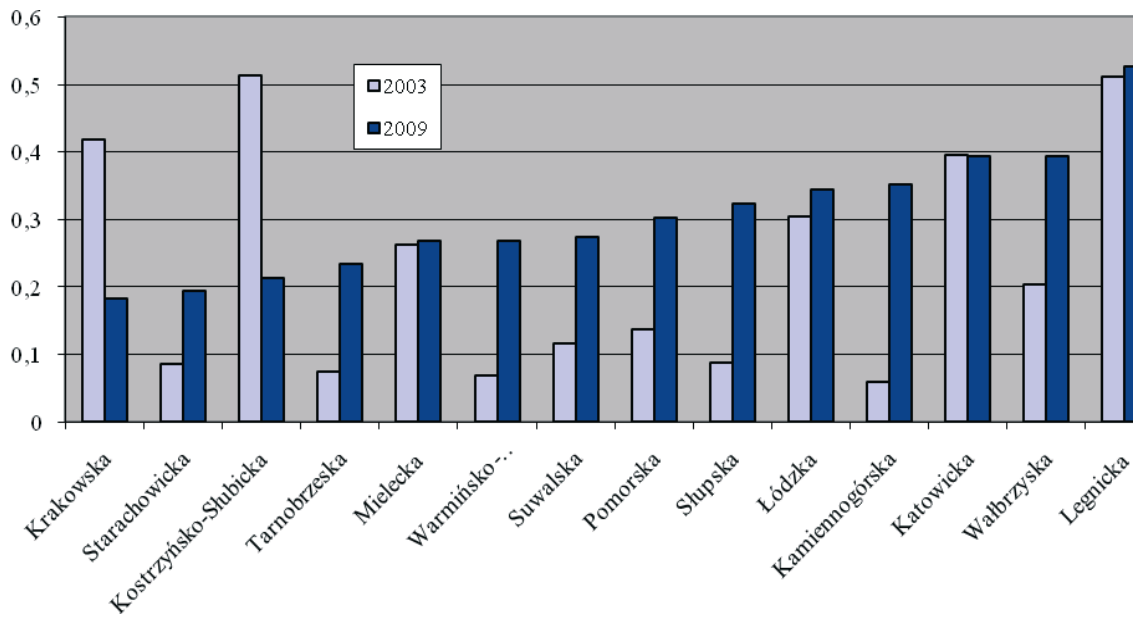
The greatest share in the investments have German capital companies (17.9%), Polish capital companies (17.2%) and American capital companies (almost 13.4%). The further positions are occupied by Japanese, Italian and Dutch investments. The industry structure is dominated by the automotive sector. Investments from this sector constitute over 26% of the total value of zone investments. Further there are manufacturers of rubber and plastic products (9.6% of investments' value) and of non-metallic products (9%).

Along the years the fields of business activities conducted within the zones have been regularly extending, which contributed to the industry diversification of regions. Together with the inflow of more and more capital-intensive projects the average amount of investment funds per one permission and per one job position increased.

Chart 30 Amount of investment funds in SEZ in 2003 and 2009 (in PLN million) per 1 permission:



per one job position:



Source: AFD ME study.

Table 21 Results of zones' operations as at 31 December 2009.

No.	Special Economic Zone	Number of valid permits	Incurred investment costs (in PLN million)	Job positions	
				new	preserved
1	Kamiennogórska	41	1 436.2	3 816	271
2	Katowicka	192	16 025.3	31 683	9 041
3	Kostrzyńsko-Słubicka	106	3 332.7	10 316	5 285
4	Krakowska	54	1 564.1	6 138	2 456
5	Legnicka	53	4 257.6	7 812	267
6	Łódzka	121	7 163.8	14 642	6 202
7	Mielecka	128	4 177.1	11 953	3 605
8	Pomorska	68	5 910.1	14 346	5 154
9	Słupska	47	769.1	1 654	729
10	Starachowicka	73	1 260.2	3 091	3 421
11	Suwalska	53	1 376.5	4 893	133
12	Tarnobrzaska	115	5 459.4	16 675	6 660
13	Wałbrzyska	141	11 219.8	18 929	9 544
14	Warmińsko - Mazurska	61	2 637.8	4 980	4 819
Total		1 253	66 589.7	150 928	57 587

3.7 Obstacles to business activity from the perspective of entrepreneurs

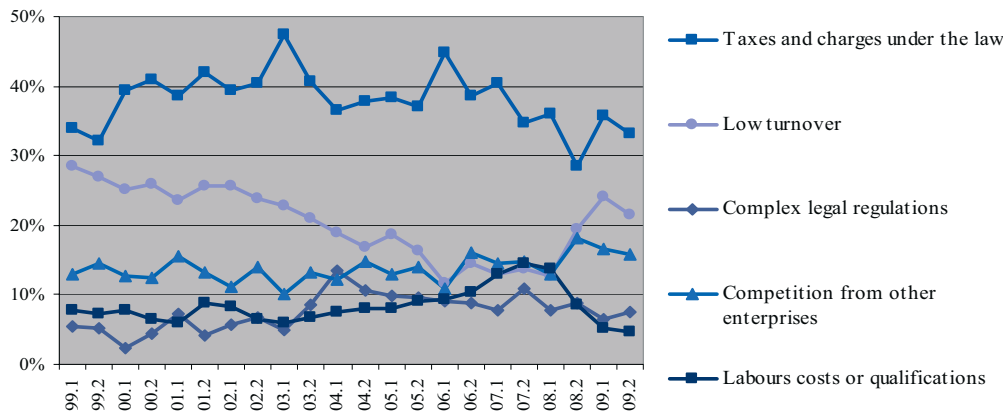
According to the survey⁸⁹ of small and medium companies conducted by the Ministry of Economy, the most significant obstacle which hampered entrepreneurship development, as indicated by the entrepreneurs, are **high taxes and charges required to be paid under applicable law**. However the number of respondents who name this obstacle as most significant is falling: whereas in the record-breaking first half of 2003 almost half of surveyed entrepreneurs gave this answer, in the second half of 2009 only every third respondent pointed to this barrier. **Low turnover** was specified as an obstacle by every fourth respondent, i.e. twice as often as in the period of favourable economic conditions – 2006-2007, but less than in the previous half of the year. The share of entrepreneurs who indicated the **complex legal regulations** as an obstacle to business activity is slowly falling.

Due to the decelerated economic growth in 2009, there were considerably more answers indicating **competition from other enterprises** as most important obstacle to entrepreneurship development. In the second half of 2009 16% of companies pointed to this barrier. Enterprises most often are affected by the competitive pressure from **other small companies**, whereas less often indicate the **competition from large companies**.

The shares of entrepreneurs indicating both **labour costs** as well as **adequate labour qualifications** are one of the lowest in the history of the survey – in the second half of 2009 the number of respondents who named both barriers was less than 5% of surveyed entrepreneurs. There are two reasons for such low values – firstly, fewer entrepreneurs seek employees, secondly there are more people who pursue job on the labour market.

⁸⁹ The survey of SME industry is conducted twice a year.

Chart 31 Selected obstacles to entrepreneurship development

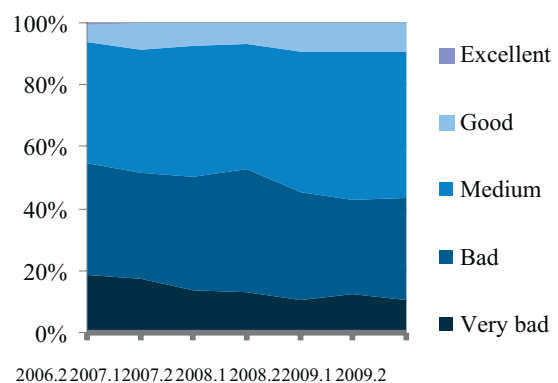


Source: ‘Development trends in SME industry from the perspective of entrepreneurs in the 2nd half of 2009’ (survey), Ministry of Economy, March 2010.

Conducted survey regards also entrepreneurs’ assessment of areas which regulate conditions for business activity’s operations.

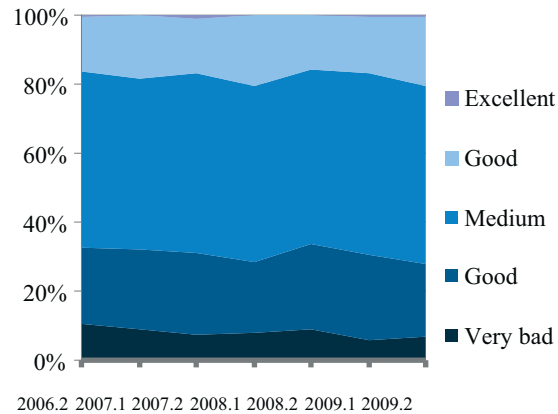
Regulations of **tax law** constitute the area of regulations concerning business activity which has worst results of assessment provided by entrepreneurs. In the second half of 2009 the percentage of negative opinions reached 44% (including 11% of entrepreneurs who evaluated the regulations as “very bad”). Every tenth respondent gave a positive opinion and for several years this share has remained unchanged. Most of positive (and at the same time least negative) opinions on tax law are provided by entrepreneurs who **maintain registers of revenues** (even 20% of positive opinions, almost no answers “very bad”).

Chart 32 Assessment of tax law regulations



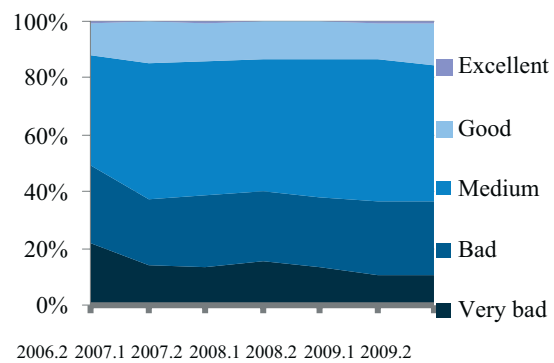
The share of positive opinions on **labour law** reached 20% – which is the highest percentage since the questions concerning economic activity regulations were included in the survey. Negative opinions amounted to 28% – the lowest share in the survey’s history. In the case of **labour law** micro-entrepreneurs more often gave positive opinions than the owners of small- and medium-size enterprises. 13% of these latter provided positive opinions and 35% gave negative opinions.

Chart 33 Assessment of labour law regulations



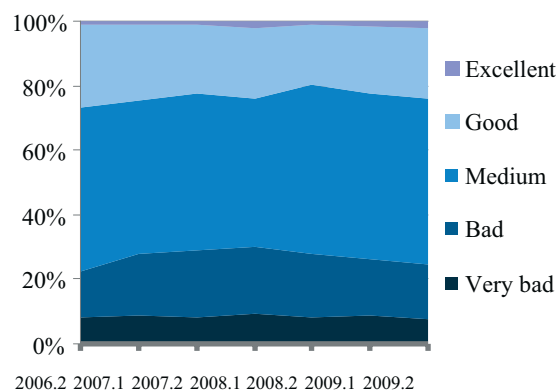
The results of the assessment of **economic court proceedings**, as compared to the previous survey, did not change. Entrepreneurs from agglomerations provided most negative opinions (40% negative opinions and 10% positive opinions), whereas persons who conduct business activity on rural areas provided most positive opinions (35% negative opinions and 18% positive).

Chart 34 Assessment of economic court proceedings



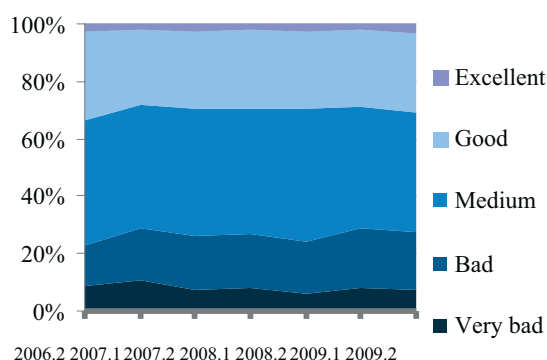
On the basis of several recent surveys slow, but regular, decline of critical opinions of procedures related with **economic activity control** may be observed. In the second half of 2009 the number of positive opinions was almost equal to the number of negative opinions.

Chart 35 Assessment of regulations of economic activity control



The only area concerning business activity, in which the number of positive opinions on regulations and procedures is higher than the number of negative ones, was the field concerning **settlements with contractors**.

Chart 36 Assessment of regulations for settlements with contractors



Similarly as in the previous surveys, in the second half of 2009, low number of entrepreneurs indicated changes ongoing in the enterprise environment. The positive sign which may be observed on the basis of survey's results is the fact that in almost all cases (excluding the assessment of changes in economic court proceedings) the number of positive opinions was higher than the number of negative ones.

According to the survey conducted by the National Bank of Poland in April 2010, in the first quarter of 2010 entrepreneurs most often specified *low demand* and *exchange rates* as development obstacles.

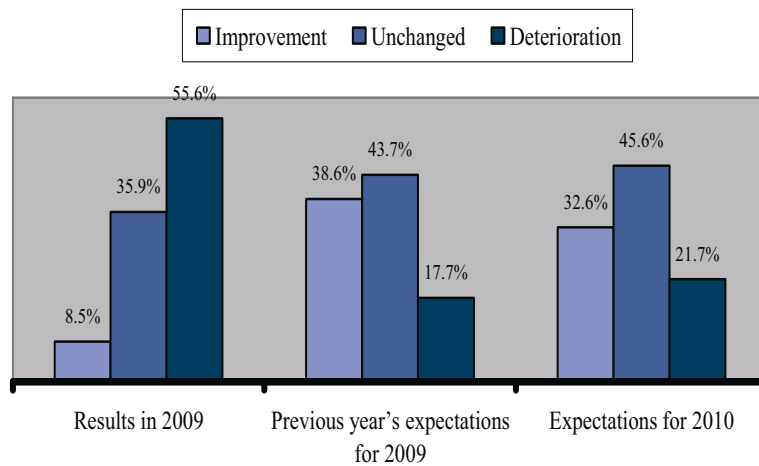
Table 22 Development obstacles

		Low demand	Exchange rate, including deviations	Payment hold-ups, insolvency issues	High, growing competition	Higher prices of resources, materials	Adverse economic conditions, downturn	Unclear regulations, changes of law	Difficulties with obtaining credit
Minimal and maximal values in the surveys' history		4.3\30.0	8.6\26.8	4.9\21.2	5.4\21.2	2.7\17.5	1.0\21.6	4.3\17.2	0.9\7.6
Q1	2008	7.8	17.7	4.9	6.7	14.7	1.1	6.1	1.0
Q2	2008	7.8	15.5	5.7	5.7	17.5	2.5	5.0	1.1
Q3	2008	13.1	16.6	5.1	7.8	16.9	4.5	4.3	1.8
Q4	2008	20.8	10.3	7.2	6.2	7.2	12.9	4.5	3.6
Q1	2009	30.0	14.4	9.4	7.3	10.0	11.5	4.9	6.3
Q2	2009	24.3	13.7	10.4	5.8	6.9	10.9	4.7	7.6
Q3	2009	21.3	11.5	8.6	8.5	7.6	6.1	5.0	4.5
Q4	2009	20.0	13.0	7.6	9.3	6.9	6.9	5.4	4.4
Q1	2010	19.3	13.3	9.2	9.0	7.6	4.7	4.2	3.3

Source: National Bank of Poland, Information on the condition of enterprises' sector with specific consideration for economic conditions in Q1 of 2010 and forecasts concerning economic conditions for Q2 of 2010. April 2010

In turn the survey conducted by the Polish Chamber of Commerce (within the research of enterprises in the entire Europe) shows that Polish entrepreneurs give slightly more positive opinions than average results in EU on the general conditions for conducting business activity in 2010.

Chart 37 Conditions for conducting business activity.



Source: Results of the European Economic Survey 2010, Polish Chamber of Commerce, Warsaw, November 2009

4. INTERNATIONAL COMPETITIVENESS RANKINGS – POLAND’S POSITION

In the light of international comparisons and rankings, Polish economy is not deemed competitive, although lately Poland’s position in most of such studies has considerably improved. The assessments included in such rankings are considered while taking, inter alia, investment decisions, although it should be emphasized that they have numerous methodological restrictions. Furthermore their usability is quite limited since the considered data are already outdated at the moment of publishing (usually regard situation as it was one or two years ago).

Below the assessments of the position of Polish competitive economy as compared to other countries in the most significant publications on this subject are presented.

- **Report of the World Bank and IFC⁹⁰ “Doing business 2010”**

The report of the World Bank is one of the best known and most often quoted documents of this type. World Bank’s experts assess exclusively the microeconomic aspects of conducting business activity, which are essentially related to the regulations in 10 areas deemed as crucial for business activity.

According to the results of latest edition of the report – Doing business 2010 – Poland maintained its position from the previous year and occupies **72nd** position (among 183 countries) in the general evaluation of the *ease of doing business*⁹¹.

With respect to the partial rankings, Poland occupies the highest position in relation to the ease of getting credit (15. – increase by 12 positions), protecting investors (41. – decline by 3 positions) and trading across borders (42. – decline by 1 position).

Similarly as in the previous year, Poland was given the lowest rates for formalities related to the process of obtaining construction permits. According to the authors of the report these procedures are very time-consuming (308 days), too formalised (30 different formal procedures) and too costly (124% of income per capita). As a result, in this respect, Poland occupies an unfavourable 163rd position (decrease by 6 positions). Among EU countries, best rated in this category was Denmark (7th position), and among EU-12⁹² Estonia (19th position).

Very high increase in Poland’s position, by up to 28 positions, was reported in the category “starting a business”, although our position in the area is still very low (117.). The improvement resulted from eleven time decrease in the required capital (from 168.8% to 15.5% GDP *per capita*), substantial reduction of mandatory procedures (from ten to six) and reduction of costs of starting business activity from 18.8% to 17.9% GDP *per capita*. At the same time authors of the report noticed slight extension of average time needed to start business activity (from 31 to 32 days)

⁹⁰ International Finance Corporation.

⁹¹ In the ranking for 2009 Poland occupied 76th position, but according to updated methodology (in order to ensure possibility to compare it with the ranking for 2010) it *de facto* meant the 72nd position.

⁹² Countries which has become members of EU since 2004.

Similarly as in the previous editions of the report, Poland received every poor assessment in the category of “ease of paying taxes”. In the partial ranking Poland occupies position 151, which is equal to a decline by 4 positions. According to the estimates of the authors of the report an entrepreneur who would like to meet all the requirements of Polish tax regulations, would have to make 40 payments amounting to a total of 42.5% of gross profit (increase by 2.3%) and spend on this activity 395 hours per year (decrease by 23 hours). The highest position in the group of new Member States is occupied by Cyprus (37.) and Estonia (38.). Despite the tax system reforms which were conducted in the past by Slovakia, this country still occupies a low position in the ranking (119.), which results from, *inter alia*, high – according to the authors of the report – total tax amount to be paid (48.3% of gross profit).

With respect to the enforcement of contractual obligations Poland fell by 4 positions and occupies position 75. The greatest obstacle is still the very long period of claiming contractual receivables (830 days), although it is significantly shorter than several years ago (app. 1000 days⁹³). Among the EU-12 countries the best rated situation in this respect is in Hungary and Latvia (respectively 14th and 15th positions).

In relation to the “ease of registering property” Poland was classified on 88th position – decline by 2 positions. Main reason for such poor assessment is extremely time-consuming registration process (197 days). In Lithuania, which occupies in this category the highest position among EU-27 countries (4th), completion of all procedures in this area takes 3 days.

In the remaining categories – “employing workers” and “closing a business” – Poland occupies respectively 76th (fall by 7 positions) and 85th (unchanged) positions.

Table 23 Ranking of ease of doing business

	Great Britain	Germany	France	Spain	Lithuania	Czech Republic	Italy	Slovakia	Poland
Ranking 2009*	6	27	31	51	25	66	74	35	72
Ranking 2010	5	25	31	62	26	74	78	42	72

* data updated to assure comparability with ranking of 2010.

Source: AFD ME study based on *Doing Business 2009, 2010*

• **Ranking of global competitiveness of the World Economic Forum 2009-2010**

The ranking of global competitiveness is a key element of the annual report of the World Economic Forum: The Global Competitiveness Report. It is created based on the evaluation of the so-called Global Competitiveness Index (GCI), which measures general competitiveness of economy. Index has been calculated on the basis of 110 partial indicators grouped in 12 categories and assigned to three main areas (basic requirements, factors enforcing effectiveness, business development level and innovations). Some of the partial indicators, according to which the evaluation was performed, were determined based on the results of the survey conducted among entrepreneurs/managers in the period from January to May 2009⁹⁴. Statistical data were also partially taken into account, especially these from the period 2007-2008.

⁹³ See: reports *Doing business* for 2004-2007. Data are collected by way of surveys and concern, in the case of each country, a court in the city with greatest population (in Poland - Warsaw).

⁹⁴ In Poland the survey is conducted among 184 representatives of top management. Answers were provided by 101 managers, including 69 persons representing companies with over 100 employees.

The evaluation of Poland included in the latest WEF ranking has significantly improved. After one year Poland was rated higher by 7 positions – from position 53 to 46 higher in the group of 133 countries subject to evaluation. At the same time we have exceeded 8 EU countries in the ranking: Slovakia, Italy, Lithuania, Hungary, Romania, Latvia, Greece and Bulgaria.

Among 12 categories the lowest rated were: infrastructure (position 103), macroeconomic stability (position 74), products and services market effectiveness (position 53) and innovations (position 52). Highest rates were given in the following categories: market volume (20), higher education and training (27) and health and elementary education (35). Very low position of Poland in the category of infrastructure results from, according to the authors of the report, *inter alia* low quality of road infrastructure (127), general infrastructure (121), port infrastructure (121) and air transport infrastructure (97).

The 74th position of Poland in the category of macroeconomic stability decreased considerably as compared to 2008-2009 GCI (position 50). This evaluation results mostly from the deteriorated conditions in the following areas: budget deficit, public debt level and inflation⁹⁵. It should also be emphasised that Poland's position has fell significantly with respect to the interest rate *spread*⁹⁶ (from 20th to 73rd position).

Table 24 Ranking by the global competitiveness index (GCI)

	Great Britain	Germany	France	Spain	Lithuania	Czech Republic	Italy	Slovakia	Poland
Ranking 2008-2009	12	7	16	29	44	33	49	46	53
Ranking 2009-2010	12	7	16	33	53	31	48	47	46↑

Source: AFD ME study based on *The Global Competitiveness Report 2008-2009, 2009-2010*.

• **Index of Economic Freedom 2010⁹⁷ – Heritage Foundation and Wall Street Journal**

The authors of the annual ranking Index of Economic Freedom evaluate, *inter alia*, freedom of conducting business activities, trade policy, tax burdens, budget policy, labour market policy or corruption level. In the current edition of economic freedom ranking, evaluating 179 countries, Poland occupies position 71, which is an improvement by 11 positions and exceeds 3 EU countries: Greece, Italy and Bulgaria. As compared to the previous ranking, Poland's position has been improved in seven areas, in two areas (investment freedom, financial system) our position remained the same and in one area (monetary policy) Poland's position fell. Factors which mostly affect the evaluation of economic freedom in Poland are, according to the authors of the report: high level of corruption perception, budget policy and ownership protection. Similarly as in the previous years, trade, monetary and fiscal policies were the highest rated areas.

Table 25 Economic freedom ranking

	Great Britain	Germany	France	Spain	Lithuania	Czech Republic	Italy	Slovakia	Poland
Ranking 2009	10	25	64	29	30	37	76	36	82
Ranking 2010	11	23	64	36	29	34	74	35	71↑

Source: AFD ME study based on *Index of Economic Freedom 2009, 2010*

⁹⁵ According to the data for 2008.

⁹⁶ In the report defined as the difference between interest rates on loans and interest rates on deposits.

⁹⁷ Data concern essentially 2008.

- **World Competitiveness Yearbook 2010 - International Institute for Management Development (IMD)**

The latest IMD report: “World Competitiveness Yearbook” evaluates the competitiveness of 58 countries, based on 330 detailed criteria. Factors taken into account in this evaluation are, inter alia: economic results (such as economic growth, foreign trade balance, employment, prices, etc.), public finance, fiscal policy, business legislation quality, enterprise effectiveness (inter alia: productivity, enterprise finances, management, innovativeness), infrastructure (inter alia: technical, technological, scientific, health, educational infrastructure). In the current list of the world’s most competitive economies, Poland’s position has been significantly improved for the second time in a row – from position 44 to 32⁹⁸. In the group of EU-27⁹⁹ countries Poland exceeded 11 countries.

Table 26 IMD ranking

	Great Britain	Germany	France	Spain	Lithuania	Czech Republic	Italy	Slovakia	Poland
Ranking 2009	21	13	28	39	31	29	50	33	44
Ranking 2010	22	16	24	36	43	29	40	49	32↑

Source: AFD ME study based on The World Competitiveness Scoreboard 2010

- **Report on the implementation of the Lisbon strategy “The Lisbon Scorecard X” – Centre for European Reform (CER)**

The Institute of London – Centre for European Reform – has been preparing reports on the progress in the implementation of the Lisbon strategy for several years now. In the current ranking (for 2009), Poland’s position has improved again (by 3 positions) and Poland now occupies position 21, exceeding Greece, Hungary, Italy, Bulgaria, Romania and Malta. Main weaknesses of Polish economy were considered to be: low employment rate, low labour market flexibility, insufficient level of network markets liberalisation or the climatic changes policy. Education and trainings are the areas which received high ratings.

- **2010 AT Kearney Foreign Direct Investment Confidence Index**

In the latest ranking of investment attractiveness prepared by A.T. Kearney consulting company, Poland has been classified on a very high, 6th position, second in Europe. As compared to the previous ranking from 2007, our country’s position has significantly increased (from 22nd position). The first position in the ranking is occupied by China. On the further positions are USA, India, Brazil and Germany.

In the study performed by A.T. Kearney participated representatives of managerial staff from enterprises which, as a whole, earn a total of over 2,000 trillion dollars of annual income. The index is calculated based on the answers to the question concerning probability of investment implementation in a given country in the following 3 years (high, medium and low probability). The results of A.T. Kearney study show that almost half of the surveyed investors plan to suspend their projects at least for one year, anticipating the improvement of economic conditions not earlier than in 2011.

⁹⁸ In the previous ranking Poland’s position increased by 8 positions.

⁹⁹ The ranking does not take into account Latvia, Malta and Cyprus.

APPENDIX

Table 27 National economy entities by the anticipated number of employees and selected sections of Polish Classification of Business Activity (PKD)

Specification		Total	0-9	10-49	50-249	250-999	1000 and more
a – 31.12.2009							
b – growth rate (2008=100)							
Mining	a	2 994	2 481	348	127	24	14
	b	114.8	115.2	112.6	112.4	126.3	100.0
Manufacturing	a	364 939	323 028	32 296	7 923	1 451	241
	b	98.1	97.8	100.4	99.2	101.6	106.6
Production, supplying electricity, gas and water	a	5 316	3 740	972	476	92	36
	b	115.1	121.0	104.6	102.8	94.8	94.7
Construction	a	428 862	410 364	16 136	2 160	179	23
	b	100.9	100.7	105.9	102.8	97.3	121.1
Trade and repairs	a	1 097 239	1 060 831	32 444	3 557	342	65
	b	96.6	96.3	104.3	103.9	100.3	114.0
Hotels and restaurants	a	118 417	112 300	5 727	346	37	7
	b	102.8	102.5	109.6	110.9	97.4	116.7
Transport, storage and communication	a	268 685	261 832	5 753	859	194	47
	b	99.8	99.6	109.4	105.9	103.7	109.3
Total	a	3 742 673	3 548 354	159 705	29 730	4 057	827
	b	99.6	99.4	103.1	101.4	101.5	102.9

Source: Central Statistical Office, Structural changes in groups of entities in the national economy in 2009.

Table 28 Financial data of enterprises by type of ownership

	2003	2004	2005	2006	2007	2008	2009
<i>Revenues from total activities (PLN billion)</i>							
All sectors	1 322.0	1 540.6	1 600.6	1 810.3	2 067.7	2 300.9	2 322.6
Public sector	275.1	272.1	260.6	272.0	284.6	309.2	296.2
Private sector	1 046.9	1 268.5	1 340.0	1 538.2	1 783.0	1 991.7	2 026.4
<i>Costs of total activities (PLN billion)</i>							
All sectors	1 279.1	1 455.6	1 522.4	1 709.1	1 940.1	2 201.8	2 206.5
Public sector	263.2	258.9	248.6	258.2	269.1	298.3	282.5
Private sector	1 015.9	1 196.7	1 273.8	1 450.9	1 671.0	1 903.5	1 924.1
<i>Gross financial result (PLN billion)</i>							
All sectors	41.1	88.4	78.6	101.2	127.7	99.1	116.1
Public sector	10.1	16.3	12.1	13.8	15.6	10.8	13.7
Private sector	31.0	72.0	66.5	87.4	112.1	88.3	102.4
<i>Net financial result (PLN billion)</i>							
All sectors	27.0	71.5	62.6	82.1	105.7	78.5	95.8
Public sector	6.9	12.2	8.6	9.9	12.4	7.9	10.4
Private sector	20.1	59.3	54.0	72.2	93.3	70.6	85.4
<i>Gross profit rate (%)</i>							
All sectors	3.1	5.7	4.9	5.6	6.2	4.3	5.0
Public sector	3.7	6.0	4.7	5.1	5.5	3.5	4.6
Private sector	3.0	5.7	5.0	5.7	6.3	4.4	5.1
<i>Net profit rate (%)</i>							
All sectors	2.0	4.6	3.9	4.5	5.1	3.4	4.1
Public sector	2.5	4.5	3.3	3.6	4.3	2.6	3.5
Private sector	1.9	4.7	4.0	4.7	5.2	3.5	4.2
<i>Return on assets (%)</i>							
All sectors	2.4	6.0	4.8	5.8	6.3	4.2	5.0
Public sector	2.2	4.0	2.6	2.9	3.1	1.9	2.3
Private sector	2.5	6.7	5.6	6.7	7.4	4.9	5.8
<i>Share of profitable units (%)</i>							
All sectors	68.9	76.0	75.0	78.6	81.8	77.7	77.0
Public sector	60.9	66.9	68.9	71.3	73.1	69.8	70.4
Private sector	69.6	76.7	75.5	79.1	82.4	78.1	77.3

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 29 Revenues and net financial result per 1 enterprise and 1 employee

	2003	2004	2005	2006	2007	2008	2009
<i>Revenues from total activities per 1 enterprise (PLN thousand)</i>							
More than 9 employees	31 221.0	35 650.4	36 779.2	40 652.0	45 852.6	48 449.1	45 915.1
10-49	8 492.0	9 567.9	9 621.4	10 261.8	11 516.4	12 364.3	11 269.5
50-249	29 280.4	34 976.2	35 365.1	39 011.9	43 161.8	44 544.5	42 502.4
More than 249	271 478.8	306 528.9	316 109.5	341 799.3	364 502.2	404 018.1	428 423.4
<i>Net financial result per 1 enterprise (PLN thousand)</i>							
More than 9 employees	637.3	1 654.8	1 438.3	1 843.9	2 345.0	1 654.1	1 894.0
10-49	352.6	357.7	354.5	428.5	618.7	513.4	470.9
50-249	367.7	1 294.6	1 114.8	1 685.7	2 026.2	1 395.9	1 493.6
More than 249	4 882.6	16 715.1	13 859.9	16 239.0	19 157.5	13 516.1	18 941.7
<i>Revenues from total activities per 1 employee (PLN thousand)</i>							
More than 9 employees	315.3	360.3	364.5	392.1	425.6	461.6	474.5
10-49	362.9	403.1	393.9	414.9	448.8	498.2	476.9
50-249	296.1	343.8	342.8	372.6	408.0	433.6	430.7
More than 249	313.9	357.6	368.5	396.5	428.7	467.1	499.6
<i>Net financial result per 1 employee (PLN thousand)</i>							
More than 9 employees	6.4	16.7	14.3	17.8	21.8	15.8	19.6
10-49	15.1	15.1	14.5	17.3	24.1	20.7	19.9
50-249	3.7	12.7	10.8	16.1	19.2	13.6	15.1
More than 249	5.6	19.5	16.2	18.8	22.5	15.6	22.1

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 30 Financial data of enterprises by the number of employees

	2003	2004	2005	2006	2007	2008	2009
<i>Revenues from total activities (PLN billion)</i>							
More than 9 employees	1 322.0	1 540.6	1600.6	1810.3	2 067.7	2 300.9	2 322.6
10–49	225.4	263.1	265.9	290.7	325.7	366.9	360.3
50–249	386.2	456.0	464.5	517.8	589.0	652.5	662.0
More than 249	710.5	821.5	870.2	1001.8	1 152.9	1281.5	1 300.3
<i>Costs of total activities (PLN billion)</i>							
More than 9 employees	1 279.1	1 455.6	1522.4	1709.1	1 940.1	2 201.8	2 206.5
10–49	212.1	251.3	254.0	276.2	305.7	348.3	342.3
50–249	378.1	435.6	446.0	490.6	556.4	626.9	633.6
More than 249	688.9	768.6	822.4	942.3	1 078.4	1 226.7	1 230.6
<i>Gross financial result (PLN billion)</i>							
More than 9 employees	41.1	88.4	78.6	101.2	127.7	99.2	116.1
10–49	11.1	11.8	11.9	14.5	20.5	18.6	18.0
50–249	8.2	20.8	18.6	27.2	32.6	25.6	28.5
More than 249	21.8	55.7	48.2	59.5	74.6	54.9	69.6
<i>Net financial result (PLN billion)</i>							
More than 9 employees	27.0	71.5	62.6	82.1	105.7	78.6	95.8
10–49	9.4	9.8	9.8	12.1	17.5	15.2	15.1
50–249	4.9	16.9	14.6	22.3	27.6	20.4	23.3
More than 249	12.8	44.8	38.2	47.6	60.6	42.9	57.5
<i>Gross profit rate (%)</i>							
More than 9 employees	3.11	5.74	4.91	5.59	6.18	4.31	5.00
10–49	4.94	4.49	4.46	5.00	6.29	5.07	5.00
50–249	2.13	4.56	4.00	5.25	5.54	3.93	4.30
More than 249	3.07	6.78	5.53	5.94	6.47	4.29	5.35
<i>Net profit rate (%)</i>							
More than 9 employees	2.04	4.64	3.91	4.54	5.11	3.41	4.13
10–49	4.15	3.74	3.68	4.18	5.37	4.15	4.18
50–249	1.26	3.70	3.15	4.32	4.69	3.13	3.51
More than 249	1.80	5.45	4.38	4.75	5.26	3.35	4.42
<i>Return on assets (%)</i>							
More than 9 employees	2.39	6.03	4.84	5.79	6.35	4.23	5.00
10–49	5.80	5.31	4.95	5.81	6.97	5.65	5.43
50–249	1.59	5.33	4.41	6.05	6.23	4.41	4.70
More than 249	1.93	6.55	5.00	5.68	6.24	3.81	5.03
<i>Share of profitable units (%)</i>							
More than 9 employees	68.9	76.0	75.0	78.6	81.8	77.7	77.0
10–49	67.8	75.1	74.4	77.9	81.3	78.2	76.7
50–249	69.9	76.9	75.5	79.4	82.6	76.9	76.8
More than 249	74.6	81.2	79.3	81.7	82.9	76.3	80.6

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 31 Enterprises' liabilities

	2003	2004	2005	2006	2007	2008	2009
<i>Short-term liabilities (PLN billion)</i>							
More than 9 employees	335.7	345.3	364.6	408.8	462.4	533.2	522.4
10-49	60.8	69.5	66.7	68.6	77.1	87.4	82.6
50-249	99.7	99.9	103.0	118.0	129.7	140.5	148.3
More than 249	175.3	175.9	194.8	222.2	255.6	305.3	291.5
<i>Long-term liabilities (PLN billion)</i>							
More than 9 employees	180.1	163.2	165.3	167.2	186.0	237.5	248.4
10-49	22.9	24.9	27.9	26.2	33.4	44.5	43.0
50-249	43.5	37.1	37.3	41.7	52.8	59.6	63.7
More than 249	113.7	101.3	100.1	99.2	99.8	133.5	141.8
<i>Long-term liabilities per 1 enterprise (PLN thousand)</i>							
More than 9 employees	4 252.7	3 776.5	3 798.2	3 753.9	4 126.1	5 001.8	4 910.7
10-49	863.1	904.2	1 011.4	925.3	1 182.0	1 499.0	1 344.9
50-249	3 294.6	2 843.8	2 838.5	3 142.8	3 870.1	4 067.8	4 086.7
More than 249	43 453.1	37 783.3	36 346.6	33 859.4	31 557.0	42 079.9	46 705.4
<i>Long-term liabilities per 1 employee (PLN thousand)</i>							
More than 9 employees	42.9	38.2	37.6	36.2	38.3	47.7	50.7
10-49	36.9	38.1	41.4	37.4	46.1	60.4	56.9
50-249	33.2	28.0	27.5	30.0	36.6	39.6	41.4
More than 249	50.2	44.1	42.4	39.3	37.1	48.6	54.5

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 32 Indicators specifying enterprises' debt

	2003	2004	2005	2006	2007	2008	2009
<i>Debt ratio (liabilities/assets)</i>							
More than 9 employees	0.46	0.43	0.41	0.41	0.39	0.41	0.40
10-49	0.52	0.51	0.48	0.45	0.44	0.49	0.45
50-249	0.47	0.43	0.42	0.43	0.41	0.43	0.43
More than 249	0.44	0.41	0.39	0.38	0.37	0.39	0.38
<i>liabilities/equity capital</i>							
More than 9 employees	0.96	0.85	0.79	0.78	0.72	0.81	0.77
10-49	1.16	1.13	0.99	0.89	0.85	1.03	0.89
50-249	0.96	0.83	0.79	0.82	0.76	0.83	0.83
More than 249	0.91	0.79	0.74	0.73	0.67	0.75	0.72
<i>Long-term liabilities /equity capital</i>							
More than 9 employees	0.33	0.27	0.25	0.23	0.21	0.25	0.25
10-49	0.32	0.30	0.29	0.25	0.26	0.35	0.31
50-249	0.29	0.22	0.21	0.22	0.22	0.25	0.25
More than 249	0.36	0.29	0.25	0.23	0.19	0.23	0.24
<i>Long-term liabilities / revenues from sales of basic products and services</i>							
More than 9 employees	0.24	0.19	0.18	0.16	0.16	0.18	0.19
10-49	0.31	0.29	0.31	0.26	0.29	0.33	0.33
50-249	0.22	0.17	0.16	0.16	0.18	0.19	0.19
More than 249	0.24	0.18	0.17	0.15	0.13	0.16	0.17

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 33 Liquidity ratios

	2003	2004	2005	2006	2007	2008	2009
<i>Liquidity ratio</i>							
More than 9 employees	1.20	1.31	1.38	1.41	1.44	1.40	1.47
10–49	1.18	1.14	1.32	1.45	1.52	1.48	1.56
50–249	1.21	1.32	1.37	1.40	1.46	1.49	1.52
More than 249	1.20	1.37	1.40	1.41	1.41	1.34	1.42
<i>Quick liquidity ratio</i>							
More than 9 employees	0.87	0.93	0.98	1.01	1.01	0.98	1.05
10–49	0.86	0.80	0.95	1.02	1.05	1.02	1.10
50–249	0.88	0.93	0.99	1.00	1.02	1.03	1.06
More than 249	0.86	0.98	1.00	1.02	0.99	0.94	1.03
<i>High liquidity ratio</i>							
More than 9 employees	0.24	0.29	0.32	0.35	0.34	0.35	0.40
10–49	0.24	0.22	0.28	0.31	0.32	0.35	0.40
50–249	0.23	0.26	0.28	0.31	0.33	0.34	0.36
More than 249	0.25	0.34	0.35	0.38	0.36	0.35	0.41

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 34 Export rates

	2003	2004	2005	2006	2007	2008	2009
<i>Share of export sales in net revenues (%)</i>							
More than 9 employees	14.8	16.0	16.0	17.0	18.0	17.0	16.0
10–49	7.3	8.0	8.0	8.0	7.0	7.0	7.0
50–249	11.9	12.0	12.0	13.0	12.0	12.0	12.0
More than 249	18.9	20.0	21.0	23.0	23.0	22.0	21.0
<i>Growth rate of revenues from total activities (%)</i>							
More than 9 employees	107.9	116.3	103.9	113.1	114.4	111.3	100.9
10–49	100.3	116.7	101.1	109.3	112.0	112.6	98.2
50–249	109.4	118.0	101.8	111.5	113.7	110.8	101.5
More than 249	109.7	115.6	105.9	115.1	115.1	111.2	101.5
<i>Growth rate of export sales (%)</i>							
More than 9 employees	131.2	125.0	105.5	119.7	114.0	101.9	101.6
10–49	121.6	107.8	92.0	115.7	105.9	108.4	96.6
50–249	143.9	112.2	103.6	114.4	115.0	104.2	106.8
More than 249	126.1	130.2	107.0	121.2	114.3	101.0	100.7

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

Table 35 Investment activity of enterprises employing over 9 persons

	2003	2004	2005	2006	2007	2008	2009
<i>Investment costs (PLN billion)¹⁰⁰</i>							
More than 9 employees	64.7	73.8	79.7	99.3	126.3	133.1	118.7
10–49	7.6	9.5	9.4	12.2	14.3	17.3	15.2
50–249	15.3	18.3	19.9	25.1	31.1	29.6	26.0
More than 249	41.7	46.0	50.4	62.0	80.9	86.1	77.6
<i>Investment costs per 1 enterprise (PLN thousand)</i>							
More than 9 employees	1 526.9	1 707.8	1 830.8	2 230.5	2 802.0	2 801.8	2 347.4
10–49	287.0	345.5	339.1	430.2	504.2	583.7	476.1
50–249	1 161.2	1 403.6	1 515.2	1 890.1	2 281.6	2 021.5	1 667.0
More than 249	15 944.0	17 164.2	18 308.8	21 171.7	25 594.9	27 152.6	25 552.6
<i>Investment costs per 1 employee (PLN thousand)</i>							
More than 9 employees	15.4	17.3	18.1	21.5	26.0	26.7	24.3
10–49	12.3	14.6	13.9	17.4	19.6	23.5	20.1
50–249	11.7	13.8	14.7	18.0	21.6	19.7	16.9
More than 249	18.4	20.0	21.3	24.6	30.1	31.4	29.8
<i>Ratio of investment costs to revenues from sales of basic products and services (%)</i>							
More than 9 employees	8.68	8.47	8.73	9.64	10.77	10.36	9.26
10–49	10.22	10.93	10.37	11.90	12.50	12.86	11.58
50–249	7.91	8.23	8.74	9.83	10.73	9.44	7.88
More than 249	8.75	8.19	8.52	9.22	10.53	10.30	9.45
<i>Share of investment costs in financial surplus</i>							
More than 9 employees	0.68	0.52	0.60	0.64	0.68	0.78	0.62
10–49	0.48	0.57	0.56	0.64	0.57	0.69	0.61
50–249	0.78	0.56	0.65	0.65	0.68	0.72	0.57
More than 249	0.70	0.50	0.59	0.64	0.71	0.82	0.65
<i>Share of investment costs in depreciation</i>							
More than 9 employees	1.27	1.37	1.41	1.68	2.01	1.91	1.62
10–49	1.85	2.16	2.03	2.47	2.76	2.87	2.36
50–249	1.48	1.59	1.68	2.04	2.30	2.03	1.61
More than 249	1.14	1.21	1.26	1.48	1.83	1.76	1.53

Source: Centre of Socio-Economic Information based on Central Statistical Office F-01.

¹⁰⁰ Including fixed assets in use.

Table 36 Number of entities employing more than 9 persons and number of persons employed in these enterprises

	2003	2004	2005	2006	2007	2008	2009
<i>Number of examined economic entities</i>							
More than 9 employees	42 344	43 214	43 518	44 531	45 094	47 491	50 585
10–49	26 537	27 496	27 632	28 328	28 284	29 671	31 974
50–249	13 190	13 038	13 133	13 272	13 647	14 648	15 576
More than 249	2 617	2 680	2 753	2 931	3 163	3 172	3 035
<i>Number of employees</i>							
More than 9 employees	4 192 806	4 276 422	4 391 288	4 617 257	4 858 398	4 985 053	4 895 073
10–49	620 971	652 567	674 898	700 631	725 715	736 428	755 646
50–249	1 308 661	1 326 328	1 354 773	1 389 699	1 443 514	1 504 949	1 537 021
More than 249	2 263 174	2 297 527	2 361 617	2 526 927	2 689 169	2 743 676	2 602 406
<i>Number of employees per 1 enterprise</i>							
More than 9 employees	99.0	99.0	100.9	103.7	107.7	105.0	96.8
10–49	23.4	23.7	24.4	24.7	25.6	24.8	23.6
50–249	99.2	101.4	103.2	104.7	105.8	102.7	98.7
More than 249	864.8	857.3	857.8	862.1	850.2	865.0	857.5

Source: Central Statistical Office F-01.

Table 37 Number of active enterprises within 2003–2008 (in thousands)

	2003	2004	2005	2006	2007	2008
total	1 726 536	1 714 983	1 676 775	1 714 915	1 777 076	1 862 462
More than. 10 employees	1 666 696	1 653 856	1 615 167	1 652 998	1 713 194	1 787 909
10–49	42 770	44 369	44 519	44 228	45 184	54 974
50–249	14 368	14 003	14 254	14 708	15 452	16 327
More than 249	2 702	2 754	2 835	2 981	3 246	3 252

Source: Central Statistical Office: Activities of non-financial enterprises in 2008.

Table 38 Average monthly remuneration (gross) in enterprises within 2003–2008 (in PLN)

	2003	2004	2005	2006	2007	2008
total	2 142	2 336	2 402	2 525	2 732	3 000
More than. 10 employees	1 390	1 449	1 483	1 509	1 555	1 726
10–49	1 845	2 125	2 180	2 282	2 488	2 677
50–249	2 156	2 372	2 441	2 579	2 839	3 129
More than 249	2 658	2 856	2 949	3 105	3 361	3 715

Source: Central Statistical Office: Activities of non-financial enterprises in 2008.

Table 39 Revenues, costs, incomes and investment costs in enterprises (nominal values)

		2003	2004	2005	2006	2007	2008
Total revenues (in PLN billion)	total	1 951	2 193	2 264	2 559	2 888	3 214
	More than 10 employees	497	541	553	637	671	746
	10–49	301	324	323	340	382	464
	50–249	423	487	501	561	653	701
	More than 249	731	840	887	1 021	1 182	1 302
Total costs (in PLN billion)	total	1 855	2 041	2 114	2 381	2 661	3 002
	More than 10 employees	453	485	490	566	585	645
	10–49	286	307	304	322	353	433
	50–249	408	464	481	532	614	670
	More than 249	709	785	840	961	1 108	1 252
Gross profit (in PLN billion)	total	133	173	173	202	254	264
	More than 10 employees	54	64	70	80	100	116
	10–49	21	21	22	24	31	37
	50–249	21	27	25	33	42	41
	More than 249	36	60	55	65	81	70
Investment costs (in PLN billion)	total	77	90	100	114	144	160
	More than 10 employees	10	11	12	14	18	20
	10–49	11	12	11	13	16	19
	50–249	16	22	22	28	35	35
	More than 249	40	45	56	59	75	86

Source: Central Statistical Office: Activities of non-financial enterprises in 2008.