

Policy Support for SMEs in Poland

by Maria Anna Karwowska and Elzbieta Mrozinska

THIS PAPER DESCRIBES SMALL BUSINESS activity in Poland after the changes in 1989/1990. The short history of private business in the centrally planned economy is covered in 'General Overview'.

According to the title, "Policy Support for SMEs in Poland" should be more about the special regulations helping SMEs, but there are no such regulations as yet. SMEs operate according to different criteria than state enterprises, but this law refers to private sectors. Small business development in Poland is connected with the transformation to a market economy as part of the privatisation process, and is naturally the part which is much easier to achieve than the privatisation of big state-owned enterprises. The SMEs being private firms are getting all the support given to the private sector.

Small-scale privatisation refers to small firms, mainly in the retail trade but also to some extent in the industrial sector. In

these cases, privatisation is accomplished mainly by transferring ownership to the firms' workers, through a lease or an outright purchase.

General Overview

Small business in Poland until 1989 was very specific in accordance with the conditions of the centrally-planned economy. This was not 'small business' in the meaning of Western countries. The private sector was always dependent on the state sector. The private firms, mostly private craftsmen (shoemakers, tailoring and dressmaking, hair-dressing, baking, taxi-driving), were running their business without any essential infrastructure. This sector usually comprised family firms.

There were no incorporated firms or independent co-operatives in Poland until 1982. A new law on co-operatives was introduced in 1982 and consequently new co-operatives, independent of the state authorities, began to spring up.

Permission from central authorities was still necessary to establish a co-operative. The new co-operatives mainly serviced state-owned firms. From 1976, unincorporated firms established by people who were non-Polish residents (Polonia firms) were permitted. But only a few were created before the 1980s. Since 1985 incorporated firms had been registered by common courts in accordance with the Commercial Code of 1934. In April 1986, the law on foreign investment made it possible to create incorporated firms using foreign capital. By the end of 1989 there were 29,900 people employed in 419 firms of this type. The most important legal change concerning the private sector was established in 1988 by the Law on Economic Activity. This change created a rapid increase in the number of incorporated firms and consequently, in employment (*Small and Medium-size Enterprises in Poland*, Grabowski, H., Kulawczuk, P.).

These new firms were still similar to the old ones: they had a low turnover and small work forces and were established with limited capital. Some forms of economic activity were legally reserved for state-owned enterprises (e.g. foreign trade, some transportation service).

Small Businesses in Poland over the past 20 years

The businessmen learned how to act in the centralised economic system when the market was short of nearly everything and when all products could easily be sold. In the new conditions, facing competition of both domestic and foreign producers, they met entirely new problems. Their knowledge and experience was of hardly any use in

solving these problems. Previously the small producers could sell their products to the big state-owned enterprises. If their production was needed, they could get from the state the necessary raw materials. Now they have to look for customers themselves. In most of the other East European countries, economic behaviour under free market conditions is learned by the new businessmen together with first-hand experience of their economic activity. In effect, the small business in Poland, in spite of its rather long history, does not function more efficiently than in other East European countries. A Polish small business entrepreneur, contrary to the common stereotype, is not adjusted to functioning in free market conditions.

Definition and Statistics

There is no clear definition of a small business in Poland. Characteristics like the number of employees, the turnover or the value of assets are still under discussion and are used in academic publications but not in legal regulations and statistics. This is why the statistics and measurement of small firms and their contribution to the Polish economy is a problem.

According to the main statistics office the small firms are those which have less than 50 employees and medium firms with less than 200 employees. This is not the only definition — other definitions are possible for various reasons using different criteria. In some cases statistics show just data for the private sector. According to the official data, approximately 360,000 new enterprises were established during January–November 1990. However, the data are subject to many biases (*Creating a Market Economy . . .*, Lipton, D., Sachs, J.).

Key Phrases in S Poland

While a small the centrally-pla the developer entrepreneurs political and 1989/1990. T created the po running private and most rapid have been initi and wholesal tradesmen star streets'. Some owners of cor stores and even

The second of SMEs is goir with theoretic definition of s and objectives SME policy. setting up the most importan

Rationale for

The privat through the entrepreneurs the process of The econom dominated companies. T inadequate b developmen encouraged.

The new creative, ind entrepreneur activity in a cl It creates ne strong SME absorbing sor transformati

Key Phrases in SME Development in Poland

While a small private sector existed in the centrally-planned economy, in reality the development of private activity and entrepreneurship started with the political and economic changes in 1989/1990. The new situation has created the possibility and necessity of running private businesses. The biggest and most rapidly developing activities have been initiated in trade, both retail and wholesale. A large number of tradesmen started with 'selling on the streets'. Some of them are now the owners of corner shops, department stores and even chain store networks.

The second phase in the development of SMEs is going on now. It is connected with theoretical discussions about the definition of small business, its position and objectives and the organisation of SME policy. The next phase will be setting up the legal regulations for the most important fields of activity.

Rationale for Support of Small Firms

The private SME sector, created through the initiative of individual entrepreneurs, plays the crucial role in the process of economic transformation. The economic structure in Poland is dominated by large, state-owned companies. The number of SMEs is still inadequate but the establishment and development of these firms will be encouraged.

The new kind of self-sufficient, creative, independent and risk-taking entrepreneurs provide new models for activity in a changing economic situation. It creates new habits and behaviour. A strong SME sector could help in absorbing some of the economic shock of transformation. The small companies are

more flexible, can more easily change the type of business or their product range according to market demand and customer wishes.

Support of SMEs and individual entrepreneurship could solve some problems with unemployment. According to the research made by the Gdansk Institute for Market Economics, 41.5 per cent of the new entrepreneurs have been the managers in the state sector and in total 61.6 per cent have worked in the state sector. The reasons of entering the private sector were different, but one of the important factors was redundancy. Small business development can help to minimise the social costs of the privatisation process and to generate market-oriented social behaviour.

Specific Policies

Small Business and Large State-owned Companies

In the centralised economy the small business functioned in close co-operation with large state-owned companies filling some, rather marginal, gaps in needs not fulfilled by other state-owned institutions. Usually, because of inadequate co-ordination of activities, difficulties in reliable planning, etc., the large state-owned companies tried to be as self-sufficient as possible in their production.

Therefore, at present, their collapse is frequently advantageous for the development of the small business (though these advantages may not be seen by the businessmen themselves). The collapse of the big companies creates market niches leaving room for the development of small enterprises, also in areas very distant from the main line of activity of the big company. For example, an artificial fibre factory may have its own workshops repairing (officially) the

factory cars and (unofficially) also the cars belonging to the factory employees and to other people. The bankruptcy of this factory might make possible the creation of several private workshops.

Small Business and Privatisation

Another very important social role of the small business is its influence on the process of privatisation. Development of small businesses leads to the most efficient way of privatisation of state-owned companies. Fragments of these companies, sold to small entrepreneurs, form the foundations for small businesses. In this area, active support by the government is still inadequate.

Informal Economy — the Source of Capital

Appreciable sources of capital were and still are semi-legal and illegal operations based on high differences between levels of prices in Eastern and Western markets. Apart from big drug and rare metal smugglers (who usually have nothing in common with the small business), a network of small enterprises is growing up rapidly on both sides of the eastern border of Poland. In our opinion, these sources of capital contribute in an important way to the development of the small (and frequently, also large) business.

Accessibility of Credit

The Polish banks give credits according to commercial rules. These rules are the same for private and state-owned enterprises, for big and small firms. Commercial credit is very expensive. The rate of discount credit changes during a year and is very high because of inflation. The rate of commercial credit is several points higher than discount credit. The banks control

the granting and guaranteeing of credit. It makes the obtaining of credit difficult, especially for the small firms starting a business¹. There are some foreign credits from the sources given by Western countries. The rate of this credit is lower but the real price depends on the rate of foreign currency in Poland. The foreign credit is profitable for a company selling abroad.

The sources of foreign credits for SMEs are (*Polityka rozwoju) malych i srednich przedsiebiorstw . . .*, Lis, J., Rogut, A.):

- Polish-American Enterprise Fund — World Bank
- European Investment Bank
- European Financial Corporation
- PHARE Fund

Bank for Socio-Economic Initiatives

The Bank for Socio-Economic Initiatives was set up in July 1990 at the Ministry of Labour and Social Policy's suggestion. Its credits are given mainly to SMEs. 30 per cent of the customers are from the Local Initiatives Agencies. This bank was giving credits with a higher level of risk. After some period of time they found that a large number of credits were being used for reasons other than their original assignation, which meant that there was not always the ability to repay the credit. After this bad experience the bank has given up these kind of credits.

Small Business — the Possibility for Unemployed

Creation of new small business enterprises is one of the most efficient ways of reducing unemployment. The government, trying to create new jobs, indirectly supports the development of small businesses. Unfortunately, this is about the only area of active support (through bank loans) of small businesses

by the government.

The law enacted on unemployment from October 16th, 1991 covers the possibilities of giving loans to the unemployed. There is a special Job Fund of the Ministry of Social Policy from which the Local Labour Office can give loans for the unemployed, or to an employee during the notice period of a job contract, to help them in starting their own businesses.

The rules for giving loans:

- a loan can be granted only once to an unemployed person or employee during the period of termination of a job contract if this termination is connected with a company staffing problem,
- the loan can not be higher than 20 times the average monthly salary of the five industrial sectors of Poland,
- the loan repayment can be reduced by 50 per cent if the activity is going on for not less than two years,
- the interest rate of the loan is:
 - for production activity — 0.6 of the rate of discount credit
 - for trade and service — 0.8 of the rate of discount credit.

Level of Support

There are three levels of support for small businesses:

- (i) national level,
 - (ii) regional level,
 - (iii) local level.
- (i) Support of the small business limited to funding the creation of new jobs.
 - (ii) Eight regional centres (covering the whole country) have been created. No visible activity can be observed.
 - (iii) This has the widest potential possibilities of supporting small businesses. However, the activation of this potential strongly depends upon

the local (also personal) conditions.

In general, in our opinion, small businesses in Poland will grow in a spontaneous way, mostly unrelated with the state policy and independently of this policy.

Small Business Support in the Torun Province — Poland

The Torun Province with its capital — Torun — is situated in the northern part of Poland, 175km from Gdansk and 220km from Warsaw. The area of Torun Province is 5,348 sq. km with about 660 thousand inhabitants. The basic sphere of the economy is industry and agriculture.

The cases following are an example of activity in supporting small business. Two of them are co-ordinated at the national level but good results have been achieved thanks to the local initiative.

The Torun Incubator for Enterprise as a regional activity on unemployment and the Small Business area

The Torun Incubator of Enterprise was created by the Economic Foundation NSZZ 'Solidarnosc', The Regional Department in Torun, (Fundacja Gospodarcza NSZZ 'Solidarnosc' Oddzial Regionalny w Toruniu), the Local Labour Office in Torun² (Rejonowe Biuro Pracy w Toruniu), the Labour Office for Torun Province (Wojewodzkie Biuro Pracy w Toruniu) and Zaklad Doskonalenia Zawodowego.

The idea of the 'Incubator' is to support the unemployed in starting their own business. The initial idea was to improve their qualifications and supply them with a workshop for running a business during the first years. There is a suitable place in Torun that would be adequate for the creation of about 50

workshops but there is no money to prepare them for use. This is the reason why only one part of the 'Incubator' activity can be realised.

People involved in the activities of the 'Incubator' here have not given up the idea of preparing the workshops. They are looking for the funds and getting good experience with supporting both the unemployed and the development of small businesses.

The 'Incubator' organises courses for the unemployed who are registered with the Local Labour Office in Torun. The Local Labour Office chooses the candidates and pays the costs associated with the courses. Practical knowledge about small businesses is presented by experienced lecturers who have themselves been involved in the running of businesses.

The first result of the course is to develop a proper plan for the proposed business to enable the candidate to apply for a loan. The loans for starting businesses by the unemployed are obtained by the Local Labour Office from the Job Fund (Fundusz Pracy).

The first course was started at the end of 1990 with 54 participants. The details about the results of that course are shown in Figure 1. The second began in August 1992 and is already finished. The group of 22 persons who finished that course are preparing to take part in small business activities.

The 'Incubator' and the Local Labour Office is making plans for the next course in 1993 when new funds for loans will become available.

*Small Business — the Possibility for
Unemployed in Torun Province*

The loans for the unemployed to support small business activity are widely

used in the Torun Province. Those making use of the Job Fund in this province are shown in Table 1.

Table 1
Making Use of the Job Fund in Torun Province

<i>1990 year</i>	
14 752 200 000 z1-904 loans (16 mln z1 per loan)	
806 persons started businesses	
42 persons repaid the loans without any activity	
<i>1991 year</i>	
6 650 500 000 z1-269 loans (21 mln z1 per loan)	
248 persons started businesses	
10 persons repaid the loans without any activity	
<i>1992 year</i>	
3 300 000 000 z1 (50 mln z1 per loan)	

Source: The Labour Office for Torun Province

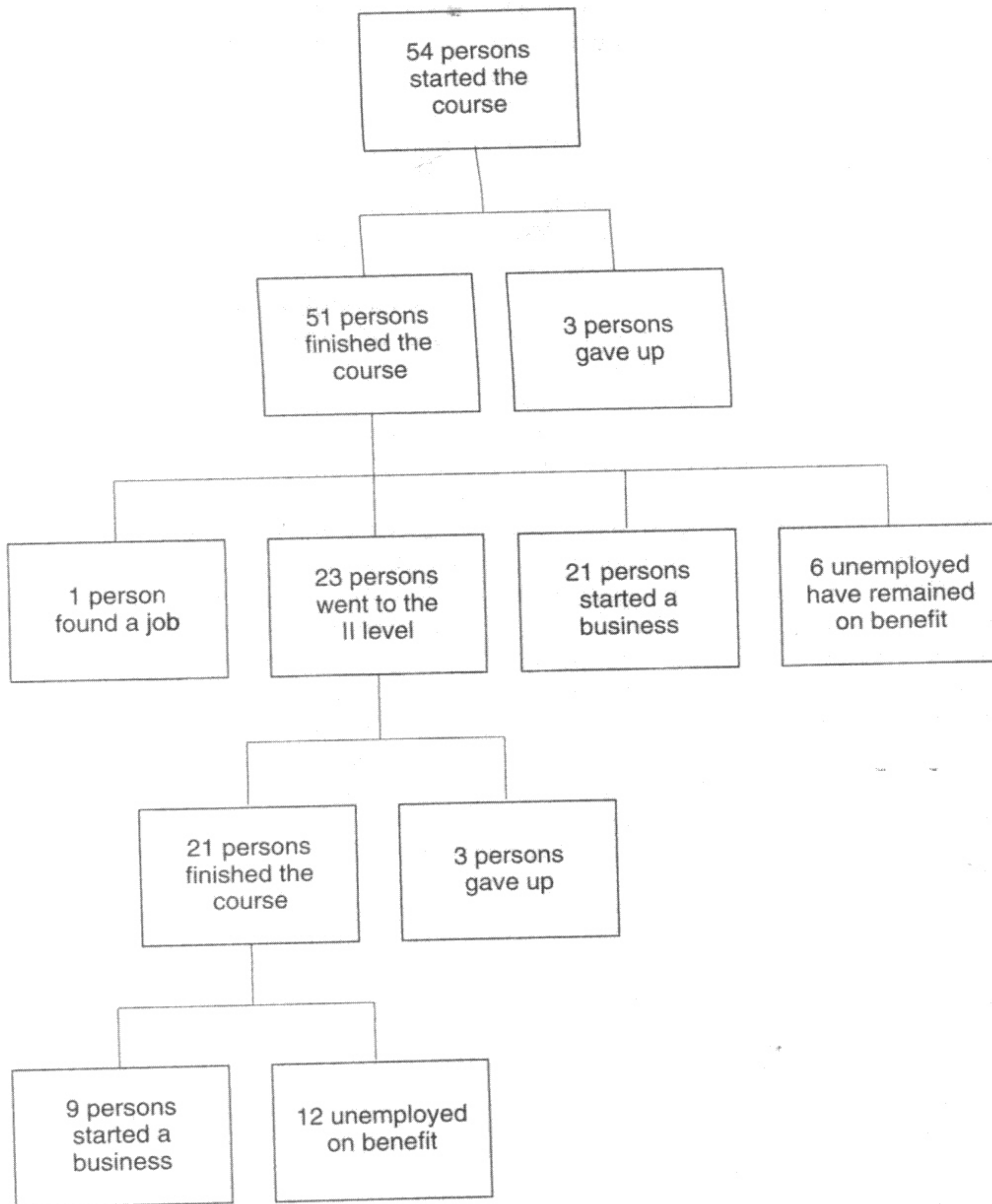
The Business Support Centre

The Business Support Centre was created in Poland after the example of the European Business Network located in Brussels. The BSC is a part of the SME Support Programme 'PHARE '90'.

Torun is one of the six centres working in Poland since the end of 1991. The activity in Torun commenced in July 1992. Other centres are located in Plock, Lodz, Siedlce, Bialystok and Wroclaw.

The BSC in Torun provides an information system and supplies a consulting service to firms employing less than 100 persons. The customers should be running the production side of the business. The areas of activity involve legal, financial, marketing and strategy consulting. The service fees are very low because the costs are covered by the Co-operation Fund which has at its disposal

Figure 1
Results of the Course in 1990
"How to Start a Business"



Long Term Result: after two years 23 persons are still running a business and have given a job to 9 others.
 Source: Labour Office for Torun Province

funds from the 'PHARE '90' programme.

Most of the advice is given in the field of law, foreign partner searches and credit applications. Apart from this the BSC organises courses for people who want to know more about starting and running their own business. The Centre in Torun has already started to be the real centre of SME co-ordinated regional activity. The BSC is supported by western experts who help the Polish consultants. This is a good way for preparing the well-educated and experienced local staff.

*The Foundation for Socio-Economic Initiatives
Local Initiatives Agency in Torun*

The Local Initiatives Agency in Torun is one of 14 agencies working as a network for the Foundation for Socio-Economic Initiatives. The foundation was set up in October 1990 by four persons who saw the necessity to help people to start their own business. The objectives of the foundation are to increase the activity of the local society and to support all enterprises which are connected with a development of small and medium-size businesses.

The Local Initiatives Agency in Torun started to work from the beginning of the foundation's activity. The first consulting was given to unemployed persons who wanted to start a new business. Advice was given free. Now most of the people are looking for help to expand their business. Different kinds of activity and the results achieved in 1991 are shown in Table 2.

The agency is helping the customer to prepare credit applications, to make financial analyses and find the best financial resources. It co-operates with the Bank for Socio-Economic Initiatives. The customers are mostly from the Torun region but some of them are from

neighbouring provinces.

Table 2
Results of the Activity in Torun and as a Percentage of the Foundation's Activities, Year 1991

Advice given	700	& 22
Credit applications	57	18
Number of credits	30	20
Credits in mln zl	6,000	28
New jobs created	178	19

Source: The Foundation for Socio-Economic Initiatives, Local Initiatives Agency in Torun

In April, 1991 the Foundation for Socio-Economic Initiatives, Bank for Socio-Economic Initiatives and French Partnership for International Investment and Development created the Socio-Economic Investment Company. This company buys the shares of small firms to increase their capital but does not take a majority holding. The enterprise supported by the Socio-Economic Investment Company should provide the needs of local societies.

Conclusion

This paper covers the actual situation of small business in Poland as well as the main problems connected with its development.

There are four points necessary to stress:

1. Support for SMEs as the efficient way of reducing unemployment is the main government's activity connected directly with small business.

2. The privatisation process is necessary for preparing the infrastructure for small business development.

3. Positive results in the area of the most important problems for Polish economy and politics, are the basis for starting the policy support of SMEs.

4. Activity on the regional level connected with regional centres should be carried on and could be the important level of SME support.

Business Support Centre in Torun
Poland
Orzel, M.,
The Foundation for Socio-Economic
Initiatives, Local Initiatives Agency in
Torun
Poland.

Notes

- ¹ The rate of discount credit on October 9th, 1992 was 38 per cent; the interest rate of commercial credit is around 1.32 times the discount credit.
- ² This Local Labour Office takes on activities for Torun and four nearby communities.

References

- Grabowski, M. H., Kulawczuk, P. (1992), Small and Medium-size Enterprises in Poland, Analysis and Policy Recommendation, *The Gdansk Institute for Market Economics*, Gdansk.
- Lipton, D., Sachs, J. (1990/2), Creating a Market Economy in Eastern Europe: The Case of Poland, *Brooking Papers on Economic Activity*.
- Lis, J., Rogut, A., Polska, in: Piasecki, B., *Polityka Rozwoju malych i srednich przedsiebiorstw w panstwach Centralnej i Wschodniej Europy; Komitet Organizacyjny XIX Miedzynarodowego Kongresu Malego Biznesu, pazdziernik 1992, Warszawa (19th International Small Business Congress, Poland Warsaw '92)*.

Interviewees

- Kozlowski, R.,
The Labour Office for Torun Province,
Poland.
- Kruszynska, M.,

and as
on's
&
22
18
20
28
19
ves, Local
on for
nk for
rench
stment
Socio-
. This
rms to
take a
prise
omic
le the
iation
as the
h its
ry to
icient
is the
ected
ss is
the
iness