Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 1999–2000

Polish Agency for Enterprise Development

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Introduction

I am pleased to present you with the fifth edition of the *Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland*. The *Report* covers the years 1999–2000 and has been prepared by the Polish Agency for Enterprise Development in cooperation with the Ministry of the Economy.

The small and medium-size enterprise sector creates over 65% of jobs in Polish firms, and it generates almost half of GDP and exports. Its good condition is, therefore, a guarantee of development of the Polish economy.

The *Report* quotes and discusses statistical data describing the activities of small and medium-size enterprises. An important element of the *Report,* to which I would like to direct your attention, is the presentation of tax issues, which are integrally related to the development of entrepreneurship. A discussion of tax issues addressed to small and medium-size enterprises and an assessment of the influence of those issues on the activities of enterprises are to be found in the *Report* as well. A no less important part of the *Report* is the determination of the evolutionary possibilities of the taxation system with respect to its ease of interface for entrepreneurs and businesses.

The *Report* is the only known such source of invaluable information and statistical data. It is addressed to all those who, for assorted reasons – professional or private, find these subjects of interest. I also trust that with time, the *Report* will reflect the favourable trends in the small and medium-size enterprise sector that are related to the implementation of Government policy guidelines towards small and medium-size enterprises, contained in the current programme until 2002, and in subsequent reports and related to the assistance addressed to enterprises in that sector under EU programmes.

In wishing you an interesting read, I hope that you will evaluate the *Report* positively, and that information contained herein will contribute to a more complete understanding of the functioning of this very important part of Polish economy.

Tadeusz Donocik
Undersecretary of State, Ministry of the Economy
Chairman of the Supervisory Board, Polish Agency for Enterprise Development

From the Authors

Dear Readers,

The Polish Agency for Enterprise Development, in continuing the initiative of the Polish Foundation of Small and Medium Enterprise Promotion and Development begun five years ago, has prepared another edition of the *Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland* in cooperation with the Ministry of the Economy.

Due to the enormous importance the structure of the tax system has for entrepreneurs, a substantial portion of this year's *Report* is dedicated to tax legislation and public levies related to business activities. The Authors include leading specialists from that field, and – as before – experts on law, the economy, finance and sociology, as well as practitioners in activities directly related to the SME sector. Our team of authors is now more experienced than ever and has, I believe, prepared an edition that is fuller than ever before with the most credible information available on small and medium-size firms in Poland.

Again, I invite your opinions and welcome your comments on the *Report* and the information contained herein. In addition, I request your cooperation in collecting information about the sector to be used in our work on our next edition of the *Report*.

For the exceptional commitment to the preparation of the *Report* I would like to thank Director Izabela Zagoździńska and Director Maria Sierpińska, and the employees of the Central Statistical Office, all of whom are committed to the work on the *Report*. For their kindness and assistance in the collection of information I would like to thank also Mr. Tadeusz Chrościcki (Government Centre for Strategic Studies), Mr. Tadeusz Kaczała (State Treasury Agency for Agricultural Property), Mr. Tadeusz Olejarz (Ministry of Labour and Social Policy), Ms. Irena Wiaderna (National Labour Office), and Mr. Euzebiusz Zbieć (Ministry of the Economy).

I would also like to extend my gratitude to Hewlett Packard, Intel, Microsoft and Getin for their provision of support in conducting a number of surveys used in the *Report*.

Krystyna Gurbiel
President
Polish Agency for Enterprise Development

Executive Summary

Macroeconomic Changes in 1999–2000

The years 1999–2000 remained a period of high economic growth in comparison with the European Union countries. However, the rate of growth of GDP decreased very significantly at the end of 2000, to 2.4%. External demand was a factor that supported the economy. The year 2000 was the first year of positive foreign trade results in the past several years. Both the level of exports and the level of imports increased and, moreover, the rate of growth of exports exceeded the rate of growth of imports. The most important economic problem was the continuously growing level of unemployment, which reached 15% in December 2000.

Condition of the SME Sector in 1999

The rate of growth of the SME sector decreased in 1999. The share of SMEs in the generation of GDP grew at a slower rate, as did the number of enterprises. For the first time during the entire decade of the nineties, the number of people employed in small enterprises decreased, and although the number of employees in medium-size enterprises increased, this increase was primarily with respect to those employed in entities that had separated from large enterprises and joined the medium-size business sector. Considering the difficult conditions under which SMEs operated in 1999, medium-sized firms survived that period in relatively good condition, faring much better than the large enterprises whose financial results deteriorated and whose employment levels declined to a greater extent than in the SME sector. The evidence of the entrepreneurs' optimism is, first and foremost, the increase in capital expenditures in small private firms despite the difficult conditions of their development.

Policy Towards SMEs

In 2000, the Government's programme development activity decreased, shifting the weight of its operations towards the implementation of economic programmes. This was primarily the first year of significant support for small and medium-size enterprises under the implementation of the *Government Policy Guidelines for Small and Medium-sized Enterprises until 2002*. The Sejm Committee for SMEs, which significantly contributed to the considerable increase in funds earmarked for the development of small and medium business under the 2001 Budget Act, also saw 2000 as a very visible period of activity. The increasingly complete inclusion of the role of SMEs in regional development programmes, though hindered slightly by the division of the competencies of the Minister for the Economy and the Minister for Regional Development, is also a favourable phenomenon.

Legal Environment of the Functioning of SMEs in 2000

In 2000, more than 10 pieces of primary legislation were adopted that significantly affected the legal conditions under which enterprises operate. The Code of Companies introduced new principles for the functioning of entrepreneurs – corporations and partnerships. The Act on eligibility and supervision of public aid for entrepreneurs defined the criteria by which the provision of assistance to businesses is allowed. The requirement to support small and medium-size enterprises imposed by the Business Activity Law Act was reflected in the Act on the establishment of the Polish Agency for Enterprise Development.

Unfortunately, no important changes were made in labour relations. Law enforcement conditions continued to deteriorate, primarily as a result of the inefficiency of the judicial system.

Tax Law in 2000 and the Last Decade in Retrospect

The adaptation of Polish tax law to the conditions of the modern economy is currently in progress. In addition to the positive events (limitation of the regulation of tax issues by way of executive acts, ability of the taxpayer to choose the form of taxation), there are some alarming tendencies (casuistry of regulations, complicated bureaucratic requirements, reduction of the attractiveness of simplified forms of taxation). The system's drawbacks include excessive unpredictability and worryingly large role of official interpretations of law.

Contribution of Small and Medium-size Enterprises to the Generation of Public Sector Income

The SME sector continues to increase the share of its contribution to the creation of state budgetary income. In 1996 this contribution amounted to 27.8% of public sector income, and in 1999 – as much as 36.1%. This phenomenon reflects the positive trend of change in the structure of the Polish economy towards the increased share of the small and medium-size enterprise sector.

The share of SMEs in the generation of public income is surprisingly high and comparable to the contribution made by large enterprises. The contribution of Polish SMEs to the state budget is proportionally larger than that of SMEs in developed countries where they are not a predominating source of public income. Undoubtedly, the condition of many Polish large enterprises influences this situation significantly, as these enterprises are more of a liability than a source of budgetary income.

Entrepreneurs' Perspectives on the Tax System

The opinion that taxes and other public charges are the most significant barrier to a company's development is becoming more and more common among entrepreneurs. In 2000, as many as 40% of entrepreneurs expressed such a view. Among all public levies, the size of the social insurance contribution is decidedly the most problematic. Also, taxes are significant bureaucratic burdens. Entrepreneurs, however, concede to bearing the costs of the functioning of the state. Their only desire is that the monies they pay into the budget be spent efficiently, and – thus far – they are not convinced that this is the case. They also claim that company development should constitute a reason for decreasing the public levies imposed on them.

Computerisation and the Internet in SMEs

In the group of enterprises employing up to 50 people only about 40% have a computer, and only slightly more than 20% have Internet access. However, among medium-size businesses, 99% had at least one computer; among them 56% had access to the Internet, and 24% were planning to obtain such access within the following 12 months. Regardless of the size of the business, entrepreneurs are rather positively disposed towards the Internet. Those who use it

generally believe it has met their expectations. A large majority (almost 90%) are either planning to use it or benefit from at least one Internet application in their company.

Business Environment

There are many institutions and programmes supporting small and medium-size enterprises in Poland. The numerous groups of institutions supporting SMEs are, however, internally diverse. In addition to those with considerable potential and knowledge, there are many centres that are incapable of offering specialist assistance to entrepreneurs. The provision of assistance for the sector also lacks the investment support programmes sought by firms. On the other hand, the fact that SMEs are more and more visible as an element of the local community and regional development programmes is very gratifying.

Also important in 2000 was the proactive approach of business community institutions in the implementation and carrying out of the Government programme of support for small enterprises combined with the opportunity to utilise this approach in reaching those entrepreneurs with the offers and services of public authorities.

Tax Related and Financial Barriers to the Development of Enterprises

Over two-thirds of entrepreneurs who were asked about unfavourable changes in the tax system over the last three years identified the increase in tax burdens and the intensifying complication of regulations. As many as 80% of individuals taking part in the survey were unable to indicate even one beneficial change in tax Acts from 1997 onwards. The constant changes in the legal acts are also a significant drawback of the Polish tax system – the majority of tax Acts were amended several dozen times over the last 50 years. The practice of taxation legislation is in no better shape – the non-uniform interpretation of regulations by tax authorities, a long waiting period for decisions, low levels of competence and a lack of friendliness of the administration.

Chapter 1.

Macroeconomic Changes in 1999–2000

Economic Growth

Inflation

Public Finance

Financial Status of Enterprises

Investment

Labour Market

Wages

Foreign Trade

Privatisation

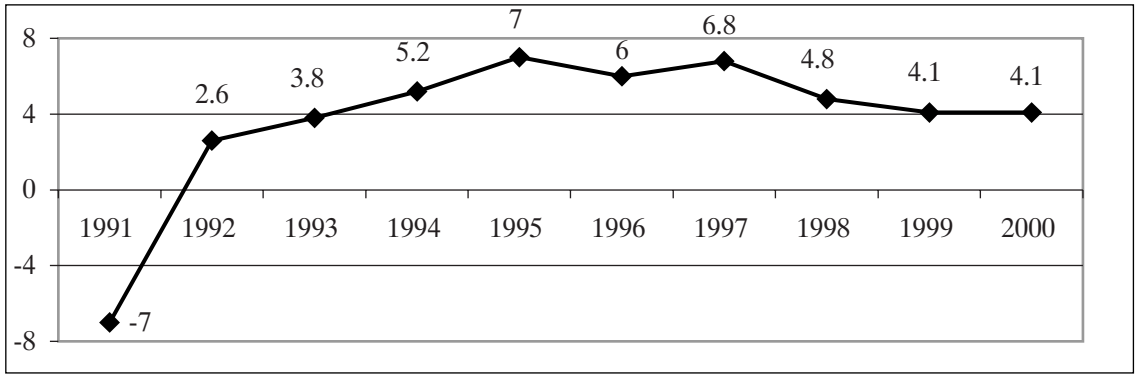
Poland against the European Backdrop

The figures used for this chapter are derived from the following sources: the Central Statistical Office (GUS) publication *The Socio-economic Condition of the Country. 2000 (Informacja o sytuacji społeczno-gospodarczej kraju. rok 2000)*; the National Labour Office publication *Information on the Condition and Structure of Unemployment in December 2000 (Informacja o stanie i strukturze bezrobocia w grudniu 2000 r.)*; and, the report prepared by the Government Centre for Strategic Studies (RCSS) entitled *Assessment of the Socio-economic Conditions in 2000 Referencing Forecast Fundamentals for 2001 (Ocena sytuacji społeczno-gospodarczej w 2000 roku wraz z elementami prognozy na 2001 rok)*. Much of the statistical information presented in this chapter is of a preliminary nature and may contain estimates of figures. Consequently, the statistical information may differ significantly from the final results. As an example, the 1999 foreign trade figures serve to illustrate the variations in the presentation of this information, as the data presented in the previous edition of the *Report* differs considerably from the final results published both in the *Statistical Yearbook 2000* and in this *Report*.

1.1. Economic Growth

In 2000, the rate of economic growth matched that of the previous year: the Gross Domestic Product increased by 4.1% in real terms. In 1999, this rate of growth showed an upwards tendency, whereas a year later it decreased from quarter to quarter – from 6% in the first quarter to 5.2% in the second quarter, to 3.3% in the third quarter, and only 2.4% at the end of the year. The level of growth targeted in the Budget Act (5.2%) was not achieved. The economic slowdown affected all major sectors of the economy: the manufacturing industry, building trade, commerce and transportation, as well as agriculture. The slowdown was the result of a decrease by half, on average, of the rate of growth of domestic demand, both consumer and investment-related. Exports drove economic growth, however they could not counterbalance the declining growth of internal demand.

Diagram 1.1. Dynamics of GDP growth in Poland, 1991–2000 (as %)



Source: GUS data

The total industrial production sold increased in 2000 by 6.8% vs. less than 4% in 1999. Labour efficiency, measured by production sold per employed person, was much higher than in 1999 (by about 14% as compared to 9% growth in 1999). This increase was mainly due to a decline of 5.7% in employment levels. An increase in production sold was recorded in 24 of 29 branches of industry in comparison with 1999. In the majority of those sectors recording

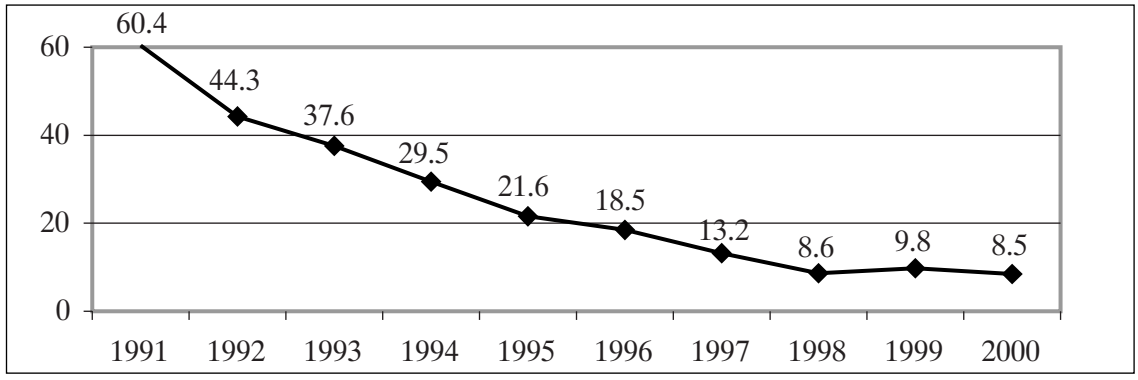
a high rate of growth of sales, a much higher than average increase in labour efficiency was also observed. Unfortunately, only five sectors saw their increase in production sold and labour efficiency lead to an increase in employment; in other sectors, employment decreased.

The external demand resulting from the positive business outlook in foreign markets, especially in the European Union, was a significant determinant in the revival of the economy. However, the increase in external demand was accompanied by a marked decline in the rate of growth of individual consumption, which increased by 2.4% in 2000 (as compared to 5.4% in 1999 and 3.9% provided for in the Budget Act). This was caused by lower real growth of wages in the national economy (by 2.6% in 2000 as compared to 4.7% in 1999), as well as by a drop in the real value of social benefits, and a decrease in consumer credit and an increased propensity to save.

1.2. Inflation

The consumer price index from December 1999 to December 2000 amounted to 8.5% and was much higher (by 3.3 percentage points) than that provided for in the Budget Act and the target inflation rate determined by the Monetary Policy Council (RPP) (5.4–6.8%). The entire year saw strong inflationary pressure. The fastest increase was noted in the prices for services, fuel and food items, halting the inflationary slowdown, whereas reduced domestic demand for non-food products led to the slowest rate of growth noted in the prices for goods from the non-food product group.

Diagram 1.2. Inflation in Poland, 1991–2000 (as %)



Source: GUS data

The average annual rate of inflation was high as well – 10.1% in 2000 as compared to 7.3% the previous year and 5.7% provided for in the Budget Act. The strong inflationary pressure forced the Government to undertake actions aimed at reducing inflation, including the liberalisation of import policy on some goods or the reduction of customs duties. The reduction of inflation was also the result of the restrictive monetary policy, whose side effect was a decrease in the rate of economic growth.

1.3. Public Finance

In 2000 the level of State income and expenditures projected in the Budget Act was not met for the third year in a row. Annual income amounted to PLN 135.7 billion, which constituted 96.3% of the total income provided for in the budget. As in the previous year, the main sources of income were to be the proceeds from indirect taxes (in particular, from value added tax) and from personal income tax. Those proceeds, however, were much lower than initially provided for. Nevertheless, income from corporate income tax exceeded the amount provided for in the budget by more than 19%.

State budget expenditures amounted to 96.6% of the amount provided for in the budget and reached PLN 151.1 billion. The so-called "fixed" expenditures related to the servicing of the public debt and additional financing of the social security system, which considerably restrict the pro-development activities of the State, played an increasingly important role in the structure of expenditures. The share of those expenditures as a part of the total expenditures of the State budget increased from 58% in 1999 to 61% one year later.

In 2000 the budget deficit amounted to PLN 15.4 billion, which constituted 2.2% of GDP (in the previous year PLN 12.6 billion and 2% of GDP, respectively). The main sources of financing the budget deficit were revenues from privatisation and proceeds from bond issues.

1.4. Financial Status of Enterprises

The financial status of enterprises was much more favourable than in the previous year, both for private and state-owned enterprises. Enterprises obtained much higher revenues from sales. The global gross financial results (PLN 18.4 billion) were more than twice as high as that achieved in 1999. The net financial results were even more positive and reached PLN 6.2 billion compared to negative PLN 1.6 billion from the previous year.

Although the share of entities that suffered a net loss increased (35.8% compared to 34.9% in 1999), the level of losses was slightly lower than the previous year – by PLN 0.4 billion. Enterprises that generated net profits had PLN 7.4 billion more at their disposal. Despite this obvious improvement, profitability was still very low.

Despite the drop in inflation in 2000, interest rates for credits and deposits continued to grow. During the year, the rediscount rate went up by as much as 2.5 percentage points (from 19% at the end of 1999 to 21.5% a year later). This promoted an increase in savings and slowed the growth of credits. Nevertheless, the level of corporate debt remained high. Enterprises incurred PLN 158.2 billion in total debt by the end of 2000, an increase of 7.4% in real terms in the course of the year compared to 12.5% in the previous year. In particular, the foreign debt levels of business entities (commonly not insured against foreign exchange risk), amounted to almost USD 25 billion after the first three quarters of 2000, which constituted 39% of the total corporate debt (compared to 36.5% the previous year).

1.5. Investment

For the last two years the rate of growth of investments has been decreasing significantly. In 2000, for the first time since 1993, the rate of growth of investments was lower than the rate of growth of GDP and amounted to about 2% (as compared to 6% in 1999, with the average for the years 1994-1998 exceeding 16%). The decreasing investment capabilities of the economy mean that the processes of restructuring and modernisation of Polish industry and of improvement of its competitiveness will progress at a much slower pace. In addition, the pace at which the technological gap is removed – a gap that divides Poland from developed countries – will be too slow.

The main sources of finance of investments by enterprises were their own funds – those they had generated from profits and depreciation. The role of credits in the financing of investments remained insignificant; it was assessed at 13-17%. Leasing also remained an underrated source of financing – it constituted only 5% of total investment expenditure, whereas in Western European countries as much as 30% of all new investments are financed in this manner. In Poland, in 2000, for the first time since their introduction, the value of newly entered leasing contracts decreased by as much as about 14%, in real terms. The difficult financial situation of enterprises, high inflation – in particular, the increase in the prices of construction and assembly services, extremely expensive credits, and an overvalued exchange rate of the zloty – were all factors that reduced investment demand.

On the other hand, the structure of investments changed favourably. With the exception of 1999, during the years 1993-2000 expenditures on machinery and equipment as well as on transport vehicles increased more rapidly than expenditures on buildings and structures. The age structure of fixed assets remained significantly unfavourable. The level of wear and tear of fixed assets was estimated at 62.1% at the end of 2000.

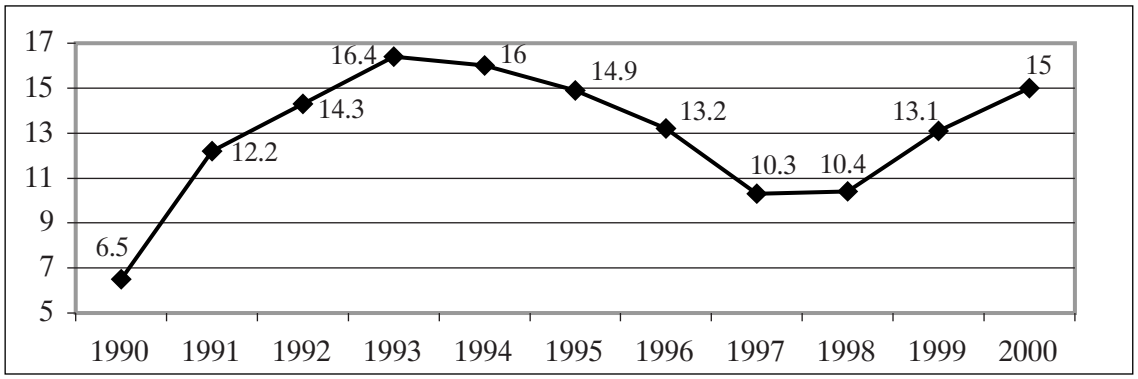
According to PAIZ (Polish Agency for Foreign Investment), in 2000, foreign direct investments valued at USD 10 billion were made in Poland, as compared to USD 8.3 billion in the previous year.

1.6. Labour Market

The situation in the labour market deteriorated significantly in 2000. The number of working individuals and the average level of employment in the national economy decreased. The number of registered unemployed and the rate of unemployment were at their highest rate since 1995.

The total number of people working in the national economy at the end of 2000 decreased by over 250,000 people (1.6%), and the rate of unemployment amounted to 15%, which, in absolute numbers, translates to over 2.7 million unemployed persons (the Budget Act assumed an unemployment rate of 11.5%, i.e., in excess of 1.9 million unemployed persons).

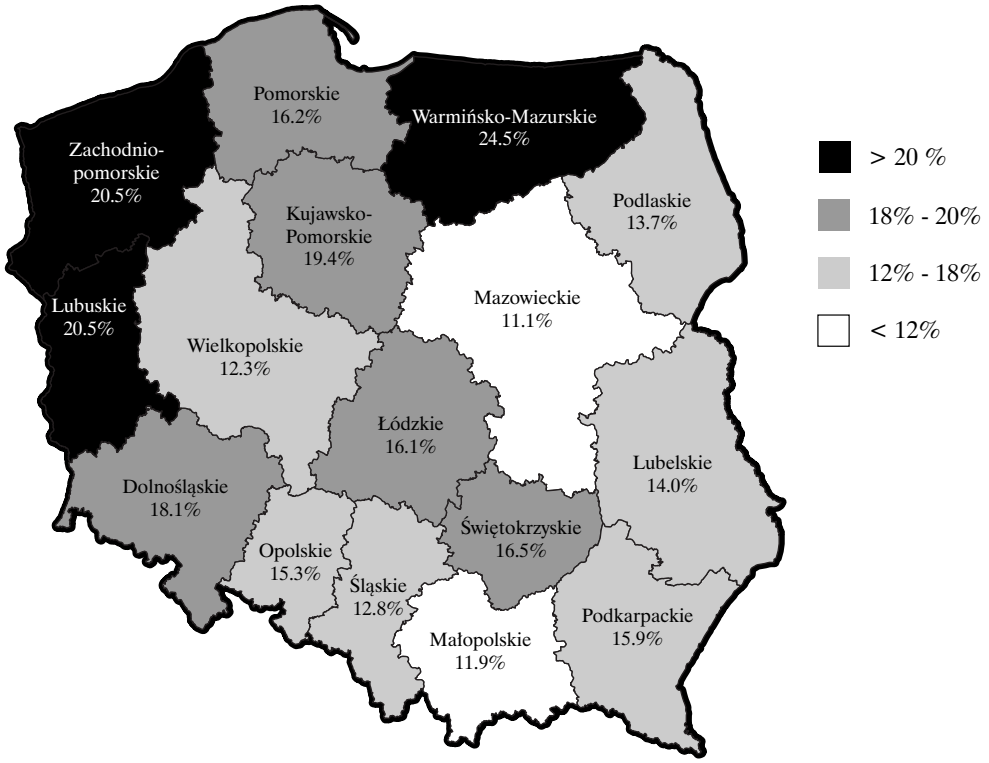
Diagram 1.3. Unemployment Rate in Poland in the Years 1990-2000 (as %)



Source: GUS data

In 2000, an increase in unemployment was recorded in all voivodships, and the unemployment rate reached double-digit figures nation-wide. However, a great differentiation existed between individual voivodships, varying from 11.1% in Mazowieckie voivodship to 24.5% in Warmińsko-Mazurskie voivodship.

Map 1.1. Unemployment Rate by Voivodship in December 2000



Source: Data of the National Labour Office

A decrease was noted in the number of individuals who accepted permanent employment, and those individuals who accepted work in public projects and make-work programmes. The number of employment openings reported to the unemployment offices declined from

680,700 in 1999 to 607,900 in 2000. There were 474 unemployed people per job vacancy, as compared to 385 the previous year.

Youths, women, and people who possess no professional qualifications remained the groups most at risk for unemployment. Women constituted over 55.2% of the registered unemployed, and young people, aged 18–24 years, accounted for 30.5% of total unemployed people. One in five unemployed young persons was a university graduate.

One of the largest socio-economic threats is the rapid and systematic increase in the number of unemployed people who do not qualify for unemployment benefits. As of the end of 2000 these persons constituted as much as 80% of all registered unemployed.

1.7. Wages

The average monthly gross wages in the enterprise sector amounted to almost PLN 2,100 in 2000. In real terms, wages increased by only 1.3% during the year, which means that their growth was the slowest in the last six years, lower even than the budgetary assumptions (2%).

The real level of social benefits also decreased. The average old-age pension and disability pension amounted to PLN 875 (gross) in 2000 and was 2.3% lower in real terms than the previous year.

1.8. Foreign Trade

The year 2000 was the first in several years to achieve favourable foreign trade results. Both the level of exports and imports increased and, moreover, the rate of growth of exports exceeded that of imports for the first time in many years. Despite the appreciation of the zloty, exports became a determinant for more dynamic economic growth.

It has been estimated that during the full year 2000, exports increased by about 15.5%, imports by about 6.6%, and the commodity turnover deficit – USD 17.3 billion (as compared to USD 18.5 billion in the previous year). The relationship between the current account deficit and GDP dropped in 2000 to 6.2% (in 1999 – 7.5%). Cross-border trade and street-market trade also revived (the trade surplus has been estimated at USD 4 billion).

The commodity structure of exports changed favourably. The highest increase in exports was noted in the group consisting of machinery and equipment, electrical equipment and transport vehicles. This is evidence of the increased competitiveness of Poland's highly processed goods.

These beneficial changes in foreign trade were recorded despite the unfavourable external conditions, such as the structure of prices in international markets (prices of the primary export commodities were lower than in the previous year).

1.9. Privatisation

In 2000, more state-owned enterprises were privatised through the capital injection method and fewer were privatised by the direct method than in the previous year. Direct privatisation was still the dominant method of privatising enterprises: 110 privatisation processes that were initiated based on this procedure were completed (32 fewer than in 1999). Twenty-one single-shareholder companies of the State Treasury were privatised by the capital injection method (five more than in 1999). The privatisation revenues received by the budget amounted to approximately PLN 26 billion in 2000.

1.10.Poland against the Backdrop of Europe

Despite the slump in the economy, 2000 was another year in which the economic growth achieved by Poland was higher than the average growth in the European Union. For the first time in many years, however, it was lower than the average level recorded in Central and Eastern European countries. Countries such as Russia, Hungary, Estonia, Latvia and Belarus achieved higher rates of growth than Poland, and the rates of growth of Ukraine, Bulgaria and Slovenia were similar.

A significant distance between the level of development achieved in Poland and that in Western Europe has been maintained. The value of exchange rate-based GDP per inhabitant amounted to USD 4,110 in 2000 (compared to USD 4,014 in 1999), and based on the purchasing power of the zloty, achieved more than twice as high a value, i.e., USD 8,800, compared to USD 8,600 in the previous year. For comparison, in 1998, the GDP per inhabitant of the European Union, calculated based on the purchasing power parity, amounted to USD 20,200.

GDP per inhabitant in the poorest regions of Poland (Lubelskie, Podkarpackie, Warmińsko-Mazurskie and Świętokrzyskie voivodships) amounted to less than 30% of the European Union average. In the wealthiest voivodship, Mazowieckie, the value slightly exceeded 50% and was comparable to the average value in Hungary and the poorest regions in the Czech Republic[1].

[1] According to Eurostat data

Chapter 2.

Condition of the SME Sector in 1999. Development Trends During the 1994–1999 Period

Share of Small and Medium-Size Enterprises in Generating GDP and Gross Value Added

Number of Enterprises

People Working in the SME Sector

Financial Condition of SMEs

Investment in SMEs

Role of SMEs in Foreign Trade

SMEs by Region (Voivodship)

Summary

The state of the small and medium-size enterprise sector in 1999 has been presented in accordance with data published by the Central Statistical Office (GUS). In contrast to previous editions of the *Report*, the term small enterprise now applies to entities employing[1] up to 49 people, and medium enterprise – between 50 and 249 people. The change within the end values of ranges distinguishing between individual size-classes of enterprises has come as a result of the requirement for GUS to harmonise its reporting with international standards.[2] The group term enterprises is understood to apply to such business entities as: state-owned enterprises, municipal companies, foreign enterprises and those belonging to social organisations and foundations, cooperatives, companies and partnerships (joint-stock companies, limited liability companies, registered partnerships, limited partnerships, and private partnerships), as well as sole proprietorships. This study addresses enterprises conducting all types of business activity with the exceptions of agriculture, forestry and fishing.

2.1. Share of Small and Medium-Size Enterprises in Generating Gross Domestic Product (GDP) and Gross Value Added

2.1.1. SME Share in Generating GDP

SMEs generated 48.2% GDP[3] in 1999; small firms accounted for 38.0%, and medium-size firms for 10.2%. These figures include the value added generated by SMEs operating in the so-called grey area of the economy. The same ratio[4] of SME share calculated for 1997 amounted to 45.1%, and for 1998 to 47.8%. Thus, the increase in the share of SMEs in generating GDP in 1999 was relatively insignificant – by only 0.4 percentage points – in comparison with the quite considerable growth – by 2.7 percentage points – from 1997 to 1998. The share of small enterprises in generating GDP increased in 1999 by 0.1 percentage points, and medium-size enterprises by 0.3 percentage points.

In 1999, the share of public sector SMEs in the creation of GDP reached 2.3% and was slightly higher than in the previous year. However, this was due to a reduction of employment in certain large state-owned enterprises to below 249 employees and their reclassification into the category of medium-size enterprises. As a result of the privatisation of state-owned enter-

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[1] The size of an enterprise is assessed according to the number of people employed by the particular entity (on the basis of an employment contract, appointment, nomination or election). The number of employees in the enterprise does not include the owners and co-owners (family members employed in the business). If, apart from employees, the owners and co-owners are also included, then the figure designates the number of people working in the enterprise.

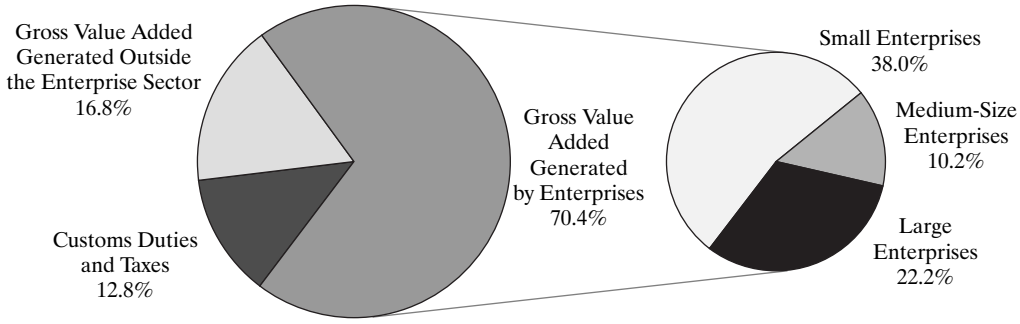
[2] To maintain comparability with 1999 data, which is particularly applicable in the calculation of growth rates, GUS has recalculated the 1998 data according to the new definitions of small, medium-size, and large enterprises on the majority of categories reviewed in the previous edition of this Report. Nevertheless, the change of the end values of enterprise size classifications has led to certain interpretation discrepancies in this edition.

[3] In general terms, GDP is the sum of gross value added and taxes (including VAT), and customs duties that have been received by the budget in the particular year, less subsidies. The amounts of taxes and customs duties whose share in GDP in the years 1997–1999 amount to approximately 12–13% are not divided among sectors of the economy or enterprises of different sizes (it is not technically possible to arrive at such estimates). Thus, the relation of value added generated by SMEs to total GDP value has been adopted as the SME share in GDP. In 1999, small, medium-size and large enterprises generated 70.4 % of GDP in total. Combined with the 12.8% share of taxes and customs duties, this share amounts to 83.2% of GDP. The remaining 16.8% of GDP was generated by enterprises operating in agriculture, forestry, and fishing, individual farms, as well as revenue-generating and non-revenue-generating budgetary units, auxiliary companies of revenue-generating budgetary units, special resources and earmarked funds, and various social, political, and religious organisations.

[4] The data on the structure of GDP and value added in 1997 and 1998, quoted currently, differ slightly from that published in previous editions of the Report due to an adjustment GUS made to the data pertaining to the value of GDP in previous years.

prises, as well as the reclassification of some firms from the category of large entities to the category of medium-size ones, the share of enterprises included in the public sector in generating GDP decreased between 1998 and 1999 from 12.1% to 10.9%.

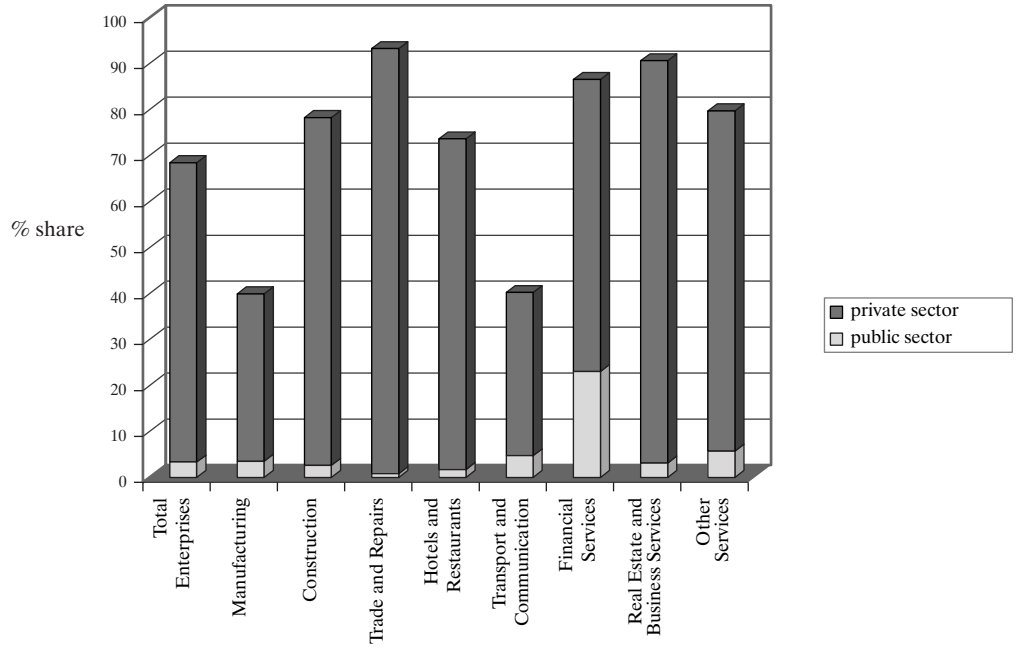
Chart 2.1. Structure of GDP in 1999



2.1.2. SME Share in Generating Gross Value Added

Assuming that gross value added generated by enterprises outside agriculture, forestry, and fishing is equal to 100%, the share of SMEs within that figure totalled 68.4% in 1999 and was higher by 0.4 percentage points than in the previous year. The increase in the SME share is fully attributable to medium-size enterprise activities, as small businesses accounted for only 53.9% of the gross value added of all enterprises, both in 1998 and in 1999.

Chart 2.2. Share of Gross Value Added Generated by SMEs in Basic Sectors of the Economy in 1999 (as %)



In turn, assuming that gross value added generated in 1999 by enterprises belonging to specific sectors of the economy equalled 100%, SMEs operating in the trade and repair sector[5] accounted for the largest share, amounting to 93.2%. Nevertheless, this amount has been decreasing since 1997 due to the expansion of large supermarkets. Next, second place for SME share of value added generated by enterprises was occupied by the 'real estate and business services' sector (90.6%), just ahead of the financial services sector (86.6%) where the SME share decreased due to the mergers of private banks.

In industry, comprised of three sectors: mining and quarrying, manufacturing, and electricity, gas and water supply, the share of SMEs in value added generated by enterprises amounted to 39.9% in 1998. Only in those three industry sectors and in the real estate and business services sector was the share of value added generated by SMEs higher in 1999 than in the previous year.

2.1.3. Gross Productivity Per Worker in the Private Sector

In 1999, gross productivity per worker[6] in the private sector (excluding agriculture, forestry, and fishing) amounted to PLN 44,800 compared to PLN 38,300 in 1998, an increase of 17% (current prices). In 1998, gross productivity per worker in small, medium-size and large enterprises was virtually the same (PLN 38,200, PLN 37,300 and PLN 39,700, respectively). Larger differences were observed in 1999 (small enterprises PLN 45,200, medium-size enterprises PLN 40,000, and large enterprises PLN 47,300), when the rate of growth of productivity per worker in medium-size enterprises (increase of 7.2%) was much lower than that achieved by small and large businesses (increase of 18.3% and 19.1%, respectively).

Similar trends were observed in the entire private sector in the three basic segments of the economy, i.e., the construction industry, trade and repairs, and transportation, storage and communications. Productivity per worker in large enterprises grew at the highest rate, surpassing the rate achieved by small and medium-size firms. The rate of growth of productivity in the latter was so low that in 1999, following the recalculation into fixed prices, the productivity per worker achieved by medium-size businesses actually dropped in all three above-mentioned sectors. Thus, in the trade and repairs sector the productivity per worker in large enterprises increased in 1999 by 22.9% (current prices), in small enterprises by 17.1%, and in medium-size only by 1.1%. Notwithstanding this rapid growth, productivity per employee generated in large trading enterprises (PLN 38,100) was relatively low in comparison to small firms (PLN 50,000) and was only slightly higher than the respective value in medium-size businesses (PLN 37,900).

Industry was the only branch of the economy where the rate of growth of productivity per worker in medium-size private firms equalled the rate achieved by large private enterprises in 1999. In both categories of enterprises the productivity per worker increased by 26.9%, where-

[5] We have made no comparisons with other segments, education and health care, where units operating commercially are commonly private and engage relatively few employees. Large entities are mainly categorized in the public sector and do not have the status of enterprises (so-called budgetary units). For this self-evident reason, the share of the value added generated by SMEs in the total amount generated by all enterprises, including large ones, was very high in that segment in 1999 (in education it accounted for 99.7%, and in health care, 92.4%).

[6] The average number of people working in the entire private sector and in the basic segments of the economy, including those working in the so-called grey area, estimated by ZBSE GUS and PAN, has been used here.

as in small firms – only by 8.8%. Industry was also the only sector in which the productivity per worker in small enterprises (PLN 30,800) was lower than in medium-size enterprises (PLN 34,000), and medium-size enterprises lower than in large enterprises (PLN 52,300). Simply put, the classic textbook benefits of economies of scale appeared only in industry.

2.2. Number of Enterprises

2.2.1. Registered Enterprises

As of the end of 1999, 2,904,687 business entities were registered in the REGON register, excluding those from agriculture, forestry, and fishing, as well as financial services and public administration, i.e., 7.1% more than at the end of the previous year. Within this number, 82,383 belonged to the public sector, and the remaining 2,822,304 entities – to the private sector. In the public sector, only approximately 10% of registered entities had the status of commercial enterprises. Others were so-called budgetary units providing services free of charge or subsidised to a great extent.

The number of registered business entities increased in 1999 by almost 192,000, i.e., fewer than in 1998 when the respective increase amounted to approximately 219,000. The smaller increase was the result of a decrease in the number of new entities registered in REGON from approximately 461,000 in 1998 to 363,000 in 1999. The number of enterprises removed from the REGON register, i.e., liquidated entities[7], was also lower in 1999 than in previous years (241,000 in 1998 and 172,000 in 1999).

2.2.2. Active Enterprises

At year-end 1999, the number of active enterprises[8] (excluding agriculture, forestry, and fishing, as well as financial services[9] and public administration) totalled 1,761,304 – an increase relative to the end of December 1998 of only 35,231, i.e., much less than in 1998 when the number of active enterprises, in comparison with 1997, increased by almost 142,500.

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[7] The number of units as of 31.12.1999 less the number of entities that were newly founded in 1999 and plus the number of units liquidated in 1999 does not equal the number of units as of 31.12.1998. During the year 1999 some entities were allowed to change their category of general activities and move between sections A and B, which are not discussed in the *Report*, and other sections. On the other hand, other units could be "reactivated" upon request, i.e., restored from the REGON system historic database (into which they would have been placed as liquidated entities) into the database of "active" entities.

[8] An active enterprise refers to an enterprise that is actually operating as distinct from non-active ones or those that have ended or suspended their activity but have failed to formally notify GUS of that fact. The number of active enterprises was estimated on the basis of the number of entities that provided GUS with the so-called "structural questionnaire" or other financial statements. In the case of small entities that are not subject to the statutory requirement to submit financial statements, the estimated number of active enterprises was based on the results of GUS research carried out using the representative sampling method.

[9] At the beginning of 2000, GUS conducted its first research study of small entities from the financial services segment based on the representative sampling method. The first year in which the number of active enterprises from that segment is known is 1999. When quoting the total number of active enterprises in 1999, however, we did not provide for the financial services section because this number had no historical data with which to compare it. At the end of 1999 the number of active enterprises in the financial services section amounted to 57,896, of which there were 57,832 small businesses, 56 medium-size businesses, and eight large entities (as of the end of 1999, the REGON register contained 93,769 entities from that segment). Thus the overall number of active enterprises including financial services amounted to 1,819,200 (of a total of 2,998,456 registered entities).

Of the total number of above-mentioned active enterprises only 4,484 belonged to the public sector (including 1,390 small enterprises, 2,123 medium enterprises, and 971 large enterprises), whereas 1,756,820 belonged to the private sector. The number of public sector enterprises identified by GUS decreased substantially in 1999 – by 1,297 in comparison with the end of the previous year. The number of small enterprises dropped the most, i.e., by 804. However, some justifiable concerns exist that the number of small enterprises from the public sector identified by GUS is greatly underestimated as a result of the changes in the statistical reporting system introduced in 1999[10]. This concern for underreporting does not apply to the GUS identified number of medium-size and large enterprises belonging to the public sector. Although the number of large enterprises from the public sector decreased in 1999 by 307, many had likely reduced their employment to fewer than 249 people, in which case they would have been reclassified as medium-size enterprises. This was one of the reasons for which the number of medium-size enterprises from the public sector decreased by the least extent, i.e., by only 186.

The ratio of the number of active private enterprises to total registered enterprises amounted to 62.2% in 1999, which means it was much lower than in the previous year when it reached 65.1%. In practice this means that in 1999 the level of the REGON register to date data deteriorated.

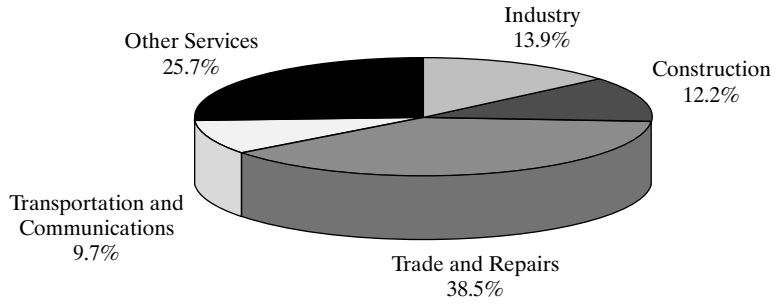
Table 2.1. Active enterprises (excluding agriculture, forestry, and fishing, financial services and public administration) in 1999 by number of employees

Category of Enterprise	Number of enterprises	Share (in %)
Small (0–49 employees)	1,74, 916	99.01
Medium (50–249 employees)	14,212	0.81
TOTAL SMEs	1,758,128	99.82
Large (more than 249 employees)	3,176	0.18
TOTAL	1,761,304	100.00

In 1999, no significant structural changes took place in the SME sector. The shares of specific sectors of the economy in the total number of SMEs were similar to that in 1998. The most relevant change, similar to that seen in 1998, was the drop in the share of SMEs operating in the trade and repairs sector from 39.4% of the total number of active SMEs to 38.5%. Despite this decrease, SMEs from the trade and repairs sector formed the largest group in the sector of small and medium-size businesses. Industrial enterprises with their share of 13.9% ranked second in 1999. Based on the number of enterprises, SMEs from the construction sector and from the real estate and business services sector followed closely with their respective shares of 12.2% and 12.1%. SMEs operating in the transportation, storage and communications sector accounted for a share of 9.7% of all SMEs. The remaining 13.6% covered SMEs providing the so-called other services, i.e., firms belonging to the following sectors: hotels and restaurants (3.3%), education (1.4%), health care (4.7%), and other community, social and personal service activities (4.2%).

[10] In 1999, a GUS-conducted study using the representative sampling method reported the details of all enterprises employing up to nine people, regardless of their legal form, i.e., including enterprises belonging to the public sector. Previously, this study reported only on sole proprietorships and private partnerships employing up to five persons. GUS reported joint information on all firms with legal status, studied using the representative sampling method, without distinguishing those entities belonging to the public sector. The change in the statistical reporting system led to a deterioration in the quality of information about SMEs as well as other categories studied by us, which will be discussed later.

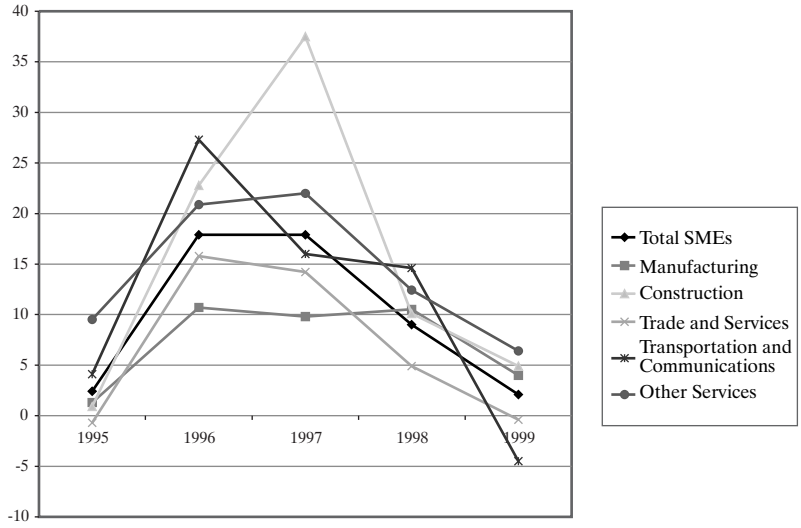
Chart 2.3. SMEs in General Sectors of the Economy Excluding the Field of Agriculture and Financial Services in 1999 (as %)



2.2.3. Change in the Number of Active Enterprises

The number of active SMEs increased in 1999 by approximately 2%. The number of all active enterprises increased at the same rate, which is evident due to the overall dominant share of SMEs in the set of active enterprises (approximately 99.8%). The growth rate of the number of active SMEs, including private ones, was much lower in 1999 than in 1998 when the number of SMEs increased by 9%, not to mention the two previous years, 1996 and 1997, when the growth rate reached approximately 18%.

Chart 2.4. Growth Rate of the Number of Active SMEs by Sectors of the Economy from 1995–1999 (as %)



The number of active small enterprises increased in 1999 by 2% as well. A decrease in the number of small firms was noted in only two branches of the economy, i.e., trade and repairs – by 0.5%, and transportation – by 4.5%. In three sectors, hotels and restaurants, electricity, gas and water supply, as well as mining and quarrying, the rate of growth of the number of small enterprises was higher in 1999 than in the previous year[11]. Those three sectors had the

[11] However, it should be noted that in 1999 the term small enterprises referred to entities that employed 0-49 people, and for previous years – entities employing on average between 0 and 50 employees. On a similar note, the changes in category size apply as well to medium-size enterprises and large firms. The values of the rates of change in the number of small, medium-size, and large enterprises in 1999 were, of course, calculated following a previous recalculation of the number of enterprises in 1998 in accordance with the new definitions distinguishing individual size-classes of enterprises.

fastest rate of growth in the number of small enterprises in 1999 (14.3%, 11.2% and 8.3%, respectively). In the health care sector, ranking fourth based on the rate of growth in the number of small enterprises in 1999, the relevant ratio (7.9%) was almost half its value from the previous year. Such sectors as real estate and business services (5.8%), construction (4.9%), manufacturing (3.9%), education (2.6%) and other services (1.9%) were further down the list, according to the rate of growth of the number of small enterprises in 1999.

The rate of growth of medium-size enterprises in 1999 was slightly higher than in the previous year (4.4% and 4.3%, respectively), but almost half that from 1997 (8.1%). The relatively high rate of growth of the number of medium-size enterprises in 1999, however, as has been mentioned before, was the consequence of the fact that some large enterprises, following a reduction in employment levels, were reclassified to a smaller enterprise category. The number of large enterprises decreased in 1999 by as much as 8.1%, whereas until the year 1998 a slight increase in the number of large enterprise was observed in consecutive years. The number of medium-size enterprises in health care reduced at the most rapid rate, which, nevertheless, was the consequence of systemic changes accompanying the reform introduced as of 1 January 1999. Other services made up the second branch of the economy where the number of medium-size businesses dropped in 1999.

The rapid increase in the number of medium-size enterprises took place in the education sector (by 68.8%) and was caused by changes accompanying the reform of the education system. With these exceptions, the number of medium-size firms grew at the highest rate in: mining and quarrying (by 13%), construction (by 5.9%), manufacturing (by 5.8%), electricity, gas and water supply, and real estate and business services (increasing by 5%), and trade and repairs (increasing by 4.8%). Trade and repairs, in addition to the relatively high rate of growth of the number of medium-size enterprises, noted a record increase in the number of large enterprises in 1999, amounting to 9%. With the exception of trade and repairs, the increase in the number of large enterprises took place in only two sectors: hotels and restaurants (by 7.4%), and mining and quarrying (by 3.3%).

2.2.4. Women as Entrepreneurs

In the third quarter of 2000, women constituted almost 37% of all employers and the self-employed, and almost 57% assisted family members in business.

The majority of self-employed women worked in agriculture, forestry and hunting (812,000), as well as in trade and repairs (237,000). However, even in those sectors, men dominated (1,140,000 and 342,000, respectively). In other sectors (industry, construction, transportation and communications) the dominance of men was overwhelming – their share in each sector exceeded 90% (except in industry, where it amounted to 78%). The only sector in which self-employed women made up the majority was health care.

In 1999, women constituted 35.2% (533,000) of the 1,515,000 owners of small and medium-size firms. Women ran approximately 37% of all firms without employees and constituted approximately 30% of employers, as well as comprising a large majority of those assisting family members in business.

Table 2.2. Share of Women Among Employers, Self-Employed and Assisting Family Members in Business, 1992–2000

	Employers and Self-Employers (in '000s of people)						Assisting Family Members (in '000s of people)		
	Total			Including Employers					
	Total	Including Women	Women %	Total	Including Women	Women %	Total	Including Women	Women %
November 1992	3,565	1,410	39.55	425	116	27.29	976	537	55.02
November 1993	3,712	1,471	39.62	466	133	28.54	1,022	589	57.63
November 1994	3,682	1,424	38.67	542	168	30.99	779	446	57.25
November 1995	3,426	1,282	37.41	541	164	30.31	867	517	59.63
November 1996	3,469	1,327	38.25	575	186	32.34	892	512	57.33
November 1997	3,493	1,316	37.67	592	188	31.75	765	442	57.77
November 1998	3,375	1,245	36.88	622	181	29.09	687	408	59.38
4th quarter 1999	3,264	1,146	35.11	587	190	32.36	678	417	61.50
3rd quarter 2000	3,331	1,224	36.74	597	183	30.65	796	452	56.78

Source: Economic Activity of Polish Population, third quarter 2000. GUS, Warsaw 2001

The results of studies conducted by GUS of newly established enterprises in 1998[12] indicate that men established almost 65% of enterprises, and 35% by women. Women decidedly more often established enterprises that engaged employees than firms that had no employees. Among the self-employed, women constituted almost 32%, whereas among owners of enterprises with employees – 44.5%.

In 1998, a similar number of women and men created new trading enterprises, hotels, restaurants and cafés. In these sectors, the percentage of women increased significantly over the last five years – from 40% to 50% in trade, and from 44% to 50% in the hotel and restaurant sector. A diametrical tendency was noted in the other services sector, where the percentage of women establishing such enterprises dropped by 10 percentage points – from 50% to fewer than 40%. Women owned newly established industrial, transportation, and especially construction businesses decidedly less often than did men.

2.3. People Working in the SME Sector

2.3.1. Number of People Working in SMEs as of the End of 1999

As of December 31, 1999, there were slightly more than 11,148,000 people[13] employed in the economy (excluding agriculture, forestry, and fishing), including 7,152,00 (64.2%) in entities employing up to 249 people. Some of those entities are the so-called budgetary units grouped most numerously in three sectors of the economy: public administration, education, and

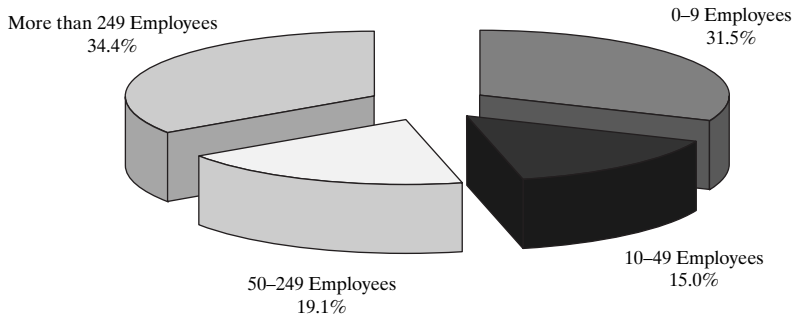
[12] The studies were conducted in 1998. Their results were published in the *Conditions of Establishment and Operation and Development Prospects of Polish Enterprises (Warunki powstania i działania oraz perspektywy rozwojowe polskich przedsiębiorstw)*, GUS 2001.

[13] The data on employees refer to people performing earnings- or income-generating work, regardless of the workplace and duration of the term of employment. The employees category includes people employed on the basis of an employment contract, employers, and self-employed, as well as those engaged in piecemeal work.

health care, i.e., the sector with the majority of so-called non-market services. Those enterprises play a marginal role in the SME sector, which is why we will omit this data from our further discussion of the number of employees.

As of the end of 1999, approximately 8,819,000 people were working in the market sector[14], including approximately 4,103,000 (46.5%) in small enterprises, 1,689,000 (19.1%) in medium-size enterprises and 3,028,000 (34.4%) in large enterprises. At the end of 1999, 65.6% of all employees in the market sector found employment in SMEs. As of the end of 1998, 64.3% of all employees in the market sector found employment in SMEs, i.e., 1.3 percentage points fewer. The share of small enterprises increased December-on-December by 0.3 percentage points, and in the case of medium-size enterprises, by 1 percentage point.

Chart 2.5. Structure of People Working in the Market Sector as of the End of 1999 (as %)



In the market sector, 77% of employees found employment in private enterprises in 1999 (in 1998, 74.9%), and 59.8% worked in private SMEs (in 1998, 58.5%). Assuming that the general number of people working in SMEs in 1999 equals 100%, private enterprises account for 91.2% of that number, whereas in 1998 it was 90.9%.

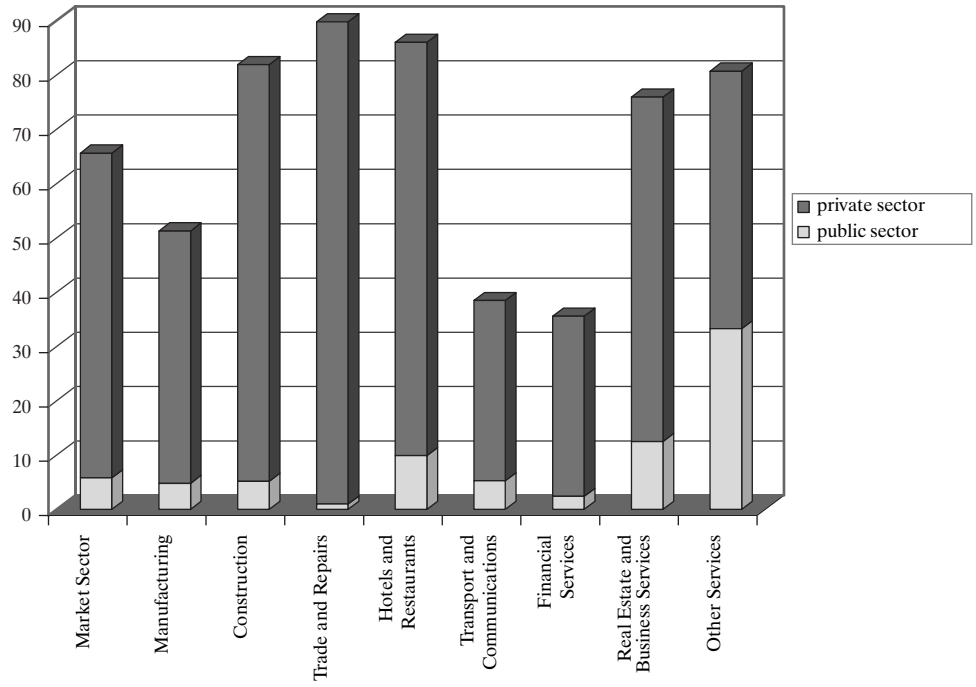
Among 10 segments of the economy included in the market sector, the share of people working in SMEs of the total number of employees as of the end of the year decreased in four areas. These were: trade and repairs (share in 1998 equal to 90.5%, and in 1999, 89.8%), hotels and restaurants (87% and 86%, respectively), other services (83.7% and 80.7%), and real estate and business services (77.2% in 1998 and 75.9% at the end of 1999). The share of people working in SMEs in the leading trade and repairs sector continued to grow until the years 1996–1997 when it reached 91.1%. In 1998, a slight decline in the value of that ratio was observed[15], and in the following year, there was another decrease, which is undoubtedly related to the expansion of large supermarkets. In the real estate and business services sector the share of people working in SMEs also reached its highest level in 1997 when it reached 80.3%. From the end of 1997, a gradual decline in the value of that ratio has been observed. Of the leading sectors based on share of people working in SMEs the value of the ratio mentioned increased in 1999 only in the construction sector (from 80% in 1998 to 81.9%). The other sec-

[14] The market sector includes the majority of the segments of the economy, with the exception of agriculture, forestry, and fishing, and public administration, education and health care.

[15] Ratios reflecting the combined percentage of people working in SMEs as part of the total number of employees in a particular segment may be compared over a longer period despite the change of the definition of the small and medium-size enterprises in 1999. During the years 1998-1999 there were no enterprises in the segments of the economy under consideration here that employed exactly 250 people, which is why large companies' share (thus, the combined shares of SMEs after deducting the shares of large businesses from 100%) are the same according to both the previous and current definitions of enterprises.

tors in which the share of people working in SMEs increased in 1999 employ relatively few people in small and medium-size firms. They were: manufacturing (share in 1999 equal to 57.4%), transportation, storage and communications (38.5%), financial services (35.6%), electricity, gas and water supply (26.6%), and mining and quarrying (7.1%). In industry, the total number of people working in SMEs increased from 49% in 1998 to 51.3% in 1999, i.e., the increase was quite significant in comparison with other areas of the economy.

Chart 2.6. Percentage Share of People Working in SMEs in General Sectors of the Economy at the End of 1999

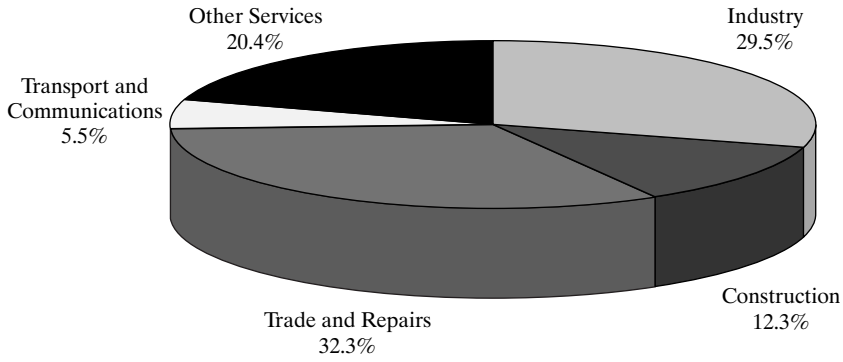


2.3.2. Structure of Employment in the SME Sector

The employment structure within SMEs remained virtually unchanged between 1998 and 1999. As at the end of 1999, the largest share, 32.3%, of the total number of people working in SMEs included in the market sector were those working in the trade and repairs sector. Manufacturing came in second with its share of 28%. The share of manufacturing in the total number of people working in SMEs in 1999 decreased the greatest among all sectors in comparison with 1998, i.e., by 0.7 percentage points.

In 1999, the share of almost all traditional sectors of the economy in the total number of people working in SMEs decreased or remained the same (except transportation, where it increased slightly, by 0.1 percentage points). On the other hand, the share of the typical service sectors increased: financial services (here, at the highest rate, by 0.5 percentage points), real estate and business services and other services.

Chart 2.7. Structure of Employment in the SME Sector as of the End of 1999 (as %)



2.3.3. Dynamics of Change in Employment Numbers in 1999

As of the end of 1999, the number of people working in the market sector was 2.1% lower than on December 31, 1998. 1999 constituted yet another consecutive year in which the number of people working in the market sector decreased. While the rate of the decrease in 1998 was very small (amounting to 0.4%), one year later it had become much larger. The number of people working in large enterprises was decreasing at the most rapid rate, i.e., by 5.9%. The drop in employment in large enterprises is a phenomenon observed during the whole decade of the nineties, but in 1999 the rate of decrease was the highest since 1995. On the other hand, the decrease in the number of people working in the category of small enterprises[16] is a completely new occurrence; it amounted to 1.6% in 1999 (in the previous year, an increase of 2.3% in employment was noted here, and in 1997, by as much as 5.7%). The only category of enterprises in which the number of employees increased as of the end of the year was medium-size businesses. The relevant rate of growth was relatively high here in 1999, amounting to 3.8% as compared to 2.1% in the previous year (in the years 1995-1997 the rate of growth of the number of employees in this category regularly exceeded 7%). However, there are justifiable concerns that the increase in the employment in the category of medium-size firms was mainly due to the reclassification of many large enterprises into that category, as they decreased their employment to fewer than 249 people from 1998 to 1999.

Within the market sector, the category of small enterprises that experienced the relatively lowest drop in the number of employees in 1999 was the hotel and restaurant sector. This decline amounted to as much as 6.7%. Apart from this sector, a decline in the number of employees took place only in three other segments of the economy belonging to the market sector, although these constituted the largest ones, employing jointly 72.7% of all people working in small enterprises in 1999. Those sectors were: manufacturing, where the number of people working in small firms decreased by 6.4%, then construction, and trade and repairs with a drop in the number of employees of 2.6% and 2.1%, respectively. Among other segments included in the market sector the number of employees grew the fastest in service sectors: financial services (by as much as 26.7%), other services (by 7.1%), real estate and business services (by 4.1%), mining and quarrying, and electricity, gas and water supply (both sectors by 2.6%), as

[16] However, it should be noted that, as indicated in footnote 11, reference to small enterprises prior to 1999 indicates entities employing 0-50 people, and in the case of medium-size enterprises – between 51 and 250 people.

well as in transportation, storage, and communications (increase by 2.4%).

Among medium-size enterprises in 1999, the number of employees as of the end of the year did not decrease in any of the segments belonging to the market sector. The fastest growth of the number of employees took place in the following sectors: financial services (by 30.9%) and other services (by 8.1%). In both sectors, employment increased not only in medium-size enterprises, but also in small and large enterprises. The third sector in which the number of employees in all sizes of enterprises was monitored in 1999, was the typically service-related sector: real estate and business services – the number of people employed in the category of medium-size firms increased by 2.5%. This increase is no coincidence since from the mid-nineties the service area has been developing much faster than the traditional manufacturing branches.

In the sectors trade and repairs, and hotels and restaurants, the increase in the number of people working in medium-size enterprises (by 3.8% and 3.2%, respectively) was accompanied by an increase in employment in large firms and a decline in the number of people working in small businesses. In those areas where in the mid-nineties relatively small units played a dominant role, from 1997 a trend to consolidate business activities has been observed. However, the situation was remarkably different in the remaining five segments of the market sector. A dramatic drop in employment in large enterprises often accompanied an increase in the number of people working in medium-size enterprises. And so, e.g., in manufacturing, the number of people working in medium-size businesses increased by 2.8%, while declining in large firms – by as much as 11.5%. Similar tendencies were observed in construction (increase by 4.4% in medium-size firms, decrease in large businesses by 12.5%), mining and quarrying (increase by 8.3%, decrease by 13.8%), as well as electricity, gas and water supply, and transportation, storage and communications, where the increase in the number of people working in medium-size companies (by 8.3% and 1.9%, respectively) was accompanied by a slightly smaller decrease in employment in large companies (by 4.2% and 6.3%, respectively). As has been mentioned, in this situation there is a justifiable concern that this increase in employment in medium-size enterprises belonging to the five sectors referenced only appeared to be the case and was likely due to the transition of some large firms into the category of medium-size enterprises.

2.3.4. People Working in the Grey Area of the Economy

It has been assumed in statistical research that the existence of the economic grey area is related to the functioning of small private enterprises[17]. An economic category other than the number of employees as of the end of a particular year, which has been previously used to determine the potential of SMEs against the backdrop of the economy, is used to study the size of the grey area. This new economic category is comprised of the average number of people working in a given year.

[17] In general terms, a person working in the grey area refers to an individual whose employment has not been notified to ZUS (Social Insurance Institution). This may indicate a self-employed person or someone working in an enterprise in which the enterprise itself is either registered in the REGON system or in the appropriate tax office, or is operating in full violation of commercial law. The functioning of operations that are in full violation of commercial law but whose activities are not of criminal nature would not be possible for a medium-size enterprise, and the more so, for a large one. Moreover, the employment of people not registered in ZUS is more difficult for medium-size and large enterprises (as well in small public sector enterprises), if only due to the necessity of maintaining dual accounting records. That is why it is assumed for the purpose of statistical research that employees not registered in ZUS may only be employed by small private enterprises (including sole proprietorships), operating legally or illegally.

Relevant estimates[18] indicate that the average number of people working legally in small private enterprises (excluding agriculture, forestry, and fishing, but including education and health care) amounted to slightly more than 4,670,000 people[19] in 1998, whereas in 1999 it was approximately 4,385,000 people[20]. Additionally, in small private enterprises, an average of approximately 750,000 unregistered people worked in 1998, and in 1999, approximately 715,000 people. In 1998 approximately 5,420,000 people worked in total in small firms, both legally and illegally. Those working in the grey area (the 750,000 people mentioned) accounted for a share of approximately 13.9% in the total number. The same ratio calculated for 1999 was 14%, which means that the number of people working in the grey area increased slightly after decreasing for five years.

Among the 715,000 people working in the grey area in 1999, a rather small number, i.e., approximately 55,000, found employment in industry, approximately 80,000 worked in construction, slightly more than 200,000 people in trade, 12,000 in transportation, and approximately 365,000 in the services sector proper, including all sectors not previously mentioned – including education and health protection, with the exception of financial services. The previously-mentioned drop in the number of people working in the grey area, by slightly more than 35,000 people, which took place in 1999, concerned mainly services (declining by almost 30,000 people) and, to a limited degree, trade. The share of people working illegally in small private industrial enterprises amounted to 5.5% in 1999, i.e., almost one in every twenty employees was working illegally. In small construction enterprises 13.1% people worked illegally, in small trading firms – 10.8%, in transportation businesses – 4.3%, and in the services sector proper – the largest share, 27.7%, i.e., approximately one in every four employees.

2.4. Financial Condition of SMEs

2.4.1. Revenues of Various Size Enterprises

In 1999, the share of SMEs in the total revenues of enterprises generated from the sale of products, goods, and materials (excluding agriculture, forestry, and fishing, as well as financial services, public administration, education and health care) equalled 63% and had increased in comparison to 1998 by 3 percentage points. The share of revenues of medium-size enterprises increased by 0.5 percentage points to 21.2%, whereas the share of small firms increased by as much as 2.5 percentage points, reaching 41.8% in 1999. One of the main reasons for the rapid increase in the share of SMEs was not the growth of their revenues but trends observed in the public sector, and mainly the drop in the revenue share of large firms included in the public sector – from 19.2% to 16.2%.

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[18] These estimates have been developed by ZBSE GUS and PAN on the basis of information published by GUS in Statistical Yearbooks on the average number of employees, accounting for the grey area as well as excluding the grey area, and on the basis of information on average employment in enterprises of various sizes, as prepared by GUS.

[19] This refers to enterprises employing up to 49 people. That is why the average number of people employed in small firms in 1998 (without providing for the grey area) is lower than that presented in earlier papers on SMEs, in which the term small enterprises refers to entities employing up to 50 people.

[20] This number is greater by more than 340,000 people than the number of people working in small private enterprises as of the end of 1999. The difference is the consequence of the definition of both categories. The average number of employees includes seasonal workers, as well as those employed on a part-time basis, after recalculation into full-time jobs. In the case of the number of employees as of the end of the year, the number of people employed on a part-time basis is taken into consideration only when the particular workplace is their primary source of income. The number of employees as of the end of the year is expressed in individual persons, i.e., part-time jobs are not recalculated into full-time ones.

The increase in the share of SMEs in total revenues was observed in 1999 in all sectors of the economy, except the so-called other services. The share of SMEs increased the most in the hotel and restaurant sector (by 3.9 percentage points) and in three sectors included in industry, i.e., electricity, gas and water supply (by 3.8 percentage points), manufacturing, and in mining and quarrying (in both sectors increasing by 3.5 percentage points). Even in the trade and repairs sector where large enterprises are developing rapidly, the share of SMEs in total revenues increased in 1999 to 84.9% from 84.5% in the previous year, including an increase in the share of small firms, from 62.7% to 63%.

2.4.2. Income of the Smallest-Sized Enterprises

In enterprises employing up to nine people[21], the level of income (revenues minus costs) per firm is a good tool for measuring their financial standing. In 1999, the income calculated for the entire category of the smallest-sized enterprises[22] (excluding agriculture, forestry, and fishing) was equal to PLN 22,600.

The highest income level was achieved by enterprises belonging to the real estate and business services sector (PLN 27,900), followed by industrial enterprises (PLN 26,600) and those belonging to the following sectors: trade and repairs (PLN 26,300), education (PLN 19,600), construction (PLN 18,800) and transportation, storage and communications (PLN 18,600). Enterprises belonging to sectors financial services (PLN 14,400), hotels and restaurants (PLN 14,100), health care (PLN 10,900), and other services (PLN 9,800) generated much lower-than-average income. However, those are rather non-typical areas. Thus, businesses from the area of health care are often single-owner enterprises and their owners (and, at the same time, employees) are employed on the basis of an employment contract in health care establishments. On the other hand, entities from the area of so-called other services frequently employ people who are not registered[23], and, therefore, in all likelihood do not declare the full amount of their income.

2.4.3. Financial Condition of Enterprises Maintaining Accounting Records and Employing More Than Nine People

Gross Sales Profitability

In 1999, the gross sales profitability[24] of enterprises maintaining accounting records and

[21] From 1999, GUS began surveying all enterprises employing up to nine people (previously, five people) on the basis of the representative sampling method, regardless of their legal form (previously, only sole proprietorships and private partnerships). Enterprises employing up to nine people constituted in 1999 as much as 96.6% of the total number of all active enterprises and 97.5% of all small firms.

[22] These calculations are based on the results of research conducted on the smallest-sized enterprises utilising the representative sampling method, published by GUS in a paper entitled *Economic Activities of Enterprises with Up to 9 People in Their Employment in 1999 (Działalność gospodarcza przedsiębiorstw o liczbie pracujących do 9 osób w 1999 r.)*. Due to the change in the range of firms studied by GUS on the basis of the representative sampling method, a comparison of results achieved by the smallest-sized enterprises in 1999 and in the previous years is not possible.

[23] See item 2.3.4.

[24] Gross sales profitability and net return on sales are, respectively, ratios between gross and net profit/loss and revenues from the total operations of enterprises, expressed as percentage. The gross profit/loss is the difference between revenues and costs from all activities, adjusted by the balance of extraordinary losses or profits. Net profit/loss is the result of deducting the so-called compulsory deductions, mainly income tax, from gross profit/loss.

employing more than nine people[25] (submitting their balance sheets and profit and loss statements to GUS) amounted to 1.4%. In comparison with 1995, when the gross profitability of enterprises at approximately 4% was the highest of the entire decade of the nineties, the profitability achieved in 1999 had decreased almost threefold. In comparison with 1998 on the other hand, when the gross profitability was approximately 2%, the value of the ratio was lower in 1999 by more than one fourth.

Table 2.3. Gross Sales Profitability in Various Size Enterprises in the Year 1995 and in the 1998–1999 Period (as %)

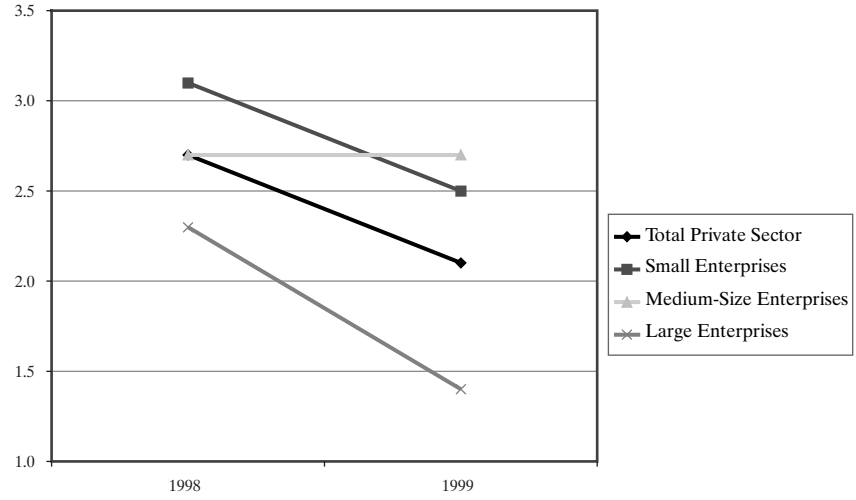
Classification	Gross Sales Profitability			Net Sales Profitability		
	1995	1998	1999	1995	1998	1999
Enterprises in Total	**4.0**	**2.0**	**1.4**	**1.8**	**0.6**	**0.1**
Public Sector	4.8	0.1	-0.5	2.0	-1.4	-1.9
Private Sector	3.3	2.7	2.1	1.7	1.4	0.9
Small Enterprises	**2.6**	**3.2**	**2.3**	**0.9**	**2.0**	**1.1**
Public Sector	-4.4	4.3	-3.4	-6.5	2.4	-4.7
Private Sector	2.9	3.1	2.5	1.2	2.0	1.3
Medium-size Enterprises	**3.1**	**2.5**	**2.6**	**1.4**	**1.3**	**1.2**
Public Sector	3.9	1.2	1.9	1.6	-0.2	-0.5
Private Sector	2.8	2.7	2.7	1.4	1.5	1.4
Large Enterprises	**4.9**	**1.2**	**0.4**	**2.4**	**-0.3**	**-0.8**
Public Sector	5.1	-0.1	-0.8	2.2	-1.6	-2.1
Private Sector	4.6	2.3	1.4	2.7	1.0	0.1

The decline in gross sales profitability between 1998 and 1999 took place mainly due to the deterioration of the financial condition of small as well as large enterprises. Medium-size businesses, both private and those from the public sector, improved their gross profitability slightly and maintained it at the previous level.

The changing trends in gross profitability observed in 1999 were slightly different than in the previous year. In 1998, the largest decline in profitability was noted by large enterprises. Profitability decreased also in the group of medium-size enterprises, whereas small firms maintained their profitability at 1997 levels. In 1999, however, in addition to the increased decline in the profitability of large firms, the profitability of small businesses also dropped slightly, and that of medium-size ones increased slightly. In comparing the respective data, it is clearly apparent, however, that public sector companies are primarily responsible for those rather sudden changes in profitability in subsequent years, whereas the profitability of small and medium-size private firms was much more stable. In particular, it should be emphasised that profitability in private businesses from the trade and repairs sector decreased very slightly (from 2.7% to 2.6%), occurring in an environment of continuously increasing competition from medium-size and especially large trading enterprises.

[25] Due to the fact that in 1999 GUS conducted representative sampling research on all enterprises employing up to nine people regardless of their legal form, and as a result of the changes in employment ranges distinguishing small, medium-size and large firms, an analysis of the financial condition of enterprises maintaining accounting records may only be conducted on entities employing more than people. Accordingly, in this paragraph, we will use the term small enterprises when referring to entities employing 10-49 people. To ensure comparability, some data on the finances of enterprises in 1998 were recalculated in GUS in accordance with the new definition of small firms, and other missing data was estimated in ZBSE GUS and PAN on the basis of information provided by GUS. In 1999, enterprises maintaining accounting records and employing more than nine people constituted 2.4% of all active enterprises, including 1.5% of small firms, 96.2% of the total number of medium-size firms and 100% of large enterprises.

Chart 2.8. Gross Sales Profitability of Various Size Private Enterprises in the Years 1998-1999 (as %)



In the group of medium-size private enterprises, a slight improvement of gross profitability ratios was noted in 1999 only in the following sectors: mining and quarrying, manufacturing, and trade and repairs. Revenues of those sectors account for approximately 78% of revenues in the group of medium-size private enterprises. It is not surprising then, that even a very small improvement of profitability was enough to result in the profitability ratio calculated for all medium-size private enterprises maintaining its value at the 1998 level, despite the drop in profitability of medium-size private enterprises from other, numerous sections of the economy.

Net Return on Sales

Net return on sales of all enterprises maintaining accounting records and employing more than nine people declined from 0.6% in 1998 to 0.1% in 1999. As in the case of gross profitability, this was mainly the effect of the deterioration of the financial condition of small enterprises (a drop in the net return on sales from 2% in 1998 to 1.1%) as well as large ones (a drop from -0.3% to -0.8%). On the other hand, medium-size firms recorded only a very small decrease in net sales profitability, from 1.3% in 1998 to 1.2% in 1999. In comparison with 1998 figures, the net profitability of small, medium-size and large private enterprises also declined, though only slightly in the case of medium-size enterprises (by 0.1 percentage points, from 1.5% to 1.4%), more in the case of small businesses (from 2% to 1.3%), and the most in the case of large enterprises (from 1% to 0.1%).

In individual sectors of the economy, changing trends in net profitability from 1998 to 1999 corresponded roughly to the trends observed in gross profitability. Thus, in 1999, the net profitability of small private firms from the mining and quarrying sector and from the health care sector increased. On the other hand, in the trade and repairs sector, where the gross profitability of small private firms dropped in 1999 by 0.1 percentage points, the net return on sales decreased by 0.2 percentage points (from 1.8% to 1.6%). In the group of medium-size private enterprises the net return on sales increased only in the sectors mining and quarrying, manufacturing, and trade and repairs, i.e., in those very sectors in which gross sales profitability increased.

In summary, in 1999 gross financial results were burdened more or less proportionally in all groups of private enterprises, regardless of their size or place in a particular sector of the economy.

Second-degree Financial Liquidity

As opposed to gross and net profitability ratios, which can be used for assessing the financial condition of enterprises in a certain period, financial liquidity ratios[26] provide information as to the financial condition of enterprises as of a certain date. Among the three types of liquidity ratios, the so-called second-degree liquidity ratio is particularly useful for analysis in the current situation. The value of the second-degree financial liquidity ratio should vary around 100%. In conditions of high inflation, it may be slightly less than 100%. However, under no circumstances should it exceed 150%. Too low or too high a value of the ratio threatens enterprises with a loss of financial liquidity in the near future[27].

In comparison with 1998, values of second-degree financial liquidity ratios increased slightly in the case of small (from 78.8% to 81.0%) and medium-size enterprises (from 77.6% to 80.9%), whereas the values of ratios characterising the financial condition of large enterprises decreased (from 71.9% to 68.5%). Those tendencies were also observed in the private sector, i.e., ratios relating to small and medium private enterprises improved, whilst ratios indicative of the financial condition of large enterprises deteriorated. In the public sector, on the other hand, values of second-degree financial liquidity ratios of small and large enterprises dropped, whilst values indicative of medium-size firms increased. In changes in the values of second-degree financial liquidity ratios, similar trends as seen in the changes of gross and net profitability ratios were observed, with some minor exceptions.

Generally, in 1999, the number of cases of serious deviations of the values of second-degree financial liquidity ratios from values accepted as the safest, i.e., remaining within the 70-150% range, decreased. This refers mainly to the private sector, however the situation improved slightly in the public sector as well, where there was a drop in the number of sectors and groups of enterprises showing extremely high liquidity from the range greater than 150%. Such high liquidity was frequently achieved by state-owned enterprises due to the sale of non-core assets. This method of improving the financial condition of state-owned enterprises is gradually becoming less and less feasible since the resources of redundant assets are being slowly depleted.

On the other hand, the financial condition of private firms improved, where the values of the ratio became much more even in relation to 1998 in particular areas. In the private sector, in 1999, there were only two cases of extremely high values of liquidity greater than 150% and,

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[26] There are first, second, and third degree financial liquidity ratios. All three are fractions (expressed as percentage after multiplying by 100), with an identical denominator: the value of short-term liabilities as of the end of the period studied. Numerators of the first, second, and third degree liquidity ratios differ from each other by the level of liquidity of funds that may be used by enterprises to repay liabilities. The numerator of the first-degree liquidity ratio contains the most liquid resources, i.e., cash in bank accounts and readily marketable securities at the disposal of enterprises.
The numerator of the second-degree liquidity ratio comprises additionally receivables and claims of enterprises, and the numerator of the third degree liquidity ratio – the value of inventories of goods, materials, work in process, and finished goods, i.e., together with the previously mentioned items, the value of current assets of enterprises.

[27] A low value of the second-degree financial liquidity ratio means that reserves of cash as well as receivables and claims cover liabilities only to a minor extent and may be insufficient if the deadlines for payment of liabilities accumulate. On the other hand, a high value typically means that receivables and claims are overdue, i.e., also cannot provide the necessary funds required for the rapid payment of liabilities.

Table 2.4. Sectors of the Economy with Particularly Low (less than 70%) or Particularly High (greater than 150%) Values of the Second-degree Financial Liquidity Ratios in 1999

Sectors of the Economy	Public Sectors			Private Sectors		
	Small	Medium	Large	Small	Medium	Large
Mining and Quarrying	6.4	21.1	26.4			44.1
Manufacturing	30.8	40.5	57.3			
Electricity, Gas and Water Supply	162.3					
Trade and Repairs				67.4		58.8
Transportation and Communications	67.9				64.3	
Financial Services	347.3					
Real Estate and Business Services		484.3	199.4			
Education	338.1	371.0		150.9		
Other Services	177.6	52.9	162.9	183.6	36.7	

at the same time, the number of cases decreased in which the ratios reached the dangerous level of less than 70%. The financial liquidity of large enterprises from the mining and quarrying sector deteriorated significantly, as did that of medium-size enterprises from the other services sector, whereas in other areas the financial liquidity of firms remained the same or improved slightly.

2.4.4. Structure of Sources of Financing for SMEs

For several years there has been a tendency to build the financial structure of enterprises mainly on the basis of owners' equity. Both large firms and SME sector enterprises use their equity to a greater extent than debt capital. Reasons for this phenomenon should be sought mainly in historical conditions (instability of financial markets, large variations of foreign exchange rates, changes of interest rates). The reduced attractiveness of external financing sources was partly due to a reduction of the corporate income tax rate. On the other hand, the range of products offered by banks has been extended to include facilities that are more flexible and, thus, better suited to the needs of business entities.

At the end of 1998 the value of liabilities of SMEs exceeded the value of owners' equity within that sector. This trend was continued in 1999. As of the end of December 1999, liabilities of SMEs constituted 57.4% of their balance-sheet liabilities. Long-term credits still dominate the structure of debt capital of small and medium-size firms; as of the end of 1999 they constituted approximately 55% of all credits contracted. Over a period of several years, however, the continuous growth in the interest of SMEs in short-term credits can be observed, with a simultaneous marked decrease in the requirement for credits with long repayment periods.

Table 2.5. Rate of Changes in the Structure of Owners' Equity and Debt Capital, 1997–1999

	Size	Total Credits %	Owners' Equity %	Credit/Equity %
Change 1997/1998	SMEs	134.4%	117.2%	3.8%
	Large	124.6%	102.7%	4.8%
	Total	128.7%	108.3%	4.5%
Change 1998/1999	SMEs	113.8%	99.6%	4.3%
	Large	114.5%	101.1%	3.6%
	Total	114.2%	100.5%	3.9%

Data in nominal terms

Source: Stanisław Tabor *Corporate Credits (Kredyty korporacyjne).*

Equity

In 1999 total owners' equity in enterprises amounted to PLN 390.7 billion, which, in comparison with the previous year (PLN 388.8 billion), means a small increase, by 0.5%. Equity of SMEs as of the end of 1999 amounted to PLN 160.8 billion, and in comparison with the same period of the previous year (PLN 161.5 billion) dropped by approximately 0.5%.

The highest level of equity was noted by SMEs in the following voivodships: Mazowieckie (26.3%), Śląskie (10.2%) and Wielkopolskie (9.7%); and the lowest in: Lubuskie (1.8%), Świętokrzyskie (1.8%) and Opolskie (1.9%). In 1999, a high concentration of equity of SMEs could still be observed in the region of large urban agglomerations. One must recall, however, that the data on particular concentrations are distorted due to the fact that all assets and liabilities are assigned to the voivodship in which the company's headquarters is located, and not the actual plant. And company headquarters are usually located in large urban agglomerations.

Bank Credit

The total debt level of enterprises reached PLN 125.9 billion as of the end of December 1999. In relation to the same period of the pervious year (PLN 110.4 billion), the level of total debt of enterprises increased by PLN 15.5 billion, which constitutes an increase of 14.4%. The level of debt of SMEs at the end of 1999 amounted to PLN 55 billion, which constituted 43.7% of the total debt of enterprises. The share of SMEs in total bank credit in 1999 in comparison with the previous year (43.9%) decreased slightly, by 0.2 percentage points. It should be emphasised, however, that the rate of growth of debt of the SME sector dropped significantly, from 35.1% in 1998 to 13.4% in the following year.

The level of SMEs credit needs depend mainly on the repayment period, and in the case of short-term credits shows a steadily growing trend, whereas in the case of long-term liabilities – a declining trend. In relation to 1997, the value of credits for SMEs with repayment periods of up to one year almost doubled – from PLN 13,677 million to PLN 25,059 million, which constitutes an increase of 83.2%. It appears that a factor encouraging the use of this form of financing is the fact that financial institutions make their available products more flexible, adjusting them to the needs of the sector. One should remember, however, that medium-size firms remain the main recipient of banking products in the SME sector.

Table 2.6. Short- and Long-term Debt of Enterprises, 1997–1999

Size	Year	Credits up to 1 year		Credits over 1 year		Total
SMEs	1997	13,677	38%	22,322	62%	35,999
	1998	19,539	43%	28,859	57%	48,398
	1999	25,059	45%	30,030	55%	55,089
Large Enterprises	1997	21,452	43%	28,279	57%	49,731
	1998	28,341	46%	33,619	54%	61,960
	1999	30,059	42%	40,860	58%	70,919

% indicates the share of credits taken with the repayment period indicated as a part of credits for the particular category of enterprises; amounts in PLN millions in nominal terms.
Source: Stanisław Tabor *Corporate Credits (Kredyty Korporacyjne)*

Short-term Bank Credit

The total short-term bank credit in the enterprise sector at the end of 1999 reached PLN 55.7 billion. Short-term bank credits constituted 44.2% of the total debt of all enterprises (as compared to 43.4% in the previous year). The level of the short-term debt of SMEs in the period under analysis amounted to PLN 25 billion, which constituted 44.8% of the total debt in the economy.

In 1999, as in previous years, a growing interest by the SME sector in short-term credits was observed. The value of short-term credits contracted by enterprises from this sector increased in 1999 by 28.2%, whereas in the case of long-term credits, by only 4%. One may assume that the reason for this situation was that it remained easier for that sector to obtain short-term rather than long-term financing.

The level of short-term credit debt of the SME sector shows a large degree of differentiation depending on the area. The highest level of debt is found in SMEs operating in the area of wholesale and retail trade (40.5%), manufacturing (29.9%) and financial services (11.6%). Enterprises from the sectors of education (0.04%) and health care and social welfare (0.06%) have the lowest level of short-term debt.

The greatest level of short-term credits were contracted by SMEs from the following voivodships: Mazowieckie (28.1%), Wielkopolskie (11.6%) and Śląskie (9.7%), and the least – Świętokrzyskie, Warmińsko-Mazurskie and Lubuskie (each approximately 2%).

Long-term Bank Credit

In 1999, long-term liabilities constituted 56.2% of all liabilities of enterprises, which constituted a decrease of 0.4 percentage points in comparison with 1998. At the end of December 1999, total long-term debt of enterprises amounted to PLN 70.8 billion – PLN 7.5 billion (13.2%) more than in the previous year. The long-term debt of SMEs amounted to PLN 30 billion during the same period, which constitutes 42.4% of the total debt. This debt increased by only 4% in the course of the year (as compared to a 29.3% increase in 1998). Therefore, after allowing for inflation, long-term debt in absolute numbers decreased. This can be explained only through restrictions in the access to long-term credit for SMEs, since the investments of that sector increased significantly in that period.

As in the case of short-term liabilities, the extent of SMEs' debt depends on the type of activities conducted. The highest level of long-term debt was noted in enterprises operating in the real estate and business services sector (34.16%), financial services (16.59%) and the manufacturing sector (15.3%). The lowest level of debt is found in SMEs from the education (0.05%) and health care sectors (0.07%).

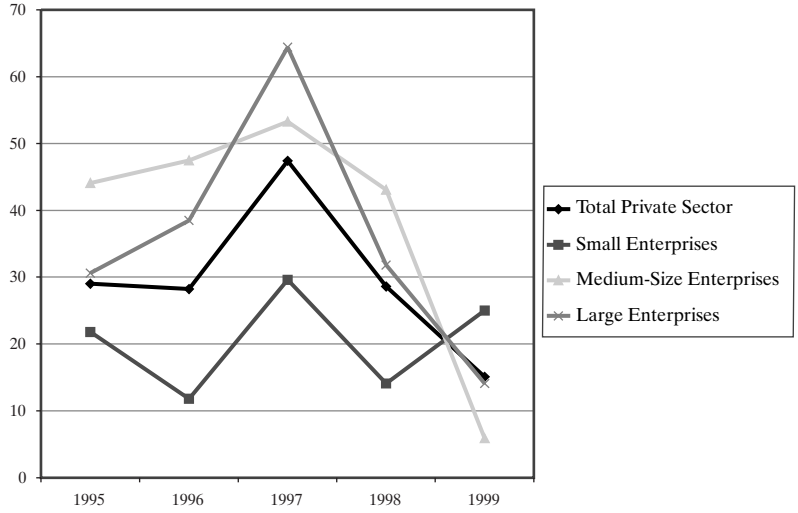
Within voivodships, the highest level of debt is found in SMEs from the following voivodships: Mazowieckie (33.7%), Wielkopolskie (11.19%) and Dolnośląskie (8.08%), and the lowest in SMEs from: Świętokrzyskie (1.51%), Lubuskie (1.6%) and Opolskie (1.75%).

2.5. Investment in SMEs

2.5.1. Rate of Growth of Investment Expenditures in SMEs

In 1999, the rate of growth of investment expenditures of enterprises decreased by more than one-half in comparison with 1998. According to simplified estimates, which should be viewed with caution, investment expenditures of enterprises, expressed in fixed prices, increased in 1999 by approximately 9%, as compared to 19% in 1998 and 23% in 1997. The reduction of the rate of growth of expenditures was observed in the group of medium-size enterprises[28] (from approximately 39% in 1998 to approximately 7-8% in 1999) and large enterprises (from approximately 14% to approximately 4%). However, the rate of growth of investment expenditures of small enterprises increased (from approximately 15% in 1998 to approximately 23% in 1999).

Chart 2.9. Estimated Rate of Growth in Investment Outlays in Private Enterprises, 1995–1999 (fixed prices, as %)

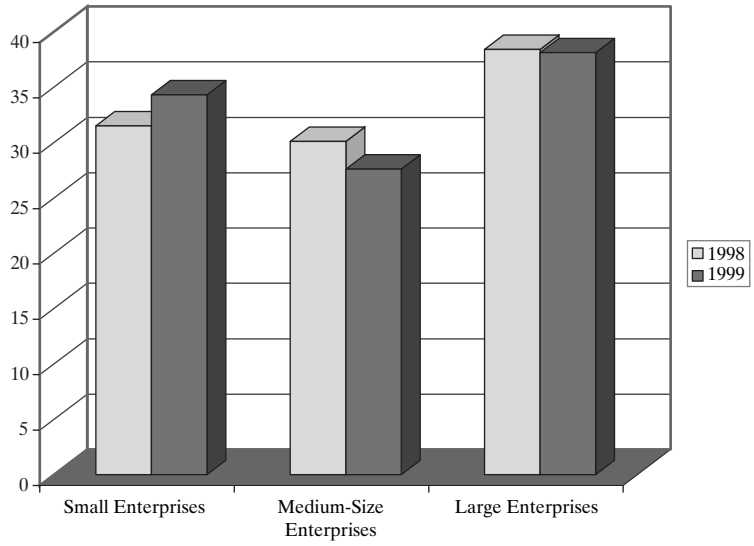


[28] It should be noted here that groups of small and medium-size enterprises were not comparable in part in the years 1998 and 1999 (GUS did not recalculate capital expenditures in 1998 according to the new definitions: small enterprises – 0 to 49 employees, medium-size enterprises – 50 to 249 employees). Within this context, one must more strongly emphasise that capital expenditures increased rapidly in the group of small enterprises from 1998 to 1999, despite the fact that in 1999 small firms did not include entities employing exactly 50 people, and the very small increase in capital expenditures in medium-size firms, despite the fact that this group was enlarged in 1999 by entities employing exactly 50 people (it was not reduced by entities employing exactly 250 people because such firms did not exist, either in 1998 or a year later).

In the private sector the rate of growth of total investment expenditures (fixed prices) also decreased by almost one-half, from approximately 29% in 1998 to approximately 15% in 1999. The greatest decline in the rate of growth was noted by medium-size enterprises where the expenditures increased in 1999 by only 6%, whereas in the previous year they increased by as much as approximately 43%. This considerable increase in expenditures in 1998 was related mainly to the construction of the Yamal pipeline. The rate of growth of investment expenditures of large private enterprises decreased by more than one-half, from approximately 32% in 1998 to approximately 14% in 1999. However, the rate of growth of investment expenditures of small enterprises increased considerably, from 14% in 1998 to 25% in 1999. It should be added here that, in 1999, the total expenditures of enterprises employing up to nine people increased even more (by over 28%) than in the case of small enterprises.

In small private enterprises expenditures on buildings and structures, calculated in fixed prices, increased in 1999 at a rate of 34%, i.e., greater by almost half compared to total expenditures. Expenditures on transport vehicles increased by approximately 29%, and on machinery and equipment at a rate of approximately 7-8%, which, among other things, was related to the reduction of the expenditures on machinery and equipment below the level from 1998 in small firms from the sectors: mining and quarrying, electricity, gas and water supply, and construction. In 1999, in medium-size private enterprises, expenditures on transport vehicles were growing the most rapidly (by almost 30%), the level of growth of expenditures on machinery and equipment came in second (by approximately 4%), and expenditures on buildings and structures even decreased slightly (due to the completion of another stage of construction of the Yamal pipeline). On the other hand, in large firms the rate of growth of expenditures on individual types of assets was inverse to that in medium-size enterprises. Expenditures on buildings and structures were growing the most rapidly (by over 30%), then (by over 7%) on machinery and equipment, and expenditures related to the purchase of transport vehicles decreased (by almost 4%). The situation of large private enterprises is significantly influenced by entities belonging to the manufacturing sector, where in 1999 all types of expenditures decreased in comparison with the previous year, with the largest decrease taking place in expenditures to purchase transport vehicles.

Chart 2.10. Shares of Various Sized Enterprises in Investment Outlays of the Private Sector, 1998–1999 (as %)



2.5.2. Share of Investment Expenditures of SMEs in Total Outlays

The uneven rate of growth of investment expenditures in individual groups of enterprises caused the share of SMEs in the total investment outlays of enterprises, expressed in current prices, to increase from 44.2% in 1998 to 46.8% in 1999. The decisive factor here was mainly the rapid increase in outlays in small enterprises whose share in investment expenditures of all enterprises increased from 22.2% in 1998 to 25.1% in 1999, whereas the share of medium-size enterprises decreased from 22% to 21.7%. Another reason for this rapid increase of the share of SMEs in the total outlays of enterprises is that the investment expenditures of large firms from the public sector were maintained in 1999 at virtually the same level as in the previous year (after allowing for inflation, this means a decrease in the expenditures mentioned, in real terms). In 1999, the share of SMEs in investment expenditures of private enterprises also increased, though slightly, from 61.6% to 61.9%. Here, the share of small firms also increased considerably (from 31.5% in 1998 to 34.3% in 1999), whilst the share of medium-size enterprises declined (from 30.1% to 27.6%).

2.5.3. Investment Expenditures per Employee in Private SMEs

In 1999, investment expenditures per employee[29] (current prices) amounted to PLN 6,000 in small private enterprises, PLN 14,500 in medium-size enterprises, and PLN 17,700 in large private firms. When comparing the amount of expenditures per employee in enterprises of various sizes, one must recall that they are not inclusive of the expenditures used for the purchase of fixed assets. Previously used assets are purchased primarily by small enterprises, and taking into account the reduced financial outlays required for these purchases, the advantage held by medium-size and large firms over small ones, with respect to the amount of funds earmarked for development, would not be so great[30].

In 1999, among small enterprises, entities from the electricity, gas and water supply sector had the greatest expenditures per employee (PLN 96,300), thanks to the investments of local companies building water and gas supply networks in small townships. Small enterprises from the financial services sector came in second (expenditures per worker amounting to PLN 28,000), and small firms from the real estate and business services sector were third (PLN 24,000) due to the investments made by housing cooperatives. Small private firms took the subsequent rankings by investment expenditures per employee from the sectors: mining and quarrying (PLN 7,600), transportation, storage and communications (PLN 6,100), manufacturing (PLN 4,200), construction (PLN 3,200), other services (PLN 2,900), trade and repairs (PLN 2,800) and hotels and restaurants (PLN 2,400).

In the group of medium-size private enterprises the order of sectors by investment expenditures per employee was slightly different, especially in the final part of the classification. The financial

[29] These values do not include capital expenditures of private enterprises belonging to the following segments: public administration, education and health care.

[30] The GUS publication entitled *Economic Activities of Enterprises with Up to 9 People in Their Employment in 1999 (Działalność gospodarcza przedsiębiorstw o liczbie pracujących do 9 osób w 1999 r.)* reported that firms employing up to nine people (excluding agriculture and forestry, fisher and fishing, public administration, education and health care) earmarked PLN 10,826.2 million in 1999 for investments in new property items, and PLN 1,560.6 million for the purchase of second-hand (previously used) fixed assets. Thus, the value of second-hand fixed assets purchased amounted to almost 14.5% of the value of expenditures on new property items.

services sector came in first in 1999 (amount of expenditure per employee amounted to PLN 136,400), followed by: electricity, gas and water supply (PLN 33,600), transportation, storage and communications (PLN 28,700), mainly due to expenditures on the construction of the Yamal pipeline, real estate and business services (PLN 21,500), due to the investments of housing cooperatives, and mining and quarrying (PLN 17,900). The subsequent rankings by investment expenditures per employee were taken by the sectors: trade and repairs (PLN 13,300), hotels and restaurants (PLN 12,600), construction (PLN 12,100), manufacturing (PLN 9,300) and other services (PLN 3,500). In comparison with small enterprises, the relatively high position of medium-size firms from the trade and repairs sector in the classification discussed is characteristic, as is the relatively low position of medium-size enterprises from the manufacturing sector.

2.6. Role of SMEs in Foreign Trade

2.6.1. Changes in Foreign Trade of SMEs in 1999

In 1999, in comparison with the previous year, exports of Polish enterprises declined by 3%, and imports by 2.5%[31]. During the same period, exports of SMEs decreased by 3.8%, and imports increased by 1%. The share of SMEs in total exports decreased from 48.1% to 47.6%, and in total imports it increased from 63.2% to 65.4%, which, was doubtless a negative trend.

In 1999, in comparison with 1998 the trade deficit of the SME sector increased considerably, i.e., by 5% (from USD 16.1 billion to USD 16.9 billion). During the same period, the total Polish foreign trade deficit decreased slightly from USD 18.8 billion to USD 18.5 billion, i.e., by approximately 1.6% (as compared to almost 14% of an increase the previous year). Therefore, the sector of small and medium-size enterprises was responsible for the growth of the general deficit. The value of SME imports considerably exceeded the value of exports; however, even more negative, exports in absolute numbers decreased in the year under research. This may mean a declining level of competitiveness of goods and services in foreign markets from the SME sector.

2.6.2. Rate of Growth of Exports and Imports in Sectors of the Economy

In 1999, both exports and imports of SMEs were dominated by trade and manufacturing, similarly to that in previous years (both sectors accounted jointly for as much as 94.8% of exports and 89.9% of imports of SMEs). The share of trade and repairs sectors in exports dropped significantly (by approximately 5 percentage points, to 30.7%), and the share of manufacturing increased (by over 5 percentage points, to 64.1%). This phenomenon should be viewed as positive because it means that their direct manufacturers more and more often export goods. The trade and repairs sector had a dominant share in imports by SMEs, accounting for almost 53.8% of foreign purchases of SMEs. During that time, manufacturing accounted for over one-third of imports. Among other sectors, as in the previous year, both in exports and in imports only real estate and business services as well as the transportation, storage and communications sectors were of demonstrable viability.

[31] Data according to USD prices.

2.6.3. Changes in the SME Structure in Foreign Trade

From 1995, the importance of exports of medium-size firms increased significantly. In 1995 they accounted for only slightly more than 40% of total exports of SMEs, whereas in 1999 for over 47%. At the same time, the role of small firms diminished (from 54.1% in 1998 to 52.8% a year later). On one hand, this might reflect the progressing concentration and specialisation processes in the Polish economy, on the other hand, it could be indicative of the existence of barriers in exports for the smallest businesses.

Table 2.7. Structure of Exports and Imports of SMEs by Size of Enterprise

Structure of exports of SMEs by Size of Enterprise						
Specification	**1995**		**1998**		**1999**	
	USD '000	**%**	**USD '000**	**%**	**USD '000**	**%**
Total	8,815,420	100.00	13,359,823	100.00	13,072,118	100.00
0–9 employees	2,774,858	31.48	3,681,631	27.56	3,605,868	27.58
10–49 employees	2,451,589	27.81	3,544,327	26.53	3,293,891	25.20
50–249 employees	3,588,973	40.71	6,133,865	45.91	6,172,358	47.22
Structure of imports of SMEs by Size of Enterprise						
Specification	**1995**		**1998**		**1999**	
	USD '000	**%**	**USD '000**	**%**	**USD '000**	**%**
Total	16,034,735	100.00	29,872,000	100.00	30,041,505	100.00
0–9 employees	5,707,164	35.59	9,056,326	30.32	9,834,769	32.74
10–49 employees	5,275,443	32.90	9,613,310	32.18	9,366,676	31.18
50–249 employees	5,052,128	31.51	11,202,364	37.50	10,840,060	36.08

Trends similar to those seen in exports appeared also in imports by SMEs. From 1995-1999 the imports of the largest SMEs, i.e., of enterprises employing between 50 and 249 people, were growing at the fastest rates. The imports of that group increased in 1999, in comparison with 1995, by 4.6%. However, imports of small enterprises dropped the most markedly (by almost 3%) in the smallest firms, those employing 0–9 employees. Additionally, it should be emphasised that in 1999, in comparison with the previous year, the import activities of the SME sector decreased. This drop, however, did not apply to the smallest firms (0–9 employees), where imports increased by 8.6%.

Enterprises from the SME sector still import more than they export: small enterprises almost three times as much, medium-size enterprises approximately 1.7 times more. Thus, they participate to a large extent in the creation of Poland's trade deficit (small enterprises decidedly more than medium-size enterprises).

2.6.4. Key Export Markets for Foreign Trade of SMEs

Table 2.8. Structure of Imports and Exports According to Geographical Structure

Specification	Structure of Imports According to Geographical Structure								
	1995			1998			1999		
	Total imports	Imports of SMEs		Total imports	Imports of SMEs		Total imports	Imports of SMEs	
	USD '000	USD '000	%	USD '000	USD '000	%	USD '000	USD '000	%
Total	29,049,659	16,034,735	100.0	47,053,625	29,872,000	100.0	45,911,206	30,041,505	100.0
Developed countries	21,594,935	12,302,280	76.72	35,269,693	23,440,352	78.47	34,017,228	23,007,029	76.58
Including EU	18,780,630	10,806,777	67.40	31,027,319	20,693,607	69.27	29,825,515	20,283,568	67.52
CEEC	4,368,865	1,695,469	10.57	6,119,284	2,928,437	9.80	6,507,257	2,998,824	9.98
Including CEFTA countries	1,780,796	1,038,943	6.48	3,011,186	2,115,717	7.08	3,070,528	2,196,961	7.31
Including former USSR countries	2,587,984	656,467	4.09	3,107,454	812,546	2.72	3,436,413	801,780	2.67
Developing countries	3,085,859	2,036,985	12.70	5,664,649	3,503,211	11.73	5,385,721	4,035,652	13.43
Structure of Exports According to Geographical Structure									
Specification	1995			1998			1999		
	Total exports	Export of SMEs		Total exports	Export of SMEs		Total exports	Export of SMEs	
	USD '000	USD '000	%	USD '000	USD '000	%	USD '000	USD '000	%
Total	22,894,937	8,815,420	100.0	28,228,866	13,359,823	100.0	27,407,421	13,072,118	100.0
Developed countries	17,189,167	6,489,791	73.62	20,758,157	9,349,051	96.98	20,936,370	9,834,198	75.23
Including EU	16,036,257	6,109,147	69.30	19,269,842	8,631,689	64.61	19,323,686	9,155,371	70.04
CEEC	3,917,749	1,924,458	21.83	5,783,934	3,325,234	24.89	4,625,024	2,609,252	19.96
Including CEFTA countries	1,381,149	468,464	5.31	2,090,751	851,974	6.38	2,236,877	921,803	7.05
Including former USSR countries	2,535,604	1,455,585	16.51	3,692,789	2,473,043	18.51	2,413,678	1,686,526	12.90
Developing countries	1,788,022	401,171	4.55	1,686,775	685,538	5.13	1,819,028	628,667	4.81

In 1999, as in the previous year, the main export markets for small and medium-size Polish enterprises were the developed countries, primarily European Union markets. Over 75% of the total exports of the SME sector were shipped to EU destinations. During the year, the value of exports to Central and Eastern European countries decreased significantly. The circumstances behind this decrease were the Russian crisis and the collapse of export markets in the countries of the former USSR. In 1999, in comparison with the previous year, exports to those countries dropped by almost 32%. It is true that exports to the CEFTA countries increased slightly, but this increase could not counterbalance the losses as a consequence of the fall in Eastern markets.

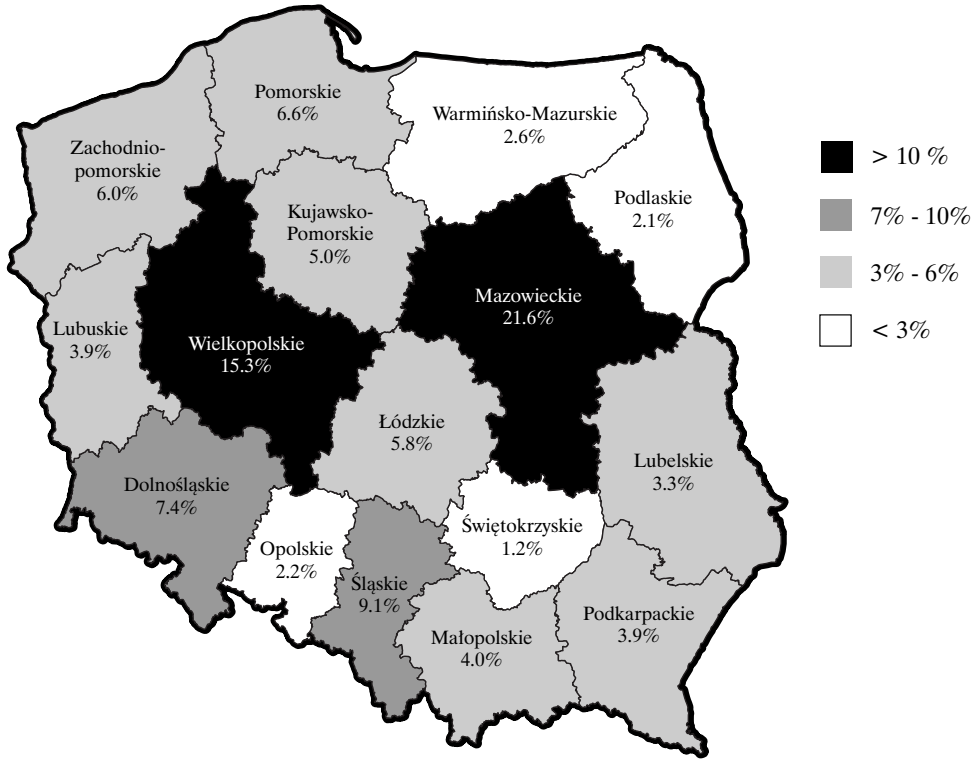
The main supply markets for the SME sector were also the markets of developed countries, especially those of the European Union. The Central and Eastern European countries constituted more export markets than supply markets. The SME sector directed almost 20% of its total exports to those markets, and purchased only 10% of its imports from those markets. However, it imported more from developing countries. Interestingly, almost three-quarters of the total imports from those countries were made by small and medium-size enterprises.

2.6.5. Differentiation of the Foreign Trade of SMEs by Regions

Exports by Regions

Due to the regional differentiation of the development of the SME sector in Poland, SMEs taking part in exports and imports are not distributed evenly across the territory of Poland.

Map 2.1. Share by Voivodships in Total Exports of SMEs in 1999 (%)



In 1999, small and medium-size enterprises from the Śląskie voivodship had the lowest share in exports of individual voivodships (26.8%). The highest level of exports of individual voivodships was noted in the Podlaskie voivodship (over 75%). In understanding this ratio, however, one must recall that, first of all, it reflects the importance of SMEs in the exports of the particular voivodship, whereas the level of development of the sector in the region is described by the ratio of exports of SMEs from the voivodship to total SME exports. Consequently, SMEs in the four most-developed voivodships (Mazowieckie, Wielkopolskie, Śląskie and

Dolnośląskie) accounted for in excess of 53% of total SME exports, while SMEs located in voivodships where the sector was the least developed (Opolskie, Podlaskie, Świętokrzyskie and Warmińsko-Mazurskie) accounted for less than 3% of those exports. In other voivodships this ratio varied from 3 to 7%.

The value of SME exports per capita is also an important criterion of assessment of the importance of the SME sector exports in a particular voivodship.

Only in five voivodships (Mazowieckie, Pomorskie, Lubuskie, Wielkopolskie and Zachodniopomorskie) did this ratio exceed the national average of USD 338 per person. The voivodship in which the SME sector exported the least, both in absolute numbers and per inhabitant, was the Świętokrzyskie voivodship.

Imports by Regions

During the 1995–1998 period, the share of SMEs in total exports remained high, amounting to more than 65%. This ratio, in comparison with the 1998 figure, increased by over 2%, which, in the face of the slight decrease in the share of SMEs in total exports (to 47.6%), compounded the lack of balance in foreign trade in the SME sector.

In almost all voivodships, SMEs accounted for more than 50% of total imports.

Map 2.2. Share of Voivodship in total imports of SMEs (%)



In 1999, the three most developed voivodships (Mazowieckie, Wielkopolskie and Śląskie) accounted for more than 65% of SME imports. Those regions were at the same time the largest importers in Poland.

As seen in the analysis of SME exports, an important criterion of the assessment of the import activities of small and medium-size enterprises is the ratio of the value of SME imports in individual voivodships per capita. The Mazowieckie voivodship dominated with its SME imports valued at USD 2,750 per inhabitant in 1999. This was a value over 2.5 times higher than in the Wielkopolskie Voivodship, which was in second place (with a value of SME imports per inhabitant amounting to USD 1,049), and more than 3.5 times higher than the national average (USD 777 per capita).

Balance of SME trade by Voivodships

In 1999, the highest trade deficit was noted in the Mazowieckie voivodship, where the excess of imports over exports of SMEs amounted to USD 11.1 billion, i.e., 65.5% of the total deficit of SMEs.

In 1999, only five voivodships (Podkarpackie, Lubelskie, Lubuskie, Warmińsko-Mazurskie and Podlaskie) achieved a surplus in the foreign trade of SMEs. However, the total surplus of SME foreign trade from those five voivodships in 1999 amounted to only 2% of the value of the deficit of the entire SME sector.

2.7. SMEs by Region (Voivodship)

2.7.1. Registered Enterprises

Table 2.9. National Economy Entities [a)] Registered in the REGON System in 1999

Voivodship	Registered National Economy Entities								
	Total		Including			Total	Including		
			Urban gminas	Urban-rural gminas	Rural gminas		Urban gminas	Urban-rural gminas	Rural gminas
	in '000	Poland =100	Total = 100			Number of enterprises per 1000 inhabitants			
POLAND	**2904.7**	**100.0**	**66.0**	**18.2**	**15.8**	**75**	**99**	**63**	**43**
Mazowieckie	483.3	16.6	73.8	12.3	13.9	95	126	79	45
Śląskie	360.6	12.4	80.1	7.0	12.9	74	78	69	56
Wielkopolskie	266.0	9.2	51.9	33.1	15.0	79	110	69	49
Dolnośląskie	251.9	8.7	71.8	17.7	10.5	84	105	61	50
Małopolskie	234.9	8.1	53.0	25.6	21.4	73	105	69	43
Łódzkie	193.3	6.6	70.7	13.0	16.3	73	89	67	41
Pomorskie	176.6	6.1	76.8	8.7	14.5	81	100	56	46
Zachodniopomorskie	158.5	5.4	62.6	26.5	10.9	92	119	69	61
Kujawsko-Pomorskie	149.0	5.1	66.8	17.5	15.7	71	94	54	42
Lubelskie	121.5	4.2	63.8	9.6	26.6	54	85	48	30
Podkarpackie	118.2	4.1	53.5	17.5	29.0	56	89	46	36
Warmińsko-Mazurskie	90.3	3.1	63.1	22.9	14.0	62	88	51	31
Lubuskie	80.3	2.8	51.8	34.9	13.3	79	104	67	52
Świętokrzyskie	77.8	2.7	50.3	26.0	23.7	59	92	53	35
Podlaskie	74.2	2.5	70.7	13.1	16.2	61	89	43	30
Opolskie	68.3	2.4	36.9	47.0	16.1	63	105	55	41

[a)] excluding agriculture, forestry, and fishing, as well as financial services and public administration

In 1999, of the total number of 2,904,700 national economic entities, 1,109,900, i.e., over 38%, were registered within three voivodships: Mazowieckie, Śląskie and Wielkopolskie. The places of activities of a large majority of the registered business entities (66%) were urban local communities (gminas), and only a small portion (16%) functioned in rural gminas.

In 1999, 362,900 new business entities were registered in the REGON system, of which 50,800 were located in the Mazowieckie voivodship, 43,100 in the Śląskie voivodship, and 33,900 in the Wielkopolskie voivodship. These same voivodships were also the places of activities of the largest number of entities removed from the REGON register (of the total number of 172,400 liquidated entities, 24,800 were firms operating in the Śląskie voivodship, 18,300 in the Mazowieckie voivodship, and 16,600 in the Wielkopolskie voivodship).

2.7.2. Active Enterprises – Changes in the Geographical Distribution of SMEs

In 1999, of the total number of 1,819,200 active SMEs, more than 37% of the effective population of small and medium enterprises were located in the area of the Mazowieckie, Śląskie and Wielkopolskie voivodships. Conversely, the smallest number of active enterprises functioned within the Opolskie, Podlaskie and Świętokrzyskie voivodships. 135,300 SMEs were located collectively in the latter three, i.e., 7.4% of the effective population of enterprises employing up to 249 people.

Table 2.10. Active Enterprises in 1999

Voivodship	Number of Active Enterprises		
	Total	0–49 employees	50–249 employees
	in '000		
POLAND	**1,819.2**	**1,801.7**	**14.3**
Mazowieckie	261.6	258.9	2.1
Śląskie	232.8	230.4	1.9
Wielkopolskie	180.1	178.4	1.5
Małopolskie	158.9	157.6	1.1
Dolnośląskie	149.2	147.7	1.1
Łódzkie	132.2	131.0	1.0
Pomorskie	115.8	114.8	0.9
Zachodniopomorskie	100.5	99.7	0.6
Kujawsko-Pomorskie	94.2	93.1	0.9
Podkarpackie	74.4	73.6	0.6
Lubelskie	73.9	73.2	0.6
Warmińsko-Mazurskie	58.0	57.4	0.5
Lubuskie	52.1	51.6	0.4
Świętokrzyskie	51.0	50.5	0.4
Podlaskie	42.5	42.1	0.3
Opolskie	42.0	41.6	0.4

The decreasing rate of growth of creation and development of the SME sector observed in 1998, especially pronounced in rural regions, continued in 1999. Due to the considerable decrease in the number of SMEs within the Mazowieckie voivodship – where their largest number is concentrated – the differences in the geographical distribution of SMEs were slightly balanced. The resurgence of the trend from the previous years, stifled in 1998, was not without relevance, when the dynamic growth of the number of enterprises located on the borders with Germany and the Czech Republic influenced the geographical distribution of small and medium-size enterprises.

Table 2.11. Active SMEs in 1998 and 1999

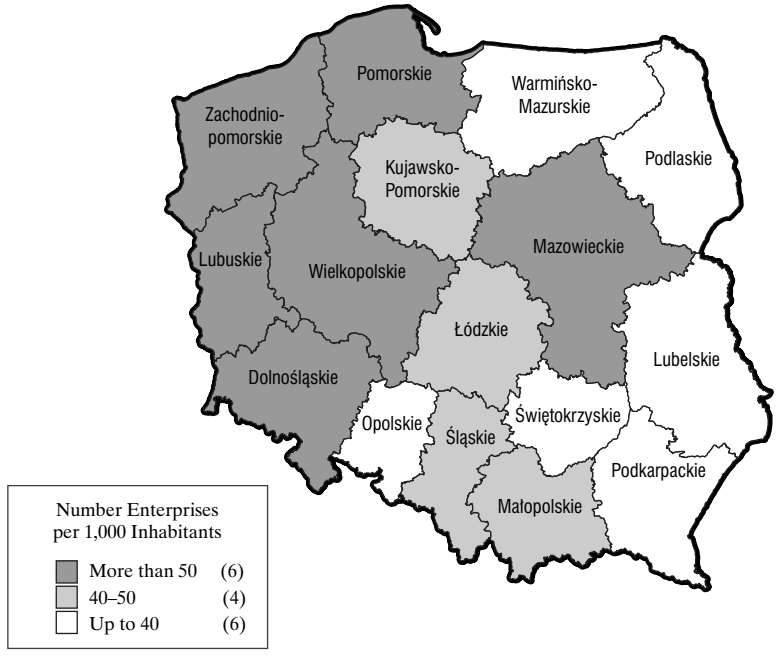
Voivodship	Active SMEs								
	Total		Including				Total	Including	
			0–49 employees		50–249 employees			0–49 employees	50–249 employees
	1998	1999	1998	1999	1998	1999			
	Poland=100						1998=100		
POLAND	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**102.0**	**102.0**	**104.4**
Mazowieckie	16.3	14.4	16.4	14.4	14.1	14.9	92.0	91.9	110.5
Śląskie	13.0	12.8	13.0	12.8	13.2	13.4	102.5	102.5	106.2
Wielkopolskie	9.0	9.9	9.0	9.9	10.0	10.2	114.6	114.6	106.7
Małopolskie	8.4	8.7	8.4	8.7	7.9	7.8	108.4	108.4	104.0
Dolnośląskie	7.4	8.2	7.4	8.2	8.1	7.9	115.7	115.8	102.0
Łódzkie	7.4	7.3	7.4	7.3	6.7	6.7	103.2	103.2	104.6
Pomorskie	6.0	6.4	6.0	6.4	6.2	6.2	110.2	110.3	105.2
Zachodniopomorskie	5.2	5.5	5.2	5.5	4.8	4.4	111.8	112.0	96.6
Kujawsko-Pomorskie	5.3	5.2	5.3	5.2	6.0	6.0	102.1	102.1	103.9
Podkarpackie	4.1	4.1	4.1	4.1	4.3	4.2	105.4	105.5	101.2
Lubelskie	4.2	4.1	4.2	4.1	4.2	4.0	101.3	101.3	101.1
Warmińsko-Mazurskie	3.1	3.2	3.1	3.2	3.7	3.6	108.9	109.0	100.2
Lubuskie	2.8	2.9	2.8	2.9	3.0	2.9	106.0	106.0	101.7
Świętokrzyskie	2.9	2.8	2.9	2.8	2.9	2.8	100.1	100.0	103.1
Podlaskie	2.4	2.3	2.4	2.3	2.4	2.3	99.9	99.8	103.4
Opolskie	2.3	2.3	2.3	2.3	2.6	2.5	102.9	102.9	100.0

Map 2.3. Changes in the Number of Small and Medium-Size Enterprises in 1999 (%)



In 1999, the effective population of small and medium-size enterprises grew at the highest rate in the area of western Poland (mainly Dolnośląskie, Wielkopolskie, Pomorskie and Zachodniopomorskie voivodships). The dynamic growth of the number of small and medium-size enterprises in western voivodships, the small (or non-existent) growth of the number of enterprises from the SME sector in eastern and central Poland (Podlaskie, Świętokrzyskie and Lubelskie voivodships), and, at the same time, an 8% drop in their number in the Mazowieckie voivodship, determined the direction of changes in the geographical distribution of small and medium enterprises in 1999.

Map 2.4. Geographical Concentration of Small and Medium-Size Enterprises in 1999



In 1999, the division of the country into the so-called Poland "A" and "B", i.e., western and eastern Poland, became even more distinct. This negative trend is a cause for concern, the more so if one takes into account the high rate of unemployment and the low level of economic development of most of the voivodships in eastern Poland. Unfortunately, the conditions for small entrepreneurs in the voivodships of eastern Poland, especially with regard to qualifications of employees, infrastructure, and the so-called business environment, do not encourage many companies to commence operations in this part of the country. Therefore, it appears necessary to develop special small and medium-size enterprise development programmes, which would allow for the specific nature of the rural areas of eastern Poland.

2.7.3. People Working in the SME Sector

In 1999, SMEs were workplaces for 5.8 million employees, i.e., two-thirds of all people employed in the market sector. The largest number of people, 2.3 million, were employed by

SMEs located in the Mazowieckie, Śląskie and Wielkopolskie voivodships. Conversely, SMEs operating in the Podlaskie, Opolskie, Świętokrzyskie and Lubuskie voivodships played a lesser role in the national labour market, as they jointly employed 580,700 people.

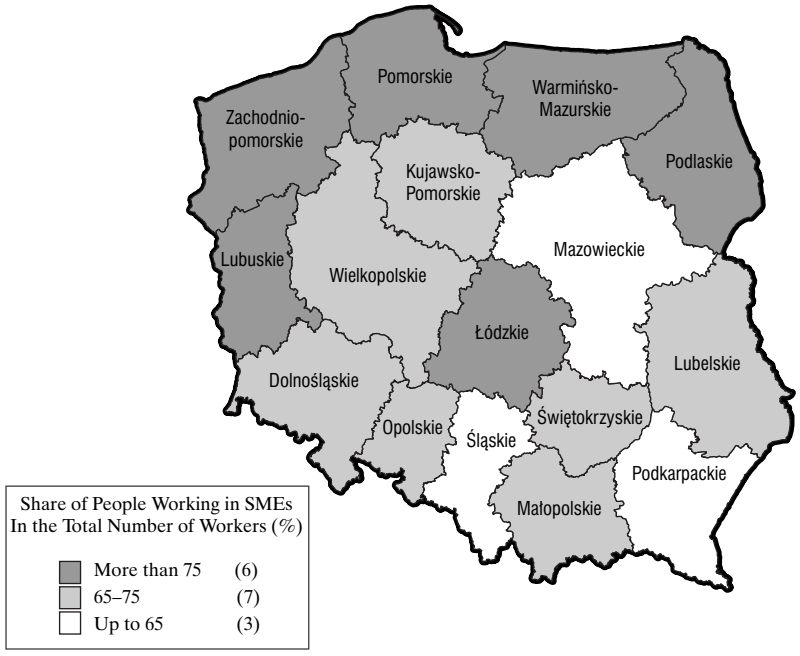
Table 2.12. People Working in the Market Sector in 1998 and 1999

Voivodship		People Working in Enterprises with the Following Employment							
		Total	Including			Total = 100			
			0-49 people	50-249 people	250+ people	0-49 people	50-249 people	250+ people	
		In '000	1998=100						
POLAND	**1998**	**9,010.2**	**100.0**	**100.0**	**100.0**	**100.0**	**46.2**	**18.1**	**35.7**
	1999	**8,819.0**	**97.9**	**98.4**	**103.8**	**94.1**	**46.6**	**19.1**	**34.3**
Dolnośląskie	1998	660.9	100.0	100.0	100.0	100.0	44.8	19.9	35.3
	1999	678.4	102.7	107.9	101.2	96.7	47.1	19.6	33.3
Wielkopolskie	1998	810.9	100.0	100.0	100.0	100.0	48.3	19.6	32.1
	1999	830.4	102.4	103.6	107.8	97.3	48.9	20.6	30.5
Pomorskie	1998	488.7	100.0	100.0	100.0	100.0	53.6	20.1	26.3
	1999	496.6	101.6	102.7	101.9	99.1	54.1	20.1	25.8
Opolskie	1998	197.9	100.0	100.0	100.0	100.0	43.9	20.9	35.2
	1999	198.8	100.5	109.2	100.5	89.6	47.7	20.9	31.4
Małopolskie	1998	677.1	100.0	100.0	100.0	100.0	48.5	18.5	33.0
	1999	680.2	100.4	103.3	103.9	94.2	49.9	19.1	31.0
Lubuskie	1998	216.0	100.0	100.0	100.0	100.0	50.2	20.9	28.9
	1999	215.9	99.9	106.2	99.1	89.7	53.3	20.7	26.0
Mazowieckie	1998	1,720.0	100.0	100.0	100.0	100.0	43.2	15.0	41.8
	1999	1,708.5	99.3	91.1	109.4	104.2	39.7	16.5	43.8
Podkarpackie	1998	221.8	100.0	100.0	100.0	100.0	41.8	17.2	41.0
	1999	230.5	98.9	103.7	104.6	91.6	43.8	18.2	38.0
Podlaskie	1998	189.4	100.0	100.0	100.0	100.0	49.8	20.0	30.2
	1999	184.4	97.4	100.5	101.6	89.5	51.4	20.9	27.7
Łódzkie	1998	593.8	100.0	100.0	100.0	100.0	51.8	18.3	29.9
	1999	568.9	95.8	96.6	103.7	89.7	52.2	19.8	28.0
Warmińsko-	1998	272.3	100.0	100.0	100.0	100.0	54.4	22.2	23.4
Mazurskie	1999	259.4	95.2	91.8	97.2	101.3	52.4	22.6	25.0
Świętokrzyskie	1998	241.5	100.0	100.0	100.0	100.0	45.8	18.8	35.4
	1999	229.1	94.9	95.0	101.5	91.1	45.8	20.1	34.1
Lubelskie	1998	342.8	100.0	100.0	100.0	100.0	45.4	19.1	35.5
	1999	325.0	94.8	97.2	103.3	87.2	46.6	20.8	32.6
Zachodnio-	1998	394.0	100.0	100.0	100.0	100.0	54.6	18.9	26.5
pomorskie	1999	369.8	93.9	95.8	97.6	87.2	55.8	19.7	24.5
Kujawsko-	1998	450.2	100.0	100.0	100.0	100.0	48.3	20.9	30.8
Pomorskie	1999	420.3	93.4	89.3	104.0	92.4	46.2	23.3	30.5
Śląskie	1998	1,378.6	100.0	100.0	100.0	100.0	39.5	15.8	44.7
	1999	1,281.6	93.0	98.0	103.0	85.0	41.6	17.5	40.9

Despite the considerable number of people working in SMEs in the Mazowieckie, Śląskie or Wielkopolskie voivodships, the importance of this category of enterprises in the local labour markets is much lower than that of enterprises located in the Warmińsko-Mazurskie, Zachodnio-pomorskie or Lubuskie voivodships, where three-quarters of all people working in

the market area are SME employees. The leading role of SMEs in the labour market of the latter three voivodships results in a situation in which any disturbances in the functioning of this category of enterprises and, in particular, a decrease in their demand for labour, have not only an economic but also the social effect. This applies as well to the Kujawsko-Pomorskie and Świętokrzyskie voivodships.

Map 2.5. People Working in Small and Medium-Size Enterprises in 1999



In 1999, we encountered a completely new phenomenon, i.e., a decrease of the number of workers in the group of small enterprises. Nationally, employment in this category of enterprises decreased by 1.6%, whereas in 1998 we observed an increase in the number of those employed by 2.3%. In the voivodships of northern Poland and in the ĆwiÍtokrzyskie voivodship the decline in the number of people working in small enterprises was much more serious than in other voivodships, and it mainly affected enterprises from the sectors of manufacturing, trade, real estate and business services, as well as other services. Jointly, in these four sectors, the number of people working in small enterprises decreased by:

– 12.5% in Kujawsko-Pomorskie voivodship,
– 11.4% in Warmińsko-Mazurskie voivodship,
– 9.1% in Świętokrzyskie voivodship,
– 5.6% in Zachodniopomorskie voivodship.

The consequence of the decrease in the number of people working in small enterprises was a considerable increase in the level of unemployment in all four of the referenced voivodships, as well as in the Lubuskie voivodship, the evidence of which is their unemployment rates – the highest in the entire country.

Table 2.13. Unemployment Rate in 1998 and 1999

Voivodship	Unemployment Rate	
	1998	1999
	%	
POLAND	**10.4**	**13.1**
Warmińsko-Mazurskie	19.7	22.4
Zachodniopomorskie	13.9	18.1
Lubuskie	13.2	17.5
Kujawsko-Pomorskie	13.9	16.9
Świętokrzyskie	12.1	15.1

A considerable reduction of employment in SMEs located in northern Poland and in the region of Góry Świętokrzyskie is a new phenomenon, since previously (in the years 1994–1998) a reduced demand for labour in SMEs was observed mainly in eastern Poland.

A rapid decrease in the number of people working in small enterprises was also experienced by small enterprises operating in the Mazowieckie voivodship (a decrease of 8.9%). However, in this case, the this trend was accompanied by the highest increase in employment in medium-size enterprises in Poland (an increase of 9.4%), and more than a 4% increase in employment in large enterprises employing more than 249 people.

2.7.4. Revenues from the Sales of Products, Goods and Materials

In 1999, the share of SMEs in the sales of products, goods and materials increased significantly (by 3.4 percentage points), which means that the rate of growth of sales achieved by this category of enterprises was clearly higher in comparison with the rate of growth achieved by large enterprises. The relatively high rate of growth of SMEs in 1999 was mainly influenced – contrary to previous years' activities – by the rate of growth of production sold of small enterprises. The share of this category of enterprises in the total value of products, goods and materials sold increased from 39.7% in 1998 to 42.7% in 1999.

SMEs active in the Małopolskie, Pomorskie, Lubuskie and Mazowieckie voivodships had a much higher rate – in comparison with the national average – of growth of sales of products, goods and materials. 1999 sales revenues of SMEs located in the four above-mentioned voivodships, combined with the firms operating in the Śląskie and Wielkopolskie voivodships, constituted almost two-thirds of the value of all sales garnered by this category of enterprises. Of particular note are the SMEs located in the Mazowieckie and Śląskie voivodships since their revenues from the sales of products, goods, and materials grew relatively quickly in 1999, and their share in sales reached one-third of the total value of sales of products, goods and materials of all SMEs[32].

[32] The data quoted does not fully reflect the real special differentiation of revenues of SMEs from their operations, which is a direct effect of the specificity of statistical surveys of revenues of enterprises, when revenues from the sale of products, goods and materials are assigned to a voivodship in which managements of enterprises are located. As is well known, some firms have their head offices in large urban agglomerations, whilst their business activities are conducted in plants spread all over the country.

Table 2.14. Revenues from the Sales of Products, Goods, and Materials in 1999

Voivodship	Revenues from the Sales of Products, Goods and Materials of Enterprises								
	Total		0-49 emp.	50-249 emp.	>249 emp.	Total	0-49 emp.	50-249 emp.	>249 emp.
	PLN mn	Poland=100				1998=100			
POLAND	**1,397,458.4**	**100.0**	**100.0**	**100.0**	**100.0**	**120.7**	**129.5**	**123.4**	**110.6**
Mazowieckie	399,520.4	28.6	21.0	28.2	37.8	122.8	129.2	133.8	115.0
Śląskie	185,548.9	13.3	12.4	12.5	14.8	113.8	121.4	131.7	100.8
Wielkopolskie	128,046.6	9.2	9.2	10.9	8.2	118.0	120.6	121.8	112.1
Małopolskie	110,274.9	7.9	9.3	6.8	6.9	134.0	151.9	127.3	115.8
Dolnośląskie	89,314.3	6.4	7.1	7.3	5.0	115.1	116.6	120.2	108.8
Pomorskie	77,652.8	5.6	7.1	4.7	4.2	130.8	153.2	108.2	113.1
Łódzkie	72,620.7	5.2	6.5	5.1	3.7	124.8	136.1	119.0	110.0
Kujawsko-Pomorskie	56,713.3	4.1	4.3	4.4	2.3	118.0	121.2	113.8	116.7
Zachodniopomorskie	51,242.6	3.7	4.7	3.9	3.6	117.8	133.7	114.2	94.3
Podkarpackie	43,793.8	3.1	3.0	3.0	3.0	114.3	128.8	115.7	98.7
Lubelskie	39,593.6	2.8	3.4	2.7	2.2	113.8	122.3	99.3	111.5
Warmińsko-Mazurskie	30,661.4	2.2	2.6	2.4	1.6	116.0	117.7	111.4	116.9
Świętokrzyskie	29,932.2	2.1	2.1	2.3	1.4	121.8	130.6	115.1	116.6
Lubuskie	28,296.2	2.0	2.6	1.9	1.6	128.7	143.5	117.5	111.6
Opolskie	27,946.8	2.0	2.2	2.2	2.1	124.6	127.8	130.3	115.8
Podlaskie	26,300.1	1.9	2.1	1.9	1.7	114.5	122.9	120.6	101.3

2.7.5. Investment Expenditures

Expenditures of enterprises on investments, i.e., on the creation and purchase of new fixed assets, as well as on the development and modernisation of existing facilities, depend mainly on the financial condition of enterprises, and on the expected profitability of the investment. The value of funds invested in previous periods is also material. All this results in an extreme concentration of expenditures, restricted to the three centres with the largest number of SMEs, i.e., Mazowieckie voivodship (32.3% of all investment expenditures of SMEs), Śląskie voivodship (11.5%) and Wielkopolskie voivodship (9.7%). SMEs located in these three voivodships accounted for more than a 50% share in the value of investment expenditures of the entire sector. Funds spent on investments in the Warmińsko-Mazurskie (2% of investment expenditures of SMEs), Opolskie (1.4%), or Podlaskie voivodship (1.5%) remain largely disproportionate to the above level of expenditures. However, one must recall that the large differences in the amount of expenditures is also due to the fact that values concerning investment expenditures (as in the case of the value of sales) have been assigned to the location registered as the company headquarters and not to the location where the funds were actually spent.

2.8. Summary

The foreign currency crisis in Russia began in August 1998, which is why throughout much of 1998 the Polish economy could still develop in favourable external conditions. The effects of the Russian crisis were only fully felt by the Polish economy in 1999. In the peak year 1997, the value of exports from Poland to Russia amounted to approximately USD 2,155 million, where-

as in 1999 these amounted to only approximately USD 710 million. Therefore, official exports to Russia were three times lower, and unofficial exports, i.e., purchases made directly by Russian citizens during their visits to Poland, probably decreased just as much, or even more so. Products thus exported were manufactured and sold by SMEs, and that is why the Russian crisis affected this group of enterprises the most. The deterioration of foreign export markets resulted in a situation in which production could grow only as a result of an increase in domestic demand. The increase of domestic consumption was facilitated by interest rates, relatively low in 1999 (the lowest during the whole transformation period, from 1990 until the present), due to which the amount of credit granted to the population for purchasing durable goods increased. However, this did not do much to improve the situation of SMEs, because goods typically purchased on credit (cars, household appliances, audio-visual equipment) are in most cases manufactured by large enterprises. Moreover, a portion of those credits has been used to purchase imported durable goods that, in addition to the decrease in exports, resulted in an additional deterioration of the already unfavourable balance of payments. Due to the insufficient increase in domestic and foreign demand, the rate of growth of gross domestic product decreased in 1999 to 4.1%, as compared to 4.8% in 1998 and 6.8% in 1997.

The difficult conditions in which SMEs operated in 1999 contributed to the significant decrease in the rate of growth of this sector. And thus the number of small enterprises increased in 1999 by only 2%, whereas in the previous year by 9%, and in 1997 by as much as approximately 18%. The number of medium-size enterprises grew in the 1998-1999 period at a similar rate, approximately 4.3%, but in 1997 it increased by over 8%. Moreover, the increase in the number of medium-size firms was also due to the reclassification of some enterprises from the category of large enterprises to the category of medium-size enterprises following a reduction of their employment to a level of fewer than 249 employees[33]. In 1999, for the first time during the entire decade of the nineties, the number of people working in small enterprises decreased (by 1.6%). The number of people working in medium-size firms increased, but this increase is mainly illusory because it refers to employees from units that were reclassified from the group of large enterprises to the group of medium-size enterprises in 1999. The decline in the number of people working in small enterprises was one of the main reasons behind the increase in the rate of unemployment from 10.4% as of the end of 1998 to 13.1% as of the end of 1999. Additional bad news for job seekers was the decrease in their opportunities of finding at least temporary, seasonal, or even illegal employment in the so-called grey area. According to GUS, the number of people working in the grey area declined in 1999 by approximately 5%.

Considering the difficult conditions for the operation of SMEs in 1999, enterprises from that sector survived the period in relatively good condition, much better than in the case of large enterprises. It is true that the number of small enterprises increased in 1999 by only a very small number, but the number of large enterprises decreased by as much as more than 8%. The drop in the number of small enterprises was noted only in two sectors of the economy: trade and repairs and transportation, storage and communications, whereas the decrease in the number of people working in small firms was mainly in manufacturing, construction and trade.

[33] The reason for this reduction of employment in large private firms, and especially foreign firms, privatised in the mid-nineties, was the expiry of obligations undertaken at the time of privatisation, according to which the new owner had to maintain the previous level of employment for several years from the date of purchase of the firm.

The Russian crisis was undoubtedly the direct reason behind the drop in employment in industry, and indirectly in construction. However, the decrease in the number of small firms and the number of people employed in trade may be explained through the Russian crisis only to limited extent. To a large degree it may be due to the expansion of supermarkets or, generally speaking, the concentration of trading activities in line with tendencies observed in the West over ten years ago. The idea of this rivalry between small and large trading firms is well characterised by statistics on gross productivity per worker. In 1999, gross productivity per worker in small trading firms amounted to approximately PLN 50,000, and in large enterprises, only PLN 38,000. At the same time, the rate of growth of productivity per worker in large firms exceeded the relatively low rate observed in small trading enterprises. The spread between the gross productivity per worker in small and large trading firms is, therefore, still substantial. The rivalry between both forms of trading will most probably lead to a significant reduction of that difference. However, until appropriate scales are achieved, the sector of small trading firms will probably suffer further losses in the form of a reduction in the number of enterprises as well as the number of workers.

Additional information reflecting the relatively good condition of the SME sector, despite the difficult conditions of operations, is the data on the financial condition of enterprises of various sizes, and especially data on the size of investment expenditures. As previously stated, the gross sales profitability of small private enterprises maintaining accounting records and employing more than nine people decreased in 1999 (by 0.6 percentage points), but less than in the case of large private firms (by 0.9 percentage points), whilst the profitability of medium-size private firms remained at the previous year's levels. Even in such areas as manufacturing, construction, or transportation, where small firms most powerfully felt the effects of the Russian crisis, as evidenced by the drop in the number of enterprises or the number of employees, second-degree financial liquidity ratios – though they decreased in certain cases – did not fall below the level of 70% assumed to be relatively safe. At the same time, the rate of growth of investment expenditures in large enterprises, expressed in fixed prices, decreased in 1999 by one-half in comparison with the previous year, however the rate of growth of expenditures of small firms increased considerably, from 14% in 1998 to approximately 25% in 1999. Expenditures made by small private firms, however, to purchase transport vehicles, grew more rapidly (by approximately 29%) than their total investment expenditures. There is a concern then, that small firms, using the relatively low 1999 interest rates, purchased or leased more passenger cars on credit than ever before. Some of the vehicles were used also, and maybe mainly, for private purposes. Regardless of this critical comment, however, it should be said that the large increase in the investment expenditures in small private firms is evidence of the optimism of entrepreneurs who saw the prospects for their operations as brighter than would appear from the current, objectively difficult economic situation.

In summary, it bears repeating that the data collected indicate that the SME sector survived the year 1999 in relatively good condition. The ability of small firms to adapt to difficult conditions is reflected in the relatively low decrease in the number of employees, relatively favourable – in comparison with large enterprises – financial ratios, and especially the rapidly growing level of investment expenditures. A worrying fact for small firms is that the relatively low drop in employment was not distributed evenly across the country, but concentrated in several voivodships (Kujawsko-Pomorskie, Warmińsko-Mazurskie, Świętokrzyskie, or Zachodniopomorskie), where previous years have also seen the highest rate of unemploy-

ment. Similar problems related to the drop in employment do not exist in the case of medium-size enterprises, which can easily be called the healthiest component of the entire group of Polish enterprises. This sector is composed mainly of dynamic firms, formerly small in size, which, when developing, increased their employment to a level greater than 49 workers, and restructured former large firms that underwent restructuring including the reduction of excessive employment. Some of the information on medium-size enterprises (e.g., related to the slow growth of productivity per worker, or investment expenditures) appears to be rather unfavourable. However, one must recall that the group of medium-size enterprises is an extremely non-homogeneous and unstable cluster, e.g., the reclassification of a large group of former small or large firms to the group of medium-size enterprises may temporarily decrease or suddenly increase the value of some ratios from one year to the next, and the construction of the Yamal pipeline, costing many billions of zloties, by one medium-size company may distort the changing trends in the value of investment expenditure of the whole group of medium-size firms. Unfortunately, additional data is not available for the more precise and objective study of the condition of medium-size enterprises.

Chapter 3.

Policy Towards SMEs

State Policy – Programme Documents

Implementation of State Policy Towards SMEs

Summary

This chapter discusses the assumptions and activities implemented within the public policy framework that significantly affect the conditions under which the SME sector functions.

3.1. State Policy – Programme Documents

In 2000, the Government presented several comprehensive programmes and proposals on socio-economic policy with respect to the problems of the small and medium-size enterprise sector. Unlike in 1999, however, the Government's programme activities decreased significantly.

3.1.1. Socio-Economic Strategies

A programmatic document of considerable strategic importance entitled *Poland 2025 – Long-Term Strategy of Steady and Balanced Development (Polska 2025 – Długookresowa Strategia Trwałego i Zrównoważonego Rozwoju)*[1] was adopted on July 26, 2000.

The document was prepared as a reference point for short- and medium-term strategic milestones. The programme was based on the concept of steady and balanced development, which assumes the integration of social, economic and ecological aspects.

The document was divided into three parts: social, economic and public policy.

Among the activities highlighted in the economic area, in addition to the structure of the economy, foreign trade, technical infrastructure, were the issues confronting small and medium-size enterprises. The SME sector was deemed to be of strategic importance because of its role in stimulating development and accelerating structural changes from the sectoral and organisational point of view, and the necessity of supporting its continuing development was emphasised.

The following strategic tasks with regard to the small and medium-size enterprise sector were formulated in the document:
- creation of an appropriate legal and institutional environment that favours the establishment and development of small and medium-size enterprises,
- stimulation of innovations and facilitation of access to technology in order to enhance the competitiveness of the sector,
- development of cooperative links between SMEs and large enterprises as well as with other small and medium-size firms,
- increase of export activity,
- stimulation of the development of small and medium-size enterprises within the public institutional policy,
- promotion of ecological management and production methods.

The following methods and instruments facilitating the development of the SME sector were proposed:
- development of a system of financial support for SMEs, facilitating access to external sources of financing,

[1] *Poland 2025 – Long-Term Strategy of Steady and Balanced Development (Polska 2025 – Długookresowa Strategia Trwałego i Zrównoważonego Rozwoju)*, Sejm publication No. 2133 of August 3, 2000.

- broadening access to financial resources through the development of non-banking institutions from the financial services sector, e.g., venture capital funds, OTC-regulated securities market,
- creation of a simplified and stable tax system, and reduction of the tax burden,
- reduction of indirect costs in the costs of labour,
- simplification of procedures related to undertaking and conducting business activities, and supporting the establishment of new firms,
- development of the business support infrastructure providing access to knowledge from the areas of managing a business through training, advisory services and access to business intelligence,
- emphasis on the creation of an entrepreneurial spirit in society, e.g., through inclusion into school curricula of elements relating to entrepreneurship and the undertaking of independent business activities,
- involvement of local governments in supporting the development of SMEs and promoting business (i.a. business support, advisory services, training and information services) as well as creation of conditions for the development of small and medium-size enterprises under a regional policy,
- coordination of the activities of institutions supporting SMEs,
- creation of a system that encourages firms to make investment expenditures, implement new technologies and quality control systems (tax allowances for the implementation of modernisation programmes and undertaking innovative projects, lowering of turnover thresholds for entitlement to tax allowances, accelerated depreciation, creation of new forms of financing investment undertakings),
- development of an institutional infrastructure that is supportive of innovations,
- establishment of a national system of cooperative links between large enterprises and small and medium-size firms, advisory services and intermediation in seeking partners and creating cooperative relations,
- promotion of ecological technologies,
- creation of a system of information and business advisory services with regard to undertaking export activities,
- development of permissible forms of financing of export activities (e.g., sureties and guaranties) as well as financial and organisational support for the participation in foreign trade exhibitions and promotion in foreign markets,
- support for activities undertaken by SMEs in the new areas of production and services, and for activities established rural areas,
- concentration of investment and advisory support on small and medium-size enterprises using new technologies, operating in service areas requiring highly qualified employees, as well as sectors with long-term growth potential.

The vision of Poland 2025 outlined in the programme states that, apart from focusing on large industrial groups, one should aim at "developing entrepreneurship in the form of small and medium-size businesses, which serve an important function by filling in the niches left by large corporations".

3.1.2. Integration Strategies

National Programme of Preparation for Membership in the EU

In April 2000, the Council of Ministers adopted subsequent version of the *National Programme of Preparation for Membership in the European Union (Narodowy Program Przygotowania do Członkostwa w Unii Europejskiej)*[2]. The medium-term priority – creation of conditions for the enhancement of competitiveness, investment expenditures, and exports of the small and medium enterprise sector – was adjusted and defined in more detail in accordance with the evaluations of the European Commission contained in the Regular Report from the Commission on Poland's Progress towards Accession[3].

The following priority interim objectives were defined:
- facilitating the access of entrepreneurs to external sources of financing,
- facilitating the access of entrepreneurs to information about regulations legally binding in the EU,
- providing technical assistance to small and medium-size enterprises with regard to the implementation of quality assurance systems, and construction of a consultancy-advisory network for entrepreneurs,
- establishing the Polish Agency for Enterprise Development.

The following legislative work necessary for implementing the priority objectives has been defined:
- Act on Admissibility and Supervision of Public Aid for Entrepreneurs (adopted on June 30, 2000),
- Act on Amendment to the Act on the Committee for Scientific Research (KBN) (adopted on September 15, 2000),
- Amendment to the Act – Civil Code in relation to the Leasing Contract (adopted on July 26, 2000),
- Act on Establishment of the Polish Agency for Enterprise Development (adopted on November 9, 2000),
- Amendment to the Act on Public Procurement (adopted by the Council of Ministers on February 15, 2000[4]),
- Amendment to the Labour Code,
- Act on Public Utility Activities (work on the draft is still underway),
- Amendments to the Act on the National Court Register (adopted on November 30, 2000),
- Amendments to regulations concerning vocational education (work coordinated by the Ministry of National Education is still under way).

The programme defines the expenditures necessary for its implementation, amounting to PLN 22,690,000 in 2000. However, no anticipated financial outlays for the years 2001 and 2002 are

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[2] National *Programme of Preparation for Membership in the European Union (Narodowy Program Przygotowania do Członkostwa w Unii Europejskiej)* in: www.cie.gov.pl. At the same time, on April 4, 2000, the Council of Ministers adopted the *Report on the Implementation of the National Programme of Preparation for Membership in the European Union in 1999 (Raport z realizacji w 1999 roku Narodowego Programu Przygotowania do Członkostwa w Unii Europejskiej)* – see item 3.2.2.

[3] See: Report on the Condition of the Small and Medium-Size Enterprise Sector in Poland for the Years 1998-1999, Warsaw 2000, page. 109.

[4] According to the decision of the Council of Ministers of November 28, 2000, the draft was withdrawn from the Sejm. The new version of the draft was adopted by the Council of Ministers on December 20, 2000.

indicated, although those years are inclusive of the activities under the National Programme of Preparation for Membership (NPPC).

European Commission Report

In November 2000, the European Commission presented another *Regular Report from the Commission on Poland's Progress Towards Accession (Okresowy Raport Komisji Europejskiej z postępów Polski na drodze do członkostwa w Unii Europejskiej)*[5] evaluating the activities undertaken from the time of publication of the Regular report for 1999 to the end of September of 2000.

It was ascertained that Poland made further progress on its path towards the adjustment of legal regulations for SMEs relevant to the Acquis Communautaire (acquis) and that the active policy towards SMEs is in compliance with the principles and objectives of Community policy. The adoption of the SME support programme, establishment of the Polish Agency for Enterprise Development, and adoption of the Act on Business Activity, creating the legal framework for the functioning of enterprises, were considered to be important issues. However, it was emphasised that, despite the numerous efforts undertaken to implement the *Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002 (Kierunki działań Rządu wobec małych i średnich przedsiębiorstw do 2002 r.)*, more attention had been given to large enterprises, especially those from the heavy industry sector. Excessive bureaucracy and stringent requirements on access to credit were considered to be negative phenomena (similar objections were formulated in the 1999 Report). According to the Commission, SMEs have difficulty in meeting banking requirements necessary to obtain credit, and the interest rates of those credits are much higher for SMEs than for large enterprises. The National Credit Guarantee Fund and local guarantee funds are incapable of meeting the needs of the SME sector.

The Commission also identified the fragmentation of the SME environment and the lack of uniform representation of that environment's interests. Moreover, the need for strengthening relations between the scientific research sector and industry as well as the SME sector was very clearly emphasised.

When evaluating the implementation of the National Programme of Preparation for Membership, with regard to medium-term priorities, the European Commission emphasised progress in the policy towards small and medium-size enterprises. However, it was noted that the National Programme of Preparation for Membership does not provide adequate support in forecasting the needs for financial assistance for individual priorities. Often, these are short-term projections, an example of which is the SME sector.

[5] *Regular Report from the Commission on Poland's Progress Towards Accession (Okresowy Raport Komisji Europejskiej z postępów Polski na drodze do członkostwa w UE)*, at: www.cie.gov.pl

3.1.3. Industrial Strategies

Directions of the Industrial Policy

From the outset of the Jerzy Buzek Government, work was performed on industrial public policy. The final programme was elaborated in the document entitled *Directions of the Industrial Policy Lines for the Years 1999–2002 (Kierunki polityki przemysłowej 1999–2002*[6]*)*.

This document, which was the extension of Poland's negotiating standpoint in the area of "Industrial Policy", defined the strategic objective as the enhancement of international competitiveness, expressed in the ability of the Polish enterprises to compete in terms of price, quality and technological parameters, as well as in terms of commercial transactions in both the domestic and foreign markets.

Indirect objectives of the programme were also formulated:
- introduction of changes in the structure of production elements – increase in the capital factor and modern technology factor, together with investment in human capital,
- introduction of changes in the product structure – increase in the share of highly processed products with high value added,
- introduction of changes in the subject structure – development of small and medium-size enterprises,
- increasing Poland's share in the globalisation of industry and trade.

Implementation of objectives of the industrial policy requires the introduction and improvement of instruments, i.e. in the following areas:
- growth of innovations in industry,
- development of small and medium-size enterprises,
- privatisation,
- growth of exports,
- growth of investments.

With regard to issues concerning the SME sector, the document refers to the duplication of actions undertaken in relation to this sector by the European Union, and to the Government programme of support for SMEs.

Sectoral Restructuring Programmes

In October 2000, the Council of Ministers accepted the *Strategy for Light Industry for 2000–2005 (Strategia dla przemysłu lekkiego na lata 2000–2005)*. The main driver for industrial policy concerning light industry is the enhancement of international competitiveness.

Regional policy plays an important role in the further restructuring of light industrial enterprises.

Actions necessary to improve the functioning of light industry were defined as follows:
- increase in productivity, which necessitates an increase in design and product innovations;

[6] *Directions of the Industrial Policy Lines for the Years 1999-2002 (Kierunki polityki przemysłowej 1999–2002)* at: www.mg.gov.pl

- growth of exports due to the introduction of instruments influencing that growth and intensifying activities of business entities towards their improvement;
- improvement of the management methodologies utilised by enterprises through increasing the role of organisations for entrepreneurs, and personnel training;
- improvement of the economic-financial situation of enterprises through their financial restructuring, as well as implementation of other restructuring tasks supported out of budgetary resources;
- ensuring fair competition in the domestic market, which necessitates the implementation of EU legal regulations, under the WTO, concerning the future customs policy, staff training and efficiency enhancement programme for the controlling instruments of customs services and customs inspection, introduction of the monitoring of the domestic market for light industry products, regulation of the import of second-hand clothing, acceleration of bankruptcy and liquidation procedures;
- continuation of the restructuring and privatisation of State-owned enterprises, which is related to the necessity of reducing the social effects ensuing from the restructuring of employment, preferential credits granted by Bank Gospodarstwa Krajowego, financial restructuring based on the management-employee contractual arrangements.

In December 2000, the Council of Ministers' Committee on the Economy adopted and recommended to the Council of Ministers the *Draft Annex for the Programme of Restructuring of Polish State Railway (PKP) with regard to the Restructuring of Employment (Projekt aneksu do programu restrukturyzacji Polskich Kolei Państwowych w zakresie restrukturyzacji zatrudnienia)*, submitted by the Minister of Transport and Maritime Economy. Under the Act of September 8, 2000, on Commercialisation, Restructuring and Privatisation of PKP[7], in 2000 the pre-pension benefits for employees who are made redundant from the enterprise as a result of its downsizing policy are financed from the funds of PKP first, and then PKP SA, until they become entitled to receive an old-age or disability pension. Because an additional 1,419 employees have filed documents that confirm their years of employment calculated for the duration of their employment, 5,812 persons rather than 4,393 will draw pre-pension benefits in 2000.

The Council of Ministers adopted the *Programme of Restructuring of the Polish Coking Industry (Program restrukturyzacji polskiego przemysłu koksowniczego)* in October 2000; the objectives of the programme are:
- achievement of the competitiveness of coking plants in market economy conditions,
- improvement of economic efficiency and achievement of stable profitability of coking plants,
- modernisation of the production potential to the extent necessary to maintain production capacity at levels corresponding to the anticipated demand,
- reduction of the influence of the coking industry on the natural environment and ensuring (by 2008 at the latest) that the environmental requirements are met by coking plants.

Within this context, the necessity to conduct organisational and ownership transformations, as well as the privatisation of enterprises, is becoming more important. Efficient privatisation is made difficult by the economic and financial situation of coking plants, and in particular by their indebtedness and overstaffing. One of the elements of the programme is the restructur-

[7] Journal of Laws of 2000, No. 84, item 948.

ing of employment. In order to achieve the objectives set forth in the programme, employment must be reduced by about 40%. The State budget will provide funds for training and professional placement of redundant employees. Moreover, co-financing from public funds has been foreseen for one-off training for about 500 people made redundant as a result of the restructuring of employment in 2000. State budgetary expenditures to cover the restructuring of employment during the 2001-2002 period have been estimated at PLN 14 million, including PLN 6 million in 2001, and PLN 8 million in 2002.

Employees in independent coking plants who have lost their jobs as a consequence of the implementation of the *Programme of Restructuring the Polish Coking Industry (Program restrukturyzacji polskiego przemysłu koksowniczego)* will be covered by special programmes (social net). No information is available concerning the status and activities of self-employed individuals or for the launch of small enterprises.

In restructuring programmes adopted by the Council of Ministers, contrary to the programmes already being implemented for restructuring the coal mining and iron and steel industries, the development of the SME sector was not presented as an essential element supporting the privatisation process. Generally, as regards employment, those programmes are restricted to the social net system. The programme's restrictions should be modified and active measures introduced for placement of people made redundant in the small and medium enterprise sector.

Innovation Policy

In July 2000, the Council of Ministers adopted the programme entitled *Increasing Innovativeness of the Economy in Poland to 2006 (Zwiększenie innowacyjności gospodarki w Polsce do 2006 r.)*. This programme will constitute one element of the *National Development Plan to 2006 (Narodowy Plan Rozwoju do roku 2006)*.

In *Concept of Medium-Term Economic Development of the Country To 2002 (Koncepcja úredniookresowego rozwoju gospodarczego kraju do roku 2002)* the priority measures whose implementation should increase the innovativeness of the economy by 2002 were assumed to include:

- creation of mechanisms and structures promoting innovative activities,
- shaping innovative attitudes,
- increasing the efficiency of implementing modern solutions in the economy,
- change in the models of consumption and models of production in Poland to those more favourable for stable and balanced development.

The increase of innovativeness in the economy will require the steady growth of expenditures on research and development activities. Projects included in the programme will be financed from: public funds, including EU assistance funds, from the State Budget, budgets of local government units, and from private resources. During the pre-accession period, PHARE funds will constitute the primary sources of financing. After Poland has become a member of the European Union, resources from the Structural Funds and the Cohesion Fund will be used to finance the programme.

According to Ministry of Finance preliminary estimates, during the 2001–2006 period, Polish

funds (from the State budget, budgets of local government units, and other sources, including earmarked funds) for financing the programme will amount to PLN 3.4–4.7 billion, which constitutes 50–70% of Poland's share in the structural funds.

3.1.4. Policy Towards SMEs

Programme of Domestic Trade Development

In June 2000, the Council of Ministers adopted the *Poland's Programme of Domestic Trade Development until 2003 (Program rozwoju handlu wewnętrznego do 2003)*[8]. This programme is a supplement to the Government programme of support for the sector of small and medium-size enterprises adopted due to the special needs of the trade sector.

Small firms, often family businesses, which prevail in the structure of Polish trade, constitute almost half of the total number of small and medium-size enterprises, and that is why the majority of the problems and restrictions in the development of trade is characteristic for the entire SME sector. Common macro- and microeconomic determinants for the small trader, as well as of small and medium-size producers, are also found in SMEs. Small manufacturing enterprises, craft shops, and trading firms have the same educational needs, including the need to benefit from extramural vocational education, and they require a similar scope of information driven and organisational assistance, as well as activities to promote business.

The main objective of the programme is the creation of an environment that would be favourable for the development of internal trade, under the conditions of free competition and according to the needs of consumers. In order to achieve this goal, the following partial objectives will have to be implemented:
- ensuring appropriate conditions for competition,
- increasing the stability and transparency of trade organisation principles,
- improvement of distribution channels,
- removing barriers to the free flow of goods and services,
- harmonisation of legal regulations concerning trading activities with European Union standards,
- raising the level of consumer service.

In order to implement the thus formulated objectives, activities to address the following issues will have to be undertaken:
- formulating and maintaining conditions favourable for the development of internal trade in accordance with international trends,
- creation of conditions for trading enterprises to help them maintain the ability to compete with economically strong and efficiently managed distribution networks,
- supporting adaptation processes, preparing Polish trading enterprises for free-flow market conditions,
- initiating and supporting various forms of integration and concentration of small trade,
- increasing the efficiency of operation of trading firms by supporting the establishment of institutions conducting training, information driven and advisory activities.

[8] *Poland's Programme of Domestic Trade Development until 2003 (Program rozwoju handlu wewnętrznego do 2003 r.)*, Ministry of the Economy, Warsaw, October 1999.

The programme-regulating instruments refer to the Government programme of support for the SME sector. With regard to legal instruments, the issue of changes in the Labour Code is common to both programmes. With regard to financial instruments, activities identical to those foreseen in the programme towards SMEs are anticipated. Also, the establishment of the Polish Agency for Enterprise Development is seen to be a common goal.

The instruments especially important for trading firms include the preparation of legal acts that remove barriers to the consolidation of trade, the Act on E-Commerce, and on the imposition of unfavourable contractual conditions by trading networks. Under organisational instruments, i.a. reports on the condition of internal trade will be prepared, a system of monitoring of the condition of trading enterprises will be developed, and analyses concerning the development of trade in rural areas will be conducted.

The cost for implementation of the programme has been foreseen as PLN 8,825,000, of which PLN 805,000 will be for 2000, and PLN 3,735,000 for 2001.

3.1.5. Policy Towards Rural Areas

In 2000, the Government adopted two relevant programme documents in respect of rural areas.

Pact for Agriculture and Rural Areas

As early as July 1999, the Council of Ministers adopted a new programme of a medium- and long-term nature, entitled *Pact for Agriculture and Rural Areas (Pakt dla rolnictwa i obszarów wiejskich)*[9]. From January to August 2000 work on the Pact continued in collaboration with the agriculture sector key representatives. On September 1, 2000, the Council of Ministers accepted the terms for financing of the *Pact*.

The programme takes the form of a negotiated social contract, consisting of selected elements of the existing programmes in operation. The Pact is based on three "pillars" – main implementation goals:
- support for agriculture and its environment,
- development of entrepreneurship and creation of non-farming jobs,
- support for a comprehensive social policy towards rural areas and agriculture, as well as development of a modern environment for rural areas.

As regards small and medium-size enterprises, the Pact provides the following measures concerning:
- development of a technical infrastructure,
- local business support centres,
- financial support for business through guarantees, credits and loans creating new jobs, as well as micro-loans,
- promotion of localisation of investments in rural areas,
- development of tourism and agro-tourism,

[9] *Pact for Agriculture and Rural Areas (Pakt na rzecz rolnictwa i obszarów wiejskich)*. The document was adopted by the Council of Ministers on July 22, 1999, in: "Przegląd Rządowy" No. 9 (99), September 1999.

- vocational education and guidance programmes,
- reduction of unemployment among school graduates.

These measures stem from the Government documents already adopted or in the process of being drafted: *Cohesive Structural Policy of Development of Rural Areas and Agriculture, Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002, National Strategy of Employment and Human Resources Development*. Initiatives of the second pillar of the Pact will be implemented within the scope of these programmes.

SAPARD Programme

The SAPARD operating programme for the years 2000–2006 was prepared by the Ministry of Agriculture and Rural Development in accordance with the Regulation of the EC Council No. 1268/99. Following prolonged negotiations, the programme was approved by the European Commission on October 18, 2000. The proposed strategy is in compliance both with the *Cohesive Structural Policy of Development of Rural Areas and Agriculture* and with the *National Programme of Preparation for Membership in the EU*, and it identifies seven main action areas:
- improvement of marketing and processing of agricultural and fishing products,
- investments in farms,
- improvement of the rural infrastructure,
- diversification of business activities in rural areas,
- agricultural-environmental programmes and reforestation (pilot programmes),
- vocational training,
- technical assistance.

With regard to the SME sector, the most important task is to diversify business activities in rural areas. The authors state that in order to ensure conditions of multi-functional and balanced development of rural areas it is necessary to establish new sources of income in the rural areas, apart from agriculture. A means for improvement of the situation is seen in the recent successes of small and medium-size enterprises in Poland, which until now have been concentrated in urban areas. The project is aimed at developing the SME sector in rural areas, and it consists of three components:
- providing sources of additional steady income for farms,
- creation of jobs for inhabitants of rural areas,
- increasing the attractiveness of rural areas for tourists.

The component concerning the creation of jobs for inhabitants of rural areas refers mainly to the preparation of farm produce for sale (cleaning, washing, packing, sorting, drying, and others); obtaining, packing and processing natural raw materials (gravel, sand, stone, and others); tourist activities (accommodation, catering services, recreational, educational, and others); services for agriculture, crafts, small manufacturers, arts and crafts; services for the public (organisation of events, accounting services, construction services, etc.); obtaining and processing wood, and manufacturing products from wood; working by phone, and sales via the Internet (e-commerce).

Grants will constitute 50% of the total eligible costs of the project. The upper limit of the grant amounts to EUR 6,000 per new job. The maximum amount of the grant per entrepreneur amounts to EUR 36,000. Projects compliant with the voivodship development strategy, imple-

mented in local communities (gminas) with high levels of unemployment or in a gmina in which income per one inhabitant is below 60% of the national average, will be given preference.

3.1.6. Labour Market Policy

National Strategy for Employment Growth and Human Resources Development

In January 2000, the Council of Ministers adopted the medium-term programme entitled *National Strategy for Employment Growth and Human Resources Development 2000–2006 (Narodowa strategia wzrostu zatrudnienia i rozwoju zasobów ludzkich 2000–2006)*[10].

The main objective of the Strategy is to attain a higher level of employment in the labour market. This will be achieved through the implementation of specific goals:
- improvement of the quality of human resources (employability),
- development of entrepreneurship,
- improvement of abilities of enterprises and their employees to adapt to changing market conditions,
- reinforcing the policy of equal opportunities in the labour market.

With regard to small and medium-size enterprises, the *Strategy*, with respect to the SME support programme adopted by the Government, focuses on the following basic problems:
- changes in the tax system, aimed at reducing taxes and, at the same time, simplifying the system and reducing charges paid by employees; the Strategy underscores the efforts to enhance the pro-investment impact of the tax system by reducing and streamlining income tax rates, extending the material scope of the lump-sum taxation, and introducing more favourable rules for depreciation;
- reduction of administrative barriers through, e.g., changes in the Labour Code in order to raise the employment level above which internal Work Regulations and Wage Regulations must be adoped;
- development of modern technologies through the establishment of public services and forms of State aid for SMEs implementing modern technologies, through a cooperative network between enterprises and science and research institutes, and through the steady financing research and scientific work by the State Committee for Scientific Studies (KBN);
- development of business advisory services through State support for business environment institutions and business incubators, with a differentiation in levels of support depending on the location of the enterprise;
- improvement of access to capital by facilitating the access of small firms to financing through the development of investment funds, increasing the opportunity of obtaining public capital through venture capital funds, as well as capital support for existing and newly created regional and local guarantee funds;
- education of the young with regard to entrepreneurship by introducing market economy issues to curricula, education of secondary school senior year students in establishing and

[10] *National Strategy for Employment Growth and Human Resources Development (Narodowa strategia wzrostu zatrudnienia i rozwoju zasobów ludzkich w latach 2000–2006)*, Warsaw, October 1999 (photocopied).

managing small firms, positive portrayal of entrepreneurship in the mass media;
- support for regional and local institutions promoting and supporting entrepreneurship through capital support for existing and newly created local and regional credit guarantee funds. Activities aimed at developing the National SME Services Network (KSU) will be continued. Both economic self-rule organisations and local self-rule governments will participate in promoting the development of entrepreneurial activities.

Solutions that affect SMEs have been proposed in the third goal of the strategy to improve the "ability of enterprises and employers to adapt to changing market conditions". These include: increasing the flexibility of working conditions (including working hours), reducing costs of labour, redefining the scope of minimum pay, and improving employee-employer working relations.

The Strategy does not determine the amounts necessary for its implementation, assuming that they will come both from the State budget and from budgets of local governments, and from the European Union. It has been assumed that, until 2002, the work on its legal and institutional framework will continue, and the implementation of the solutions will begin after the year 2002. The strategy specifies the so-called "entry requirements" for achieving the assumed goals. They include the number of small and medium-size enterprises, i.e., 2.8–2.9 million, and the share of SMEs in generating GDP, i.e., 48-50%. These conditions have already been met.

National Plan of Activities for Employment

In June 2000, the Council of Ministers adopted the *National Plan of Activities for Employment for the Years 2000–2001 (Narodowy plan działań na rzecz zatrudnienia na lata 2000–2001)*[11], constituting the first stage of the *National Strategy for Employment Growth and Human Resources Development (Narodowa strategia wzrostu zatrudnienia i rozwoju zasobów ludzkich)*.

The priorities of the *Plan* included:
- reduction of the risk of conducting business activities, facilitation of the processes of adaptation of enterprises to the changing requirements of the market, and increasing the mobility of employees,
- reduction of the costs of employment and making the labour market more flexible through appropriate changes in the Labour Code,
- continuation of the reform of the tax system towards the reduction of the tax burden, especially with regard to small and medium-size enterprises,
- introduction of a new model for employment restructuring support processes through abandoning the policy of age-related forced retirement, increased support for alternative forms of employment/flex work, and improvement of qualifications of younger, more mobile employees affected by the move,
- reducing the growth of the number of people collecting pre-pension benefits,
- efficient sharing of competencies between central government agencies involved in the implementation of labour market policies,
- focussing on human resources development projects in the programming of assistance funds,
- introduction of a differentiated minimum wage rate based on age to create incentives for employers to hire individuals entering the labour market for the first time,

[11] *Governmental Review (Przegląd Rządowy)* No. 8 (110), August 2000.

- implementation of a new continuing education model.

With regard to the SME sector, the Plan proposes:
- drafting an expert-level document on the influence of bureaucratic burdens on the activities of SMEs,
- amendment to the Labour Code in order to gradually eliminate the burdens on employers that result from employing people, the obligation to create work regulations and wage regulations, as well as the requirement to report to the health inspector about the commencement and conclusion of business operations,
- preparing draft amendments to legal regulations that relate to the field of safety and health at work, aimed at reducing the costs of activities of SMEs by an average of 5–8%,
- financial support from the Technology Agency enabling enterprises to purchase technological know-how,
- analysis of barriers that make it difficult for SMEs to raise performance standards of their owners and employees,
- providing advisory and financial assistance in establishing the Fund of Mutual Insurance of Export Contracts,
- creation of a database on legally binding regulations in the EU,
- increasing the number of apartments for rent by about 20,000 (which will increase the mobility of employees),
- changes in the tax system to promote investments and reduce the costs of labour.

Elements relevant for SMEs are also to be found in the education policy, i.e., modification of financial incentives granted to employers for training apprentices or new incentives provided to employers to initiate such training.

3.1.7. Regional Policy

National Strategy for Regional Development

In December 2000, the Council of Ministers adopted the *National Strategy for Regional Development for the Years 2001–2006 (Narodowa strategia rozwoju regionalnego 2001–2006)*.

The regional development policy is an essential element and, at the same time, a condition for the success of the socio-economic policy conducted by Poland. It allows for considerable involvement of public authorities and their assistance to SMEs is an essential component of the policy.

The objectives of the regional development policy have been formulated based on domestic needs. Priority is given to such issues as: maintenance of the high rate of economic growth, creation of new jobs, stimulation of structural transformation, and modern business methods, allowing at the same time for the economic development and the providing for the basic needs of inhabitants from all regions in Poland. The strategy assumes full compliance between the activities undertaken and ecological policy, as well as international obligations.

The most important demands faced by the State in the policy of regional development include:
- maintaining the cohesion of objectives of the regional development policy with the socio-

economic policy of the Government, which implies the need for initiating appropriate and stable mechanisms of cooperation and coordination – both between ministries, and between the Government and voivodship local governments. Social, scientific and business organisations will also have to take part in this process;
- ensuring favourable conditions for the growth of GDP per capita in all regions of Poland in relation to the EU average (in 1999, GDP per capita in Poland accounted for 38% of the EU average). An appropriately implemented regional policy should lead to an increase in the affluence of all voivodships, so that in 2006 the average level of GDP per capita would account for 47% of the current EU level. Such assumptions may indicate that the level of GDP in the weakest voivodship, Świętokrzyskie, will amount to 33%, and in Mazowieckie, 71%;
- counterbalancing the excessive increase in regional differences by reducing unemployment levels, stimulating the competitive capabilities of areas with less favourable developmental conditions, supporting development of infrastructure and human resources;
- building of central and regional administration structures for more effective implementation of the regional development policy, co-financed by the relevant financial instruments of the European Union;
- utilisation of local government reform in order to accelerate socio-economic development. The gradual increase of the amount of self-managed local resources and the rationalisation of the use of public funds by local governments are especially important.

The strategic objective of the National Strategy of Regional Development is to create conditions for the enhancement of competitiveness of regions and counteract the marginalisation of some areas in such a way so as to favour the long-term development of the country, its economic, social and territorial cohesion, and its integration with the European Union.

The activities under the NSRD will be focused on the following priorities:
- development and modernisation of infrastructure used for the enhancement of competitiveness of regions (development of infrastructure of extra-local importance, development of metropolitan functions of the largest agglomerations and cities, development of telecommunication technologies);
- restructuring of the economic base of regions and creating conditions for its diversification (supporting small and medium-size enterprises, transfer of modern technologies, development of tourism, recreation, and protection of cultural heritage);
- activities supporting the development of human resources (general and continuing education, systems of grants, upgrading of skills of public administration personnel);
- support for areas requiring assistance and threatened by marginalisation (stimulation of rural areas, revitalisation of the economic base of cities);
- ensuring cooperation among regions (development of cross-border or trans-national cooperation).

The list of areas requiring assistance will be from time to time determined in special support programmes proportional to the financial capacity of the State budget. It has been foreseen that the implementation of the NSRD will proceed in two phases: the first will cover the pre-accession period; the second will be implemented once Poland has achieved membership in the European Union.

The Council of Ministers and the Council of Ministers' Committee for Regional Policy and

Balanced Development will be responsible for the general implementation and coordination of the State regional development policy. The Minister competent for regional development is responsible for the implementation of the *National Strategy of Regional Development*, preparation of support programmes and voivodship contracts.

At the voivodship level, Regional Steering Committees should play a major role in the making of decisions by the voivodship local government. The tasks of the voivod will include participation in negotiations concerning the conclusion of the voivodship contract, supervision of the transfer of budgetary funds earmarked for the support programme, and responsibility for the progress of spending those funds (method of using the grants, progress of implementation of investments financed from those funds, etc.). The NSRD will be financed from the EU assistance funds, State budget, local government units' own funds, funds and agencies, and other public entities, as well as from the funds of private entities.

Support Programme for the Years 2001–2002

As well as the NSRD, the Council of Ministers adopted a regulation concerning the introduction of the *Programme of Support for the Years 2001–2002*[12]. The programme has defined the scope, procedure, and conditions of State support for voivodship programmes. The general objective of the programme is assumed to be to "support the socio-economic development of the country and its individual areas in order to enhance competitiveness, raise living standards, and improve the cohesion of regions, as well as social, economic and geographical cohesion, both in internal relations and in relations with the states and regions of the European Community".

Among the five priorities identified as eligible to receive support from the Council of Ministers are: the restructuring of the economic base of voivodships and creation of conditions for its diversification. This priority is implemented through the following goals:
- stimulation of investments and support of the development of small and medium-size enterprises,
- support of the creation and absorption of innovations, including technology transfer,
- development of tourism, recreation, and protection of cultural heritage.

Among the tasks to implement the general objectives for which funding under the support programme may be received, emphasis was placed on the following: development of business, especially small and medium-size enterprises, economic innovations, and development of technologies. According to the Annex to the Regulation, under that task the following specific undertakings were defined:
- investments in fixed assets (buildings and equipment),
- environmentally friendly technologies that are both clean and energy-saving,
- commercial advisory services (information, planning, consulting services, marketing, management, designing, exports, environmental, purchase of technologies),
- services for entrepreneurs (business parks, business incubators, stimulation of development of services, promotion of exports, networks, conferences, trade fairs),
- vocational training.

[12] Ordinance of the Council of Ministers of December 28, 2000, with respect to the adoption of the Support Programme for the Years 2001–2002 (Program wsparcia na lata 2001–2002) (Journal of Laws of 2000, No. 122, item 1326).

The Ordinance also stated that funds earmarked in 2001 for the implementation of tasks described in the voivodship programmes will amount to a maximum of PLN 2,496.1 million. Moreover, it defined the principles of division of assistance among voivodships and the priorities.

The entities authorised to execute the tasks are: voivodship, poviat, and gmina local governments, agencies and institutions supporting socio-economic development, entrepreneurs, farmers and their organisations, as well as other public sector entities.

Specific support will be granted under voivodship contracts following negotiations between the Minister and the voivodship board. Co-financing from the state budget for tasks included in the voivodship programme and covered by the contract may be granted in the form of:
- earmarked subsidies for the local government's own tasks,
- earmarked subsidies for business environment institutions supporting the development of the small and medium-size enterprise sector,
- earmarked subsidies for small and medium-size entrepreneurs,
- loans and refunds for small and medium-size entrepreneurs,
- earmarked subsidies for voivodships under ratified international agreements.

A monitoring committee at the national level and monitoring committees in voivodships will supervise the implementation of the support programme. The voivodship committee may also be composed of authorised entities, executing tasks under the voivodship contract (including entrepreneurs and their organisations). Moreover, entrepreneurs and their organisations may participate in the public information campaign on the support programme and take part in the preparation and execution of the proposal.

Regional Restructuring Programmes

On August 1, 2000, the Council of Ministers issued an Ordinance concerning the principles, conditions and procedures for the funding of programmes initiated by voivodship government bodies from State budget funds [13].

The Ordinance set forth the plans for the support from State budget funds for programmes initiated by the voivodship government with regard to the promotion of employment and development of human resources in rural areas. The support for such programmes has been envisaged in the National Strategy of the Employment Growth and Human Resources Development adopted by the Council of Ministers in January 2000. The restructuring of employment (creation of non-farming jobs) and development of entrepreneurship in rural areas is also one of the priorities identified in the Pact for Agriculture and Rural Areas.

Activities for the promotion of employment and restructuring of rural areas constitute an important element of development strategies prepared by voivodship governments. The Ordinance states support for those strategies and the programmes thereto, and the manner in which they address the problems of the labour market in rural areas, such as:
- open, registered unemployment, occurring mainly in the voivodships of northern Poland (the so-called "post-PGR"[14] unemployment),

[13] Journal of Laws No. 68, item 806.
[14] PGR – Polish acronym that indicates a state-owned farm

- hidden unemployment (excessive employment/overstaffing) occurring mainly in south-west and central Poland, related to the traditional and inefficient agricultural structure.

The support for the activities of voivodship governments is complementary towards the Government's *Programme of Activation of Rural Areas (Program aktywizacji obszarów wiejskich)* and the ensuing *Programme of Re-qualification/Reorientation (Program przekwalifikowań/reorientacji)* and the *Programme of Micro-Loans (Program mikropożyczek)*. These programmes will be co-financed by a World Bank loan.

Activities foreseen in the project will be addressed to: inhabitants of rural gminas, urban-rural gminas, and towns with a population not exceeding 15,000. The activities concern especially farmers with smallholdings, unemployed people living in rural areas, as well as small and medium-size enterprises based in rural areas.

Instruments such as advisory services and training will be used for job placement and to change the skills orientation of employees and to enhance the competitiveness (and, thus, create and maintain jobs) of small and medium-size enterprises. The project also provides for financial assistance for people launching business activities (one-off subsidies for investment purposes).

Support will be given to all voivodships. Institutions from outside the sector of public finance will provide the services (non-governmental organisations, training-advisory institutions, development agencies, advisory services, etc.). The reserve funds will be divided proportion to the number of inhabitants of rural areas (the higher the population of those areas, the greater the portion of the reserve funds that will be allocated to the voivodship), and then adjusted by an additional index allowing for the unemployment rate.

The Ordinance assumes that the grant funds will be transferred to the voivodship government by the voivod. Then, the voivodship board, as the executive body of the local government, will select institutions from outside the public finance sector to which it will commission the execution of the activities set forth in the project by awarding a contract for the work to be performed. The process by which the Ordinance will come into effect involves no additional costs to the State budget. The earmarked reserve of PLN 60,620,000 for the support of local restructuring programmes was provided for in the 2000 Budget Act.

3.2. Implementation of the State Policy Towards SMEs

3.2.1. Parliamentary Activities

The Small and Medium-Size Enterprise Committee has operated since the beginning of the third term of office of the Sejm. In 2000 it held over 40 sessions (from the beginning of the third term of office of the Sejm, 135 sessions). During its sessions, the Committee has reviewed 10 draft Acts:

- draft Act on the Establishment of the Polish Agency for Enterprise Development presented by the Government (February 2000 – November 2000),
- draft Act on Waste Management presented by the Committee (from December 1998 to March 2000)[15],

[15] The Small and Medium-Size Enterprise Committee prepared this draft.

- draft Act on Waste Management presented by the Government (from February 2000),
- draft Act on the Amendment to the Act on Sobriety Awareness and Combating Alcoholism presented by Sejm Deputies and the Government (from April 2000),
- draft Acts on Organisation of Farm Producers and their Unions and Amendments to Certain Acts presented by Sejm Deputies and the Government (July 1988, March 1999 to September 2000),
- draft Act on Packaging and Packaging Waste Products presented by the Government (from June 2000),
- draft Act on the Obligations of Entrepreneurs with Respect to the Management of Certain Waste and on Product Fee and Deposit Fee presented by the Government (from May 2000),
- draft Act on the Amendment to the Act on Physical Space Development presented by the Government (April 2000 – July 2000) – draft Act – Industrial Property Law presented by the Government (from March 1998 and July 1999 to June 2000).

In 2000, the Committee proposed two legislative initiatives:
- draft Act on the Profession of Opticians (the draft was not submitted formally in 2000),
- draft Act on the Amendment to the Act on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons (from November 2000). The draft (publication No. 2,341) was submitted to the Sejm Marshall on November 8, 2000; it was then forwarded to the SME Committee and to the Public Finance Committee.

Moreover, during its work, the Committee discussed, among other things, problems concerning:
- development of agro-tourism as a form of development of small and medium-size business in rural areas,
- small and medium-size enterprises operating in the maritime economy,
- volume and accessibility of statistical information about the small and medium-size enterprise sector,
- place and role of small and medium-size enterprises in the implementation of regional policy with regard to small and medium-size enterprises in voivodship operating programmes, in voivodships included in the implementation of the PHARE 2000 economic and social cohesion programme,
- condition at border crossings with regard to the need to increase the commodity exchange by small and medium-size enterprises between Poland and Eastern European countries,
- status of economic development of voivodships from the eastern part of Poland,
- principles of capital support for existing and newly created credit guarantee funds through co-financing from public resources and assistance funds,
- conditions of Polish trade and directions of changes – analysis of the situation in the sphere of internal trade,
- fines and imprisonment penalties for offences and crimes committed in the course of conducting business activities,
- technology transfer and analysis of economic and financial instruments supporting the innovativeness of the Polish economy, with special attention paid to small and medium-size enterprises.

Budgetary issues were a relevant element of the Committee's work. Undoubtedly, the activities of the SME Committee contributed to the increase of budgetary expenditure on goals related to SMEs in 2001. The expenditures on small and medium-size enterprises increased by

350%, and on export promotion by 225%. Additionally, PLN 20 million earmarked for the State Committee for Scientific Studies for research and implementation work in small and medium-size enterprises should complement these amounts. Thus, the draft 2001 budget provided for PLN 91 million for the implementation of the policy towards SMEs, as compared to PLN 20.4 million in 2000, which constitutes an increase of 450%[16].

In 2000, over 40 interpellations and Deputies' questions concerning the SME sector were made. However, only a portion of these referred to the comprehensive policy towards small and medium-size enterprises.

3.2.2. European Integration-Oriented Activities

In April 2000, the Council of Ministers presented the *Report for the Implementation of the National Programme of Preparation for Membership in the European Union in 1999 (Raport z realizacji w 1999 r. Narodowego Programu Przygotowania do Członkostwa w Unii Europejskiej)*[17].

With regard to the SME sector, the Report focused on:
- delays in the preparation of the Act on the Polish Agency for Enterprise Development,
- delays in the preparation of the Act on Public Utility Activities,
- delays in the draft strategy of export promotion.

The following amounts were spent on activities related to the promotion of the small and medium-size enterprise sector under the National Programme of Preparation for Membership:
- cost of publication of the document entitled *Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002* – approximately PLN 25,000,
- development and publication of information booklets for enterprises – PLN 73,221,
- preparation of expert appraisals and draft legal acts -PLN 101,850,
- advisory assistance for three newly created guarantee funds – PLN 79,949,
- additional capital in the form of subsidies for newly created local, sub-regional, and regional funds – PLN 2,640,000.

According to the authors of the Report, activities consisting of the provision of assistance to small and medium-size enterprises are supported by the European Commission, which was expressed in the *Regular Report* for 1999 concerning Poland, and in the 1999 Accession Partnership.

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[16] The Budget Act adopted provided for the amount of PLN 71.225 million for the implementation of the *Government Policy Guidelines for SMEs*, PLN 20 million for research and implementation work in SMEs and PLN 89.730 million for the promotion of exports.

[17] *Report for the Implementation of the National Programme of Preparation for Membership in the European Union in 1999 (Raport z realizacji w 1999 r. Narodowego Programu Przygotowania do Członkostwa w Unii Europejskiej)* adopted by the Council of Ministers on April 4, 2000.

3.2.3. Industrial Policy and Policy Towards SMEs

Implementation of the Medium-Term Strategy of Regional Development

In October 2000, the Government adopted the *Information on the Implementation of the Concept of Medium-Term Economic Development of Poland to 2002 (Informacja o realizacji Koncepcji Średniookresowego rozwoju gospodarczego kraju do 2002 roku)* one year after it had been adopted by the Council of Ministers together with the elements of the strategy to 2006.

The Concept adopted by the Council of Ministers in June 1999 assumes the preparation of the Polish economy for membership in the European Union by the end of 2002 as its main goal, mainly through the reduction of the gap in developmental and structural levels between Poland and EU countries, and through the enhancement of the competitiveness of the Polish economy.

This goal will be achieved through the implementation of tasks in three major areas:
- approximation of Polish law to EU legislation, and implementation of the OECD regulation reform aimed at making the regulatory practices in the economy more efficient,
- continuation of transformations in the economy,
- building a modern economy, aimed at enhancing innovation and entrepreneurship, which determine the growth of international competitiveness of the Polish economy.

Following its first year, the implementation of tasks presented in the Concept is at various stages of accomplishment. The postulated acceleration of work on the harmonisation of law with EU legislation has not been achieved. Similarly, the implementation of programmes of a structural nature, related to the postulated acceleration of structural changes in industry, agriculture, and services, has encountered difficulties. The implementation of tasks concerning the building of a modern economy, where the enhancement of innovation and entrepreneurship, acquisition of better institutional and technical infrastructure, and reduction of the gap in the level of education and living standards of the population were postulated, is at the least advanced stage. Nevertheless, these are medium-term tasks.

With regard to the SME sector, the authors summarise the implementation of the strategy as follows:
- *Simplification of the tax system, together with the reduction of income tax rates and extension of the scope of use of the lump-sum forms of taxation* (responsible body: Ministry of Finance) – activities partially implemented (reduction of corporate income tax in 2000), work towards further simplification of the tax system will be continued;
- *Reinforcement of the pro-investment impact of the tax system, also through the introduction of more favourable regulations with regard to depreciation* (responsible body: Ministry of Finance) – a more advantageous system of depreciation was introduced to replace the previous investment allowance for corporate entities. Evaluation of the pro-investment influence of these changes will be possible in 2001, at the earliest;
- *Financial support for innovation and implementation undertakings of enterprises, including those aimed at implementing quality control systems* (responsible body: Ministry of the Economy) – this task is implemented in many forms, the amount of support depends mainly on the financial constraints of the State budget (especially with respect to the subsidy for the Technology Agency);

- *Facilitation of access to external sources of financing through the extension and additional capitalisation of the system of guarantees, supporting the development of local and regional credit guarantee funds, introduction of solutions promoting the establishment of capital institutions investing in spheres of increased risk* (responsible bodies: Ministry of Finance, Ministry of the Economy) – an amendment to the Act of May 8, 1997, on Sureties and Guarantees Granted by the State Treasury and Certain Legal Persons is planned, introducing the prospect of BGK granting re-guarantees constituting the security for the repayment of sureties granted by local and regional credit guarantee funds;
- *Development of a system of advisory services for entrepreneurs and improvement of access to information with respect to business activities conducted* (responsible body: Minister of the Economy) – an inter-departmental team has been appointed that oversees the implementation of these tasks. Two expert appraisals have been prepared on the structure of and technical solutions for the creation of a database;
- *Reduction of bureaucratic burdens and barriers that result in an unjustified increase in the costs of conducting activities by enterprises and, thus, reduce their competitiveness* (responsible body: Ministry of the Economy) – The Act on the National Court Register comes into force on January 1, 2001;
- *Formulation of business sensible labour market regulations through the reduction of social burdens related to labour legislation, and reduction of administrative burdens related to the employment of employees* (responsible body: Ministry of Labour and Social Policy) – work is conducted with a view to amending the regulations;
- *Facilitation of access to foreign markets, e.g., through the co-financing of the promotion of Polish exports from budgetary funds, supporting participation in the European Union programme, etc.* (responsible body: Ministry of the Economy) – applications for co-financing for participation in trade fairs and exhibitions organised abroad filed by small and medium-size enterprises were considered as priorities, and the definition of co-financing principles to 2002 enables entrepreneurs to plan participation in trade fairs and exhibitions.

With regard to other priorities indirectly concerning the SME sector, the following was determined:
- With regard to the promotion and support of non-farming activities in rural areas, to aid in the channelling of the excessive labour force from agriculture – these activities require continuation and improvement of the forms of support;
- With regard to the creation of Regional Property Funds and their use in making the privatisation of small and medium-size enterprises more dynamic – an initial verification of the list of State-owned enterprises qualified for participation in the Regional Property Funds has been performed. As a result of the amendment to the Act on commercialisation and privatisation of State-owned enterprises a reserve must be established for certification purposes, covering the property of State-owned enterprises where voivods are the founding bodies. Therefore, further work on the RPF has been suspended.

Support of the Development of the Technology Transfer-Oriented Regional Institutions

In 2000, the Council of Ministers adopted information on the implementation of the *Programme of Support for Development of the Technology Transfer-Oriented Regional Institutions (Program wspierania rozwoju instytucji regionalnych działających na rzecz transferu technologii)*. This programme was adopted by the Council of Ministers on March 4, 1997. The main objec-

tive of the programme was defined as the development of innovation in the small and medium-size enterprise sector through the intensification of the transfer of modern, pro-ecology technologies.

The programme supports the creation of a regional innovation system to be developed in three areas:
- organisation of an institutional infrastructure,
- development of a system of financing and management of risk in innovations,
- stimulation of demand and entrepreneurship in the sphere of modern technologies.

The tasks associated with the programme have been implemented in the following manner:
- *Development of the Act on Non-Profit Activities, which would regulate the fundamentals of the functioning of non-profit organisations, including specific regulations for institutions supporting the transfer of modern technologies, was to be implemented in 1997.* In November 1999, in the Department of Craft, Small and Medium-size Enterprises of the Ministry of the Economy guidelines for the Act were developed and work on the draft was undertaken. By the end of 2000, work had not been completed;
- *Consideration of possibilities of introduction of appropriate changes in the existing legal acts that will make the development of high risk capital organisations more dynamic, following the presentation by the Task Force for Structural Policy of an initial concept document. The task was to be implemented in 1997 and in the subsequent years.* A schedule for implementation of the recommendations of the Task Force for Structural Policy in Poland was developed and adopted by the Council of Ministers in October 1997, which foresaw the introduction in the Corporate Income Tax Act a solution exempting regional capital funds from that tax, as well as in the Act on VAT, and exemption from taxation on investment company management services; work is being conducted on the development of a draft Act on Regional Property Funds. The work on amendments to the Act on Investment Funds (including increased risk regulations) takes place at the stage of inter-departmental agreements;
- *Development and implementation of the programme of creation of the Business Intelligence System (legal, technological and economic information).* Software standards and principles of updating data between GUS (REGON), the Ministry of Justice (National Court Register) and the Ministry of Finance (NIP) have not yet been adopted. Work on the preparation of the project entitled "Information Package Aimed at Increasing the Innovativeness of SMEs" has begun;
- *Development of principles of and conducting a competition for the best regional programmes for acceleration of the transfer of the most modern, pro-ecological technologies, and support for the introduction of the selected products.* Due to the lack of funds, the competition did not take place. KBN will co-finance the promotional undertakings, also those implemented as competitions for the best pro-ecological technologies;
- *Taking into consideration the needs and specificity of SMEs in the curricula, especially in the case of those related to technology transfer: a special programme for students in their last year of studies, especially those enrolled in technical and economic programmes, that would encourage their work in SMEs, and promote practices and experience with regard to SMEs and the entire sector.* Selected high schools, particularly technical schools, prepared projects for students consisting of three types of lectures (to be chosen from): management of small and medium-size enterprises, technology transfer, and management and marketing in small and medium-size enterprises, allowing for technology transfer;

- *Support provided by voivods and ministers with non-budgetary funds for the implementation of the programme, especially by regional institutions active with respect to increasing the level of innovation and entrepreneurship.* The State Committee for Scientific Research supports a pro-innovative environment by co-financing programmes from the State budget under the so-called targeted projects – research and development work, which are important from a social and economic point of view, the results of which will be put into practice;

In 1998, Poland obtained access to the programmes: Third Multiannual EU Programme for Small and Medium-Size Enterprises, and Fifth EU Framework Programme of Research, Technical Progress and Presentation. Moreover, the European Commission presented to Poland proposals for participation in programmes for candidate countries: Business Support Programme (EUR 20 million in total), and Financial Services for SMEs (EUR 125 million in total) for additional financing of activities aimed at adapting businesses to EU requirements from the point of view of technology, quality, legal regulations, etc.

Restructuring of the Coal Mining Sector

In November 2000, the Council of Ministers accepted information regarding the progress of the implementation of the reform of the coal mining sector in its annual report for 1999 and for the first half-year of 2000.

At the end of 1999, employment in the coal mining sector decreased by 34,304 people, i.e., to 173,631 in comparison with the employment level as of the end of December 1998 when it amounted to 207,935. In 1999, 36,059 people ceased working in mining companies, and 1,755 new employees were engaged. In 1999, 25,031 people benefited from the protection instruments of the Coal Mining Social Package, including 24,413 people in coalmines and 618 people in mining enterprises and in Przedsiębiorstwo Budowy Szybów S.A. (a mineshaft construction enterprise). PLN 922,799,000 was spent from the State budget on employment restructuring, which constitutes 96.8% of the annual funds earmarked in the Budget Act for that purpose.

In the completely and partially liquidated coalmines the reduction of employment in 2000 will reach 10,773 people. In the first half of the year, employment declined by 5,480, which constituted 50.9% of the annual decrease planned. In the first half of 2000, 9,456 people left the mining sector, whilst 579 employees were engaged in mines. In the first half of 2000, 5,559 people from mines benefited from the Coal Mining Social Package. PLN 314,820,900 from the State budget was allocated to the restructuring of employment, which constitutes 28.1% of annual funds earmarked in the Budget Act for the restructuring of employment.

In 2000, new instruments were in place, aimed at creating new jobs in the SME sector for former employees from the coal mining sector, implemented with the use of funds from the European Union under the PHARE Initiative Programme.

The instruments addressed to former employees of the coal mining sector were used as follows:
- under re-qualifying training, 1,831 people were retrained; it has been estimated that more than half of the people trained found employment;
- 348 loans for the creation of new jobs were granted for a total of PLN 18,030,190, of which 214 were for people setting up businesses (PLN 8,712,400), and 134 for SMEs (PLN 9,317,790); the average value of a loan was PLN 51,810, and 577 new jobs were established;

- PLN 10,395,986 was allocated to subsidise the interest on credits granted for the creation of new jobs, which resulted in the establishment of 329 jobs;
- co-financing was provided for social benefits or one-off severance payments for 236 people for a total of PLN 252,879;
- the social insurance contribution (ZUS) was refunded to employers employing former workers from the coal mining sector for a total of PLN 600,000, thanks to which 91 new jobs were created;
- advisory services for 428 entities were co-financed, of which 279 beneficiaries were people setting up new businesses, and 149 were previously functioning small and medium-size enterprises.

Instruments addressed to former employees of the iron and steel industry:
- 382 people benefited from re-qualifying training;
- the training contract and conditional severance pay project encompassed 293 people, for which a total of PLN 364,495 was spent;
- 29 loans for a total of PLN 1,382,000 were granted, of which 14 were for people setting up a new business (PLN 412,000), and 15 for SMEs (PLN 970,000); the average value of a loan amounted to PLN 47,655, and 48 new jobs were created;
- PLN 4,520,462 was allocated to subsidise the interest on credits granted for the creation of new jobs, thanks to which 138 new jobs were established;
- advisory services for 86 beneficiaries were co-financed, of which 38 were people setting up new businesses, and 48 were SMEs.

Implementation of the Programme of Support for Small and Medium-Size Enterprises

On November 21, 2000, the Council of Ministers accepted the information regarding the status of implementation of the Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002[18]. The implementation of tasks contained in that document began this year. The 2000 State Budget has allocated PLN 20,045,000 for their execution.

The Government activities aimed at increasing the competitiveness of the SME sector consist, among others, in the financial support for innovative and implementation-related undertakings of entrepreneurs.
- The Technology Agency grants loans to small and medium-size enterprises implementing innovations. In 2000, the Agency granted 15 loans for the implementation of innovative projects, for a total of PLN 8,050,000.
- Innovative firms and products are promoted at innovation fairs and competitions, e.g., for the Polish product of the future and the innovative firm.
- Activities were undertaken to facilitate SMEs' access to public contracts. The draft amendment to the Public Procurement Act contains favourable regulations concerning security deposits for SMEs.
- Work was initiated in the Office of Public Procurement on the creation of a database for potential SME participation in public contracts awarded in other countries.
- From mid-1999, work has been conducted in the Ministry of Labour and Social Policy on amending the regulations of the Labour Code in order to introduce regulations that would

[18] On May 11, 1999, the Council of Ministers adopted the document entitled *Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002.*

enhance the competitiveness of small and medium-size enterprises.

- To disseminate knowledge about entrepreneurship, the Ministry of National Education introduced information on market economy basics to the fundamental curricula of middle schools (gimnazjum) and high schools.
- Business support centres established by the Minister of Labour and Social Policy (there are 61 such centres) conduct training courses on setting up and running a small business, as well as providing advisory services to people setting up their own businesses. Activities in this area have also been provided for in the PHARE 2000 programme entitled "Socio-Economic Cohesion".
- The publication of numerous information booklets distributed among entrepreneurs was financed from the budget of the Ministry of the Economy.
- The Polish Foundation of Small and Medium-size Enterprise Promotion and Development implemented a number of projects addressed directly to firms[19]:
  - Entrepreneurs, who took part in training, seminars, courses, etc., could receive a partial rebate of the costs of participation. 8,729 participants of training sessions from 4,761 enterprises benefited from the reimbursement. The average refund was valued at PLN 700.
  - 87 consulting/advisory centres were established that provided free-of-charge advisory services for SMEs on the administrative and legal aspects of conducting business activities and managing a firm. 19,800 clients used the centres.
  - Advanced advisory services were provided in 22 centres of the National System of Services; co-financing of up to 60% of the value of services was available. 189 enterprises benefited from the project, and the average value of the service provided amounted to PLN 6,104.
  - 125 enterprises received a partial reimbursement of expenses related to the process of applying for ISO certificates. The average subsidy amounted to PLN 12,659.
  - A series of 32 free-of-charge conferences for business environment organisations was organised, on the topic of available sources of financing for business activities.
- On January 1, 2001, the Polish Agency for Enterprise Development was established to implement activities for the development of entrepreneurship.
- In cooperation with the OTC market (Centralna Tabela Ofert S.A.), a national public awareness campaign concerning the regulated stock exchange market and the OTC market was initiated. An informational Internet portal was opened – *www.e-msp.pl*, and a promotional campaign was organised.
- Work was continued on the development of a database of legally binding regulations in the European Union, including translations of EU legal acts relevant to conducting business activities. The database was opened at the beginning of 2001 – *http://eulex.mg.gov.pl*.
- A network of National System of Services centres was developed. In 2000, the network was extended by 25 new institutions. In addition to opening new centres, a number of activities were initiated in order to promote the system, raise the qualifications of experts, and provide the centres with a system of accreditation and standardisation of services.
- In June 2000, the Fifth National SME Conference was held, organised by the Polish SME Foundation under the auspices of the Minister of the Economy. The Conference was accompanied by the First National Trade Fair "SMEs 2000 – Everything for Small and Medium-Size Enterprises".

[19] More information on this subject is provided in Chapter 10.4.6.

Government activities aimed at increasing the exports of the small and medium-size enterprise sector consist mainly in the attempt to equalise the conditions of operation for Polish and foreign entrepreneurs. These activities include support from budgetary resources for entrepreneurs' participation in trade fairs and exhibitions abroad:

- In 2000, Ministry of the Economy funds earmarked for the promotion of exports, co-financing of participation in trade fairs and exhibitions abroad, and organisation of trade missions were used by over 1,200 enterprises, and the overall amount of rebates amounted to almost PLN 8 million. 908 of these enterprises belonged to the SME sector, and the average amount of reimbursement to these enterprises amounted to PLN 6,300;
- Work related to the creation of a modern, Internet-based platform, Tele-information System of Export Promotion for the Ministry of the Economy (TISPE) was continued. It will provide small and medium-size enterprises with immediate access to topical economic information;
- Work was started on the introduction of a new mechanism for granting medium-term and long-term export credits by commercial banks. The Ministry of Finance prepared a draft Act on subsidising the interest on export credits with fixed interest rates.
- Another group of activities concerns the co-financing of the costs of the participation of SMEs in European Union programmes and the dissemination of information about the principles of participation in those programmes. The Ministry of the Economy remits the fee for Poland's participation in the Third Multiannual Programme for SMEs, enabling Polish entities to benefit from the programme.

The creation of conditions to encourage increased investment expenditures in the SME sector is an important Government policy objective. The implementation of this objective should be made easier as a result of the changes taking place in the currently binding tax system, as well as activities facilitating the access of small and medium-size entrepreneurs to external sources of financing.

- In 1999, the Ministry of Finance prepared draft amendments to tax Acts; work was continued in 2000.
- The Ministry of Justice prepared a draft Amendment to the Act on the Civil Code in order to introduce the Leasing Contract to the Code[20]. The Ministry of Finance prepared a draft Act on the Amendment to the Corporate Income Tax Act and on the Amendment to Certain Acts regulating the rules of taxation of leasing.
- Activities aimed at introducing the means of promoting the development of investment funds, including venture capital funds, were initiated. The Securities and Exchange Commission prepared a draft Act on the Amendment to the Act on Investment Funds[21].
- The Ministry of Agriculture and Rural Development prepared a draft Act on Establishment of the Agency for Restructuring and Modernisation of Agriculture[22] and on the Amendment to the Act on Income of Local Government Units in the Years 1999 and 2000[23], which anticipates that assistance will be granted by the Agency for the implementation of undertakings creating new jobs for inhabitants of rural areas in the territory of rural

[20] Changes were introduced on the basis of the Act of July 26, 2000, on the Amendment to the Act – Civil Code (Journal of Laws No. 74, item 857).

[21] Changes were introduced on the basis of the Act of November 16, 2000, on the Amendment to the Act on Investment Funds (Journal of Laws No. 114, item 1,192).

[22] Changes were introduced on the basis of the Act of March 16, 2000, on the Amendment to the Act on the Establishment of the Agency for Restructuring and Modernisation of Agriculture (Journal of Laws No. 48, item 547).

[23] Changes were introduced on the basis of the Act of October 13, 2000, on the Amendment to the Act on Income of Local Government Units in the Years 1999-2000 (Journal of Laws No. 95, item 1,041).

and rural/urban communities (gminas), as well as towns with populations of up to 20,000.
- The Ministry of the Economy finalised work on the draft Act on Admissibility and Supervision of Public Aid to Entrepreneurs[24]. The purpose of the Act is to increase the efficiency of spending public funds in the form of public aid for entrepreneurs, and to reduce any unfavourable effects of that aid on competition.
- From the beginning of 2000 work is being conducted by the Central Statistical Office (GUS) to create a database for the SME sector to monitor the programme. GUS recently announced that this work could not be finalised this year due to a lack of financial resources.

The execution of the majority of tasks for the assessment of the implementation of the *Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002* has begun. However, the following threats exist:
- prolonged negotiations with concerned parties with regard to the Labour Code;
- lack of uniform income tax rates for all business entities, and differences in the rates depending on the legal form of business activities conducted;
- lack of financial resources in GUS budget for monitoring of the SME sector in 2000.

The majority of activities undertaken to support entrepreneurship in Poland should be continued in the following years as well, especially if they are expected to provide results in the form of an increase in the importance of the SME sector in the structure of Polish economy, in its share in the generation of GDP, and in exports and investment outlays. The investment outlays from the State budget necessary in 2001 for the implementation of tasks planned in the document mentioned above amount to PLN 71,255,000.

The Council of Ministers also accepted the information regarding the level of adaptation of small and medium-size enterprises to conditions in the European Union. The following conclusions may be drawn from the document presented:
- the Polish administration does not carry out comprehensive studies of the level of adaptation of small and medium-size enterprises to conditions in the European Union. Ad hoc analyses are performed in those cases in which doubt arises as to whether the absence of a transitional period in the implementation of the particular directive (or group of directives) will not be too great of a burden for those enterprises to bear;
- the Ministry of the Economy is working on the identification areas of law harmonisation that might pose problems for the small and medium-size enterprise sector. This work will be completed in mid-2001;
- another stage will involve estimating the costs to adapt the given sector in individual problem areas. The qualitative and quantitative scope of the estimated costs should be ascertained to the point of Poland's accession to the European Union, on the basis of the negotiating position of the Polish party and the schedule of negotiations with the EU. This requires the coordination of activities of the Ministers of: Economy, Finance, Labour and Social Policy, Justice, Environment, Agriculture and Development of Rural Areas, Interior and Administration, and Presidents of: the Central Statistical Office (GUS), Central Board of Customs (GUC), and Social Insurance Institution (ZUS). Such analysis will provide for:
  – the more thorough identification of the overall costs of adaptation;

[24] Act of June 30, 2000, on the Conditions of Permissibility and Supervision of Public Aid for Entrepreneurs (Journal of Laws No. 60, item 704).

- concise calculation of the share in the costs of adaptation of individual sectors of the economy;
- an approximate determination of the number of enterprises encompassed in the estimated costs of adaptation in each particular case;
- a forecast of the average costs to those enterprises.

Following the identification of the costs of adaptation, those that should be incurred soon due to the negotiation process should be separated from those that cannot or should not be charged in their entirety to small and medium-size enterprises due to the timing. In order to support the sector (in terms of finance, organisation, and training) in the specific areas, it was also suggested that the Minister of the Economy in cooperation with other ministers and directors of the above-mentioned central offices should prepare an action plan of support for the adaptation of small and medium-size enterprises to EU conditions, to be presented to the Council of Ministers for acceptance.

Technology Agency Programmes

In June 2000, the Technology Agency presented a report concerning its activities in 1999 and, with regard to loans, for the 1997-1999 period[25]. In 1999, the Technology Agency concentrated its activities on the creation of, support for and cooperation with regional centres of interactive communication, addressed mainly to the technological innovation sectoral groups (currently, about 30 local contact points). Moreover, the Technology Agency participated directly in more than 100 undertakings, training courses, trade fairs, and local and foreign meetings concerning the promotion of new technologies.

Between 1997 and 1999, 213 loan applications were submitted to the Technology Agency, of which the Agency awarded only 43 loans constituting only 20.2% of the requested amount. During the period of three years, requests for financial assistance amounting to PLN 111.5 million were filed, and the Technology Agency granted loans amounting to PLN 19.5 million, which constitutes only 17.4% of the requested amount. According to Agency estimates, between 2,500 and 3,000 enterprises from the SME sector that could undertake innovative activities. The Technology Agency database contains about 1,100 innovative enterprises. According to the authors of the Technology Agency's report, "The economic conditions of those firms often appear to guarantee the possibility of implementation and generation of profit ensuring a timely and complete repayment of the capital borrowed. Unfortunately, the financial capacity of the Agency forces it to organise a form of "competition" in order to restrict the applications for financial assistance, which is a great loss to the restructuring process of Polish manufacturing in the SME sector[26]."

3.2.4. Financial Policy

Financial policy is a basic element of the economic policy of the State. A certain level of budgetary income and expenditure allows, among other things, the implementation of support for selected material elements of business turnover.

[25] Technology Agency. Operations Report for 1999, Warsaw, June 2000, (Sejm publication No. 2,062).
[26] Ibidem p. 24.

Taxes[27]

In June 1999, the Government prepared and presented the reform of the system of direct taxes in the years 2000-2003. The result of the proposed changes in direct taxes was the preparation of draft tax Acts for 2000, i.e., the Personal Income Tax Act and the Corporate Income Tax Act. The Act of November 20, 1999, on the Amendment to the Corporate Income Tax Act came into effect on January 1, 2000. The President of the Republic of Poland did not sign the Personal Income Tax Act and, therefore, no changes proposed in the tax reform were made in 2000 (i.e., reduction of tax rates, flattening of the tax scale, introduction of pro-family allowances). In 2000, work was resumed on the preparation of new proposals concerning personal income tax reform. These changes were adopted on November 9, 2000, and became effective on January 1, 2001[28].

The most important changes in corporate income tax introduced by the Corporate Income Tax Act for 2000 include: a reduction of tax rates, a more beneficial system of depreciation in lieu of the previous investment allowance, elimination of some tax allowances and exemptions in the years 2000–2001 (such as investment allowances and allowances for employers employing the disabled).

In 2000, changes in VAT regulations were adopted; they became effective on January 1, 2001[29]. The most important regulation of the amendment is the change in the limit of turnover entitling taxpayers to business exemptions, and the scope of those exemptions. The reduction of the limit, which amounted to PLN 80,000 to the level of EUR 10,000, resulted in the reduction of the number of enterprises authorised to benefit from the exemption. The nature of the exemption indicated that it was addressed to the smallest firms. The rescinding of regulations enabling taxpayers paying their taxes in the form of a "tax card" to use a business exemptions will have similar consequences. A requirement to maintain daily records of sales has been imposed on taxpayers from those groups.

The amendment also extended the deadline on which preferential rates are used with regard to certain goods and services.

Amount of Taxes

The Personal Income Tax Act for the year 2000 established the tax rates as 19%, 30%, and 40%. In accordance with the Act on the Amendment to the Corporate Income Tax Act, the tax rate in 2000 amounts to 30% of the tax base, in 2001 – 28%, in 2002 – 28%, in 2003 – 24%, and starting from January 1, 2004 – 22%.

Forms of Taxation

In addition to general forms of taxation, small enterprises could use simplified forms, which are characterised by: a reduced level of tax burdens, transparency and ease of application in day-to-day practice.

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[27] A broader discussion of the issues relating to the tax system is presented in chapter 6.
[28] Because the changes that were introduced did not modify the legal status in 2000, they are not discussed in the *Report*.
[29] Act of November 17, 2000, on the Amendment to the Act on VAT and Excise Tax (Journal of Laws No. 105, item 1,107).

A simplified system of taxation consists in the determination, in a legal act, of the amount of tax in the form of a percentage or amount, regardless of the level of income. The amount of tax is determined with regard to a specific business activity conducted by a private individual or, in certain cases, a private partnership of individuals. A simplified form of taxation is associated with simplified forms of settlement with tax offices. This, undoubtedly, facilitates the development of small enterprises, but is an impediment in contacts with banks, which tend to be wary of firms in which a review of actual turnover, revenue and expenditure is not available.

Tax Allowances and Preferences

In 2000, corporate income tax investment allowances were rescinded and replaced by a more beneficial system of depreciation. The transitional regulations (Article 3 of the Act of November 20, 1999) state that in the case where taxpayers incurred investment expenditures before January 1, 2000, and acquired the right to deductions on the basis of the previous Article 18a, they retain the right to make those deductions after December 31, 1999, on terms defined therein. Those deductions cannot continue for longer than to December 31, 2002.

Taxpayers of personal income tax in 2000 could benefit from investment allowances based on the existing rules. From January 1, 2001, those allowances were replaced by a more beneficial depreciation. In accordance with Article 7 of the Act of November 9, 2000, taxpayers who incurred investment expenditures before January 1, 2001, are entitled to continue their allowances, not longer, however, than to December 31, 2003.

In the territories of local communities (gminas) deemed at risk for high structural unemployment[30], as well as voivodships and local communities encompassed by the activities of regional labour offices and defined as threatened with structural recession and social status degradation[31], the following preferences were available for private individuals and corporate entities conducting or starting business activities, or operating in specific areas of agricultural production:

- personal income tax payers conducting business activities (individuals, private partnerships), paying taxes in the form of a tax card, were allowed to increase their employment without forfeiting the right to that form of taxation and risking an increase in tax rate;
- personal income tax payers conducting business activities (including those organised in the form of a private partnership, limited partnership, or registered partnership), entitled to train apprentices and employ people for the purpose of vocational training on the basis of separate regulations, have the right to a 20% increase in the allowance for training an employee[32];
- personal income tax payers paying their tax based on general principles or in the form of a lump-sum tax who increased their employment to the required level were permitted to deduct the amount of investment expenditure from the taxable income or reduce their tax by

[30] List of poviats (gminas) in 2000 on the basis of the Ordinance of the Council of Ministers of June 21, 1999, identifying those poviats (gminas) deemed at risk for high structural unemployment (Journal of Laws of 1999, No. 110, item 1,264). Starting from June 1, 2001, a new list of poviats will be in force.

[31] List of poviats (gminas) in 2000 on the basis of the Ordinance of the Council of Ministers of December 21, 1999, identifying those poviats (gminas) threatened with structural recession and social status degradation in which special economic and financial instruments are used as well as other preferences, and in which those who are unemployed receive entitlement to benefits and grants (Journal of Laws of 1999, No. 110, item 1,265).

[32] Article 53, section 5 of the Act of November 20, 1998, on the Lump-sum Income Tax on Certain Income Generated by Individuals (Journal of Laws of 1998, No. 144, item 930, and of 2000, No. 104, item 1,104).

50% (in local communities of up to 5,000 inhabitants, by 75%) of that amount[33]. The right to this investment allowance was in effect to December 31, 1998[34]. After that date, new investment allowances for local communities at risk for high structural unemployment were to be introduced. However, the enabling legislation with regard to that issue had not been executed and from January 1, 2001, this particular investment allowance was rescinded;
- personal income tax payers could benefit from increased depreciation rates allowing quicker depreciation of some fixed assets in the first years after they were purchased[35];
- buyers and lessees (natural persons and corporate entities) of resources from the State Treasury Agency for Agricultural Property may, in certain cases, be exempt from paying interest on instalment payments.

Social Insurance Contributions and Other Burdens on Wages

For years, wages in Poland have been burdened with high social insurance contributions and other quasi-taxes. In 2000, the burdens on wages of employees consisted of:
- contributions for pension funds, disability funds, accident funds, and sickness funds,
- contributions to the Employee Guaranteed Benefit Fund (0.08% of the base used in the calculation of the social insurance contribution),
- contributions to the Labour Fund (2.45% of the base used in the calculation of the social insurance contribution),
- payments for the State Fund for Rehabilitation of the Disabled.

The social insurance contribution paid by people conducting business activities and people cooperating with them amounted to 36.62%[36] of the contribution base, which was determined as income declared by the person conducting business activities, not less, however, than 60% of the average remuneration and not more than 150% of the income declared for the previous month.

In 2000, the Sejm amended the Act on Social Insurance requiring that the contribution settlement documents and other ZUS documents will be completed under the Payer (P atnik) programme and transmitted to ZUS via the Internet. However, the Act assumes a very long *vacatio legis*: the smaller the firm, the later the date of requirement to submit documents via electronic transfer. The largest employers (more than 1,000 employees) will start to settle with

[33] Based on the Ordinance of the Council of Ministers of January 24, 1995, concerning the deduction of investment expenditures from income and reductions of income tax in gminas at risk for high structural unemployment (Journal of Laws of 1995, No. 14, item 63, and of 1996, No. 63, item 293) and based on the Ordinance of the Council of Ministers of March 25, 1997, in the Łódzkie voivodship, Katowickie voivodship, and in gminas of the Wałbrzyskie voivodship not mentioned on the list of gminas at risk for high structural unemployment.

[34] Article 5, section 2 of the Act of November 21, 1996, on the Amendment to the Personal Income Tax Act, and Article 6, section 2 of the Act of November 21, 1996, on the Amendment to the Corporate Income Tax Act (Journal of Laws of 1996, No. 137, items 638 and 639).

[35] Based on the Ordinance of the Minister of Finance of January 17, 1997, concerning the depreciation of tangible and intangible fixed assets (Journal of Laws of 1997, No. 6, item 35, and No. 14, item 78) – for gminas at risk for high structural unemployment, and based on the Ordinance of the Council of Ministers of March 25, 1997, in the Łódzkie voivodship, Katowickie voivodship, and in gminas of the Wałbrzyskie voivodship not mentioned on the list of gminas at risk for high structural unemployment; starting from January 1, 2001, taxpayers of personal income tax, on the basis of Article 22k of the Personal Income Tax Act of July 26, 1991 (Journal of Laws of 2000, No. 14, item 176, No. 22, item 270, No. 60, item 703, No. 70, item 816, No. 101, item 1,090, and No. 104, item 1,104). Whereas the payers of corporate income tax, from January 1, 2000, on the basis of Article 16k of the Corporate Income Tax Act of February 15, 1992 (Journal of Laws of 2000, No. 54, item 654, No. 60, item 703, No. 86, item 958, and No. 60, item 700).

[36] In October and November 2000, the minimum pension fund contribution amounted to PLN 218.99 (19.52%), disability fund: PLN 145.84 (13%), sickness fund: PLN 27.49 (2.45%), and accident fund: PLN 18.17 (1.62%).

ZUS in electronic form from July 18, 2001. One month later this requirement will encompass firms employing between 100 and 1,000 people, and two months later electronic transfers will be introduced by businesses with 21 to 100 employees. The smallest firms, those with up to twenty employees, will be exempted from that obligation.

The Act assumes that all firms will pay social insurance contributions in a non-cash form, i.e., by bank transfer.

The Act states that from December 1, 2000, pension and disability fund contributions for employees on maternity and parental leaves will be calculated by the payer, i.e., the employer. However, they will continue to be paid by the State budget.

Credit Guarantees for SMEs

The National Credit Guarantee Fund for small and medium-size enterprises headquartered in Bank Gospodarstwa Krajowego (BGK) was financed from the State budget. In 2000[37], BGK granted a total of 235 guarantees for the amount of PLN 53,823,720, which constitutes a result close to that achieved the year before. The simplified procedure remained the most frequently used form – almost 80% of guarantees were granted on the basis of that procedure (in 1999, 73%). 202 guarantees were granted to small businesses, and 33 to medium-size ones.

3.2.5. Programmes Related to Labour Market Policy

The Labour Fund is the main source of financing for the instruments of combating unemployment and supporting employment. The purpose of the Fund is not a direct subsidy for entrepreneurship, but in many programmes and funds small and medium-size enterprises are considered to be one of the best instruments for new jobs creation and absorbing the unemployed.

Programmes related to the labour market policy include:
- generally applied instruments financed from the Labour Fund,
- programmes specifically addressed to certain regions and categories of the unemployed,
- instruments applied in local communities at risk of high structural unemployment.

Generally Applied Instruments Financed from the Labour Fund[38]

Expenditures on active forms of combating unemployment are of basic importance in the sphere discussed.

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[37] *Information about Sureties and Guarantees Granted in 1999 by the State Treasury, Certain Legal Persons, and Bank Gospodarstwa Krajowego (Informacja o poręczeniach i gwarancjach udzielonych w 1999 r. przez Skarb Państwa, niektóre osoby prawne oraz Bank Gospodarstwa Krajowego)*, Council of Ministers, Warsaw 2000.

[38] Data on the expenditures of the Labour Fund for 2000, according to: National Labour Office, *Execution of the Labour Fund for the First Three Quarters of 2000 (Wykonanie Funduszu Pracy za III kwartały 2000 r.)* (cash-based approach), Warsaw, October 2000, and Ministry of Labour and Social Policy, *Information on the Expenditure and Income of the Labour Fund* (cash-based approach) *for Members of the Main Employment Board (Informacja o wydatkach i dochodach Funduszu Pracy dla członków Naczelnej Rady Zatrudnienia)*, July 2000, as well as: National Labour Office, *Draft Plan of the Labour Fund for 2001. Materials for the Social Policy Committee of the Sejm of the Republic of Poland (Projekt planu Funduszu Pracy na 2001 r. Materiał dla Komisji Polityki Społecznej Sejmu RP)*, Warsaw, November 2000.

In 2000 expenditures on active forms of combating unemployment share in the total amount of the Fund's expenditures was planned at 25.9%, i.e., PLN 1,562,776,000, whereas, excluding the refund for employing the young, this amounts to PLN 1,195,276,000, i.e., 19.8% of the total. The Fund's planned disbursements for the end of 2000 were set at 13%.

The actual expenditure on active forms of combating unemployment for the first three quarters of 2000 amounted to PLN 679,498,800, which constitutes 43.5% of the planned expenditure. The draft budget for 2001 provided for PLN 900,000,000, which constitutes 11.2% of total expenditures, and excluding the refund for employing the young, PLN 510,000,000.

The active forms of combating unemployment include: training and change of qualifications, intervention work, and loans for the unemployed setting up a business, for enterprises creating new jobs, and for placements of new graduates. It is difficult to estimate which forms or the amounts that find their way to the SME sector.

Training and change of qualifications: In 2000, 177,900 unemployed people received training (an average of 19,700 per month) and the amount of PLN 49,125,500 was spent for that purpose, which constitutes only 30.7% of the amount planned in the Budget Act. In 2001, 110,000 people will receive the training.

Intervention work is organised by employers[39] who receive reimbursement from the labour office for a portion of their costs incurred for wages, bonuses and social insurance contributions of the previously unemployed people that they employ. During the first three quarters of 2000, this form covered 216,400 people (an average of 24,000 people per month), and PLN 93,223,900 was spent, which constitutes only 26.6% of the amount planned. In 2001, about 55,000 people will be included in the intervention work.

Loans for the unemployed setting up a business and for employers[40] *creating new jobs:* the maximum amount of a loan cannot exceed the equivalent of twenty-times the average annual wage. The average loan, however, hovers in the range of 55–58% of that amount. The interest rate on loans for the unemployed amounts to 50% of the variable interest rate of the Lombard credit and 30% in local communities at risk for high structural unemployment, whereas for employers, 70% of the variable interest rate of the Lombard credit and 50% in local communities at risk for high structural unemployment[41].

In general, over the first three quarters of 2000, PLN 82,471,800 was spent on loans, including 3,490 loans for unemployed people to start business activities, and 891 loans for employers for creating additional jobs. In 2001, PLN 140,000,000 will be earmarked for loans, which will allow the granting of approximately 7,000 loans.

From 1997, a loan may be complemented by a new form of support for business activities

[39] In the case of intervention work, the employer is also a sole proprietor as understood in the regulations on business activities if he/she intends to employ an employee (Article 19, section 4 of the Act on Employment and Counteracting Unemployment of December 14, 1994).

[40] In the case of loans for the creation of a new job, the employer is also a sole proprietor as understood in the regulations on business activities if he/she intends to employ an employee (Article 18, section 7 of the Act on Employment and Combating Unemployment of December 14, 1994).

[41] Ordinance of the Minister of Labour and Social Policy of March 24, 1995, concerning detailed principles of granting loans from the Labour Fund, interest rate, and terms of repayment (Journal of Laws of 1997, No. 25, item 133, of 1998, No. 166, item 1243). More favourable interest rates for loans in gminas at risk for high structural unemployment were introduced in the amendment from April 2, 1997.

undertaken by the unemployed. The Act on Employment and Combating Unemployment provides for the possibility to receive from the regional labour office a reimbursement of up to 80% of documented costs of training, consultation or advisory services concerning the business activity undertaken during the period of up to six months from the date of receipt of the loan of an amount not exceeding the annual average wage[42]. However, for the last three years, no data has been available on the utilisation of this form of support.

Refunds of wages of the young consists in refunding the wages (and social insurance contributions) paid to young employees employed on the basis of an employment contract in order to undergo vocational training, as well as in the payment of allowances and bonuses to employees for the performance of duties of supervisors of apprenticeships. This form is used mainly by craft shops and Volunteer Work Troops (OHP).

During the first three quarters of 2000 refunds for 1,745,300 young people were made (an average of 193,900 a month) and for 14,000 supervisors of apprenticeships for a total of PLN 193,734,000, which constitutes 52.7% of the amount planned.

Placement of New Graduates. During the first three quarters of 2000, wages and social insurance contributions were refunded for 216,400 graduates (an average of 24,000 a month), for which the amount of PLN 93,233,900 was spent, which constitutes 26.6% of the amount planned. In 2001, the refund will encompass about 76,000 jobs for new graduates.

Special programmes aimed at specific regions and specific categories of unemployed people. These programmes are established[43] at the local, voivodship and regional scale, and they are aimed at employing unemployed people from specific regions and risk groups. One of the instruments possible in the implementation of programmes is a reduction of the interest rate on the Labour Fund loan by half, and support for people launching business activities through providing them with training and advisory services. During the first three quarters of 2000, the amount of PLN 22,067,100 was spent on special programmes (78.3% of the funds planned), which encompassed 29,800 people (an average of 3,300 people per month). In 2001, this form will encompass about 2,000 people.

Co-financing of Activities of Non-Governmental Organisations and Institutions consists in financing part of the costs of execution of tasks for the unemployed performed under statutory activities of organisations and institutions. During the first three quarters of 2000, non-governmental organisations were co-financed by PLN 1.2 million (of the PLN 3.5 million planned).

In 2000, the Labour Fund significantly reduced its expenditure on active forms of combating unemployment in relation to the outlays planned. The reason was the increase in the number of people collecting unemployment benefits, as well as pre-pension benefits and payments. The financial situation resulted in a need for statutory changes in order to invest the Fund with the borrowing capacity in order to pay benefits.

[42] Article 18 section 5a, introduced by the Act of December 6, 1996, on the Amendment to the Act on Employment and Combating Unemployment and Certain Acts (Journal of Laws of 1996, No. 147, item 687).

[43] Ordinance of the Minister of Labour and Social Policy of November 15, 1995, concerning special programmes of combating unemployment (Journal of Laws of 1998, No. 156, item 1,023, and of 2000, No. 29, item 367).

Creation of Conditions for Establishing New Jobs

The Council of Ministers presented a report from the implementation of the document of November 3, 1999, entitled *Activities Related to the Creation of Conditions for the Establishment of New Jobs (Działania związane z tworzeniem warunków do powstania nowych miejsc pracy)*. The areas of potential growth of employment, in addition to the enhancement of innovation, development of the housing industry, and regional development, include the development of small and medium-size enterprises.

The following legislative activities with regard to SMEs were understood to have been implemented:

- Amendment to the Labour Code aimed at i.a. simplification of the conditions of employment, assuming the preparation of the draft Act as the completion of the activity,
- Amendment to tax Acts in order to reinforce the pro-investment impact of the tax system and to simplify it,
- Amendment to the Civil Code in order to introduce into it a leasing contract, the purpose of which is to facilitate the access of small and medium-size enterprises to this form of financing their activities.

The following organisational and institutional activities were understood to have been implemented:

- development of the credit guarantee system, and especially the creation of a consulting/advisory network for SMEs with regard to the functioning of guarantee funds on the basis of the national System of Services (KSU), additional capital for the National Credit Guarantee Fund in Bank Gospodarstwa Krajowego, capital support for the existing and newly created local and regional credit guarantee funds by providing additional financing from public resources and assistance funds, as well as informational and advisory activities with regard to the benefits and potential of the regulated stock exchange market and the OTC market;
- conducting a national educational and information campaign addressed to small and medium-size firms and to institutions supporting this category of entrepreneurs;
- provision of information to companies interested in quotes on the public stock exchange market and the OTC market via advisory/information centres, with the possibility of free-of-charge preparation of stock issuing memoranda for these companies and co-financing of the activities of these centres;
- training and advisory activities used, among other things, to improve the vocational qualifications of employees.

3.2.6. Rural Area Development Programmes

Programmes Implemented by the Agency for Restructuring and Modernisation of Agriculture

The Agency was established in order to support the process of restructuring and modernisation of agriculture, agricultural/food processing, and services for agriculture. The basic instrument is co-payments to credits granted by the network of cooperating banks. The majority of credits co-financed by the Agency are typically agricultural undertakings (purchase of land,

farming, conducting of agricultural activities). Activities were also initiated to establish jobs outside agriculture.

During the period from January 1 to December 31, 2000, Agricultural Advisory Centres and Regional Centres of Advisory Services, Development of Agriculture and Rural Areas approved 21,501 requests for undertakings related to the implementation of investments in agriculture and its surroundings, based on credits with subsidies made by the Agency to their interest rate.

Those applying for preferential credits intended to implement investments valued at PLN 3,625,689,900 in total, and they submitted applications for credits for a total of PLN 2,405,717,000. Credit resources totalling PLN 111,900 per undertaking, constituted 66.3% of the costs of investments planned.

With regard to the implementation of investment undertakings creating new regular jobs in non-farming activities and in rural-urban local communities guaranteeing employment for inhabitants of rural areas, 666 positive opinions were issued.

Entrepreneurs applied for credits valued in total at PLN 100,567,800, intending to finance 47.4% of the costs of investments planned from those funds. The credit resources, at the average amount of PLN 151,000 per undertaking, will allow the creation of approximately 4,023 new jobs in non-farming activities. The largest number of investments creating new regular jobs was planned in the manufacturing sector (31.8%).

From 1995, the Agency for Restructuring and Modernisation of Agriculture began granting interest-free loans for the development of small businesses. In 2000, 584 loan agreements were entered into for a total of PLN 18,118,500, which provided for the creation of 1,817 jobs. The average loan amounted to PLN 31,000.

Programmes Implemented by the State Treasury Agency for Agricultural Property

In a move to reduce the levels of unemployment in the rural areas and in small urban locations, in September 1998 the State Treasury Agency for Agricultural Property signed agreements with the National Labour Office, Bank Inicjatyw Społeczno-Ekonomicznych, BGŻ, and Wielkopolski Bank Rolniczy concerning the establishment of a preferential credit line for the creation of new jobs. Based on the agreements signed, the Agency forwarded PLN 12,182,200 to the banks.

A total of 84 credits totalling PLN 10.14 million were granted. The undertakings implemented with the funds from those credit lines created 371 jobs for the registered unemployed by December 31, 2000.

Moreover, in 1999 and 2000, the Agency continued its cooperation with organisations pursuing the reduction of unemployment by participating in the implementation of approximately 40 special local programmes.

The Unemployed Placement Fund that was distributed by the end of 1997, and implemented from the assistance funds, provided for the creation of almost 3,600 new jobs and 165 independent business undertakings. The Supplementary Fund replaced the UPF in 1998 and 1999. More than 420 jobs were created from the SF resources by the end of 1999.

In 2000, the Agency participated in nine guarantee funds: in Działdowo, Gołdap, Karlin, Kętrzyn, Kwidzyn, Nidzica, Olsztyn, Płużnica and Słupsk. The Agency transferred PLN 4.3 million for the funds' dispersion. 239 guarantees were granted, creating 678 jobs.

3.2.7. Programmes Related to Regional Policy

Special Economic Zones

Data provided by the Ministry of the Economy indicate the planned investments of 15 zones at the end of 2000 (two failed to start operations) amount to PLN 10,821,200,000. In fact, these investments are typically approximately 30% higher. The expected employment encompasses more than 61,000 new jobs.

By the end of 2000, almost PLN 6.6 billion was spent on investments. The number of already established and operating jobs in plants located within Special Economic Zones has been estimated at 28,689, which, in comparison with December 1999, means an increase in employment by over 12,000.

According to the data provided by the Ministry of the Economy, 83.6% of entrepreneurs operating in Special Economic Zones fall within the category of small and medium-size entrepreneurs, although there are no enterprises that can be considered to be micro-enterprises.

Regional Restructuring Programmes

On August 1, 2000, the Council of Ministers accepted the combined information on the utilisation of the funds from the State budget earmarked reserve and appropriated for the co-financing of investments implemented under local restructuring programmes in 1999.

A Council of Ministers Ordinance allowed for funds from the State budget earmarked reserve for 1999 – totalling PLN 62,700,000 – to be appropriated for the co-financing of investments encompassed by local restructuring programmes in the following amounts:
- Dolnośląskie voivodship – PLN 10,450,000;
- Łódzkie voivodship – PLN 10,450,000;
- Małopolskie voivodship – PLN 600,000;
- Pomorskie voivodship – PLN 10,450,000;
- Śląskie voivodship – PLN 9,850,000;
- Warmińsko-Mazurskie voivodship – PLN 10,450,000;
- Zachodniopomorskie voivodship – PLN 10,450,000.

The Council of Ministers maintained the continuity of budgetary aid for the former Łódzkie and Wałbrzyskie voivodships, which had been benefiting from that form of assistance since 1994, and the former Olsztyńskie and Suwalskie voivodships, benefiting from those funds since 1995. The former Koszalińskie voivodship has been supported since 1997, and the former voivodships Elbląskie, Słupskie and Katowickie, from 1998.

Subsidies from the budgetary reserve encompassing 477 investment tasks were implemented in 1999. The quantitative structure of investments implemented that year, by groups of beneficiaries of the budgetary subsidy, is as follows:

- gminas implemented 418 investment tasks;
- poviats implemented 34 investment tasks;
- entrepreneurs implemented 25 investment tasks.

Of 477 investment tasks implemented jointly by poviats, gminas and entrepreneurs, 324 tasks were completed in 1999.

The creation of 3,145 jobs and 38 business entities, established as a consequence of investments completed in 1999, are a measurable outcome of the reduction of the negative effects of unemployment. In individual voivodships the following number of jobs were created:
- Dolnośląskie – 1,032,
- Łódzkie – 122,
- Małopolskie – 240,
- Pomorskie – 138,
- Śląskie – 1 526,
- Warmińsko-Mazurskie – 10,
- Zachodniopomorskie – 77.

In addition, voivodships have reported the creation of 1,432 new jobs following the completion of investments begun in 1999.

The influences on conditions for businesses located in voivodships covered by the subsidy from the State budget earmarked reserve are expressed in:
- improvement of the technical infrastructure and considerable improvement of environmental protection,
- stimulation of labour markets,
- development of entrepreneurship, especially in the group of small and medium-size entrepreneurs.

Act on Principles of Support for Regional Development

On May 12, 2000, the Sejm adopted the Act on Principles of Support for Regional Development. The Act specifies the rules and forms of support for regional development and principles of cooperation of the Council of Ministers and Government administration bodies with local governments, and in particular:
- institutions supporting regional development,
- procedure of conducting activities involving support for regional development,
- principles of entering into and execution of the voivodship contract.

The support for regional development is to be implemented on the basis of the *National Strategy of Regional Development* and initiatives of the voivodship government, in accordance with the principle of balanced development.

The support for regional development is aimed at:
- development of individual areas of the country, improvement of the quality of life and living standards of inhabitants, and the level of fulfilment of the needs of self-ruled government communities,
- creation of conditions for the enhancement of competitiveness of self-ruled government communities,

- counterbalancing the differences in the level of development of individual areas of the country and equalisation of opportunities of the citizens of the country, regardless of the place of their residence, as well as the reduction of poorly developed and backward areas and areas with the least favourable conditions for development.

In accordance with the Act, financial support for regional development from the State budget funds may be allocated to tasks included in voivodship contracts. These include, in addition to the restructuring of selected areas of public services as well as the local and regional economy, investments in technical and transport infrastructure improving the conditions for implementing economic investments, undertakings in the field of education, including education of adults, undertakings in the field of regional and local culture which are components of the national culture, as well as protection and development of cultural heritage, investments improving the environmental conditions, development of institutions that stimulate activities and support for self-governmental activities of regional and local communities. The tasks that may be financed include also the development of entrepreneurship, in particular small and medium-size enterprises, business innovations, and technology transfer.

3.3. Summary

In 2000, the Government, in its subsequent programme documents, beginning with socio-economic strategies, to labour market, industrial, regional policy and the policy of rural areas, declared more and more support for the SME sector. Undoubtedly, this was also a consequence of the EU pre-accession process in which the development of small and medium-size enterprises is very important.

From the point of view of objectives that are implemented by the State, the policy programmes towards the SME sector may be divided into two main areas:
- policy towards the SME sector as such, the purpose of which is to create the conditions for the functioning and development of small and medium-size enterprises,
- other policies implementing priority socio-economic objectives in which the SME sector is one of the implementation tools.

Policy Towards the SME Sector

In contrast to previous years, the policy towards the SME sector is relatively better coordinated. The year 2000 was actually the first year in which activities under the new Government programme were launched. The positive evaluation, however, is diminished by the continuation of the political entanglement of tax problems, which slowed down the achievement of real effects expected by entrepreneurs.

The activities of the Parliamentary lobby in the Sejm of the Republic of Poland became more dynamic in the year 2000. A number of activities were concluded with positive results.

By the end of 2000, the programme stipulations provided for in the *Government Policy Guidelines for Small and Medium-Sized Enterprises until 2002* had not been fully implemented. However, a portion of these could not be implemented due to circumstances outside the control of the implementers.

With regard to the development of the SME sector, the lack of activities enhancing the competitiveness and effectiveness of small and medium-size enterprises was still the most visible, including:

- lack of the Amendment to the Labour Code aimed at reducing the burden on entrepreneurs,
- lack of funds to co-finance credit guarantee funds,
- lack of flow of information on new technologies and innovative undertakings from the sphere of science to enterprises,
- lack of changes in the tax system,
- lack of changes adapting customs, information and border procedures to the needs of SMEs.

Many of these objections have continued to reappear for at least several years (a fact also noted in the *Regular Report from the Commission for1999*).

On the other hand, the following deserve to receive good marks:

- adoption of the Act on the Polish Agency for Enterprise Development,
- adoption of the Act on Conditions of Permissibility and Supervision of Public Aid for Entrepreneurs,
- adoption of the Act on Principles of Support for Regional Development,
- introduction of amendments to Income Tax Acts.

Policy Treating SMEs as an Instrument of Implementation of Other Objectives of the State

The implementation of Government programmes with regard to SMEs concentrated on three major areas: labour market policy, rural area development policy, and regional policy.

Instruments applied under these programmes did not focus on the SME sector but on the implementation of other priority objectives of the State, such as: combating unemployment, regional development, and development of rural areas. Instruments addressed to the small and medium-size enterprise sector were used in the implementation of these objectives, as those enterprises constituted an important element of economic development and restructuring, as well as absorption of the labour force.

The instruments of support for SMEs under the labour market policy and rural area development policy, among others, were based on:

- facilitation of access to credit for entrepreneurs and people setting up businesses,
- facilitation of increasing employment without incurring additional costs,
- creation of advisory and training-providing institutions and instruments to support small businesses,
- educational activities promoting entrepreneurship among the young.

Such activities and instruments addressed to specific groups and areas did not improve the general conditions of the functioning of the SME sector in the strongest and the most dynamic industries, but were effective in selected industries and regions of the country as indicated by the State.

Problems in Coordination of Both Areas of Policy Towards SMEs

An adequate policy towards SMEs should allow for both the objectives of creation of the general conditions for the development of the SME sector and the undertaking of intervention in areas requiring special treatment. In 2000, this postulate was finally fully reflected in the programme documents.

The policy towards SMEs in 2000, implemented by various agencies, was to a much greater extent monitored and coordinated, with the exception of the labour law and social insurance issues. The solution, which may make coordination more difficult, was the establishment of the Ministry of Regional Development and Building Industry, and the separation of administrative sections of "economy" and "regional development". In this situation, programmes concerning SMEs will depend on two Ministries. The uneven balance struck in the implementation of economic policy by the Ministry of the Economy and the Ministry of Finance remained clearly visible.

Chapter 4.

Position of the Roman Catholic Church Towards Entrepreneurship

The problems of entrepreneurship, enhancement of competitiveness, restructuring of the economy, and unemployment are addressed in a document published following the end of the Second Plenary Synod of Polish Bishops[1]. The acceptance of and support for the freedom of business activities, the free market and competition expressed in that document are not tantamount to the acceptance of all of their aspects. The economy should be understood as a campaign towards the common good, and the basic economic criteria should include: social justice, auxiliary nature and subsidiarity. Economic freedom cannot form an absolute value, and free competition and the market are not inherently good. The respect for ownership and the right to work should constitute the basis for business activities, and welfare and a balanced socio-economic development, an underlying principle.

Entrepreneurship understood as initiative, reliability and thriftiness are of fundamental importance for the makeup and standing of the whole society. And the State's task is to create an appropriate framework for economic initiatives.

While assessing the changes that took place in Poland and due to which entrepreneurship and creative initiatives developed, significantly, as positive elements, the Church is critical towards the current economic environment of enterprises, pointing to the excessive tax burden and the fiscal policy of the State leading to the reinforcement of the grey area, the outflow of capital to other countries and the reduction of the material status of the whole of society.

The bishops also clearly indicate the potential threat resulting from economic freedom. The "deadly sins" of business include: corruption, tax crimes, theft of intellectual property, the grey area, poor working conditions and an absence of social security.

According to the bishops, the above-mentioned consequences may be counteracted by, e.g., dissemination of specific ethical and moral standards among entrepreneurs. The appropriate understanding of business activity should be re-established: that it is the expression of commitment to the common good and not merely a means to satisfying one's own individual needs. Profit plays a positive role as an indicator of the sound functioning of the enterprise, but cannot be a dominant factor. The activities of an entrepreneur cannot be driven solely by the desire to own and multiply ones own wealth. New types of enterprises should be established, in which the idea of economic freedom is subordinated to the idea of human freedom.

The Church also postulates the introduction of solutions that would in practice implement the principle of justice understood as the elimination of excessive social differences. The most pressing needs identified include the completion of the privatisation process, reform of the tax system, and the development of the small and medium-enterprise sector. The strengthening of SMEs not only means new jobs and opportunities to become independent, especially for the inhabitants of rural areas, but is also an important factor constituting the basis for the reconstruction of the middle class.

[1] *The Church in Relation to Socio-Economic Life (Kościół wobec życia społeczno-gospodarczego)*; document prepared by the Second Plenary Synod of Polish Bishops.

Chapter 5.

Legal Environment of the Functioning of SMEs in 2000

List of Legal Acts Affecting the Activities of SMEs, Adopted and Enacted in 2000

The Most Important Changes and Trends in Legislation in 2000

Substantive Problems and Issues Related to the Practice of Law

Basic Problems of the Law-Making Process

Harmonisation of Polish Legislation to European Union Law

Summary

This chapter consists of the following two sections:

- A table presenting legal acts published in 2000 that were adopted by the Sejm or passed by the central State administration. The list includes a short description of each regulation in relation to its influence on the operations of small and medium-size enterprises.
- Descriptions of the most important changes and basic trends in legislation that appeared in 2000 as well as indications of problems related to the applicability of the law that have the greatest bearing on entrepreneurs.

5.1. List of Legal Acts Affecting the Activities of SMEs, Adopted and Enacted in 2000

No.	Legal Ordinance	Published in	In effect from	Scope of Ordinance Most Relevant Provisions
1	Budget Act for 2000, of January 21, 2000	Journal of Laws No. 7, item 85	01.01.00	State budget revenues have been set at PLN 140,909,815,000, expenditures at an amount not exceeding PLN 156,309,815,000, and the deficit at not more than PLN 15,400,000,000. Non-repayable funds from foreign sources and expenses financed from those funds have been determined at PLN 2,488,464,000. The increase in debt as of December 31, 2000, due to issuance and redemption of Treasury securities in Poland, based on their nominal value, may not exceed PLN 30,000,000,000. The increase in debt due to credits taken up in 2000, foreign loans received and due to issuance of Treasury securities may not exceed PLN 5,970,000,000, including debts resulting from the issuance of Treasury securities, based on their nominal value, may not exceed PLN 2,985,000,000. The Minister of Finance has been authorised to sell financial assets recovered in the course of the operations of early redemption of foreign debt. The State Treasury may grant sureties and guarantees in 2000, up to PLN 18,000,000,000, including guarantees to repair damages - up to PLN 1,000,000,000. The limit of export credit insurance in 2000, was set at PLN 3,400,000,000.
2	Act of January 22, 2000, on General Product Safety	Journal of Laws No. 15, item 179	07.09.00	The Act determines the general requirements for product safety, the principles and procedures for preventing the violation of those requirements by entrepreneurs and the bodies supervising the safety of products. The Act defines such terms as: product, manufacturer, vendor, and specifies the obligations of entrepreneurs related to the introduction of products for sale. Failure to comply with the requirements mandated in the Act has been made amenable to fine.
3	Act of March 2, 2000, modifying the Act - Customs Code and the Act - Civil Proceedings Code	Journal of Laws No. 22, item 269	31.05.00	Amendments are introduced in the Act - Customs Code with regard to the withdrawal or destruction of goods whose possession is forbidden by international agreements or separate provisions. Moreover, changes refer to the responsibility imposed on entities that have no address in Poland to indicate their agent for delivery at the first action performed before a customs body. A chapter with respect to the forfeiture of items has been added to the Act - Civil Proceedings Code. The provisions of this chapter are applied to cases with respect to the forfeiture of items that are commodities which, based on customs Ordinances, are subject to forfeiture.

4	Act of March 2, 2000, on Protection of Certain Consumer Rights and Liability for Damage Caused by an Unsafe Product	Journal of Laws No. 22, item 271	01.07.00	The Act determines conditions under which the entrepreneur may enter into offsite contracts with a consumer and contracts entered into from remote locations, i.e., contracts entered into without the simultaneous presence of both parties, by means of remote communication. Protection of the consumer is increased by way of the addition of a number of competencies, among which the most important is the right to cancel a contract without providing cause. The Act also introduces changes in the Civil Code, citing general conditions, standard form contracts and Ordinances, determining, e.g., provisions whose use is forbidden in contracts and regulating the manufacturer's civil liability in the case of damage caused by an unsafe product. A new chapter has been added to the Civil Proceedings Code that regulates the principles applied when the standard form contract contains provisions that are considered to be forbidden.
5	Act of March 16, 2000, on Amendment to the Act on Fighting Unfair Competition and on Amendment to the Act on Radio and Television Broadcasting	Journal of Laws No. 29, item 356	18.07.00	Advertising that enables the direct or indirect identification of the competitor or the competitor's goods or services, if it is contrary to good practice, is considered to be an act of unfair competition. Thus, the use of comparative advertising has been made subject to meeting several conditions specifying when an advertisement does not violate good practice. This catalogue is extended if special offers are presented in the form of comparative advertising.
6	Act of April 28, 2000, on the System of Conformity Assessment, Accreditation, and Amendment to Certain Acts	Journal of Laws No. 43, item 489	Generally 01.01.01	The Act has replaced the Act on Research and Certification of 1993. The purpose of the Ordinance contained in the Act is to: 1) eliminate product hazards to the health or life of users and consumers, as well as to property and the environment, 2) remove technical barriers in the trade and facilitation of international commodity exchange, 3) create the mechanism for reliable evaluation of products and their production processes by competent and independent entities, without causing undue burden on the entrepreneur. Assessments of conformity, aimed at establishing that a properly identified product or process is in conformance with the requirement (and marked as conforming), are performed by certifying units, laboratories, and controlling units accredited by the Polish Accreditation Centre. Activities related to the assessment of conformity of products are subject to payment of a fee. The Act also introduces changes in the Labour Code - it is unacceptable to equip work stands with machines and other technical equipment that do not meet requirements with respect to the evaluation of conformity specified in separate provisions. The employer is required to provide the employee with personal protection equipment that meets the requirements with respect to the conformity specified in separate provisions.
7	Act of May 12, 2000, on Principles of Support for Regional Development	Journal of Laws No. 48, item 550	14.07.00	The Act determines the principles and forms of regional development, and principles of cooperation of the Council of Ministers and Government administrative authorities with local government in that respect. Support for regional development is provided on the basis of the national strategy of regional development as well as initiatives of the voivodship self-government, in accordance with the principle of balanced development. Support for regional development is also aimed at developing small and medium-size enterprises.

8	Act of May 24, 2000, on Amendment to the Act - Civil Proceedings Code, the Act on Registered Pledge and Pledge Register, the Act on Court Fees in Civil Cases and the Act on Court Enforcement Officers and the Enforcement Procedure	Journal of Laws No. 48, item 554	Generally 01.07.00	The Ordinance introduces changes in the Civil Proceedings Code with regard to proceedings in cases related to warranty and guarantee, resolution of cases by the court through the issuance of an order for payment, appeal institution, institution of last resort appeal to Supreme Court, and simplified proceedings that are conducted in cases for which regional courts are competent and in claims related to contracts, if the value of the subject of dispute does not exceed PLN 5,000, and in cases consequential to a warranty or quality guarantee if the value of the subject of contract does not exceed that amount, as well as in cases of the payment of rental fees for housing premises and fees for using housing premises in a housing cooperative, regardless of the value of the dispute.
9	Act of May 24, 2000, on the National Penal Register	Journal of Laws No. 50, item 580	21.06.01	The Act creates the Court Penal Register in which, e.g., data with respect to individuals whose sentences for crimes or tax offences have exhausted the appeals process, against whom the penal proceedings in cases relating to crimes or tax offences have been legally dismissed. The Register is maintained by the "Information Office of the National Penal Register", which reports to the Minister of Justice. Among others, employers are among those entitled to obtain information about people whose personal data has been collected in the Register – to the degree necessary in order to employ an individual who, in accordance with statutory provisions, must be without criminal record, must possess enjoy all civil rights, and the prerogative to take a specific position, perform a particular profession, or conduct a particular business activity.
10	Act of June 9, 2000, on Amendment to the Corporate Income Tax Act	Journal of Laws No. 60, item 700	01.01.01	The Act defines the conditions for creation and operation of tax capital groups, defines farming activities, procedures and conditions for drawing up tax documentation of transactions by taxpayers conducting transactions with entities related to those entities, as well as introduces changes in the definition of income and revenue, cost of revenue, material exemptions, and accumulation of company's income, income tax and tax on income from dividends and other income from profit sharing. Moreover, the Act determines the deadlines to submit monthly declarations and pay monthly advances for corporate income tax, as well as new annual depreciation rates.
11	Act of June 30, 2000, on Conditions of Admissibility and Supervision of Public Aid to Entrepreneurs	Journal of Laws No. 60, item 704	01.01.01	The Act determines the conditions of admissibility, principles of granting export and sectoral aid to entrepreneurs, including SMEs, as well as supervision of that aid. Public aid to entrepreneurs denotes the provision of benefits to enterprises by bodies providing aid, as a result of which they receive significant advantages over their competitors, e.g., in the form of subsidies or tax allowances. Small and medium-size entrepreneurs may receive the following forms of aid: 1) regional – the basic condition for the receipt of which is the conducting of business activity in a specific geographic area, 2) sectoral – where the basic condition is the participation of the entrepreneur in a group separated on the basis of the criterion of business activity subject, 3) horizontal – where the conditions for granting aid are not related to the business conducted, neither in a specified area, nor in a specified sector.

12	Act of July 20, 2000, on Publication of Normative Acts and Certain Legal Acts	Journal of Laws No. 62, item 718	01.01.01	The Act determines the principles and procedure of publishing normative acts and certain legal acts, as well as principles and procedures of publishing official gazettes. In principle, the announcement of a normative act in an official gazette is mandatory. Official gazettes, as set forth in the Act, are as follows: Journal of Laws of the Republic of Poland, official gazette of the Republic of Poland "Monitor Polski", official gazette of the Republic of Poland "Monitor Polski B", official gazettes of Ministers in charge of central government policy areas, official gazettes of central offices, voivodship official gazettes. Disciplinary Ordinances are published in the form of an announcement, and in a manner adopted as customary in the particular territory or in mass media.
13	Act of July 20, 2000, on Amendment to the Act on VAT and Excise Tax and the Act on Stamp Duty	Journal of Laws No. 68, item 805	04.09.00	The Act introduces taxation by VAT on agriculture, forestry and fishing. Farmers may recover the VAT charged on the farm production equipment prices. The Act introduces: 1) taxation of 3% VAT on domestic sales and imports of unprocessed and low-processed produce of farm, forestry and hunting as well as fishing (exempted from VAT until September 3, 2000), 2) in agriculture, forestry and fishing, general principles of settlement of VAT and the so-called lump-sum method, 3) among activities subject to taxation by VAT, delivery of farm produce on the basis of a contractual agreement. Provisions of the Act impose the requirement to apply general principles of VAT settlement in agriculture only on taxpayers required to maintain accounting records, other farmers may utilise the lump-sum method. Farmers who sell farm produce originating from their own farming business to VAT taxpayers who pay that tax will be entitled to a lump-sum reimbursement of the tax at the rate of 3%, constituting compensation for the tax they paid in the prices of goods and services purchased in order to conduct farming business. A VAT taxpayer (e.g., the bulk-purchasing entity) that purchases farm produce from the lump-sum farmer, will be required to issue a VAT invoice documenting the purchase of those products, the so-called "VAT RR Invoice".
14	Act of July 26, 2000, on Amendment to the Act - Civil Code	Journal of Laws No. 74, item 857	09.12.00	The Ordinance of the leasing contract and the change in provisions with respect to the agency contract has been introduced to the Civil Code. By way of the leasing agreement, the financing party (lease giver), within the scope of operations of its enterprise undertakes to purchase an item on terms specified in the agreement and to convey that item to the using party (leaseholder) for use, or for use and collection of benefits for a definite period of time, and the leaseholder undertakes to pay the lease giver a fee equal to at least the price or the fee paid for the purchase of the item by the lease giver, divided into agreed instalments. Through an agency contract the contractor (agent), within the scope of operations of its enterprise, undertakes to provide standard agent services, in return for a fee, for the purpose of entering into a contract with clients on behalf of the contracting entrepreneur, or to enter into those agreements on that entrepreneur's behalf. If the method of remuneration has not been specified in the contract, the agent is entitled to commission.

15	Act of September 9, 2000, on Tax on Civil Law Transactions	Journal of Laws No. 86, item 959	01.01.01	Together with the new Act on Stamp Duty, the Ordinance replaced the Act of January 31, 1989, on Stamp Duty. The taxation of civil law transactions has been set apart and increased several times. Among other things, the following contracts are subject to taxation: contracts of sale and exchange of items and property rights, loan agreements, surety agreements, gift agreements, agreements with respect to the removal of joint and several ownership of property, establishment of mortgage, establishment of paid usufruct, irregular deposit agreement, company agreements - deeds of incorporation, changes of these contracts, and court decisions. Some civil law transactions are not subject to taxation by this tax, e.g., related to employment, some contracts of sale or exchange, as well as civil law transactions, if at least one of the parties has been taxed with VAT or exempted from that tax. The Act requires the taxpayer to declare the tax liability and to pay the tax within 14 days from the date of incurring the tax liability. Payers of that tax include: notaries public (on civil law transactions executed in the form of a notarised deed), purchasers of items (on the sales contract if the purchaser buys those items for processing or sale).
16	Act of September 9, 2000, on Stamp Duty	Journal of Laws No. 86, item 960	01.01.01	The Act regulates the subject of stamp duty. The following actions are subject to stamp duty: in individual cases in the area of public administration - applications and annexes to applications, official acts performed on the basis of an application or at the request of the interested party, certificates issued at the request of the interested party, permits issued at the request of the interested party. The Act also determines the applications, annexes to applications, official acts, certificates, permits and documents confirming the appointment of a legal representative, as well as their copies, which are not subject to stamp duty. The Act specifies the parties required to pay stamp duty, the time liability is incurred, and exemptions.
17	Act of September 15, 2000, on Groups of Agricultural Producers and their Unions and on Amendment to Other Acts	Journal of Laws No. 88, item 983	20.10.01	The Act determines the principles of organisation of farm producers into groups of producers and their unions. Private individuals operating farms and sole proprietors conducting an agricultural business in the area of special sections of farm production may become organised into groups of farm producers in order to adapt their production to market conditions, improve the efficiency of management, production planning, as well as environmental protection. The registration of a group takes place by way of an administrative decision issued by the voivod competent for the registered address of the group. Groups of farm producers of a particular product may have their own representation - a union of farm producer groups. A group of producers receives financial aid from public funds earmarked for setting up and supporting their business. Aid is granted by the Agency for Restructuring and Modernisation of Agriculture. Moreover, groups of farm producers may apply for preferential investment credits, and benefit from subsidised payments towards the interest charged on credits taken on general terms for operational purposes. The Agency for Restructuring and Modernisation of Agriculture may guarantee investment credits. The Act introduces changes, among others, in the Civil Code by introducing the definition of a farm producer, and in the Act of May 30, 1989, on chambers of commerce, introducing the possibility of creating chambers of commerce by groups of farm producers and their unions, and by entrepreneurs whose business involves processing or trading.

18	Act of September 9, 2000, on Amendment to the Act - Penal Code, the Act - Penal Proceedings Code, the Act on Fighting Unfair Competition, the Act on Public Procurement, and the Act - Banking Law	Journal of Laws No. 93, item 1,027	04.02.01	The Act introduces changes to the Act on Combating Unfair Competition by defining those activities that constitute unfair competition as: misleading identification of an enterprise, false or deceptive identification of the geographical origin of goods or services, misleading identification of goods or services, violation of the company trade secrets, inducing to dissolve or failure to perform a contract, counterfeiting of products, imputation or unfair commendation, impeding access to the market, bribing a public official, as well as unfair and forbidden advertising. The principles and procedures have been set with respect to an entrepreneur's liability for bribing a person serving a public function. The proceedings are conducted by the President of the Office for Competition and Consumer Protection who may impose on the entrepreneur guilty of bribery of a public official a fine of 10% of income received.
19	Act of September 15, 2000 – Company Code	Journal of Laws No. 94, item 1,037	01.01.01	The Act regulates the creation, organisation, functioning, dissolution, merger, division, and transformation of companies. Companies include: 1) partnerships: registered partnership, limited partnership, professional partnership, limited/joint-stock partnership, 2) incorporated companies: limited liability company and joint-stock company, 3) sole proprietor company – an incorporated company in which all shares or stock belongs to one partner or shareholder, 4) controlling company – a company meeting majority requirements, 5) affiliated company – an incorporated company in which another company or cooperative holds directly or indirectly at least 20% of votes at the meeting of partners or general meeting of shareholders, also as a guarantor or user, or on the basis of agreements with third parties, or which holds directly at least 20% of shares in another incorporated company, 6) publicly held company – a company as set forth in the Ordinances on public trading of securities. Among others, changes were made in the capital requirements with regard to companies, the minimum share capital of the limited liability company and the joint-stock company was raised significantly, Ordinances with respect to the merger of companies were developed and more details were introduced.
20	Act of October 26, 2000, on Commodity Exchanges	Journal of Laws No. 103, item 1,099	27.04.01	The Act regulates the principles of creation, organisational status and activity of commodity exchanges, clearing houses of exchanges, activity of commodity brokerage houses, and supervision over those institutions, and trading exchange commodities. The requirement to obtain a permit to operate commodity exchanges, and intermediation in the trading of exchange commodities has been introduced. The definition of commodity exchanges set forth in the Act encompasses various forms that had previously appearing in the open market under the names of exchanges and trade fairs. Combined with other restrictions, this denotes on one side a reduction in the number of existing forms of trade, a phasing out of organised markets and, on the other side, an admission of regulated markets only remaining under the supervision of the public administration.

21	Act of November 9, 2000, on Amendment to the Accountancy Act	Journal of Laws No. 113, item 1,186	01.01.02	The Act determines the method of accounting entry for mergers of incorporated companies and combined entities that were established through the purchase by a company of an organised part of the enterprise of another company; it creates a legal basis for presenting in accounting records all transactions entered into in financial markets and credible valuation of financial assets and liabilities in the financial statement.
22	Act of November 9, 2000, on Amendment to the Act - Labour Law and Certain Acts	Journal of Laws No. 107, item 1,127	01.01.01	The Amendment to the Act is aimed at making the process of negotiations and entering into collective labour agreements more efficient.
23	Act of November 9, 2000, on Establishment of the Polish Agency for Enterprise Development	Journal of Laws No. 109, item 1,158	01.01.01	The Act establishes the Polish Agency for Enterprise Development – a government agency with legal entity status whose purpose is to participate in the implementation of economic development programmes and execution of specific tasks in order to develop entrepreneurship, promote exports and develop socio-economic cohesion. The Act regulates the tasks and procedures of appointing the Agency's governing bodies, the procedure for adopting the statute, as well as methods of operation and financial management of the Agency.
24	Act of November 16, 2000, on Amendment to the Act on Special Economic Zones and Amendment to Certain Acts	Journal of Laws No. 117, item 1,228	01.01.01	The Amendment to the Act is aimed at adapting the provisions contained therein to the Ordinances of the Act on Conditions of Permissibility and Supervision of Public Aid for Entrepreneurs, and it provides the Council of Ministers with the authority to liquidate, by means of a Ordinance, the special economic zones at a date earlier than the expiry date determined at the time of their creation; and regulates the exemption of the income generated by the taxpayer from business activities conducted in the territory of special economic zones under the income tax exemption.
25	Act of November 16, 2000, on Amendment to the Act on Export Contract Insurance Guaranteed by the State Treasury	Journal of Laws No. 114, item 1,190	03.01.01	The Act extends the scope of activities conducted by the Export Credit Insurance Corporation, a Joint-Stock Company (KUKE S.A.), and regulates the granting of insurance guarantees related to export contracts by KUKE S.A. as well as enables KUKE S.A. to grant insurance protection for export contracts with relation to the foreign exchange risk.
26	Act of November 16, 2000, on Warehouses and Amendment to the Civil Code, Civil Proceedings Code and Other Acts	Journal of Laws No. 114, item 1,191	03.01.01	The Act regulates the principles of activities of warehouses and issuance of warehouse receipts and trading of those receipts. Entrepreneurs may conduct the activity consisting of the operation of a warehouse enterprise only once they have obtained a permit issued by the Minister of Economy or the Minister of Agriculture. The Minister of Economy exercises such supervision over the operation of a warehouse accepting industrial commodities for storage; the Minister of Agriculture exercises such supervision over the operation of a warehouse accepting agricultural goods for storage. The consequence of the new Ordinance is a change in the contract of storage in the Civil Code.
27	Act of November 17, 2000, on Amendment to the Act on VAT and Excise Tax	Journal of Laws No. 105, item 1,107	01.01.01	The Act maintains the 0% rate on goods designed for fire protection purposes, sold to fire protection units, until December 31, 2002; it maintains the 0% rate on press and published literary works until December 31, 2002; it extends the period of validity of the 7% rate on construction materials and work until December 31, 2005.

28	Act of November 30, 2000, on Amendment to the Act on the National Court Register, Bankruptcy Law, the Act on Administration Enforcement Procedure, the Act on the Publication Monitor Sądowy and Gospodarczy (Court and Economic Gazette) and the Act – Business Activity Law	Journal of Laws No. 114, item 1,193	01.01.01	The Act introduces the mechanisms for adapting to the Ordinances adopted in the Company Code. In addition, the Amendment introduces to the Civil Proceedings Code a new procedure to be applied in cases for an entry in the National Court Register.
29	Act of December 15, 2000, on Competition and Consumer Protection	Journal of Laws No. 122, item 1,319	01.04.01	The Act determines the conditions of development and protection of competition, as well as principles of protection of the interests of entrepreneurs and consumers, undertaken in the public interest. It regulates the principles and procedures of counteracting the practices that restrict competition, as well as the anti-competitive concentrations of entrepreneurs and their unions, if those practices or concentrations have or may have an effect within the territory of the Republic of Poland. The Act specifies also bodies competent in the issues of competition and consumer protection.
30	Act of December 15, 2000, on Trade Inspection	Journal No. 4, of Laws of 2001 item 25	15.04.01	The Act establishes the Trade Inspectorate, which is a controlling body appointed to protect the interests and rights of consumers as well as the economic interests of the State. The Act specifies the tasks and organisation of the Inspectorate, rights and duties of entrepreneurs, principles of proceedings undertaken by the Inspectorate, as well as rights and duties of Inspectorate employees, procedures for initiating controlling proceedings, and organisation of a standing consumer court of conciliation.
31	Act of December 22, 2000, on Amendment to the Act on General Health Insurance, the Personal Income Tax Act, the Corporate Income Tax Act, and Act on Lump-sum Income Tax on Certain Income Generated by Private Individuals	Journal of Laws No. 122, item 1,324	01.01.01	The Act increases the health insurance contribution to 7.75 % of the assessment base.
32	Act of December 22, 2000, on Amendment to the Act – Customs Code and the Act on VAT and Excise Tax	Journal of Laws of 2001 No. 12, item 92	18.03.01	The Amendment simplifies the customs procedures and regulates the principles of granting quota allocations and exemptions from customs duties. On the basis of the Act, items brought in by people moving to Poland, forming part of an inheritance, goods worth up to EUR 22 placed in packages sent from abroad directly to an individual temporarily residing in Poland will we exempted from customs duty. The Act introduces a new term, previously unknown in the Polish law: exemption from export customs. This concerns mainly: packages, animals that are part of farm livestock, farm produce and apiary products, horticultural and forestry products produced in land adjacent to Polish borders.
33	Ordinance of the Minister of the Economy of December 30, 1999, with respect to the safety and health at work with regard to the elimination of hazardous objects, including explosive items, from metal scrap	Journal of Laws No. 3, item 36	20.02.00	The Ordinance determines the provisions of safety and health at work with regard to work involving the elimination of dangerous items from metal scrap, with respect to in particular: 1) the identification of those items, 2) the procedure applied to the elimination of those items from scrap. The provisions of the Ordinance apply to employers producing metal scrap, operating in the warehousing, and the sale and processing of metal scrap.

34	Ordinance of the Minister of the Economy of December 30, 1999, with respect to the safety and health at work in metal foundries	Journal of Laws No. 3, item 37	20.01.01	The Ordinance determines the health and safety requirements for work in iron foundries and foundries of non-ferrous metals.
35	Ordinance of the Minister of the Economy of December 30, 1999, with respect to the safety and health at work with regard to the processing of zinc and lead	Journal of Laws No. 3, item 38	20.02.00	The Ordinance determines the health and safety requirements for work with regard to the production and processing of zinc and lead.
36	Ordinance of the Council of Ministers of November 9, 1999, with respect to the list of products manufactured in Poland, and products imported to Poland for the first time, which may cause a hazard or be used for the protection or saving of life, health, or natural environment, subject to certification for safety mark and affixing of that mark, as well as products subject to the duty of issuance of a declaration of conformity by the manufacturer	Journal of Laws No. 5, item 53	28.02.00	The Ordinance specifies products manufactured in Poland or imported to Poland for the first time, which can be hazard-causing or be used for the protection or saving of life, health or the natural environment, subject to certification for safety standards and marked as conforming with safety standards, as well as products subject to the manufacturer's obligation to issue a declaration of conformity. These products are as follows: 1) iron and steel industry products, 2) metal processing industry products (gas metal fittings, protective equipment, lighters, shot lighters, household appliances (operating on gaseous fuels), household refrigerators and freezers, 3) machinery and equipment (combustion engines, machines for cutting metals, machining equipment, machinery and equipment for installation work, construction work, transport of concrete loads), 4) precision engineering products, 5) transport vehicles, 6) electronic and electric industry products, 7) chemical industry products, 8) building materials, 9) products from glass and ceramic whiteware (architectural glass, automotive windows made of safety reinforced glass, chemical stoneware lining tiles), 10) wood industry products (furniture from various raw materials, excluding furniture made from wood and metal with limited use of other materials that are specifically designated for use in transportation vehicles), 11) textile and clothing industry products (noise-reduction pads, protective clothing, automotive seat belts), 12) footwear, gloves and protective leather products, 13) other industrial products (toys and board games, toys for infants).

37	Ordinance of the Minister of Labour and Social Policy of January 20, 2000, modifying the Ordinance with respect to detailed principles of awarding benefits specified in the Act on Employment and Combating Unemployment	Journal of Laws No. 6, item 76	20.01.00	The Ordinance introduced changes consisting of, e.g.: 1) introduction of a regulation addressing the case of an unemployed individual entitled to unemployment benefit or stipend for the duration of a training course or practical training at the employer's company, in the case of his/her inability to work due to illness or remain in a fixed health care establishment, necessity to personally take care of an ill family member to whom the county labour office pays a benefit or stipend, after the presentation of a medical certificate provided for in separate Ordinances; 2) introduction of a master sample of the application for the assessment of pension in order to determine the value of the pre-pension benefit.
38	Ordinance of the Minister of the Economy of January 26, 2000, modifying the Ordinance with respect to the list of goods that require a licence to be traded abroad	Journal of Laws No. 8, item 109	16.02.00	The Appendix to the Ordinance specifies goods that, to be traded abroad (with regard to imports and exports), requires the issuance of a licence. These goods include: certain explosives, foodstuffs, alcoholic beverages, mineral fuels, oils and oil derivatives, parts for industrial assembly of farm tractors and tractors used in forestry, as well as wheeled tractors.
39	Ordinance of the Minister of Justice of January 27, 2000, modifying the Ordinance with respect to the establishment of business courts in district courts and regional courts, as well as determination of their seats and areas of jurisdiction.	Journal of Laws No. 8, item 111	09.02.00	The Ordinance introduces changes in the newly established business courts in district and regional courts and determines their seats and areas of jurisdiction.
40	Ordinance of the Minister of Finance of February 18, 2000, with respect to the execution of certain provisions of the Act on Inheritance and Gift Tax	Journal of Laws No. 13, item 169	29.02.00	The Ordinance increases the exemption levels for inheritance and gift tax on money or the monetary value of other items acquired from one or more donors, as specified in the Act on Inheritance and Gift Tax, raises the levels of the values of items and property rights acquired that are free from inheritance and gift tax, and increases the ranges of excess of value of items and property rights subject to inheritance and gift tax.
41	Ordinance of the Minister of Finance of March 7, 2000, with respect to the determination of the maximum value of payments to the Polish Tourist Organisation, considered to be the cost of revenue	Journal of Laws No. 17, item 217	31.03.00	The Ordinance determines the maximum value of payments for the benefit of the Polish Tourist Organisation, considered to be the cost of revenue, at the rate of 0.05% of revenue generated by taxpayers from their business activities in the field of tourism, sports and recreation in the tax year in which the payment is made.

42	Ordinance of the Minister of the Economy of March 17, 2000, with respect to the procedure of certification of products	Journal of Laws No. 17, item 219	16.03.00	The Ordinance regulates the procedure for product certification. The certification of goods encompasses: 1) mandatory certification mark for conformity with safety standards to which products specified in Ordinances issued on the basis of the Act of April 3, 1993, on Testing and Certification (Journal of Laws No. 55, item 250, as amended) are subject prior to their introduction onto the market, 2) voluntary certification, which may cover, specifically, goods manufactured in accordance with the requirements of domestic standards as well as standards and directives of international or regional organisations; these products may be submitted for certification in order to acquire a conformity certificate or a conformity certificate entitling the product to bear the stamp of a conformity mark. The provisions of the Ordinance are applied to the certification both of goods subject to the mandatory verification of conformity and those that are submitted for voluntary certification and their subsequently being marked as conforming once the product has met the appropriate requirements and received a confirmation of conformity.
43	Ordinance of the Minister of the Interior and the Administration of February 11, 2000, modifying the Ordinance with respect to detailed principles and requirements that are to be met in protecting monies and other monetary valuables during their storage and transportation by entities	Journal of Laws No. 17, item 221	30.03.00	The Ordinance introduces changes in the currently binding Ordinance through numerical listing of monies and other monetary valuables during their storage and transportation by entrepreneurs and other organisational units.
44	Ordinance of the Minister of Finance of March 10, 2000, with respect to detailed principles and procedure of granting and settling product subsidies for enterprises	Journal of Laws No. 20, item 244	08.04.00	The Ordinance determines the conditions, principles and method of allocating subsidies for entrepreneurs. Subsidies are not allocated in relation to goods sold for export and goods that do not meet the highest quality standards. Moreover, the method and deadlines for accounting for the subsidies have been determined.
45	Ordinance of the Minister of Finance of March 28, 2000, modifying the Ordinance with respect to excise tax	Journal of Laws No. 21, item 267	13.04.00	The Ordinance changes the excise tax rates for tobacco products, mineral spirits, and alcoholic beverages. Moreover, from June 1, 2000, the payers of the excise tax will include those physical persons, units without non-legal status entities and legal persons who are not manufacturers or importers of cigarettes when they sell cigarettes without having posted the retail price on them.
46	Ordinance of the Minister of the Economy of April 14, 2000, with respect to safety and health at work with regard to operating wood machining equipment	Journal of Laws No. 36, item 409	01.01.01	The Ordinance determines the workplace requirements for safety and health with respect to the operation of woodworking equipment and technical equipment for woodworking.

47	Ordinance of the Minister of Transport and Maritime Economy of April 20, 2000, with respect to the value of charges for technical tests of vehicles	Journal of Laws No. 38, item 436	26.05.00	The Ordinance provides that fees (inclusive of VAT) to be charged are to be levied in the amount specified in the Appendix to the Ordinance for the conducting of technical tests of vehicles.
48	Ordinance of the Minister of Finance of May 17, 2000, with respect to the method of determining the rate of fees to be charged for activities related to accreditation, testing and certification, as well as verification	Journal of Laws No. 43, item 499	25.05.00	The Ordinance specifies the method of determining the fees to be charged for operations related to accreditation, testing and certification, as well as verification. The fees to be charged are to be stated and published in a price list constituting an offer by the accrediting unit, accredited research laboratory, or accredited certifying unit. Price lists are to be determined by the manager of the accrediting unit, accredited certifying entity, or accredited research laboratory.
49	Ordinance of the Minister of Labour and Social Policy of May 24, 2000, with respect to the specification of counties (communes) not designated to be at risk of high structural unemployment, in which the county labour office may partly or completely reimburse the costs of travel to work, accommodation of people who have been relocated and started their employment, practical training or training outside the place of permanent residence	Journal of Laws No. 44, item 513	14.06.00	In counties (communes) not designated to be at risk of high structural unemployment, falling under the power of the county labour office where the rate of unemployment is 6% or greater, the county labour office may reimburse all or part of the costs of commuting to work and accommodation for people living in those counties, who had been relocated there and started their employment, practical training and training sessions outside their permanent residence.
50	Ordinance of the Minister of Finance of June 7, 2000, with respect to the determination of specimen of tax declarations, statements and information binding with regard to lump-sum tax on certain income generated by private individuals	Journal of Laws No. 49, item 571	02.07.00	The Ordinance changes the standard forms of the following documents: collective declaration of lump-sum tax on registered income (PIT-8R), information on the taxpayer's income earned in his/her name and on the lump-sum tax collected on registered income (PIT-26M), annual information on the income of the taxpayer in his/her name and on the lump-sum tax collected on registered income (PIT-26M), information for the first half-year of the tax year in the amount of the income generated (included within the lump-sum tax on registered income) (PIT-24), information for the first half-year of the tax year on the amount of the income generated (included within the lump-sum tax on registered income), and the amount of deductions made (PIT-27), as well as declarations with respect to taxation in the form of a tax card (PIT-16).

51	Ordinance of the Minister of Justice of June 15, 2000, modifying the Ordinance with respect to the establishment of courts of appeal, district courts and regional courts, as well as determination of their registered addresses and areas of jurisdiction	Journal of Laws No. 50, item 595	01.07.00	The Ordinance introduces changes in the establishment of courts of appeal, district courts and regional courts, and it determines their registered addresses and areas of jurisdiction.
52	Ordinance of the Council of Ministers of June 27, 2000, with respect to road charges	Journal of Laws No. 51, item 607	01.07.00	The Ordinance sets forth the details for the introduction of fees to be charged for passage on public roads of vehicles registered in Poland or abroad, with load or without, whose weight, axle load, or dimensions exceed the admissible parameters specified in road traffic ordinances (non-normative vehicles), authorities with competencies to determine the rates of those charges, as well as authorities with competencies to collect them. The fees are to be introduced and the method of collecting them are to be specified by the city council (local community council) at the request of the city board (local community board) in conjunction with an opinion to be issued by the traffic managing body and, in the capital city of Warsaw, the competent local community councils following the issuance of an opinion by the traffic managing body.
53	Ordinance of the Minister of Labour and Social Policy of June 5, 2000, with respect to the determination of the specimen of statistical card of accident at work and the related procedure	Journal of Laws No. 51, item 612	01.01.01	The Ordinance defines the standard individual file for workplace accidents. The individual file is drawn up on the basis of the post-accident report in which it has been stated that the accident is a workplace accident or an accident to be treated to the same degree as a workplace accident. One copy of the individual file of workplace accidents, except for the file's second part (its supplement), is forwarded by the employer to the statistical office competent for the particular voivodship, in the territory of which the registered office of the employer is located, by the fifteenth working day of the month following the month in which the post-accident report was approved. The completed second part of the statistical card of accidents at work is forwarded by the employer not later than within six months from the date of approval of the post-accident report. The Ordinance defines the following terms: workplace accident, fatal accident at work, serious accident at work, multi-party accident at work, estimated material losses.
54	Ordinance of the Minister of Justice of June 19, 2000, modifying the Ordinance with respect to the establishment of business courts in district and regional courts, and determination of their registered addresses and jurisdiction areas	Journal of Laws No. 51, item 614	01.07.00	The Ordinance introduces changes in the establishment of economic affairs in district and regional courts, and determines their registered addresses and areas of jurisdiction.

55	Ordinance of the Minister of Finance of July 11, 2000, with respect to the economic sanctions for the in troduction of goods that are subject to bearing the safety mark for sale but that have not been affixed with that mark or that do not meet the requirements, as well as for the performance of services not meeting appropriate requirements	Journal of Laws No. 55, item 661	17.07.00	The Ordinance determines the procedure for application of fines consisting in the requirement to pay into the State budget 100% of the amount received from the sale of a questionable product or service under review by the controlling authority or certification unit in such instances where the entrepreneur: 1) has marketed a product that is subject to bearing a certification mark for conformity with safety standards but is not so marked or not manufactured in accordance with the requirements that are the basis for the granting of the right to bear a certification mark for conformity with safety standards or without proper documentation permitting its sale, 2) has performed a service without possessing the required quality system certificate or not in accordance with the requirements that are the basis for the issuance of the quality system certificate. The entrepreneur is required to pay the fine without further notice, within 14 days from the date of delivery of the results of the control and its report drawn up by the controlling authority, to the bank account of the appropriate tax office. In the case where the entrepreneur has failed to pay the fine within the specified deadline or has paid less than the full amount, the tax office will issue a decision in which it states the amount of arrears together with interest. The period for which the fine may be charged may not be longer than three years.
56	Ordinance of the Minister of Transport and Maritime Economy of April 26, 2000, with respect to the replacement of driving licences	Journal of Laws No. 55, item 663	31.05.00	The Ordinance determines the conditions for receipt of and dates of replacement of driving licences and other documents that authorise users to drive vehicles or verify additional driver qualifications, as well as the amounts of related charges.
57	Ordinance of the Minister of the Economy of July 27, 2000, with respect to the list of documents that are to be attached to the application for a permit to import second-hand clothing and other second-hand items	Journal of Laws No. 65, item 767	25.08.00	An entrepreneur applying for a permit to import second-hand clothing, in addition to the requirements specified in the Ordinance of the Minister of the Economy with respect to the permits to imports goods into the Polish customs zone or export goods from the Polish customs zone shall submit a copy of the document confirming that the second-hand clothing has been subjected to disinfection and delousing by the foreign contractor.
58	Ordinance of the Council of Ministers of August 1, 2000, with respect to the principles, conditions and procedure of supporting programmes initiated by voivodship self-government bodies from the State budget funds	Journal of Laws No. 68, item 806	31.08.00	The Ordinance sets forth the principles, conditions and procedures of providing support from State budgetary funds for programmes initiated by voivodship self-government bodies, aimed at: 1) reducing the negative effects of unemployment, retention or creation of jobs, 2) support for the restructuring of entities included in the restructuring programmes adopted by the Council of Ministers. Voivodship boards competent for the particular area are responsible for the implementation of programmes. Programmes are implemented through the provision of services by entities not listed in the financial sector to which the voivodship board granted contracts under the procedure of the Act on Public Procurement.

59	Ordinance of the Minister of Regional Development of August 17, 2000, with respect to the procedure of selection of socio-economic policy and business partners	Journal of Laws No. 68, item 810	17.08.00	The Ordinance determines the procedure for the selection of socio-economic policy and business partners by the Minister of Regional Development and Building Industry who announces the tender initiation procedure for the selection of the partners' representatives in four national daily newspapers. The announcement is to contain an expression of interest to participate in the representation of the partners. The expression of interest is submitted to the Ministry of Regional Development and Building Industry where the applications filed are to be evaluated, an initial selection of the representation of the partners (taking into account the opinions of voivodship boards) as well as the final selection are made, and the selection results put in writing are presented to the partners.
60	Ordinance of the Minister of Finance of August 25, 2000, modifying the Ordinance with respect to the list of goods for the purpose of assessing VAT and excise tax with regard to imports	Journal of Laws No. 72, item 842	04.09.00	The Ordinance specifies goods whose imports from abroad are subject to the 3% tax rate.
61	Ordinance of the Minister of the Economy of August 11, 2000, with respect to detailed conditions of providing entities with access to heat distribution networks, trading heat, provision of transmission services, network traffic, and operation of networks, as well as quality standards of customer service	Journal of Laws No. 72, item 845	14.09.00	The Ordinance determines the detailed conditions for providing entities with access to heat distribution networks.
62	Ordinance of the Minister of Justice of September 18, 2000, modifying the Ordinance with respect to the identification of regional courts maintaining land and mortgage registers	Journal of Laws No. 81, item 910	01.10.00	The Ordinance introduces changes in the identification of courts maintaining land and mortgage registers in the jurisdiction area of the District Court in: Warsaw, Kraków, Olsztyn, Ostrołęka, and Płock.
63	Ordinance of the Minister of Justice of September 20, 2000, with respect to the determination of specimens of procedural writ forms in civil proceedings and the method of making them available to the parties	Journal of Laws No. 81, item 911	01.10.00	The Ordinance specifies the official standard forms to be used for procedural writs: 1) petition in simplified proceedings – entry reference PU, 2) petition in civil proceedings – entry reference PM, 3) reply to a petition in simplified proceedings – entry reference OU, 4) motion to deny the order for payment in proceedings by writ of payment – entry reference SpN, 5) motion to protest the default judgement in simplified proceedings – entry reference SpWU, 6) pleas to the order for payment in proceedings by writ of payment – entry reference ZaN, 7) writ containing motions as to evidence – entry reference WD, 8) attachment to procedural writs, supplementary information of further parties – entry reference DS, 9) supplementary attachment to the petition containing a plaintiff's motion for claims – entry reference UZ, and methods (no-charge and fee-based) of making them available to parties in civil proceedings.

64	Ordinance of the Minister of Justice of September 21, 2000, modifying the Ordinance with respect to the establishment of labour courts, social insurance courts, as well as labour and social insurance courts in district courts, and labour courts in regional courts	Journal of Laws No. 81, item 914	01.10.00	The Ordinance changes the institutional structure of labour courts, social insurance courts, as well as labour and social insurance courts in district courts, and labour courts in regional courts.
65	Ordinance of the Minister of Labour and Social Policy of September 18, 2000, modifying the Ordinance on safety and health at work with regard to manual transportation work	Journal of Laws No. 82, item 930	04.10.00	The Ordinance modifies the date on which the Ordinances on health and safety at work with regard to manual transportation work to come into effect to January 1, 2002.
66	Ordinance of the Minister of Transport and Maritime Economy of September 22, 2000, with respect to annotating the entry of registered collateral in the registration books of motor vehicles	Journal of Laws No. 82, item 934	28.10.00	The Ordinance defines the procedure of annotating the entry of a registered collateral in the registration books of motor vehicles upon the request of the owner of the vehicle, based on the current or full copy of the collateral register.
67	Ordinance of the Council of Ministers of October 24, 2000, with respect to the definition of statutory interest	Journal of Laws No. 90, item 996	01.11.00	The Ordinance sets the statutory interest rate at 30% p.a. from November 1, 2000.
68	Ordinance of the Minister of Finance of October 12, 2000, modifying the Ordinance with respect to the determination of specimens of tax declarations, returns and information binding with regard to lump-sum income tax on certain income generated by private individuals	Journal of Laws No. 93, item 1031	18.11.00	The Ordinance sets forth the standard form of the following documents: declaration of the amount of revenue generated, amount of deductions, and the lump-sum tax due to be paid on the recorded revenue (PIT-28), information on the taxpayer's revenue from business conducted in the taxpayer's own name (PIT-28/A), information on the taxpayer's revenue from business conducted in the form of a private partnership (partnerships) of individuals (PIT-28/B), declaration of the amount of revenue generated, as defined in Article 6 section 2 of the Act of November 20, 1998, and the lump-sum tax due to be paid (PIT-29), information on deductions from income (revenue) and from tax (PIT/O), information on deductions of housing expenses in 2000 (PIT/D).
69	Ordinance of the Minister of Finance of October 26, 2000, with respect to standard forms for tax declarations for VAT and excise tax	Journal of Laws No. 95, item 1047	09.11.00	The Ordinance determines textual changes in the standard forms for VAT and excise tax declarations. A new standard form is implemented for quarterly declarations to be filed by farmers. Moreover, the Ordinance allows for the use of "old" declaration forms for settlements specified in the Ordinance of December 20, 1999, until all existing copies have been depleted.

70	Ordinance of the Minister of Finance of October 27, 2000, with respect to the scope and principles of conducting particular procedures for tax oversight	Journal of Laws No. 97, item 1057	23.11.00	The Ordinance determines: 1) excisable products subject to particular procedures for tax oversight, 2) scope and principles of conducting particular procedures for tax oversight with regard to individual products subject to that oversight and the marking of certain excisable products with excise stamps, 3) detailed principles of carrying out particular procedures on tax oversight with regard to the opening and closing of gaming tables in casinos and calculating the results of end games from tables and gaming machines, if any, 4) method and conditions for notifying activities related to the conducting of business subject to particular procedures of tax oversight, 5) principles and procedures of affixing security seals and those types of seals, 6) scope and principles of official verification of entities subject to particular procedures of tax oversight, 7) detailed principles and procedures of conducting ad hoc and periodic inspections and exercising regular oversight, 8) detailed principles and procedures of collecting samples of products to be examined, 9) procedure for the destruction of excisable products subject to particular procedures of tax oversight if they are found unfit for consumption, further processing or use, 10) principles and conditions of accepting, storing, distributing and transporting excisable products subject to particular procedures of tax oversight, 11) master samples of authorisations of a tax oversight employee, 12) types and master samples of documents and records kept.
71	Ordinance of the Minister of the Economy of November 2, 2000, with respect to the specification of waste which should be utilised for industrial purposes, and conditions which should be met when recycling that waste	Journal of Laws No. 100, item 1078	14 days from the date of publication	The Ordinance imposes an obligation to process for industrial purposes all waste having properties permitting them to be recycled at the current level of technology and management. The Ordinance contains an appendix that itemises the waste to be recycled.
72	Ordinance of the Minister of Finance of November 21, 2000, with respect to the income tax brackets and the amount of income subject to lump-sum taxation	Journal of Laws No. 101, item 1090	01.01.01	The Ordinance determines the income tax scale for the year 2001, as defined in Article 27 section 1 of the Personal Income Tax Act of July 26, 1991.
73	Ordinance of the Minister of Finance of December 4, 2000, with respect to the specification of the vehicle mileage records	Journal of Laws No. 108, item 1152	01.01.01	The Ordinance determines the master samples (in the appendix to the Ordinance) of vehicle mileage records, as indicated in the Personal Income Tax Act and in the Corporate Income Tax Act.

74	Ordinance of the Minister of Finance of December 5, 2000, with respect to the method of collection, payment and refund of stamp duty, and the methods of keeping registers of stamp duty	Journal of Laws No. 110, item 1176	01.01.01	The Ordinance specifies: 1) detailed principles of collection, payment and refund of stamp duty, and the method of maintaining stamp duty registers, 2) instances in which the payment of stamp duty is made by calculating the face value of stamps, or by purchasing an official promissory note form, 3) master samples of stamp duty stamps and official promissory note forms, as well as the terms for their replacement.
75	Ordinance of the Minister of Finance of December 7, 2000, with respect to the methods of determination of the amount entitling to an exemption from VAT	Journal of Laws No. 115, item 1202	01.01.01	The Ordinance establishes the cap on the sales of goods and services, as indicated in the Act on VAT and Excise Tax (Article 14), entitling an entity to a PLN 39,800 exemption from VAT.
76	Ordinance of the Minister of Finance of December 15, 2000, with respect to the keeping of the simplified income and expenditure accounts	Journal of Laws No. 116, item 1222	01.01.01	The Ordinance determines the method of maintaining simplified income and expenditures accounting records, detailed stipulations to be met by those accounts, based on which tax liabilities are to be assessed, and a detailed list of the scope of duties to be performed in maintaining the accounts, as well as the deadlines for notifying the tax office on managing the accounts.
77	Ordinance of the Minister of Justice of December 21, 2000, with respect to the detailed method of keeping registers included in the National Court Register, and the detailed contents of entries in those registers	Journal of Laws No. 117, item 1237	01.01.01 general and from 02.01.01 with respect to sole proprietors	The Ordinance sets forth the detailed method of maintaining the register of enterprises, register of associations, other social and professional organisations, foundations and public health care establishments, the register of insolvent debtors, as well as the detailed contents of entries in those registers.
78	Ordinance of the Minister of Justice of December 21, 2000, with respect to the structure and organisation of the Central Information of the National Court Register and detailed principles of providing information from the National Court Register	Journal of Laws No. 117, item 1238	01.01.01	The Ordinance sets forth: 1) detailed principles of providing information, issuing copies, excerpts and certificates from the register of entrepreneurs and register of associations, other social and professional organisations, foundations and public health care establishments, 2) detailed principles of providing information, issuing certificates and copies from the register of insolvent debtors, 3) master sample of the application to request a copy of the entry from the National Court Register, 4) master sample of the application to request an excerpt from the National Court Register.
79	Ordinance of the Minister of Justice of December 21, 2000, with respect to the determination of the amount of charges for providing information and the issuance of copies, excerpts and certificates from the National Court Register	Journal of Laws No. 117, item 1240	01.01.01	The Ordinance determines the fee schedule for the issuance of copies, excerpts, certificates and written notices from the National Court Register.

80	Ordinance of the Minister of Justice of December 21, 2000, modifying the Ordinance with respect to the establishment of business courts in district and regional courts, and determination of their registered addresses and areas of jurisdiction	Journal of Laws No. 117, item 1245	01.01.01	The Ordinance modifies the Ordinance of the Minister of Justice with respect to the establishment of business courts in district and regional courts, and determination of their registered addresses and areas of jurisdiction, stating that the subject of the Ordinance is the creation of separate organisational units for business matters (business courts) in district and regional courts and determination of their jurisdiction by: 1) transferring business cases for adjudication to certain district courts (business courts) from the jurisdiction of other district courts, 2) entrusting certain regional courts (business courts) with maintaining registers transferred to the jurisdiction of those courts from the jurisdiction of other regional courts based on Acts, 3) entrusting some regional courts (business courts) with maintaining the National Court Register from the jurisdictions of other regional courts or parts of their jurisdiction.
81	Ordinance of the Minister of Justice of December 21, 2000, with respect to the determination of master samples of official standard forms for applications for an entry in the National Court Register as well as the method and place of making them available	Journal of Laws No. 118, item 1247	01.01.01	The Ordinance, among other things, renders the official standard forms for: 1) application for the registration of an entity in the register of entrepreneurs, 2) application for an entry in the register of insolvent debtors, 3) application to modify an entity's data in the register of entrepreneurs, 4) application to modify an entry in the National Court Register, 5) application to modify a creditor's data in the register of insolvent debtors, 6) application to strike an entity from the register of entrepreneurs, 7) application to strike an entity from the National Court Register, 8) application to strike a debtor from the register of insolvent debtors. Official forms are made available from seats of business courts and in the Central Information of the National Court Register.
82	Ordinance of the Minister of Justice of December 21, 2000, with respect to the method used by local communities to perform activities related to maintenance of the National Court Register and cooperation between registry courts and local community boards	Journal of Laws No. 118, item 1248	01.01.01	Local community offices, in the course of performing activities related to maintaining the National Court Register: 1) order sufficient numbers of official standard forms of applications mandated by the Act of August 20, 1997, on the National Court Register, necessary for the registration of sole proprietorships and registered partnerships, 2) provide official standard forms of applications to interested parties, free of charge, 3) provide interested parties, through a designated employee or by displaying it in the seats of local community authorities, with information on: a) the competent particular local community registry court, indicating its seat and address, b) schedule of court fees and charges for an announcement in Monitor Sądowy i Gospodarczy (Court and Business Gazette), c) Method of paying court fees and charges for an announcement in Monitor Sądowy i Gospodarczy, together with instruction as to payment via bank transfer including the designated bank account details of the competent court, and instructions as to alternative methods of paying fees.

83	Ordinance of the Council of Ministers of December 20, 2000, with respect to the establishment of the Customs Tariff	Journal of Laws No. 119, item 1253	01.01.01	The Ordinance amends the Customs Tariff with regard to: 1) customs duty rates, 2) general rules with respect to the method, conditions and scope of applying those customs rates, 3) general rules of interpretation of the Polish United Terminology, 4) units of measurement, 5) list of countries and regions. The Customs Duty Rate Table attached refers to the following products: 1) live animals; animal products 2) vegetable products 3) animal or vegetable fats and oils and products of their processing; processed edible fats; animal and plant waxes 4) processed foodstuffs; non-alcoholic beverages, alcoholic beverages and vinegar; tobacco and industrial tobacco substitutes 5) mineral products 6) chemical industry products and products of related industries 7) plastics and plastic products; rubber and rubber products 8) raw animal hides, tanned hides, furs and fur products; saddlery and leather products; travel articles, handbags and similar articles; articles made with animal intestines (with the exception of intestines of the silkworms) 9) wood and wood products; charcoal; cork and cork products; straw products, alpha-grass products and articles made from other woven materials; baskets and wicker products 10) wood pulp or pulp from other fibrous cellulose material; recycled paper or cardboard (waste paper); paper or cardboard and their products 11) fabrics and textile products 12) footwear, headgear, umbrellas, parasols, canes, sliding seat, whips, riding-whips and their components; prepared feathers and products made from feathers; artificial flowers; products made from human hair 13) products from stones, plaster, cement, asbestos, mica and similar materials; ceramic products; glass and glass products 14) natural or cultured pearls, precious or semi-precious stones, precious metals, metals plated with precious metal and their product derivatives; costume jewellery; coins 15) non-precious metals and products from non-precious metals 16) machines and mechanical devices; electric equipment; spare parts for such equipment; equipment for audio recording and playback, television equipment for video and audio recording and playback, as well as spare parts and accessories for such equipment 17) vehicles, aircrafts, vessels and supporting transport components 18) optical, photographic, cinematic, measuring, precision, medical and surgical instruments, tools and apparatuses; wall clocks and wristwatches; musical instruments; their parts and accessories 19) weapons and ammunition; parts and accessories 20) miscellaneous products 21) works of art, collectors' items, and antiques

84	Ordinance of the Council of Ministers of December 22, 2000, with respect to cash registers	Journal of Laws No. 121, item 1295	01.01.01	The Ordinance imposes the requirement to record by way of cash registers 2001 turnover on taxpayers not previously bound by the requirement to begin recording their turnover, and at the same time, in those instances when the value of turnover generated from activities specified in Article 29 of the Act on VAT and Excise Tax exceeded PLN 40,000 during the year 2000. Those taxpayers are required to begin recording their turnover from March 1, 2001. The appendix to the Ordinance constitutes a list of activities exempted from the requirement to record turnover by way of cash registers (until 31.12.2001).
85	Ordinance of the Council of Ministers of December 28, 2000, with respect to the adoption of the Support Programme for the Years 2001–2002	Journal of Laws No. 122, item 1326	As of its publication	In its Ordinance on the principles of support for regional development, the Council of Ministers adopted the Support Programme for the years 2001–2002. The Programme defines: 1) scope of, procedures for and conditions of State support for voivodship programmes, 2) procedure for appointment, and composition and tasks of the monitoring committee, evaluating the effectiveness of the support programme. The overall purpose of the Programme is to support the socio-economic development of the country and its individual regions in order to enhance competitiveness, raise the standard of living as well as social, economic and geographical cohesion, both in internal relations and with the states and regions of the European Community. The Support Programme is financed from public resources, allocated for the implementation of activities consequential to voivodship programmes. The funds are earmarked for: 1) subsidies for multi-year investments by the local government units, 2) investments and investment purchases made by authorised entities on the basis of agreements entered into with Government administrative authorities, 3) co-financing of investments and investment purchases made by local government units from funds that are at the disposal of voivods and are implemented within the framework specified in Appendix No. 1 to the Support Programme, 4) subsidies for investment in health protection for local government units, 5) co-financing of the PHARE cross-border cooperation programmes from the State budget, 6) co-financing of the PHARE socio-economic cohesion programme from the State budget, 7) implementation of the PHARE cross-border cooperation programmes from European Community funds, 8) implementation of the PHARE socio-economic cohesion programme from European Community funds. The funds earmarked for the implementation of the support programme for the years 2001-2002 with relation to tasks consequential to voivodship programmes amount to the maximum amount of PLN 5,647.3 million, out of which: in 2001 – PLN 2,496.1 million, and in 2002 – PLN 3,151.2 million.
86	Ordinance of the President of the National Bank of Poland of January 14, 2000, modifying the Ordinance with respect to the list of foreign currencies that are convertible currencies	M.P. No. 2, item 36	01.01.00	The Estonian kroon (EEK) was added to the list of 25 foreign currencies accepted as convertible currencies, announced in the ordinance of December 31, 1998.

87	Announcement of the Minister of Finance of February 24, 2000, with respect to the rate of interest for default on tax arrears	M.P. No. 8, item 173	24.02.00	The rate of interest for default on tax in arrears is set at 43% p.a. of the amount of arrears with effect from February 24, 2000.
88	Announcement of the Chief Veterinary Surgeon of March 2, 2000, with respect to the register of countries from which meat, animal foodstuffs, inedible animal materials, and fodder may be imported to Poland or transported through the territory of the Republic of Poland, as well as the master sample of health certificates for those products	M.P. No. 9, item 190	27.03.00	The Announcement specifies: register of countries from which meat, animal foodstuffs, inedible animal materials, and fodder may be imported to Poland or transported through the territory of the Republic of Poland, as well as the master sample of health certificates for those products.
89	Resolution of the Monetary Policy Council of April 11, 2000, repealing the Resolution on crawling peg	M.P. No. 11, item 231	12.04.00	The Resolution repeals the Resolution of the Monetary Policy Council of March 24, 1999, with respect to the crawling peg (M. P. No. 11, item 161).
90	Resolution of the Monetary Policy Council of April 11, 2000, repealing the Resolution on the permissible foreign exchange rate fluctuation band with regard to foreign currency exchange rates and foreign currency values expressed in zlotys	M.P. No. 11, item 232	12.04.00	The Resolution repeals the Resolution of the Monetary Policy Council of March 24, 1999, on the permissible foreign exchange rate fluctuation band with regard to foreign currency exchange rates and foreign currency values expressed in zlotys (M. P. No. 11, item 162).
91	Resolution No. 30 of the Council of Ministers of April 20, 2000, with respect to the voiding of the resolution on the principles of determining the zloty exchange rate in relation to foreign currencies	M.P. No. 12, item 245	21.04.00	The Resolution voids Resolution No. 71 of the Council of Ministers with respect to the principles of determining the zloty exchange rate in relation to foreign currencies (M. P. No. 17, item 111).
92	Announcement of the Minister of Finance of August 31, 2000, with respect to the rate of interest on default of tax arrears	M.P. No. 26, item 543	31.08.00	The rate of interest for default of tax arrears, starting from August 31, 2000, amounts to 46 % p.a. of the amount of arrears.
93	Announcement of the Chief Veterinary Surgeon of August 25, 2000, with respect to the register of states from which meat, animal foodstuffs, inedible animal materials, and fodder may be imported to Poland or transported through the territory of the Republic of Poland	M.P. No. 28, item 589	26.09.00	The announcement specifies: register of countries from which meat, animal foodstuffs, inedible animal materials, and fodder may be imported to Poland or transported through the territory of the Republic of Poland.

5.2. The Most Important Changes and Trends in Legislation in 2000

In 2000, more than 10 statutory level regulations were adopted that significantly impact the legal conditions under which enterprises conduct business activities. The Company Code[1] replaced the Commercial Code dating back to 1934, which regulated the principles of functioning of entrepreneurs – corporate entities – in a comprehensive manner. The Act on Conditions of Permissibility and Supervision of Public Aid for Entrepreneurs[2] determined the criteria by which the on public aid to enterprises by the State and local government administration bodies would be permitted. It is supplanted by the Act on the Principles of Support for Regional Development[3]. The requirement of public authorities to support small and medium-size firms, stems from to the Act on Business Activity Law, was reflected in the Act on the Establishment of the Polish Agency for Enterprise Development.

An important change in the financial legislation was, undoubtedly, the introduction of VAT in agriculture, forestry, and fishing. This is a step aimed at ensuring uniform conditions for conducting operations, regardless of the type of activity. Another tax introduced in 2000 is the tax on civil law transactions, replacing the stamp duty. An essential change in the civil law was the introduction of a definition of the leasing agreement.

A number of other changes, although less important, will probably require entrepreneurs to undertake adaptive actions. In particular, this concerns the duties introduced in the Act on the Amendment to the Acts on the National Court Register, Bankruptcy Law, Recovery Proceedings in Administration, and Business Activity Law, as well as introductory regulations to those Acts.

An important change awaited by everyone is the introduction of the Act on Publication of Normative Acts and Certain Legal Acts, specifying the principles on the basis of which the regulations adopted will come into effect.

5.2.1. Changes in Civil Law and Commercial Law

Regulation of Leasing and Agency Contracts

Once the provisions regulating the aspects of leasing come into effect (December 9, 2000)[4], leasing agreements cannot contain less favourable provisions than those in the Civil Code.

The definition of leasing has been introduced in regulations. By way of the leasing agreement, the financing party (lease giver) undertakes to purchase an item on terms specified in the agreement and to convey that item to the using party (leaseholder) for use, or for use and collection of profits for a pre-determined period of time. Based on the same agreement, the leaseholder shall pay the lease giver, in agreed upon instalments, a fee equal to at least the purchase price of the said item.

For entrepreneurs taking advantage of a leasing option, an important consideration is the

[1] Journal of Laws No. 94, item 1,037.
[2] Journal of Laws No. 60, item 704.
[3] Journal of Laws No. 48, item 550.
[4] Act of July 26, 2000, on the Amendment to the Act – Civil Code, Journal of Laws No. 74, item 855.

determination that the moment from which they bear the risk of losing the item occurs at the time possession of the item is transferred to the leaseholder and not at the time the agreement is signed. If, however, following the time that possession of the item is transferred to the user, the item suffers a form of loss due to circumstances for which the financing party is not responsible, the leasing agreement expires. The lease giver may demand that the leaseholder immediately pay all instalments foreseen in the agreement less any benefits garnered by the lease giver by the very fact of having received all payments prior to the agreed upon date and due to the expiry of the leasing agreement, and reimbursement from insurance of the item, or the repair of any damage. The interests of the leaseholder are to be secured by the regulation imposing the obligation to purchase an insurance policy covering the object of lease (generally accepted terms for insurance premiums). If during the leasing agreement the item being used suffers a loss through no fault of the lease giver – the leasing agreement will expire. The leasing agreement may be terminated in the case where payment of a leasing instalment is late, with immediate effect, if the leaseholder has failed to pay the missing instalment no later than the date upon which the next instalment payment is due.

Unfortunately, the regulation of leasing as set forth in the Civil Code does not explain the tax issues that restrict the widespread use of these tools.

In July 2000, the regulations governing agency contracts were supplanted in the Civil Code, based on European Union regulations with regard to the harmonisation of law concerning the operations of independent trading agents. It is worth noting that the aim of the regulation is for the agency contract to serve as the device regulating the framework of mutual conditions between professionals and entrepreneurs. Certain principles of cooperation between parties were defined, and the requirement to exchange information and to maintain mutual loyalty were emphasised. Regulations concerning the agent's commission were also stated more precisely.

Civil Proceedings Code

The Act of May 24, 2000, updating the Civil Proceedings Code[5], introduced changes aimed at simplifying and accelerating the stages of due process in court proceedings and the resolution of disputes. For that purpose standard forms are being introduced. This pertains to the most common, simple civil cases that, by National Board of Judicature estimates, encompass 60% of cases forwarded each year to the civil dockets of district courts. Forms are currently available free of charge at the seats of courts and local community offices.

Company Code

The Act introduces two new types of partnerships – a professional partnership established by partners for the purpose of exercising a free profession in the partnership operating an enterprise under its own name, and a limited/joint-stock partnership founded in order to run an enterprise under the name of the partnership, in which at least one partner is liable for the partnership's liabilities towards its creditors without limitation (general partner) and at least one partners is a shareholder.

The Code provides for the possibility of transformations, division and merger of companies

[5] Journal of Laws No. 48, item 554.

and partnerships. Mergers between companies and partnerships have been allowed (assuming that the partnership is not the entity instituting the taking-over), as have been mergers between partnerships themselves in the form of a new partnership/company. The principle of full universal succession in the case of mergers has been clearly defined.

Other changes include the raising of the minimum capital requirement of a limited liability company from PLN 4,000 to PLN 50,000 and of a joint-stock company from PLN 100,000 to PLN 500,000. In the regulations governing a joint-stock company, the subsequent procedure of establishing a company has been abolished, and facilitations in the establishment and raising of company capital have been introduced, as has the possibility of founding a joint-stock company by only one person. An important change is the introduction of the notion of a target share capital. The Code has also established a prohibition on the company to grant loans, securities, advance payments and other forms of financing of the purchase or taking possession of shares issued by that company.

The provisions concerning the payment of dividends in the joint-stock company have been stated more precisely in comparison with the Commercial Code. The date of dividend payment has been determined in the situation where the statute does not authorise a general meeting to pass a resolution in that respect. The possibility of paying an advance on the expected dividend to the shareholder has been introduced. Changes of preferences on shares have been made. The possibility of applying preferential voting rights has been restricted to only two votes per share. A new category, the so-called silent shares, has been introduced, with preferences as to a dividend especially beneficial for the shareholder but without voting rights. A person investing in such shares may expect profit from company operations but has no direct influence on decisions made by the general assembly.

The Code has also introduced regulations important for entrepreneurs operating their businesses in the form of private partnerships, according to which a private partnership who reported net sales of EUR 400,000 in each of two consecutive previous years (larger size enterprise) and has fulfilled the obligation of a mandatory registration, becomes a registered partnership. Other partners of partnerships who do not meet the condition of running a larger size enterprise, on the basis of provisions of the Business Activity Law and regulations governing the National Court Register may conduct activities under a combined name, however, it is not the partnership that is an entrepreneur, but each of its partners.

Consumer Protection: Health and Safety Issues, Liability for a Faulty Product

In 2000, a thorough regulation was harmonised, adapting the Polish law to EU law with regard to consumer rights to protection in health and safety issues, as well as liability for faulty products.

The Act of January 22, 2000, on the general safety of products quotes the definition of a safe product – a product is deemed safe if in ordinary or reasonably foreseeable circumstances in which it is used, including the period of using the product, it creates no hazard for consumers, or creates an insignificant hazard which is inherent in the normal use of the product and which allows for the high level of requirements concerning the protection of human safety, health, and life. The definition is replaced with criteria used as the basis of assessment of product safety. From the point of view of SMEs, the definition of a manufacturer's obligations concerning the maintenance of safety standards is a significant element of the Act; the obligations include:

- introducing for sale only safe products,
- providing consumers and vendors with appropriate and complete information enabling them to evaluate hazards related to the product,
- undertaking preventive measures consistent with the properties of the product, in order to prevent the occurrence of hazards,
- if necessary, undertaking activities aimed at immediate removal of the product from sale,
- timely notification to competent authorities of any hazards related to the product.

The duties of the vendor include cooperation with manufacturers and competent authorities with due care to ensure the compliance of the product with general safety requirements[6].

The Act also introduces thorough regulations concerning the supervision of product safety, creating a system of control, notification and recall of products. The Chairman of the Office for Competition and Consumer Protection is the assumes the oversight authority and carries out his functions through the Commercial Inspectorate. Supervisory bodies have a very wide range of instruments at their disposal that can be used to prevent hazards caused by unsafe products.

The Act of March 2, 2000, on the Protection of Certain Consumer Rights and Liability for Damage Caused by Unsafe Products introduced the definition of a consumer, i.e., each individual who enters into an agreement with the entrepreneur with an aim not related directly to business operations. In order to define the relationship of the contractor to the consumer, the Code uses the term entrepreneur in order to describe a professional in relation to the registered business.

The Act, previously unpublished in a separate form, addresses the issue of offsite enterprise contracts. The consumer is protected by the right to cancel such a contract within 10 days from the date it is concluded. The consumer is to be informed in writing of the right to cancel. Also, the responsibility to provide verification of identity and character references regarding a contractor's activities, as well as written confirmation of the conclusion of the contract are for protective purposes.

Similar solutions were adopted in respect of contracts concluded from remote locations, i.e., in accordance with the adopted definition of contracts entered into by way of remote communication without the simultaneous presence of both parties. The consumer has the right to cancel the contract without providing cause within 10 days from the date of taking the possession of the item or the date of entering into a service provision contract. The requirement to provide specific types of information was imposed on the entrepreneur. Emphasising the ancillary function of a credit agreement in relation to the master agreement was also a very important regulation of a protective nature for the consumer. The cancellation of an agreement concluded from remote locations is also effected with respect to a credit agreement or loan agreement entered into by the consumer for the purpose of fulfilling the requirements of the cancellation clause.

The Act also introduced a number of essential regulations to the Civil Code. In agreements

[6] The vendor's obligations include, in particular: desisting from the delivery of products which, in accordance with the knowledge the vendor possesses, or the knowledge that the vendor may be expected possess, do not meet the appropriate requirements, taking into account the information provided by consumers about potential hazards inherent in the products and passing them on to the manufacturers and competent authorities.

concluded with a consumer, an entrepreneur using standard form contracts is required to provide the information to the consumer. The introduction of a list of forbidden contractual clauses in agreements entered into with consumers, which led to an unequal distribution of rights and obligations of parties to the contract, is a new development. The anti-trust court exercises control over the list of forbidden clauses. The regulations provide for the maintenance of a register of forbidden clauses and impose fines on entities that use a forbidden clause despite a court ruling against its use.

The regulations on liability for damage caused by an unsafe product have been adopted. The regulations on liability stipulate stiff responsibility on the manufacturer but are easily implemented by the consumer, however the damages to be sought are limited.

The liability regulations are supplanted by the Act of April 28, 2000, on the System of Assessment of Conformity, Accreditation, and Amendment to Certain Acts. The Act introduces the principle of assessment of conformity with the basic requirements of products that could pose a life-threatening hazard, or danger to health, property or the environment. Specific provisions that will also formulate the basic requirements based on the regulations of new approach directives will decide which products or groups of products to cover. Detailed requirements are to be listed in addition to the basic requirements- requirements or technical specifications with which the product to be introduced onto the market must comply.

The assessment of conformity, i.e., the process aimed at proving that the product or the process of manufacturing that product complies with the basic or detailed requirements, will have a mandatory application to products that pose a life-threatening hazard, or danger to health, property or the environment, and will have a voluntary application to all other products, quality, safety, and environment management systems, services, and job responsibilities.

The Act creates a new group of entities that take part in the accreditation process. The national certifying unit in Poland is the Polish Centre of Accreditation, which grants accreditation to certifying units, laboratories, and controlling entities.

The manufacturer or representative of the manufacturer with its base located in the territory of the Republic of Poland may issue a declaration of conformity of the product and mark it as conforming once the product has been subjected to the verification of conformity with appropriate requirements and received a confirmation of conformity. The declaration is the manufacturer's personal statement – and is issued at his sole responsibility – that the product is in compliance with established requirements and technical specifications.

By the end of 2002, two parallel systems of conformity assessment will operate allowing for the timely phase-in transition to new principles, which, among other things, requires the attention of the Council of Ministers in order to introduce basic and detailed requirements.

5.2.2. Changes in Administrative Law

Act on Principles of Support for Regional Development

Progress in the process of Poland's integration with the European Union and the administrative reform of the country due to which the self-governed voivodships were established, with

their multiple competencies with regard to the development of the economy, led to the adoption of the Act defining the principles and forms of supporting the development of regions by the central government authorities.

In accordance with the lawmaker's intent, support for regional development is a process that is to be implemented by way of financial support for those activities agreed upon during the negotiation of the voivodship contract, concerning, among other things, the development of entrepreneurship, especially of small and medium-size enterprises, economic innovations and technology transfer. With respect to entrepreneurs, it is also important to encourage opportunities that support the creation of new jobs, investments in technical and transportation infrastructure to improve the environment for implementing business investments, as well as the development of institutions acting for the benefit of the SME sector.

The legislature, in recognition of the role entrepreneurs play in the development of the region, invited the organisations of entrepreneurs to participate in the preparation of the regional development strategy and the *National Strategy of Regional Development*. The organisations of entrepreneurs, which are those entities authorised to perform the tasks set forth in the Programme of Support for the years 2001-2002, are qualified to receive targeted subsidies.

Act on Conditions of Permissibility and Supervision of Public Aid for Entrepreneurs

The Sejm adopted the Act on June 30, 2000, and its regulations came into effect on January 1, 2001. The Act's regulatory framework is based on the principle that the provision of public aid for entrepreneurs is not permissible unless, in accordance with Article 5 of the Act, the aid is provided in line with the conditions set forth in the Act and in the ratified international agreements regulating the granting of aid to which the Republic of Poland is a Party, especially in the Europe Agreement establishing the association between the Republic of Poland on one side and the European Communities and their Member States on the other side.

Similar to the regulations existing in the European Union, the Act does not concern the so called insignificant aid – the regulations are not applied to aid whose value does not exceed EUR 100,000 per entrepreneur within any three year period.

By public aid for entrepreneurs (including small and medium-size enterprises) the law refers to the granting of financial benefits to specific entrepreneurs, by which they receive significant advantages over their competitors. Thus, public aid includes:

- subsidies,
- loans, credits, sureties, or guarantees granted on terms more favourable than those offered in the market,
- tax allowances, relieves, deferments, division of tax or tax arrears into instalments, and redemption of tax arrears,
- redemption, deferment or division into instalments of other receivables,
- sale or handing over for use of property belonging to State Treasury or local government units on terms more favourable than those offered in the market,
- additional capitalisation of publicly held companies on terms being in contrast with investment practices applied by private investors in a market economy.

The law allows, without limitation, public aid granted in extraordinary situations, in order to repair damages that are the result of natural disasters, to eliminate serious disturbances in the

economy that are of an extra-sectoral nature, provide support for domestic entrepreneurs operating under a business undertaking established in a European interest, and compensate an entrepreneur for costs incurred due to the entrepreneur's participation in the implementation of public tasks. In other cases aid may be granted only to support new investments or create new jobs related to a particular investment.

The Act determines rules and conditions of granting the following types of public aid to entrepreneurs:

1) regional aid, the basic condition of which is the conducting of business activity in a specific geographical area characterised by a level of gross domestic product per capita lower than 75% of the average value of gross domestic product per capita in the European Communities as a whole, measured as the average value for the last three-year period;
2) sectoral aid, the basic condition for the granting of which is the entrepreneur's participation in a particular group differentiated on the basis of the criterion of the subject of business activity conducted. The aid is also granted in the form of loans, credits, sureties, and guarantees;
3) horizontal aid, the terms of which are not related to the operation of a business, neither in a particular region, nor in a particular sector. The Act provides for this type of aid in order to support the restructuring of enterprises, research and development work, maintenance of the level of employment or creation of new jobs within enterprises, support for the development of small and medium-size enterprises, activities of entrepreneurs with regard to environmental protection and energy-saving investment in enterprises, development of technical infrastructure for specific entrepreneurs, activities for rehabilitation and employment of disabled people, and organisation of training for the benefit of particular entrepreneurs, directly related to the development of their enterprises.

Small and medium-size entrepreneurs may receive a combination of regional, sectoral, and horizontal aid. Moreover, the value of aid supporting investments in research and development work conducted by small and medium-size entrepreneurs is not included in the overall amount of aid received by them, and the maximum values of aid will be raised in the case of aid for activities in the fields of environmental protection, specialist training (theoretical and practical training) or general training (training aimed at acquiring qualifications).

The Parliament did not table many issues important to entrepreneurs and left them for the consideration of the Council of Ministers. The Government will decide on the following:

- determination of cases in which co-financing for publicly held companies will be considered to be public aid. In particular, this considers cases in which the acquisition of shares or granting of sureties or guarantees to publicly held companies by the State Treasury or local government bodies will be deemed to be public aid in the understanding of the Act;
- determination of cases in which an exemption from the above-mentioned obligation will be granted;
- determination of the method of calculation of the aid granted in various forms into its equivalent value of subsidy in a way that guarantees the comparability of the value of aid granted in various forms;
- determination of geographical areas covered by regional aid, maximum values of aid for those areas, and detailed conditions of granting aid;
- permissibility of increasing the maximum value of aid for small and medium-size entrepreneurs;
- determination of sectors to which sectoral aid may be granted.

Aid funds that have been bestowed in a manner that is not in compliance with the provisions of the Act will be liable to reimbursement. Undoubtedly, the most controversial provision – from the point of view of entrepreneurs – is that which commits them to refund aid funds and also, in particular, interest on aid funds in those cases in which it was granted in accordance with the law but as a result of the legislature's error, when the regulation that had been the basis for granting the aid was then deemed to be inconsistent with the Constitution or international agreements. This consequence, although in compliance with the rules adopted in the EU, raises some concern, as the risk borne for errors made by public authorities is transferred to the entrepreneur.

5.2.3. Changes in Financial Law

The reform of the tax system initiated in 1999 called for the reduction and simplification of taxes. In 2000, no such radical changes as those introduced in the previous year took place. The minor amendments to the Corporate Income Tax Act adopted by the Sejm came into effect on January 1, 2001. Uniform texts of the Personal Income Tax Act and the Corporate Income Tax Act were announced.

The amendment to the VAT and Excise Tax Act was an essential change as, from September 4, it introduced VAT with regard to farmers, enabling them to recover the VAT charged on the farm production equipment prices.

Two new Acts adopted on September 9, 2000, on the tax on civil law transactions and on stamp duty, which came into effect as of January 1, 2001, introduced new regulations.

The tax on civil law transactions will be levied on non-professional transactions – the Act resolves the difficult-to-interpret in practice differentiation between stamp duty and value added tax. In principle, civil law transactions are exempted from tax if at least one of the parties is a payer of VAT (or has been exempted from paying that tax on the basis of the regulations contained in the VAT Act). The tax applies to: sales contracts and contracts for the exchange of goods and property rights, loan agreements, guarantee agreements, gift agreements, life annuity agreements and agreements establishing an annuity granted against consideration, agreements concerning the distribution of estates and contracts liquidating joint and several ownership, marital property agreements, establishment of mortgages, establishment of usufruct against consideration, contracts of irregular deposits, company agreements – incorporation deeds, changes in those agreements, and court decisions. Only a few civil law transactions are not covered by the tax (e.g., in cases concerning alimony, election of the President of the Republic of Poland, elections to the Sejm and the Senate, general defence obligations, employment, education, etc., rental agreements, sublet agreements, lease and sub-lease contracts). The taxpayer is required to declare the tax liability and to pay the tax within 14 days from the date of incurring the tax liability. Payers of the tax include: notary publics (on civil law transactions entered into in the form of a notarised deed) and purchasers of objects (on sales contracts if the purchaser buys those items for processing or resale).

Stamp duty will continue to be charged in individual cases arising out of public administration (applications and addendums to applications, official acts performed on the basis of an application or at the interested party's request, certificates issued upon the interested party's request, and permits issued upon the interested party's request). A feature that is carried for-

ward from the previous Act states that no stamp duty will be payable in respect of actions undertaken *ex officio*. The above-mentioned Act increased the rates considerably (often by over 200%) and for the first time introduced a valuation mechanism. Another change is the transfer of the stamp duty payment to be levied by the local community (commune) – previously the proceedings with respect to assessing and collecting a stamp duty were within the authority of tax offices (although the proceeds were included in commune budgets).

In 2000, amendments to the Act on local taxes and charges[7] were also adopted. They consisted of a change of the determination of the subject of taxation. Transport vehicles subject to taxation include: lorries with a permissible total weight in excess of 3.5 tonnes (previously with a pay load in excess of two tonnes), truck tractors and ballast tractors adapted for use jointly with a trailer or semi-trailer with admissible total weight in excess of 3.5 tonnes, trailers and semi-trailers which, together with the motor vehicle, have a permissible total weight in excess of 7 tonnes, with the exception of vehicles related exclusively to farming activities conducted by the payer of a farm tax (previously with a pay load in excess of five tonnes).

The Sejm adopted amendments to the Accountancy Act in accordance with which entities with net sales revenues for the previous year amounting to EUR 800,000 and more were subject to the provisions of the Act, and small entities that were previously required to conduct such an audit once every three years, were released from that obligation. The thresholds for the balance sheet amount (EUR 2 million) and sales revenues (EUR 4 million), below which an entity is permitted to prepare simplified statements, were increased.

Specific accounting principles for cooperative savings/loan funds were adopted. An entity may apply national accounting standards, and if such do not exist – International Accounting Standards. The Act comes into effect as of January 1, 2002, and a number of its provisions with regard to financial statements for the accounting year came into effect on January 1, 2001.

5.2.4. Other Important Changes

Act of July 20, 2000, on the Publication of Normative Acts and Certain Legal Acts

Basic rules set forth in the Act to include:

- the requirement to immediately publish of normative acts in an official gazette,
- a 14-day or longer period of *vacatio legis* for acts containing generally binding regulations; only for reasons of national importace may the day of publication of an act in the official gazette be the effective date of that act,
- a three-day *vacatio legis* period for disciplinary regulations; in justified cases, disciplinary regulations may come into effect within a period shorter than three days, and in the case of a hazard to life, health, or property, the regulations may come into effect as of the date of their publication,
- the faculty to apply an action retrospectively to the normative act if the principles of the democratic State of law do not prevent it,
- the faculty to publish normative acts issued on the basis of Acts from the date of publication of the particular Act, i.e., before its effective date; such a minor act may not be effective before the Act itself.

[7] Act on the harmonisation to European Union Law of the Act on Recovery Proceedings in Administration, Act on Local Taxes and Charges, Act on Additional Interest Payments on Specific Bank Credits, Act – Law of Public Trading of Securities, Act – Tax Regulations, Act on Public Finance, Corporate Income Tax Law, and Act on Commercialisation and Privatisation of State-Owned Enterprises, Journal of Laws No. 122, item 1,315.

The Act also lists the official gazettes in which all legal acts are to be published.

The following acts are published in the Journal of Laws of the Republic of Poland: the Constitution, Acts, Executive Orders issued by the President of the Republic of Poland, Ordinances issued by the President of Poland, Council of Ministers, Prime Minister, Ministers in charge of central government policy areas, chairmen of committees determined in the Acts who are members of the Council of Ministers, as well as the National Broadcasting Council, uniform texts of the Acts mentioned above, decisions of the Constitutional Tribunal concerning normative acts published in the Journal of Laws, resolutions of the Council of Ministers repealing the regulations of a minister and, moreover, legal acts concerning: a state of war and signing of a peace treaty, a referendum approving an Amendment to the Constitution and a national referendum, elections to the Sejm and the Senate, general or partial mobilisation of the army, martial law, state of emergency, natural disaster and other acts.

The following acts are published in the official gazette of the Republic of Poland "Monitor Polski": ordinances of the President of the Republic of Poland issued on the basis of an Act, Resolution of the Council of Ministers and ordinance of the Prime Minister issued on the basis of an Act, uniform texts of acts, decisions made by the Constitutional Tribunal concerning normative acts published in Monitor Polski or normative acts that have not been published, resolutions of the National Assembly, resolutions of the Sejm, resolutions of the Senate, official acts of the President of the Republic of Poland, decisions made by the Constitutional Tribunal, sentences of the Tribunal of State, and decisions made by the Speaker of the Sejm.

The following acts are published in the official gazette of the Republic of Poland "Monitor Polski B": financial statements defined in accountancy regulations, announcements and notices of entrepreneurs if separate regulations do not provide for their publication in Monitor Sądowy i Gospodarczy (Court and Economic Monitor), other legal acts, as well as information, communiqués, announcements, and notices of administrative bodies, institutions and persons, if separate Acts provide for them. The publication of announcements and notices is subject to the payment of a fee.

Official gazettes of the Ministers in charge of central government policy areas and official gazettes of central administration offices publish normative acts of the body editing the official gazette and supervising central administration offices, resolutions of the Council of Ministers repealing the ordinances of the minister publishing the official gazette, decisions of the Constitutional Tribunal in cases concerning normative acts, information, announcements and notices.

The voivodship official gazettes announce: local enactments issued by the voivod and the non-grouped administration authorities, local enactments adopted by the voivodship council, county authority, and commune authority, including voivodship, county and commune statutes, statutes of inter-commune unions, and statutes of county unions, acts of the Prime Minister repealing the local enactments adopted by the voivod and non-grouped administration authorities, decisions of the administrative court including complaints concerning local enactments adopted by: voivods, non-grouped administration authorities, voivodship self-government bodies, county and commune authorities, agreements with respect to the performance of public tasks, budget resolution of the voivodship and the voivodship budget performance report, announcement of the dissolution of the voivodship council, county council or commune council, statute of the voivodship office, other legal acts, information, communiqués, announcements and notices.

Disciplinary regulations are to be published in the form of announcements, as well as in a way customarily adopted in a particular geographical area or in mass the media. The day indicated in the announcement is construed to be the date of publication of disciplinary regulations. The publication of disciplinary regulations in the above-mentioned manner does not provide relief from the responsibility to announce them in the voivodship official gazette.

The specification included in the Act identifying those bodies required to maintain archives of official gazettes and to make them available for review is very important for entrepreneurs:

- local government administration authority offices and local government bodies maintain archives of the Journal of Laws, Monitor Polski and Monitor Polski B, and make them available free of charge to be viewed by the general public in places designated for that purpose on their premises and during the working hours of the office;
- the county authority maintains archives of local enactments adopted by the county and makes them available to the general public;
- the commune office maintains archives of commune regulations available to the general public for viewing on the commune office premises.

Act on the Establishment of the Polish Agency for Enterprise Development

As of January 1, 2001, the new Agency for Enterprise Development is operational, formed from the Polish Foundation for Small and Medium-size Enterprise Promotion and Development. The scope of the Agency's activities, in addition to assisting the development of small and medium-size enterprises, includes support for exports and development of socio-economic cohesion. The Agency may not undertake any activities aimed at generating a profit.

The establishment of the Agency will allow fulfilment of the statutory requirement to support small and medium-size enterprises, consequential to the Act on Business Activity Law[8].

Customs Law

The most important changes for entrepreneurs include: facilitation of the process of obtaining a permit to apply the simplified procedure, extension of the term of payment of customs liabilities from seven to 10 days (the change will come into effect from January 1, 2003), introduction of a extension fee from the deferred customs liability in place of statutory interest. The President of the Central Board of Customs (GUC) will issue binding information about the origin of goods (WIP) in writing. The decision will be valid for three years and will be binding on the customs administration. A new regulation to note is the imposition on the Minister of Finance of the duty to ensure the uniform application of law by customs authorities. Official interpretations will be published in the *Biuletyn Skarbowy (Treasury Bulletin)*.

Labour Law

In 2000, discussions were held with regard to reducing the number of hours in the work week. The Sejm adopted an Act that establishes the basic working time standards: eight hours a day, five days a week, 40 hours a week. The amendment introduces a transitional period: in 2001 – eight hours a day, five days a week, and 42 hours a week, and in 2002 – 41 hours a week. Thus,

[8] We write more extensively about the Polish Agency for Enterprise Development in Chapter 10.4.1.

in the years 2001 and 2002, the employer has the right to increase the daily number of working hours without including the working time over eight hours as overtime.

5.3. Substantive Problems and Issues Related to the Practice of Law

5.3.1. Functioning of the Public Administration

The year 2000 began with a decrease in the State-driven policies in the economy. The Business Activity Law, in effect from January, significantly reduced the scope of activities that require licensing. However, no clear trend was established in reducing the administration's encroachment on the freedom of running enterprises.

The scope of activities requiring permits was not reduced; new types of activities appeared in which such permits must be obtained. Regulations subjecting the decision n respect of issuing a permit to the obtaining of an opinion from professional corporations associating entrepreneurs from the sector-specific industry were still in force. Commune councils retained their capacity to determine quotas for the conduct of specific types of enterprises within their territory (transport of people, sale of alcohol, etc.).

Despite the reaction from entrepreneurs, the Act upheld the regulation sanctioning the suspension of a business activity if the heads of rural communes and mayors of towns decide that it is a threat to public morality.

The regulatory trend was maintained with regard to freedom of foreign trade – more than ten legal acts introducing quotas for the import of various goods were adopted. Other instruments were also applied, such as the establishment of a customs surcharge and registration of imports of certain commodities in order to reduce the inflow of goods from abroad.

The disregard shown by administrative bodies for the deadlines for issuing decisions is still an extremely serious problem. In 2000, the ruling of the Supreme Administrative Court that involved levying a fine on the Minister of Finance as well as ordering him to pay a specified sum of money as a reimbursement of costs of proceedings due to the fact that he had failed to execute the decision of the Supreme Administrative Court of November 30, 1998 (III SAB 1/98) requiring him to issue – within one month from the service of the ruling – a decision concerning the motion by the parties to rehear the case (Article 127 § 3 of the Administrative Proceedings Code)[9] was a positive precedent in this respect.

[9] A complaint concerning the "idleness" of administrative bodies appeared in Polish law almost 20 years ago when the administrative courts were re-established. It is an efficient, although still unappreciated, method of protection of legal interests of the party applying for the resolution of a case. However, the first regulations concerning this complaint (the repealed Article 216 of the Administrative Proceedings Code) were faulty. The court could commit an administrative body to issue a decision (from 1993, also a ruling) by a specified date; however, it had no legal instruments at its disposal to enforce the execution of the decision. The Supreme Chamber of Control (NIK) conducted a study to verify how administrative bodies apply the orders issued by the Supreme Administrative Court (NSA). The results of that study showed that administrative bodies repeatedly disregard court decisions. The Act on the Supreme Administrative Court brought to an end the situation that was demoralising for the administrative bodies and humiliating for the "third branch of government"; the Act, in Article 31 section 1, provides for the punishment by fine of the body that failed to execute the court decision. Nevertheless, it is the administrative body that is punished and not the individual whose negligence led to the application of that enforcement instrument.

5.3.2. Number of Legal Acts Issued

In 2000, 122 issues of the Journal of Laws were published, containing 1,346 legal acts, as well as 43 "Monitor Polski" gazettes containing 859 legal acts. The results-driven Sejm's legislative work is presented in the following table.

Table 5.2. Specification of Activities of the Sejm of the Third Term of Office in 2000.

Draft Acts put forward	257
Acts adopted	183
Sessions of standing and special committees	1,807
Sessions of standing and special subcommittees	1,302

Entities that conduct business activities are encouraged to also keep abreast of information published in the official gazettes of the individual ministries. Local enactments are also important items that require constant monitoring for entrepreneurs (we provide more detailed information about the publication of legal acts and their availability in item 5.2.4.).

5.3.3. Operation of Local Enactments

In 2000, 12,210 local enactments were published in voivodship official gazettes. The largest number of enactments was issued in the voivodships: Mazowieckie – 1,329, Małopolskie – 1,146 and Wielkopolskie – 1,108; the lowest number – in Lubuskie – 295 and Opolskie – 369. In comparison with the previous year, the declining trend in the publication of this type of legal act is evident – the total number of acts published dropped by 39%. Out of several dozen areas that have been regulated by local enactments several of particular importance for the business activities of small and medium-size enterprises should be mentioned. One must remember that these regulations affect the conditions and development of the entire small business sector to a limited degree only. Regulations governing local physical space development plans are exceptions to the rule. In most cases, local enactments in 2000 referred to the following issues:

- construction law,
- prices for transportation services,
- construction, modernisation and maintenance of roads,
- records of land and buildings, where regulations concerning the updating of records of land and buildings were the most numerous,
- principles of managing county real estate and determining annual real estate tax rates,
- determination of transport vehicle tax rates and real estate tax rates,
- secondary materials,
- road transport,
- local area development plans, especially with regard to services, trade and craft,
- locations selling alcoholic beverages.

5.3.4. Condition of Judicature and Organisation of Court Work

Poles, including entrepreneurs, have growing reservations towards justice administration institutions. Protracted procedures, both in courts and in prosecutor's offices, are the basic problems related to law enforcement. The long, drawn out proceedings and the related costs lead to a situation in which entrepreneurs abandon asserting their claims.

In a survey on justice administration conducted by the Polling Centre CBOS in July 2000 a majority of respondents indicated the need for changes in this respect.

Almost two thirds (65%) of respondents are convinced that courts and public prosecutors are ineffective, and many of them (30%) believe that the justice administration institutions decidedly operate inefficiently. A view that these institutions do not perform effectively is shared by the group of 52% respondents with primary education; over two-thirds of respondents with vocational training and secondary education (69% each); over four-fifths (83%) of university graduates. Those who personally experienced the work conducted by courts and public prosecutors over the last few years assess their efficiency negatively more often than others. More than three-quarters (77%) of those who personally experienced the justice administration's work (testified, were witnesses, injured parties, etc.) are of the opinion that courts and public prosecutor's offices perform inefficiently. 87% of the respondents who believe that the justice administration performs inefficiently point to bad laws as a reason, and only a slightly smaller percentage (82%) point to corruption and bribery in the judicature. One in every two respondents believes that the employees of courts and prosecutor's offices lack motivation for efficient performance of professional duties. A slightly lower percentage of respondents consider insufficient personnel and funds to be one of the reasons.

The opinion on the bad state of Polish institutions of justice administration was shared by the European Commission in its assessment of the effects of Polish adaptation to EU standards, subjecting the condition of the judicature and the lack of improvements in the justice administration to criticism.

Despite the fact that the condition of the judicature has not changed significantly over the last few years, in 2000 an important reform of the civil process model came into effect. The development and complexity of legal relations and the growing number of court cases necessitated the acceleration of court proceedings and the introduction of mechanisms that would provide for the reduction of the waiting time for a ruling, as well as assist the parties in asserting their claims. In order to meet these expectations, procedures of proceedings by writ of payment were changed and new, separate simplified proceedings were introduced.

Thus far, the result of this change since coming into effect has been a decrease in the number of cases entering courts and adjudicated under those procedures, with about 30% of forms being returned as inconsistent with the requirements defined by legal regulations. Individuals not acquainted with legal terminology have considerable difficulties completing these forms, however it appears that the attached instructions for filling in the blanks provide general assistance. Given the brief period during which the forms have been in force, it is difficult to decide unequivocally whether they are effective or not.

The organisation of court work is a separate issue. Despite the fact that activities have been undertaken to make that work more efficient, the waiting period both for the first trial and for

the final adjudication is still very long. In one of the departments most relevant for entrepreneurs, the business division of the District Court of Central Warsaw, the period of waiting for a trial is about 1.5 years. The existing situation is also reflected in other data from that court where, despite the fact that in the year 2000 as many as 8,000 cases were adjudicated, i.e., more than were filed (7,800), the backlog at the end of the year was almost 10,000 cases.

5.3.5. Decisions of the Constitutional Tribunal

The decisions made by the Constitutional Tribunal have considerable influence on the law concerning business activities currently being adopted in Poland. From October 17, 1999, decisions made by the Constitutional Tribunal have the power of "generally binding force" and are not subject to appeal (Article 190 section 1 of the Constitution). The non-appeal attribute of a decision denotes that no recourse against the decision is allowed and the decision is binding on all concerned. The non- recourse nature of the court's decisions means that the Constitutional Tribunal itself also may not change the decision under any procedure.

The ruling of the Constitutional Tribunal concerning the ordinances issued on the basis of enabling legislation that does not conform with the Constitution is an example of a decision concerning the conformity of the law with the constitutional principle of economic freedom. On November 7, 2000, the Constitutional Tribunal decided that an ordinance issued on the basis of enabling legislation that does not conform with the Constitution is also unconstitutional in its entirety. The decision also means that the permits issued on the basis of those regulations to certain pharmaceutical wholesale businesses for individual and target imports of medicines, as well as similar permits issued to certain pharmacies by national health funds, became void.

5.4. Basic Problems of the Law-Making Process

The basic identified faults of law making may include the shortcomings mentioned below:

- Lack of effective consultations and coordination with entrepreneurs, in line with general practices and trading customs, at the stage of preparation of regulations in ministries in order to make the law consistent and easy to implement. From the stage of formulating drafts of regulations to the interdepartmental coordination the project is often treated as "secret" (for internal use only) without assigning it the "secrecy" clause in accordance with regulations in effect: State or office restricted use. The practice started in this respect by the Ministry of Economy still finds too few followers. The difficult situation in the labour market at the end of 2000 was the catalyst for broader consultations to take place between the Government and entrepreneurs with respect to the desired changes in the business law. The Act on principles of support for regional development, which commits the public authorities to conducting formal consultations regarding regional development programmes with the socio-economic policy partners, is another positive example of including entrepreneurs in the decision-making process.
- Despite many positive examples of a long *vacatio legis* period, there are still periods not sufficiently long between the publication of Acts and their coming into effect in the cases of many acts applicable to entrepreneurs. A short *vacatio legis* period, connected with a lack of consultations and dearth of information in the media, leads to a situation in which entrepreneurs cannot rationally adapt to regulations or take them into consideration in opera-

tional and financial plans, and which leads to a loss of trust in the state and the law. Depending on the scope and subjects of regulations, the *vacatio legis* period of some Acts should be especially long. However, the Act on Warehouses came into effect 14 days after its publication, the Act – Company Code, announced on November 8, 2000, came into effect as of January 1, 2001. Those periods are decidedly insufficient, and entrepreneurs, as well as the economy, suffer the negative effects of the too rapid implementation of laws.

- A lengthy period of time for issuance of secondary legislation to Acts. The introduction of a long *vacatio legis* period to the Act on the National Court Register was to ensure an efficient implementation of the new system. However, critically important ordinances issued by the Minister of Justice appeared in December 2000, i.e., more than three years after the publication of the Act. Another example is the lack of appropriate regulations related to the introduction of changes in the procedures of ownership structure, mergers and division of companies by the Company Code. No appropriate regulations concerning, for example, the principles of maintaining accounting records in newly established entities, have been issued. This concerns especially the situation in which companies with different legal status are reorganised or merged, e.g., a partnership and an incorporated company.
- Maintenance of areas of regulation. In 2000, the obligation to hold a permit was introduced, e.g., for operating warehousing enterprises, commodity exchanges, brokerage activities in the commodity exchanges, methods the fruit and vegetable market, hops market, tobacco market, dry fodder market, inland navigation, and tourist services.
- The scope of control of public administration over entrepreneurs is expanding. On the basis of the Act on General Safety of Products, the Office for Competition and Consumer Protection and the State Commercial Inspectorate were granted additional powers. The powers of the Securities and Exchange Commission were extended with regard to exchange commodities and commodity exchanges, the Financial Inspectorate acquired the right to withhold transactions conducted by financial institutions. Not only the scope of control but also the incomplete definition of the scope and the authorities' self-imposed right to specify the deadline of the control period and its duration are of concern to entrepreneurs. The manner of imposing penalties, i.e., by a sole controller in the proceedings by police penal orders, which has not changed for many years, promotes corruption.
- Inconsistency, unclear formulation of regulations, internal incompatibility, lack of systemic clarity of terms used leads to obscurity of regulations, the need for various "official" interpretations, legal interpretations and decisions, and is the cause of legal uncertainty during the period of introduction of regulations and first years of their mandatory use. An example of inconsistency in the newly created legal acts may be the regulation of the payment of advances for dividends. The Company Code provides limited liability companies with the possibility of paying an advance on an anticipated dividend provided that their financial standing is good. The dividend itself is also paid only if the company has generated profit. Thus, an obvious question arises, what will happen when the company, after paying an advance, fails to generate profit. Unfortunately, the legislature did not provide for such a possibility.

5.5. Harmonisation of Polish Legislation to European Union Law

In the 2000 European Commission Report on the progress Poland has made in its harmonisation on the path to membership of the European Union, drawn up each year, the European

Union evaluated positively the progress made. According to the Report, Poland will soon be able to successfully compete against other countries in the EU single market. The work of the Sejm Committee on European Law was also evaluated highly. For entrepreneurs the committee's internal procedure, consisting in the adoption of Acts changing many provisions from various legal acts, may result in difficulties in the application of the legal regulations. Therefore, it is necessary to allow for their thorough rapid publication of uniform texts of modified acts.

Parliament still has not adopted approximately 130 Acts, including the regulations ready for review by the EU with respect to the functioning of the internal free market, such as protection of intellectual and industrial property, fees on products and deposits.

In addition to the areas of negotiation consistently criticised: "Agriculture", "Environmental Protection", delays in "Fishing" were assessed negatively. The judicature and the lack of activities making the justice administration more efficient did not score too highly either. The European Union has reservations about the ineffective operation of our State administration offices, corruption, and crime. However, the overall evaluation of the harmonisation of Polish law is good. With regard to the harmonisation of business law, Poland ranked first among candidate countries, together with Hungary and Estonia.

In 2000, the interest of Government and Parliament in the harmonisation of legislation became more pronounced. 68 Acts were adopted, containing regulations harmonising Polish law to the *aquis*, and work on 22 such drafts forwarded to the Sejm in 2000 is still under way.

5.6. Summary

In 2000, a number of regulations applicable to entrepreneurs were adopted. The long awaited Act – Company Code established modern regulatory schemes that should contribute to the revival of business transactions. The Act on Principles of Support for Regional Development, notwithstanding that it refers directly to enterprises only to a limited extent, will be very important for them in the near future because it establishes the foundation of regulation of the regional policy of the State. Due to this Act, Poland will be able to apply for and use EU funds, both during the pre-accession period and after joining the EU. Many of these funds may be allocated for economic infrastructure and direct assistance to small and medium-size enterprises. The adoption of the Act on Establishment of the Polish Agency for Enterprise Development provides an important instrument for the flow of EU funds to SMEs.

Specific regulations that would clearly support the development of enterprises, much awaited by the business community, could not be introduced. These concern mainly the regulation of labour relations. The long-discussed changes to the Labour Code have not been adopted, despite the fact that representatives of entrepreneurs prepared the appropriate drafts many months in advance. As a consequence of this inaction, the rate of unemployment increased significantly in 2000.

Another problem for entrepreneurs and the economy was the deterioration of the conditions of law enforcement, caused also by the inefficiency of the justice administration system. This refers mainly to the protracted court, prosecution and administration procedures.

Chapter 6.

Tax Law in 2000 and the Last Decade in Retrospect

General Provisions

Income Taxes

Taxation of Turnover

Taxes and Local Charges

Supreme Administrative Court Rulings in Tax Cases

Penal Provisions

Summary

This chapter presents the basic regulatory schemes, encompassed by the tax law, that were in force in 2000 with regard to operating a business. A review was undertaken to study the evolution of legal acts that were adopted in the nineties, creating a tax system in Poland adapted to the new market economy conditions. A comparative study was conducted to present Polish regulations, especially those concerning small and medium-size enterprises, and those applied in European Union countries and countries in which, as in Poland, economic transformation processes are taking place.

6.1. General Provisions

The issues concerning tax liabilities, tax information, proceedings, tax audit, and oversight, as well as privacy rules governing the strict level of confidentiality required in handling taxpayer information were regulated in the Tax Law, which came into effect as of September 1, 1998, replacing a number of legal acts, including secondary legislation. However, outside the scope of the Tax Law were the issues concerning tax audit, tax advisory services, and enforcement proceedings, as well as principles of recording and identification of taxpayers and tax collectors.

Despite the undoubted benefit of the cohesiveness of regulations in respect of tax liabilities, the Tax Law, in comparison with the previous Act on Tax Liabilities of 1990, contributed, unfortunately, to a decrease in the certainty of business transactions by over emphasising the liability of third parties for the tax liabilities of taxpayers. The introduction of liability of the purchaser of a fixed asset for the liabilities of the seller is an example. However, the elimination of the liability of a limited partner for the tax obligations of a limited partnership and of a partner in a limited liability company for tax obligations of that company should be considered as positive changes.

6.2. Income Taxes

6.2.1. Personal Income Tax

The Act of July 26, 1991, introduced a universal personal income tax. Through December 31, 2000, 56 amendments to the Act entered into effect; an indication that the legal framework is frequently changing and causing SMEs to suffer many disadvantages.

Tax Base, Rules for Determining Taxable Income

Depending on the manner in which tax documentation is maintained, there are two basic methods of determining income. Income derived from business activity with respect to entrepreneurs drawing up balance sheets and income statements, is considered to be the income shown on the basis of properly maintained accounting records, less tax-exempt income, plus expenditures that are not inclusive of the costs of income previously accounted for under costs of earning income. On the other hand, in specific, simplified situations with respect to small and medium-size enterprises maintaining simplified revenue and expenditure accounts, the income derived from business activity is considered to be the difference between the revenue

and costs of earning revenue, plus the difference between the value of final inventory and the initial inventory of trading goods, basic and ancillary materials (raw materials), semi-finished goods, finished products, spoilage and waste.

In addition to the revenue, the relevance of the cost of earning revenue for the determination of the amount of taxable income is critical. The status of taxpayers in this respect deteriorated significantly since 1990 with the gradual expansion of the scope of those costs excluded from costs of earning revenue. In 2000, 58 types of costs were excluded (in 1990 – only 17). As an illustration of the extent to which the catalogue of costs excluded from costs of earning revenue has been expanded is the exclusion of losses incurred as a result of advance payments made under a contract that failed to be executed.

In Spain, the use of three methods of calculation of income from business activities is permitted. The preferential method is used in relation to taxpayers whose turnover does not exceed ESP 1,000 million (EUR 601,000) and who are in their first year of operation. They may calculate their net income according to a simplified method – the turnover is reduced by expenditures related to the business activity, tangible assets are depreciated only on the basis of a straight-line method, and 5% may be deducted from the turnover for planned expenditures. Regardless of the method of calculating taxable income, if the income has been generated for more than two years, only 70% of it is subject to taxation. In Hungary, it is possible to file as taxable income 90% of gross income generated from the provision of services.

Deductions from Income

Taxable income may be reduced by expenditures, which may be divided into two groups: those that are aimed at adapting the tax burden to the individual circumstances of the taxpayer, and those that are aimed at implementing all encompassing social tasks or guidelines of the socio-economic policy of the state. The second group includes, among others, donations for purposes set forth in the Act and investment expenditures (see item 5.2.3.).

Deductions from income are an instrument widely used in European tax systems. For example, in Germany taxpayers may deduct costs incurred for tax advisory services from their income. In the Czech Republic, taxable income may be reduced through withholdings of current expenditures or lump-sum deductions not exceeding 25% of gross income. In Spain, the taxpayer is entitled to a tax exemption for the purchase or refurbishment of the company premises of up to 15% of costs, to a maximum of ESP 1.5 million. The company qualifies for this exemption if it has been using its premises continuously for three years.

Material Exemptions

Article 21 of the Act provides for 60 material exemptions, mainly in the form of social benefits or compensations. This number has been increasing incrementally – initially, there were only 36 such exemptions, and in 1994, as many as 41.

Only a few exemptions influence – to a limited extent – the condition of small and medium-size enterprises. These include:

- exemption of income derived from the business activities of those entrepreneurs that employ disabled people, provided that they meet the prerequisites provided for in the Act

on the Employment and Professional Rehabilitation of Disabled People[1],
- exemption of revenues generated from:
  – refund of shares or contributions in a cooperative, or shares in a company,
  – redemption of shares or stocks in a corporation,
  – the costs applied against the acquisition, if the acquisition was through an inheritance or a donation – up to the value on the date of acquisition of the inheritance or donation,
- exemption of revenues generated from the refund of additional capital contributions paid in previously, in accordance with separate regulations, to a corporation – up to the amount of additional contributions paid in,
- exemption of the portion of income generated in the tax year from business activity in which waste product that was produced on the territory of the Republic of Poland is used, determined according to the ratio of recycled waste to total value of raw materials and waste used in the production process in the previous tax year.

Tax Rates

Personal Income Tax rates as of December 31, 2000, were divided into three brackets, by threshold: 19%, 30% and 40%. These rates have been reduced from those established in 1994 (21%, 33% and 45%); however, the 1994 rates were not those that were binding from the effective date of the Personal Income Tax Act. Compared to pre-1994, only the rate paid by taxpayers whose income did not exceed the first tax bracket threshold was reduced in 2000, and it was reduced by only one percentage point (from 20% to 19%). In 2000, personal income tax rates and thresholds were as follows:
- tax base of up to PLN 32,736, the tax rate was 19 % of the tax base minus PLN 436.20,
- tax base between PLN 32,736 and PLN 65,472, the tax rate was 5,783.64 + 30% of the amount exceeding PLN 32,736,
- tax base in excess of PLN 65,472, the tax rate was PLN 15,604.44 + 40% of the amount exceeding PLN 65,472.

Compared to other European countries, the tax-free amount is extremely low, as are the thresholds of the individual tax brackets.

Table 6.1. Personal Income Tax in Selected Countries

	Spain	**Germany**	**Great Britain**	**Poland**
Tax-free amount	EUR 3,306 [1]	EUR 26,404	EUR 7,018 [2]	EUR 574
The lowest rate	18.0%	22.9%	10.0%	19.0%
The highest rate	48.0%	51.0%	40.0%	40.0%
The top tax bracket	EUR 67,432	EUR 197,939	EUR 45,454	EUR 16,368

[1] EUR 3,907 for taxpayers over the age of 65.

[2] For people under the age of 65.

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

[1] In 1999, the Act on Professional and Social Rehabilitation, granting to employers employing disabled people the right to a tax relief, was amended and consequently led to the actual abolishment of the exemption.

Tax Deductions

In addition to deductions from taxable income, additional deductions from tax are provided for in the Act. The special quota-based tax deduction system for employee training may be of considerable importance to sole proprietors.

Deductions from tax, similar to deductions from taxable income, are also provided for in the legislation of other countries. In Hungary, the extended catalogue of deductions available to taxpayers who are private individuals includes the deduction of 20% of the surplus investment in securities over portfolio investments in the previous year, which may be of importance to entrepreneurs.

Lump-sum Taxation

With regard to lump-sum taxation (in addition to regulations on lump-sums defined in the Personal Income Tax Act) a new regulation came into effect as of January 1, 1999 – the Act of November 20, 1998, on the Lump-sum Income Tax on Certain Revenues Generated by Private Individuals. The Act regulates – with regard to small and medium-size enterprises – two forms of taxation by lump-sum income tax: the lump-sum tax from recorded revenues and the tax payment card.

The lump-sum tax from recorded revenues applies to taxpayers who, in the year preceding the particular tax year, recorded revenues from their self-run businesses, of an amount not exceeding PLN 426,400 or recorded revenues only from activities conducted in the form of a partnership, and the total of partners' revenues generated from that business did not exceed PLN 426,400. The lump-sum tax also applies to those taxpayers who operate their business in the given tax year and do not choose to opt for taxation based on a tax payment card – regardless of the amount of their revenues.

The Act identifies a number of exemptions with respect to individuals who can not benefit from lump-sum taxation, e.g., those who generate all or part of their revenues from: operating pharmacies, granting loans secured by collateral (operating pawnshops), buying and selling foreign currencies, or the performance of one of the professions.

The lump-sum tax from recorded revenues is assessed without deducting from revenue the cost of earning revenue, and amounts to 8.5%, 5.5% and 3% of revenue, depending on the type of activity performed, e.g., among others, the 8.5% rate is applied to revenues from the provision of services, the 5.5% rate is applied to revenues from manufacturing, construction work or the transport of loads by trucks with a payload in excess of two tonnes, and the 3.0% rate is applied to revenues derived from the provision of gastronomic services and trade-related services. The lump-sum tax rates have been increased by 0.5 to 1 percentage point since 1994.

Providing the taxpayer with a option to select, and dispensing with the mandatory application of this form of taxation in the case of individuals who conduct their business activity on the basis of an individual registration and who generate relatively low revenues is a positive change from previous years. Taxpayers may relinquish the use of the lump-sum form of taxation and choose instead to pay taxes under the general system of taxation.

Lump-sum income tax in the form of a tax payment card may be paid by private individuals and partnerships of private individuals conducting a specific type of activity (the list of types of activities covered by the right to apply a tax payment card is attached to the Act).

Taxpayers who conduct business activities taxed in the tax payment card form are exempted from the obligation to maintain accounting records, submit tax returns and declarations of the amount of income generated, and advance payment of income tax.

The tax rates depend on the type of activity conducted, the place of operation, and the number of employees. Tax rates are almost twice as high in 2000 as those in effect in 1994. To operate a business that provides anti-corrosive protection of vehicles in:

- a township of up to 5,000 inhabitants, where the taxpayer employs no additional employees – the monthly rate of tax paid in the form of a tax payment card amounts to PLN 354 (in 1994 – PLN 145), but if the same entity employed three people, it must pay PLN 1,255 (in 1994 – PLN 560),
- in a township with a population between 5,000 and 50,000 inhabitants, a taxpayer employing no people would pay a rate of PLN 378 (in 1994 – PLN 160), and one employing three people – PLN 1,436 (in 1994 – PLN 630),
- in a township with a population exceeding 50,000 inhabitants, a taxpayer with no employees would pay a tax rate of PLN 411 (in 1994 – PLN 180), and a taxpayer employing three people – PLN 1,618 (in 1994 – PLN 700).

Table 6.2. Number of taxpayers – sole proprietors

	1994	1995	1996	1997	1998	1999	2000
Total	2,028,129	2,211,049	2,270,967	2,332,489	2,434,295	2,457,890	2,495,388
Including:							
general taxation system	465,554	980,560	1,119,870	1,244,000	1,338,968	1,435,500	1,543,617
lump-sum tax from							
recorded revenues	1,226,312	913,857	843,759	863,668	867,129	792,514	732,666
tax payment card	336,263	316,632	307,338	234,821	228,198	229,876	219,105

Source: Ministry of Finance.

In Hungary, lump-sum forms of taxation may be used by all entrepreneurs whose annual turnover does not exceed HUF 4 million, i.e., EUR 15,735 (HUF 15 million, i.e., EUR 59,000 for retail traders) in the current and previous year. Taxable income is considered to be 65% of turnover, 13% or 7% in the case of retail trade.

Method of Tax Payment- Declarations

The taxpayer is statutorily required to assess income tax and pay in advance by way of a bank transfer to the account of the competent tax office every month during the tax year. In the case of liquidation of the business, a 10% income tax is paid for the final month of operations together with the advance payment. Moreover, on income derived from the sale of stocks, shares, and bonds, the taxpayer shall pay in advance an amount equivalent to 20% of the income generated from that sale for income tax by the twentieth day of the month following the month in which the taxpayer generated the income.

The taxpayer is also required to submit a declaration of the amount of income generated or loss incurred in the particular tax year by 30 April of the following year, and pay the difference between the income tax due resulting from the declaration and the amount paid in advance for the particular year to the bank account of the competent tax office, also by 30 April. Taxpayers who have maintained accounting records are to attach the balance sheet and the income statement to their annual declaration, whereas taxpayers that maintain the simplified revenue and expenditure accounts, from 1994, are not required to submit them together with the declaration.

6.2.2. Corporate Income Tax

By the end of 2000, the Corporate Income Tax Act of February 15, 1992, regulating the taxation of income of corporate entities and organisational units without legal status, with the exception of companies without legal status, had been amended 55 times.

Tax Base

The tax base is the income generated, regardless of the origin of income from which it has been generated. The term "income" denotes the excess of the amount of revenue over the cost of earning revenue, and if the cost of earning revenue exceeds the amount of income generated, the difference is a loss. The income derived from profit sharing in corporate entities is the income actually generated from that interest and the income earmarked for raising share capital, whereas in the case of a company that is not a legal person – the income declared on the basis of properly maintained accounting records less tax-free income and plus costs that do not constitute cost of earning revenue that were previously included among the costs of earning revenue.

With regard to the cost of earning revenue, a trend towards excluding more and more expenses from the list of allowable costs of earning revenues should be noted – according to the legal statutes of 1990, expenses mentioned in 21 items were excluded from the allowable costs of earning revenue, whereas as of December 31, 1994, Article 16 of the Act specifying exclusions from the costs of earning revenue contained as many as 55 items. In the following years, the trend was maintained. A case in point: regulations that restrict the exclusion of a number of costs related to passenger cars[2] from the cost of earning revenue were extended to vehicles other than passenger cars with a payload of up to 500kg, or the interest on additional contributions to the company as well as interest on dividends and other income derived from the profit-sharing in corporate entities was excluded from the list of allowable costs of earning income.

Expenses defined in Article 18 section 1 of the Act, among others, the amount of donations for specific purposes, e.g., scientific, charitable, etc., may offset income. In comparison with 1990, emphasis is placed on the reduced scope of deductions from income. The list of these deductions was much shorter than the list of deductions in the case of personal income tax.

The possibility of reducing income by deducting expenditures for the construction of one's own multi-family house with apartments for rent, as well as expenditures for purchasing a plot of land for the construction of such buildings has been excluded from the list of deductions. However, one should note that the deduction thresholds have been increased – from 10% to

[2] The extension was rescinded as of January 1, 2001.

15% of income – with regard to donations for the purposes of science, science/technology, education, culture, physical education and sports, health care, and social assistance for disabled people, as well as support for social initiatives with respect to the construction of roads and telecommunication networks in rural areas, as well as the supply of water in rural areas.

The catalogue of deductions from income in corporate income tax regulations in other countries is similar. The excessive remuneration of members of supervisory boards (Spain) or the value of assets handed over to other people free of charge (Hungary) have been excluded from the costs of earning revenue. An interesting solution concerning the costs related to setting up a new business has been applied in the United Kingdom – such costs incurred up to seven years prior are considered to be costs at the time of starting a new business. In the majority of systems, deductions from income are allowed for donations and subsidies for charitable or scientific organisations. In the Czech Republic the limit of deductions for that purpose amounts to 2% of the tax base, and the minimum donation to CZK 2000 (EUR 55.5). In Germany, the support for non-profit institutions is deducted up to an amount equal to 5% of income or 0.2% of the amount of turnover and remuneration.

Taxation of Distributed Profits of Corporations

In 2000, partners – both private individuals and corporate entities – paid a pro-rata tax on dividends paid out to them[3]. Corporate entities deduct the amount of tax paid on dividends received and other revenues from the profit sharing in corporate entities from the tax paid on their global income (at a rate of 30%). In the case of private individuals, such a possibility does not exist.

In Spain, capital gains are treated as ordinary revenues and are subject to taxation at the same tax rate. In Hungary, shareholders do not pay taxes on dividends paid out to them. In the Czech Republic, dual taxation is alleviated at the company level through the possibility of deducting an amount equal to 50% of the advance for dividends paid earlier from the tax on global income. Further tax reliefs were applied at the level of shareholders.

Settlement of Losses

In accordance with rules introduced in 1999, the income over five consecutive tax years may be reduced by the amount of losses suffered in a particular tax year, however, the amount of the reduction in each year may not exceed 50% of the amount of the loss. Previously, the loss was covered in equal parts from income generated in the following consecutive three tax years. Thus, the period over which the loss may be settled has been extended and the settlement terms became more flexible.

In Spain, losses may be deducted from taxable income for a period of 10 years. In Great Britain, a loss may be moved one year forward or one year backward for tax purposes. Ordinary losses in Hungary may be deducted during five years following the year in which they were incurred. However, only those lost receivables that were resulting from bad debts may be deducted.

Material Exemptions

A negative change took place compared to 1994, which was the exclusion from the scope of materi-

[3] From January 1, 2001, the rate was reduced to 15%.

al exemptions of income, generated from the profit-sharing in corporate entities based in the territory of the Republic of Poland, spent during the tax year in order to purchase shares or stocks from the State Treasury as well as shares (stocks) in a company established be acquired by that company for paid use, on the basis of provisions provided for with respect to the privatisation of state-owned enterprises, the enterprise or part of the enterprise's property, or to purchase bonds from the State Treasury. A positive change compared to 1994 was the exemption of a portion of the income generated in the tax year from business activities in which waste product produced in the territory of the Republic of Poland is used, determined as the ratio between the value of products recycled in the previous year to the general value of raw materials and waste used in the production process in that year.

Tax Rates

The corporate income tax is applied as a flat rate. In 2000, it amounted to 30% of income (a 10% decrease compared with 1994). Moreover, lump-sum tax rates on revenues were applied, amounting to 20% of income with regard to dividends and other revenues from profit sharing in corporate entities. The trend to reduce the tax rate further is very favourable; e.g.: in 2001 the rate amounts to 28%, and starting from January 1, 2004, it will amount to 22% of the tax base.

The corporate income tax rate is average compared to other European countries.

Table 6.3. Corporate Income Tax in Selected Countries

	Spain	Germany	Great Britain	Czech Republic	Ukraine	Hungary	Poland
Progressive/ flat	Flat	Progressive	Flat	Flat	Flat	Flat	Flat
Tax rate	35%	40%[3]	30%	31%	30%	18%	30%

[3] For retained earnings: from January 1, 2001 the tax rate has been reduced to 25%.

Source: a paper from the GdaÒsk Institute for Market Economics commissioned by PAED.

However, no particular regulations have been envisaged for small enterprises, a practice popular in other countries. In Spain, enterprises with annual income not exceeding ESP 250 million (EUR 1,502,500) pay income tax at a reduced rate, 30%, until they reach the annual profit of ESP 15 million (EUR 90,150). If their profit exceeds that amount, the excess is taxed at the standard rate. In Great Britain the tax rate depends on the amount of income generated by companies.

Table 6.4. Corporate income tax rate in Great Britain

Annual Income (GBP)	End Rate	Average Rate
Up to 10,000	10.0	10.0
10,001–50,000	22.5	10.0–20.0
50,001–300,000	20.0	20.0
300,001–1,500,000	32.5	20.0–30.0
Over 1,500,000	30.0	30.0

Source: Chennells, L.; A. Dilnot; N. Roback, A Survey of the UK Tax System, Institute for Fiscal Studies, London 2000, p. 14.

In the Czech Republic, as in Poland, a separate tax rate is applied to capital gains – from 2000 it amounts to 15% (before that date, 25%).

Tax payment method – advance

The taxpayer chooses the method of payment of tax advances. The taxpayer is required to pay monthly advances in the amount of the difference between the tax due on income generated from the beginning of the tax year and the total advances paid for the previous months to the bank account of the competent tax office. Advances may also be paid in accordance with the following principles:

- for each of the first five months of the tax year, an amount of one-sixth of the tax due from the tax base stated in the declaration of income (loss) generated for the period of the first five months of the year immediately preceding the tax year,
- for the sixth month of the tax year an amount of the difference between the tax due from the income generated at the beginning of the tax year and the total advances assessed in accordance with item 1,
- for each of the following six months of the tax year, an amount of one-sixth of the tax due from the tax base stated in the declaration, covering the period of the first six months of the tax year.

In Great Britain, the date of payment of the tax depends on the size of the company. SMEs make a single payment of the tax nine months following the end of the settlement period, large enterprises are required to pay the tax in four equal instalments according to the anticipated tax liabilities following the first six months of the settlement period. In the Czech Republic, the requirement to pay tax advances has been imposed on taxpayers whose tax liabilities exceed CZK 20,000 (EUR 556). Taxpayers are required to pay advances twice yearly, quarterly, or monthly, depending on the level of previous tax liabilities.

6.2.3. Tax Incentives in Income Taxes

Investment Tax Reliefs

In 2000, only those taxpayers – corporate entities – that started the investment before January 1, 2000[4], and sole proprietors are qualified to benefit from tax reliefs applied to investments.

Initially, investment tax reliefs were regulated in the form of ordinances[5]. The taxpayer could deduct certain investment expenditures, e.g., for the purchase and assembly of machinery and equipment included in the specific groups of classification of fixed assets if the necessary conditions were met, such as achieving a sufficiently high level of income to revenue ratio, absence of arrears in the payment of public liabilities, and documentation of expenses. Provisions regulating the use of investment tax reliefs in local communities at risk of high structural unemployment tied the right to deductions to employment status and the employment growth rate.

As of January 1, 1997, the ordinances with respect to investment tax reliefs were transferred to the Corporate Income Tax Act and the Personal Income Tax Act. In subsequent years they

[4] Based on the Act of November 20, 1999, on the Amendment to the Corporate Income Tax Act, Article 18a was rescinded.

[5] The Ordinance of the Council of Ministers of January 25, 1994, with respect to deductions of investment expenditures from income and reductions of income tax, and the Ordinance of the Council of Ministers of January 24, 1995, with respect to deduction of investment expenditures from income and reductions of income tax in local communities at risk of high structural unemployment.

underwent minor modifications aimed at attenuating the conditions of entitlement to those tax reliefs and the consequences of losing them. The elimination of the right to use such tax reliefs and the reduction of deduction limits for investment expenditures for taxpayers paying the lump-sum income tax was significant for SMEs.

As of January 1, 2000, investment tax reliefs for corporate entities were eliminated, and investment tax reliefs for private individuals – as of January 1, 2001[6].

Tax Incentives in Other Countries

Exemptions and tax reliefs stimulate the implementation of non-fiscal objectives determined by State policy.

In Spain, a number of tax exemptions have been provided for. The total share of exemptions may not exceed 35% of the tax liability. Exemptions unused in a particular year may be carried forward for the next five years.

Taxpayers are entitled to an exemption amounting to 25% of the investment aimed at establishing a permanent office abroad or purchasing at least 25% of capital in an existing foreign company or newly created foreign subsidiary, provided that the activities conducted by those subsidiaries or the new foreign branch is directly related to export activities (other than financial and insurance activities) of a Spanish investor. This exemption is also applied in the case of expenditures on promotion and marketing activities abroad for a period exceeding one year.

Another exemption relates to 30% of expenditures on research and development in the particular tax year. If the expenses incurred exceed the average expenses from the previous three years, then the 30% rate is applied to that average, and a 50% rate is applied to the expenses exceeding that amount.

Companies may benefit from an exemption amounting to 5% of expenses related to the training of employees in a particular tax year.

In order to promote venture capital investments in small and medium-size enterprises operating in the field of technological innovations, some venture capital enterprises and funds may benefit from a partial tax exemption in relation to profits from the sale of shares and stocks held for at least two years. The exemption covers 99%, 80%, or 50% of the profit, depending on whether the sale took place within the third to sixth year, seventh to eighth year or ninth to tenth year of their possession. A sale after 10 years is not covered by this exemption.

In the Czech Republic, entrepreneurs may benefit from deductions from the tax base of costs of investments. The taxpayer may deduct 10% of the purchase price or costs of production of purchased or leased tangible assets, including machines, equipment, tools and transport vehicles. Enterprises employing more than 20 individuals, where the disabled constitute over 50% of employees, may reduce their tax rate by half. Income generated from the operation of devices that produce energy using alternative sources of obtaining it (solar panels, biogas-producing equipment, etc.) is covered by an exemption for the first five years of business operations.

To reduce unemployment in Hungary in regions with an elevated rate of unemployment

[6] Act of November 9, 2000, on the Amendment to the Personal Income Tax Act.

(15%), the possibility of utilising a dual deduction of social insurance contributions in the case of employing unemployed people exists. Up to HUF 6,000 (EUR 23.60) per person may be deducted monthly from the tax base for the training of employees. Other tax incentives have been introduced for enterprises set up in new industry and business zones. These take the form of investment allowances.

6.2.4. Obligations of Small and Medium-Size Enterprises as Payers of Income Tax

Entrepreneurs are required to assess and withhold income tax advances from the income of individuals they employ on the basis of a professional relationship, employment relationship, piecemeal employment, a cooperative entity employment relation, or individuals receiving the benefits from social insurance paid by the employer.

The payers are required to transfer the amounts of tax withheld to the bank account of the tax office competent for the payer's registered office by 20th day of the month following the month in which the advances were withheld, and, at the same time, transmit a declaration of the total amount of payments made that month, the amount of tax withheld, the amount of social insurance contributions, and the amount of tax paid to the bank account of the tax office.

The payers are also required to prepare information guide for taxpayers for whom no annual tax calculation has been made, in three copies, in accordance with an approved master sample. The information should contain the amount of income generated by the taxpayers, as well as the tax assessed and paid. The payer should deliver one copy of the information to the taxpayer by 31 March, and the second should be forwarded to the appropriate tax office by 15 April.

Moreover, taxpayers conducting business activities have been charged with the additional responsibility of withholding advances on other amounts paid by them, e.g.:

- to private individuals – in relation to activities performed by those individuals in person,
- taxpayers having no registered office or managing board in Poland – for the copyright, rights to creative work projects, trademarks and decorative patterns, including from the sale of those rights, from proceeds for making available a imparting a formula or production process, for utilisation or right to utilise an industrial, commercial or scientific device, for information related to know-how obtained in the field of industry, trade, or science,
- individuals receiving a dividend or other income from a profit sharing in corporate entities (refers to legal persons).

6.2.5. Depreciation

Depreciation is conducted with regard to tangible and intangible fixed assets. The regulations provide a detailed definition of tangible and intangible fixed assets for the purposes of depreciation.

In relation to previous years, the asset value criterion, which formerly decided whether an asset was included among tangible or intangible fixed assets, was abandoned. However, the Act envisages a regulation that tangible or intangible fixed assets having an initial value of no more than PLN 3,500 do not have to be depreciated, and the expenses incurred to acquire them constitute costs of earning revenue. Taxpayers may also decide to depreciate such assets.

Taxpayers may choose from four methods of applying fixed-asset depreciation write-offs:
- a straight-line method by application of depreciation rates specified on the list of rates,
- a straight-line method by application of depreciation rates specified on the list and coefficients raising or reducing those rates (this regulation enables one to allow for favourable or unfavourable conditions in which fixed assets will be used),
- a straight-line method by application of individually agreed rates (this regulation is applied to second-hand or improved assets entered into the records for the first time, and to investments in third-party fixed assets adopted for use),
- a declining-balance method (applied only to specific machinery and equipment, and to transport vehicles, with the exception of passenger cars or cars with a payload of up to 500kg)[7].

Intangible assets are amortised on the basis of a straight-line method, and the legislation set forth minimum amortisation periods (between 24 and 60 months, depending on the type of assets).

In 2000, 10 depreciation/amortisation rates were used, as specified on the list, ranging from 1.5% for houses, through 2.5% for other buildings, 14% for trucks, up to 30% for computer units.

Legislative measures with respect to depreciation were signed into law as late as in 2000, and only with regard to corporate entities; a similar measure with respect to private individuals came into effect on January 1, 2001. Previously, those issues were regulated by the Minister of Finance's ordinance[8]. Moreover, another important change was the authorisation of the competent minister to reassess the assets subject to depreciation if the capital expenditure price index exceeds 10% during three quarters in the year preceding the tax year in relation to the same period of the previous year.

In Great Britain, two depreciation methods are used: for machinery and equipment, the 25% rate and the decreasing balance method is applied[9], whereas the straight-line depreciation method, using the 4% rate over a 25-year period, has been foreseen for buildings and structures. Small and medium-size businesses may depreciate machinery and equipment during the first year, using the accelerated rate of 40%. In Germany, taxpayers starting business activities may create a reserve amounting to DEM 600,000. Only in the situation when assets have not been purchased or produced within five years will the reserve be taxed. Special depreciation rules apply to taxpayers registered in industrial zones in Hungary. They may depreciate new machinery and equipment using a 100% rate. In such a case, however, they do not qualify for any deductions of investment expenditure. In the Czech Republic, assets with an initial value of less than CZK 40,000 (EUR 1,111) may be included among the costs of earning revenue.

6.3. Taxation of Turnover

6.3.1. VAT

The Act on VAT and Excise Tax adopted on January 8, 1993, introduced a value added tax operating based on the invoice method, utilising methodologies adopted in European Union countries.

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[7] H. Litwińczuk, *Prawo podatkowe przedsiębiorców (Tax Law for Entrepreneurs)*, Warszawa 2000.

[8] The Ordinance of the Minister of Finance of January 17, 1997, with respect to the depreciation of tangible and intangible fixed assets.

[9] E.g. if a piece of machinery is valued at £1,000, £250 shall be deducted during the first year, and £187.5 (25% of £750) during the following year.

The following transactions are subject to taxation:
- sale of goods and provision of services against payment in the territory of the Republic of Poland,
- exports and imports of goods or services,
- transactions treated on par with the sale of goods and services.

The final category includes transactions enumerated in the Act. It should be noted that the catalogue is constantly being added to. Since 1994 (when five types of such transactions were specified) the list of taxable items was extended to include:
- utilisation of goods for the purposes of representation and advertising,
- handing over goods or provision of services in exchange for receivables,
- handing over goods or provision of services in lieu of a payment of money,
- delivery of farm produce on the basis of a contractual agreement,
- handing over goods or provision of services in exchange for transactions that are not subject to taxation, and
- self-manufactured goods and goods that have not been resold after being purchased in the case of: dissolution of a private partnership or another partnership without legal status, or in the case of the taxpayer, being a private individual, ceasing to execute transactions subject to taxation.

In particular, the change consisting in the taxation of the handing over of goods or provision of services in exchange for transactions that are not subject to taxation should be treated with criticism. This change has led to the taxation of contributions in kind and stirred up such considerable criticism that in the enabling legislation to the Act, the Minister of Finance exempted these transactions from VAT. Unfortunately, this regulation is still in force, and due to its broad scope, it also encompasses activities other than the contributions in kind to partnerships and companies.

Taxpayers

Since the Act came into effect, the group of taxpayers included legal persons, organisational units without legal status, and natural persons:
- having their registered office or place of residence on the territory of the Republic of Poland, if they perform transactions subject to taxation on their own behalf and to their own account, in circumstances indicating their intention to conduct those transactions frequently, even if they have been conducted only once, also in the situation when those transactions are subject to a one-off sale of the item purchased for that purpose,
- resulting from agency or mandate agreement, intermediation agreement, commission sales agreement or other services of a similar nature,
- bound by an obligation to pay customs duty on the basis of separate regulations, regardless of whether the goods are exempted from customs duty or customs duty for those goods has been suspended,
- with registered office or domiciled at or residing abroad if they perform transactions subject to taxation, in person or through an authorised person, through employees or by way of using a machinery or facility the purpose of which is manufacturing, trade or the provision of services,
- who are recipients of imported services,

- with the consent of the tax office, companies (subsidiaries) of a legal person may also be taxpayers, provided they prepare their own balance sheets.

The list of taxpayers has been gradually extended to include individuals authorised to take advantage of the customs procedure encompassing the active refinement, interim clearance, processing under customs control, including individuals who, in accordance with separate regulations, have been vested with rights and duties related to those procedures, and private individuals operating an agricultural, forest, or fish farm, as well as those operating an agricultural enterprise in other cases, if they have submitted a VAT registration application.

Material Exemptions

Material exemptions encompass goods and services cited in attachments to Acts and in appropriate provisions of the Act, e.g., arts and crafts products and other products; social, cultural, state administration services, etc.; imports of goods exempted from tax on the basis of appropriate provisions.

Compared to the legal structure of 1994, the extent of material exemptions has undergone changes pointing to the fact that goods previously cited in Attachment No. 1 and taxed based on the 3% rate have been excluded from exemptions – these are food products, e.g., dairy industry products, dairy produce, products of animal husbandry. The number and certain types of services exempted from VAT, cited in Attachment No. 2 to the Act have been modified (specifically, the list has been extended to 24 items). As a result of the adoption of the Act – Customs Code, the following transactions have been exempted from VAT:
- imports of goods exempted from customs duty on the basis of Article 190 § 1 items 1–33, 36, 38–40 and § 2 and 3 of the Customs Code,
- imports of goods encompassed by the procedure of active refinement in the suspension system as provided for in the provisions of the Customs Code, with the exception of certain excisable goods,
- imports of goods encompassed by the interim clearance procedures with total exemption from customs duty.

Moreover, the exemptions covered: sale of farm produce, with the exception of imports, performed by a farmer subject to lump-sum taxation, with the exception of the sale of farm produce performed by: farmers subject to lump-sum taxation who resigned from that exemption after meeting additional conditions, taxpayers obliged to keep books of accounts on the basis of separate regulations.

Individual Exemptions

In 2000, individual exemptions applied mainly to small and medium-size firms – taxpayers:
- when the value of goods sold and the value of exports of goods or services (or 30 times the commission or other forms of remuneration in the case of the contracts for provision of services – with the exception of the commission sales contract) in total did not exceed PLN 80,000 in the previous year, although from January 2001 this amount was reduced to the zloty equivalent of EUR 10,000, i.e., PLN 39,800[10],

[10] This change is the result of harmonisation of the Polish law to the EU requirements.

- paying income tax in the form of a tax payment card, operating in a field of activity subject to this form of taxation[11].

The possibility to relinquish an exemption from tax has been maintained, but the surrendering takes effect for the entire period of operation, unlike in the regulations from 1994 in which the relinquishment was binding until the end of the tax year.

The decrease of the amount when exceeded causes the taxpayer to lose the right to an exemption has a negative effect on those small and medium-size entrepreneurs that provide services or sell goods to entities exempt from VAT.

Tax Base, Tax Calculation Principles, Tax Refund

The structure of the value added tax is based primarily on two concepts:
- tax due, subject to invoices issued by the taxpayer, calculated with regard to turnover which, simply put, is comprised of amounts due to the taxpayer from the sale of goods and services less the amount of tax due,
- tax assessed, i.e., amount of tax specified in invoices confirming the purchase of goods or services, allowing for discounts, and in the case of imports – the amount of tax subject to customs clearance documents.

The non-exempted taxpayer may offset the tax due by the amount of tax assessed – the difference is the tax liability.

As provided in the Act, the reduction of the amount or the reimbursement of the difference of the tax due is not applied in cases enumerated in the Act, e.g., to goods and services purchased by the taxpayer, used for the production or resale of goods, or provision of services exempt from tax, passenger cars and their components, with the exception of cases when the resale constitutes the subject of the taxpayer's business activity, and when the purchaser of components buys them in order to manufacture passenger cars or to provide services involving the repair and service of those cars, or goods and services the purchase of which has been documented by an invoice issued short of the requirements for the issuance of VAT invoices.

The law continued to gradually expand the catalogue of goods and services with regard to which the taxpayer is entitled to neither a reduction of the tax due nor to a refund of the tax assessed.

Of particular note are the problems encountered in the deduction of tax in those instances where invoices have been issued inconsistent with the binding regulations (this applies mainly to the enabling legislation to the Act). The detailed requirements that are to be met by a VAT invoice resulted in significant difficulties from the start, for both taxpayers and tax offices. Regulations were interpreted to the disadvantage of taxpayers to such an extent that

[11] This exemption was restricted from January 1, 2001, in relation to taxpayers conducting trading activities, including peddling, as well as services in the area of: gastronomy, precision engineering, operation of business machines, manufacturing and repair of scales, anti-corrosive protection of vehicles, washing and lubricating of cars and motorcycles, as well as other services related to their repair, repair, with the exception of repair of elevators, refrigeration engineering, auto mechanics, armoury, refreshment and renovation of leather and fur products, industrial cleaning and dyeing fur products, chemical cleaning and dyeing of products other than furs, furriery, glove manufacture – production of leather and leatherette gloves, with the exception of work, protective and sports gloves, production of sign-boards, washing of feathers and down, who started operations subject to taxation before March 2, 2000, and as of March 1, 2000, employed at least two employees as set forth in the regulations governing the tax payment card.

the Minister of Finance decided to delineate the so-called minor defects in VAT invoices that would not lead to negative repercussions on the taxpayer. Among the "mistakes" that had been the basis for rejecting the invoice by the tax office, the Minister identified:

- lack of entries in the space entitled "Seller", if the seller's data had been printed or stamped on the invoice form,
- quoting an abbreviated name of the product or its symbols only, if the symbol is used in practice.

The trend to limit the possibility of reducing the tax due and the refund of the tax assessed led to very restrictive regulations in the following years.

Of prime importance in this respect is the executive ordinance to the Act on VAT and Excise Tax. According to the ordinance, in the case where:

1) the sale of goods or services was documented with invoices or adjusting invoices:
   - issued by a non-existent entity or an entity that is not authorised to issue invoices or adjusting invoices,
   - in which the amount of tax stated on the original invoice or adjusting invoice is different from the amount stated on the copy,
2) the buyer has an invoice or adjusting invoice that is not confirmed by a copy held by the seller, with the exception of those instances in which the issuer of the invoice or corrective invoice accounted for the sale and the tax due in his VAT declaration,
3) an invoice has been issued in which the amount of tax has been stated, when the particular sale is not subject to payment of tax or has been exempted from tax, or in which the amount of tax assessed was higher than the amount of tax due,
4) more than one invoice has been issued to document the same sale of goods or services,
5) invoices, adjusting invoices, or customs clearance documents have been issued that:
   - reference transactions that have never been entered into,
   - quote amounts that do not agree with the actual situation,
   - confirm invalid or ostensible transactions,

then those invoices and customs documents do not constitute a basis for reduction of the tax due and refund of the difference of tax or refund of the tax assessed.

These particular restrictions impose upon the taxpayer verification requirements with regard to its contractors. In the case of one-off transactions it is difficult to require that taxpayers each time demand that their contractors present documents verifying their right to issue VAT invoices, or registration documents. Moreover, the taxpayer does not have the authority to verify whether or not the contractor has retained a copy of the invoice, or whether the tax due has been disclosed in the contractor's tax declaration. The scenarios presented in items 1, 2 and 4 above constitute an inappropriate attempt by the Government to engage taxpayers in combating dishonest business turnover.

Other forbidden deductions from tax assessments and tax refunds are of a typically fiscal nature. Their range has been extended since 1994 by a number of important items, e.g., vehicles other than passenger cars purchased by the taxpayer having a payload up to 500kg, engine petroleum fuels used in passenger cars or other vehicles with payload up to 500kg. Moreover, service providers (mainly lessees) using passenger cars or other vehicles with payload up to 500kg on the basis of a rental, lease, leasing or similar contract were deprived of the right to reduce the tax due and the refund of the difference in tax with regard to the amounts of tax assessed on lease payments (instalment) and other charges resulting from the contract.

The period of time provided for the refund of tax assessed or the refund of the excess of tax assessed over tax due has been extended compared to 1994, from 15 to 25 days. This period may be extended for the duration of any clarification proceedings – i.e., for an indefinite period – however, one should note that tax offices should demonstrate utmost caution when extending the payment period allowed since interest must be paid if the refund claim is determined to be justified.

The introduction VAT refunds to non-residents making purchases in Poland was a positive change with regard to the refunding of that tax. However, this change affects small and medium-size entrepreneurs only indirectly, by increasing their turnover. Furthermore, it is more difficult for small entrepreneurs to meet all of the formal requirements related to obtaining "vendor" status and a waiver of these requirements would be justified.

VAT Rates

Four VAT rates, i.e.: 22%, 7%, 3%, 0% were in effect as of December 31, 2000, which should be considered as a negative situation with the assumption that given the neutrality of VAT in international trade, it would be advisable to apply only the domestic rate and the 0% rate.

Date of Payment of Tax and Submission of Tax Declarations

Taxpayers are required to calculate and pay tax for monthly periods, as well as to deliver a tax declaration by the twenty-fifth day of the month following the month in which the tax liability was incurred.

Penalties

The taxpayer was subject to the payment of an "additional tax liability":
- if it has been discovered that the taxpayer submitted a return that declared a lower amount of tax liability than the amount due – amounting to 30% of the understated amount of tax liability,
- if it has been discovered that the taxpayer submitted a return that declared a higher amount of refund of the tax difference or refund of the tax assessed than the amount due – amounting to 30% of the overstated amount of tax due.

Penalties were also applied if:
- the taxpayer submitted a return that declared a refund due, and received a refund of tax difference or refund of tax assessed, when a tax liability payable to the tax office should have been declared,
- the taxpayer failed to submit a tax return and did not pay the amount of tax liability due.

The Constitutional Tribunal held that the regulations were invalid in respect of penalties (Article 27 items 5, 6 and 8) to the extent to which they allow the application of administrative penalties and liability for a tax offence in relation to the same person for the same action[12].

[12] Notification of the President of Constitutional Tribunal of November 9, 1998, with respect to the invalidity of Article 27 sections 5, 6 and 8 of the Act of January 8, 1993, on VAT and Excise Tax, *Journal of Laws* of 1998, No. 139, item 905.

Cash Registers

The requirement to maintain records of turnover and amounts of tax due by using cash registers has been expanded each year by way of decreasing the turnover threshold above which entrepreneurs are required to utilise cash registers. In 2000, such a requirement was imposed on taxpayers providing services, including trade and gastronomy, to private individuals not registered as a business, whose turnover from those services amounted to PLN 40,000 in the previous business year, and taxpayers who started operations in 2000 are required to start using cash registers once their turnover exceeds PLN 20,000. Such low turnover thresholds force virtually every taxpayer to purchase cash registers, and for some it is not an insignificant expense. The fact that taxpayers may deduct 50% of the purchase price of each cash register (up to PLN 2,500 exclusive of VAT) from tax liabilities, does not allow taxpayers to reduce their expenses.

VAT in Other European Countries

The taxation rules governing indirect taxes have been standardised as a rule, with advanced processes of harmonisation of VAT legislation taking place in the European Union.

The basic rate applied in Poland belongs to Europe's higher rates category and is higher, e.g., from that in Germany, by 7 percentage points. Although EU Directives do not specify VAT rates, they do state that Member States are to apply a basic rate of not less than 15% and one or two reduced rates not less than 5%. Differences between rates applied by individual Member States should not exceed 6 percentage points.

Table 6.5. VAT in Selected Countries

	Spain	**Germany**	**Great Britain**	**The Czech Republic**	**Ukraine**	**Hungary**	**Poland**
Basic Rate	16%	16%	17.5%	22%	20%	25%	22%
Reduced Rate(s)	7%, 4%	7%	5%	5%	.	12%	7%, 3%
Individual Exemptions	No	No	No	Yes	No	Yes	Yes

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

In Great Britain, a high threshold for VAT registration is applied. Mandatory VAT payment has been imposed on firms with revenues exceeding GBP 41,000 (EUR 65,600). In the Czech Republic, VAT is paid by enterprises whose turnover over the previous three months exceeded CZK 750,000 (EUR 20,833), and in Hungary, entities with annual income in excess of HUF 2 million (EUR 7,867).

6.3.2. Excise Tax

Excise tax is paid by manufacturers and importers of excisable products, i.e., engine fuels, petroleum products and synthetic liquid fuels, lubricating oils, passenger cars, spirits, wines, beer, other alcoholic beverages having an alcohol content in excess of 1.2% and alcoholic beverages that are a mixture of beer and non-alcoholic beverages in which the alcohol content exceeds 0.5%, tobacco products, plastic packaging including plastic packaging in which goods

are imported, gas used as fuel for motor vehicles and for filling recreational gas-cylinders weighing up to 5kg, yachts, sail boats, etc.

The most important change over the last few years that in general influenced the business of small and medium-size enterprises that use motor vehicles in their operations was the increase of the tax liabilities with regard to car fuel. This increase took place in three ways: first, quota-based rates applied to fuel were raised, second, the base for assessing excise tax was changed through a determination that excise tax is not assessed per tonne of fuel but per 1,000 litres (petrol weighs between 0.68kg and 0.75kg depending on the type, and diesel fuel – 0.84kg), third, the excise tax covered gas used as car fuel. The increase of tax rates on engine fuels was considerable – even without taking the change in the tax base into consideration. For example: the excise tax rate for unleaded petrol increased from 5,700,000 old zlotys per tonne to 1,427 new zlotys per 1,000 litres (a rate increase of more than 250%), the rate for ethyl gasoline 94 increased from 6,400,000 old zlotys per tonne to 1,588 new zloty per 1,000 litres (a rate increase of almost 250%), and diesel oil rates increased by about 400%.

Moreover, including plastic packaging within the excise tax boundaries had negative consequences for small and medium-size enterprises – manufacturers and users of plastic packaging.

Table 6.6. Products Covered by Excise Tax in Selected Countries

	Spain	Germany	Great Britain	Czech Republic	Ukraine	Hungary	Poland
Strong spirits	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Beer	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Wine	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Cigarettes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Engine fuels	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Oils	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other articles	Yes	Yes	No	No	Yes	Yes	Yes

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

6.4. Taxes and Local Charges

6.4.1. Real Estate Tax

In 2000, taxpayers of real estate tax included physical persons and corporate entities, as well as organisational units without legal status, which:

- were owners or owner-like holders of real estate or buildings not attached permanently to land,
- were perpetual usufruct users of real estate or their parts,
- were holders of real estate or buildings not attached permanently to land, constituting the property of the State Treasury or a local government unit, if the possession is the result of an agreement entered into with the owner, or another legally binding instrument, as well as an agreement entered into with the State Treasury Agency of Agricultural Property, or of the establishment of property management,
- were in possession – without a legal title – of real estate or their parts, or buildings not attached permanently to land, constituting the property of the State Treasury or a local gov-

ernment unit, with the exception of real estate belonging to the Fund of the State Treasury Agricultural Property or covered by the management of State Forests.

The tax base was as follows:
- in respect of buildings or their parts – usable area,
- in respect of structures – their value determined as of 1 January of the tax year, constituting the basis for calculating depreciation in that year, and in the case of completely depreciated structures – their value from 1 January of the year in which the last depreciation write off was made,
- in respect of land – area of land.

Tax rates – as in the previous year – were determined by the Local Community Council applying maximum tax rates specified in the Act for the full tax year. The maximum rate on buildings or their parts related to business activity other than farming or forestry, with the exception of buildings or their parts allocated for housing people living in residential premises and on residential buildings used for business purposes amounted to PLN 14.36 per $1m^2$ of usable area[13], and on land covered by business activity other than farming or forestry, with the exception of the land attached to residential buildings – PLN 0.5 per $1m^2$ of area.

The tax rate on buildings used for the purposes of commercial activity increased by almost three times over the last few years.

From January 1, 1997, the principle was introduced that real estate tax rates determined by the Local Community Council may not be higher than 50% of the maximum rates.

Real estate tax is applied extensively also in other countries, however it is often assessed on the value of the real estate, e.g., in Spain the value of real estate constituting the tax base is determined once every eight years (the basic rate is 0.4% in cities and 0.3% in rural areas, and the local authorities may raise the rate to a certain level). In Great Britain, a special real estate tax related to the commercial activities is levied and the value of the rental of that real estate officially determined once every five years is taken as the tax base. The tax is paid by the user of the real estate. In the Czech Republic the same mechanism as in Poland is applied – the tax is assessed on the basis of the area of the building or structure (land is assessed with a land tax), and annual rates are: CZK 5 (EUR 0.13) or CZK 10 (EUR 0.27).

In Spain and Germany, real estate tax is deducted from income tax.

6.4.2. Road Tax

The introduction of the exemption of passenger cars from taxation as of January 1, 1998, was a significant change. At the same time, as of January 15, 1998, the rates of excise tax on engine fuels were raised.

In 2000, private individuals and corporate entities owning the following transport vehicles paid road tax:
- trucks with payload exceeding 2 tonnes,
- trucks with payload exceeding 12 tonnes,

[13] As of January 1, 2001, the rate was increased to PLN 15.86 per $1m^2$ of usable area.

- fifth wheel tractors and ballast tractors,
- trailers and semi-trailers with payload exceeding 5 tonnes, with the exception of those used for farming purposes by the taxpayer of farming tax,
- buses.

Regulatory authority to determine the level of tax rates is vested in the Minister of Finance. The annual tax rate on one vehicle could not exceed the maximum rate determined by the type of vehicle:

- on trucks having a payload in excess of 12 tonnes, as well as fifth-wheel tractor and a ballast tractor – PLN 2,081.40,
- on trucks having a payload between 2 and 12 tonnes, trailers or a semi-trailers with payload in excess of 5 tonnes, and busses – PLN 1,609.44.

The Local Community Council, on the basis of an Act, was authorised to determine detailed road tax rates depending on the type of vehicle, payload, total weight, age, skid plate load in a tractor, or number of seats[14].

6.4.3. Market Fee

Market fee is assessed on private individuals, corporate entities, and organisational units without legal status, selling goods in marketplaces. Such charges take the form of daily amounts collected in municipal and "private" markets. The local community council, taking into consideration the maximum rate determined in the Act at PLN 478.22 in 2000, determines the amounts. For comparison, in 1994 the market charge amounted to approximately PLN 200 (new zlotys).

6.4.4. Administrative Fee

The administrative fee is facultative and may be introduced by local community councils. It is usually applied to official acts performed by authorities reporting to the local community council, provided that these acts have not been already covered by stamp duty. The maximum rate of the administrative charge in 2000 amounted to PLN 159.56.

6.4.5. Stamp Duty

In 2000, the stamp duty encompassed following transactions:

- transactions in proceedings in respect of individual cases arising from competencies of the state administration: applications (demands, appeals, complaints) and attachments to applications, certificates and permits, as well as other transactions performed by way of notification or at the request of the interested party;
- civil law transactions: contract of sale, exchange, lease, sublease, tenancy and sub-tenancy, loan, commission sale, partnership, surety, life annuity and establishment of a annuity against payment, prenuptial agreements, as well as establishment of mortgage and paid usufruct;

[14] As of January 1, 2001, principles of taxation with respect to road tax changed.

- documents confirming the establishment of a legal representative, bills of exchange, and bills of lading;
- court decisions, agreements entered into before those courts, if their effects are the same as those of civil law transactions referenced above.

Exemptions from stamp duty were provided for both in the Act on Stamp Duty and in the Ordinance on tax duty. In particular, the following stamp duty exemptions were of practical importance for small and medium-size enterprises:
- civil law transactions, such as contracts of sale, sublease, tenancy and sub-tenancy entered into by VAT taxpayers, other such contracts that related to goods and services exempted from VAT, as well as contracts of sale entered in to by taxpayers exempted from VAT on the basis of Article 14 of the Act on VAT and Excise Tax,
- sale of items in enforcement and bankruptcy proceedings,
- sale of movables if the market value of the transaction does not exceed PLN 50,
- transfer of ownership of real estate (with the exception of residential buildings or their parts – located within city limits) through contracts of sale, life annuity, division of inheritance, liquidation of joint and several ownership, donation and exchange,
- resale by business entities of raw materials, basic and auxiliary materials, semi-finished products, packaging, fuel, spare parts, waste and refuse.

Stamp duty rates specified in the Ordinance on stamp duty emphasised the fixed amount rates or the percentages rates, and included:
- 5% from the sale of real estate and perpetual usufruct,
- 2% from the sale of property rights,
- 2% from the sale of movables,
- 1% from the contract of lease, sublease, and changes of those contracts,
- 2% from the loan agreement.

From deeds of incorporation of limited liability/joint-stock companies:
- from share capital (contributions, shares, stocks) up to the amount of PLN 10,000 – 2%,
- between PLN 10,000 and PLN 20,000 – PLN 200 + 1% of the excess over PLN 10,000,
- between PLN 20,000 and PLN 30,000 – PLN 300 + 0.5% of the excess over PLN 20,000,
- over PLN 30,000 – PLN 350 + 0.1% of the excess over PLN 30,000,
- from free-of-charge usufruct or use of items or property rights contributed to the company – 1%.

In the raising of a company's share capital as well as additional contributions and loans granted to the company by partners and shareholders, specified tax duty rates were used, however, thus calculated tax duty is decreased by duties paid on capital prior to the raise and on earlier additional contributions and loans.

As of January 1, 2001, the previous Act on Tax Duty expired. As of January 1, 2001, the new Act on Tax Duty and the Act on Tax on Civil Law Transactions came into effect[15].

[15] More information in Chapter 5.2.3.

6.4.6. Local Taxes in Other Countries

In many tax systems a local tax on business activity is applied.

In Spain, the amount of tax depends on the type of activity conducted, area used, etc., increased by a local index. The amount of tax may not exceed 15% of the average profit estimated for this type of activity. The tax is deducted from income tax.

In Germany, tax is assessed on the income after the deduction of loss from previous years and a tax-free amount (DEM 48,000). The rate increases from 1% in taxable increments of DEM 24,000 by 1% up to 5%, and then the amount is multiplied by an index determined locally – from 300% to 515%. The tax is deducted from income tax.

The decision to assess local tax on business activity in Hungary is made by local authorities. Within statutorily determined limits they may specify rates, tax reliefs and exemptions from tax. The tax may cover exclusively corporate entities, and the gross amount of annual sales less costs of purchasing raw materials and fees for subcontractors is the tax base for manufacturing entrepreneurs, whereas the base consists of total income for enterprises providing services. The rate may not exceed 2%.

6.5. Supreme Administrative Court Rulings in Tax Cases

The Supreme Administrative Court supervises the execution of public administration works. The Court issues decisions concerning, among other things, complaints against administrative decisions and decisions issued in administrative proceedings, as well as enforcement proceedings and proceedings to secure claims, and it considers complaints against the failure of authorities to respond with the prescribed timeframe. One of the most important areas of activity of the Supreme Administrative Court is the consideration of complaints against decisions issued by Tax Chambers, after the party to the proceedings has exhausted all means of appeal.

Provisions in respect of the subject and object of taxation, sources of income, individual exemptions, cost of revenue, tax base as well as amount of tax due and tax or advances paid by payers are among tax regulations that are the cause of the most frequent disputes. General principles of tax procedure, and especially the principle of active participation of parties in tax proceedings, are no less controversial.

The Supreme Administrative Court and its external divisions play a very important role in the application of the tax law. Due to the lack of clarity and consistency of tax regulations the interpretations of statutory provisions applied by the Court are often used as a guidelines and guideposts for entrepreneurs.

With respect to determining the level of income, the opinion of the Supreme Administrative Court, upheld in its decisions, is the basis for using the aforementioned regulations. The possibility of including a particular expenditure into the cost of earning revenue category, according to the Supreme Administrative Court, depends on meeting both prerequisites: existence of the causality between the expenditure and the revenue and possession of the appropriate documentation of that expenditure. The interpretation of the Supreme Administrative Court

holds that deducting all costs of earning revenue from that revenue must always be directly related to the business activity conducted by the taxpayer and incurring those costs influences or may influence the level of revenue generated in the particular tax year. In order to evaluate correctly whether such a correlation exists, i.e., whether the expenditure incurred constitutes the cost of earning revenue, it must be properly documented.

The Szczecin division of the Supreme Administrative Court by way of interpretation precisely defines the term "free-of-charge benefits", previously unexplained by the lawmakers, which draws upon the definition of income and revenue contained in the Corporate Income Tax Act. Referring to the provisions of Article 353 of the Civil Code, the court indicated that it should also mean such actions or omissions of the person bound by the obligation, e.g., transfer of ownership of an item, or another right, handing over an item for use or usufruct, payment of a sum of money, performance of a job or other services, and desisting from the exercise of certain rights or the performance of certain actions, confronting a specific behaviour of the entitled person, etc.

Another important decision from the point of view of the interpretation of regulations was the decision of the Supreme Administrative Court (Szczecin division) with respect to the ineffectiveness of a claim to revoke obligations arising from tax law regulations through a civil law contract. The court decided that the tax rights and duties, while not regulated by provisions of the Civil Code, cannot be revoked, and the general principle of the Civil Code – principle of freedom of contracts – may not be used to obscure the true nature of the contract in order to evade tax liabilities. In such a situation, the tax authority has the right to interpret and evaluate the documents filed that are important for the assessment of the tax due.

However, whilst accepting the right of tax authorities to interpret and evaluate documents that are the basis for assessing the tax, the Supreme Administrative Court determines its limits. In a case concerning the qualification of a lease, defined by the parties to an operating lease contract, as a capital lease (with all tax consequences in that respect), the Supreme Administrative Court decided that it was not possible to determine whether the type of lease was different than had been declared exclusively on the basis of a purchase agreement entered into after the expiry of the lease agreement, even if the purchase price of the item that had been previously leased was much lower than the market price. In its decision, the Supreme Administrative Court indicated that if in the course of the duration of the lease contract an item is included among the lessor's assets then the lease is an operating lease. Tax authorities are not competent to question the justifiability of the inclusion of an item that is used as a form of payment among the assets of one of the parties to the contract if the criterion mentioned above has been met. The court was of the opinion that tax authorities should restrict themselves to documents concerning taxable transactions. Any further actions of the entities should not exert any influence on their decision.

The Supreme Administrative Court also puts on hold the over zealousness of tax authorities that, without a legal basis and based only on suspicions, are capable of questioning the application of the law by entrepreneurs. The case concerning the inclusion of expenditures for the reimbursement of the costs of use of shareholders' private cars for company purposes is an excellent example. The Tax Chamber interpreted such reimbursement to be an abuse of law. According to the Supreme Administrative Court, in the case where a third-party passenger car has been used, including a car belonging to a shareholder or person performing work on the

basis of a mandate contract, the taxpayer not only may but is required to refund the costs of use of the car to its owner, or incur those costs directly. The Tax Chamber's interpretation of statutory provisions is not legally justified. Based on the Corporate Income Tax Act, it cannot be determined whether there is any impediment in accepting the expenditure for the reimbursement of the costs as the cost of earning revenue of the use of shareholders' private cars for company purposes.

The complicated nature of tax law, and the large number of divisions and judge panels in the Supreme Administrative Court result in divergent decisions even in very similar cases.

The divergent interpretations of the relation between cost incurred and revenue in light of the Corporate Income Tax Act may serve as an example. In a decision of an external division of the Supreme Administrative Court in Białystok, it was determined that a very close dependence between the cost incurred and the specific amount of revenue generated in a particular tax year must exist. The Gdańsk division examined the existence of a large collection of costs related to the operations of the enterprise, which could not be directly tied to specific revenue. According to the interpretation adopted, such costs should be assessed from the point of view of their purpose rather than from the point of view of their essentiality and result in a concrete generation of income.

The absence of agreement as to the place and role of tax authorities in the assessment of taxpayers' activities may be surprising. In one of its decisions, the Katowice division of the Supreme Administrative Court adopted the view that tax authorities are authorised to evaluate the contents and purposes of civil law transactions, from the point of view of their possible influence on the amount of the tax liability formed. At the same time, the limits and the freedom of interpretation in that respect have not been determined in any way and, in its decision, the Supreme Administrative Court in Warsaw refuses to accept such an interpretation. The decision states that tax authorities cannot assign to contracts another legal qualification because it would constitute the violation of the principle of autonomy of will of the parties. The intention to evade tax law regulations may be a prerequisite of determining the actual purpose of the contract, but it must be very clear.

The foregoing examples serve as proof that in the current legal climate, entrepreneurs may make mistakes with respect to their rights resulting from tax legislation. The review of decisions issued by external divisions of the Supreme Administrative Court does not help to determine accurately whether the percentage of decisions favourable to entrepreneurs, amounting to as much as 24–30% in individual divisions, is a lot or not.

Likewise, the fact that the majority of entrepreneurs lose in the proceedings before the Supreme Administrative Court does not mean that these proceedings were unfair. The entrepreneur is also responsible without limit for mistakes made due to the application of an official interpretation of law and bears the consequences of decisions issued on the entrepreneur's behalf but in violation of the law.

At least in part (it is difficult to determine how large of a part) sentences unfavourable to entrepreneurs are the effect of the basic principle of operation of the Supreme Administrative Court whose external divisions study whether an administrative decision has been lawfully issued. However, the criteria of purposefulness, reliability and thrift are outside the control of the court. Nevertheless, the elimination of all decisions that might be considered in violation

of the law must not always be a priority. The Constitutional principle of the rule of law should be understood in a more differentiated manner, as the building of the trust of the citizen in the adherence of state bodies to the law. With regard to the operation of administrative bodies, this principle would mean that the risk of errors and omissions of those bodies will not be transferred to the citizen, provided that there is no prerequisite of negative behaviour on that citizen's part.

Therefore, the postulate put forward by the Ombudsman – that the Supreme Administrative Court does not limit its activities only to the elimination of decisions that cannot be accepted from the point of view of the rule of law from civil law transactions – is justified. The emphasis should rather be placed on the assignment of a specific protection to the individual functioning within a justified trust in the administrative bodies' compliance with the law and the accuracy of decisions. In a situation in which such decisions may be objectively considered to violate a specific regulation, they should not be addressed from the point of view of a major conflict: law – lawlessness. The current trend of of the constitutional and administrative decisions of many developed European countries (e.g., Germany or Switzerland) suggests a rather different point of view. In a modern, rule of law based State the perception changes as to what, in the case of such an objective conflict, should be considered as compliant with law. It is true that the requirement to eliminate from legal transactions decisions inconsistent with law is in compliance with the rule of law; equally important however is the requirement of the protection of rights of an individual functioning in good faith and with trust in the State authorities' compliance with law. Also, this requirement is supported by plain regulations (of constitutional and administrative law) and an unequivocal trend of court decisions. Therefore, this is not a "purely theoretical" manner of thought, but a directive of practical actions of the State administration and courts resulting from specific decisions made by the Parliament.

6.6. Penal Provisions

From January 1, 1999, the Act – Penal Tax Code came into effect replacing the Penal Tax Law. The transfer of competencies in respect of decision-making in penal tax cases was a positive change. A new addition was the introduction of fines stated at daily rates, and the court was given some leeway in determining the rates.

With regard to tax crimes and tax offences against tax duties and settlements resulting from donations or subventions, changes were introduced consisting of the detailed legislative measures for crimes and offences related to the violation of duties under VAT regulations, excise tax regulations, and regulations in respect of excise stamps. At the same time, penalties for tax crimes were extended: whilst in 1994 only four types of tax crime with regard to tax liabilities and donations were punishable by imprisonment, in 2000, imprisonment could have been imposed in the case of 14 categories of crime.

6.7. Summary

The last decade was the period of establishment of a tax system adapted to the new socio-economic reality in Poland. The old mechanisms were replaced with new ones, often based on the

tax systems of highly developed countries. Unfortunately, the number of changes introduced that contributed considerably to the complication of the regulations, indicates that the process of formation of regulations that directly affect enterprises was rather chaotic.

The trend of making the regulations and their language more and more precise attracts attention; catalogues of casuistic specifications of sources of revenue, or costs of earning revenue and costs not considered to be costs of earning revenue are continuously extended. In consequence, the methods of calculations of income are becoming more and more complicated. As with VAT, the trend of providing more and more casuistic details with regard to transactions covered by taxation attracts one's attention; on the other hand, there is a trend to restrict exemptions, including the imposition of the tax duty on micro-enterprises. It is the smallest firms that, in addition to the financial burden and bureaucratic requirements involved in the paying of taxes, are the most affected by changes in the tax system. The limited scope of application of simplified forms of taxation – lump-sum tax on recorded revenues and a tax payment card, as well as the disadvantageous solutions introduced in relations concerning those forms – lead to a decrease in their attractiveness and a necessity to use complicated methods of determining tax liabilities.

Frequent changes in Acts and Ordinances and their growing number lead to the necessity for close scrutiny of the regulatory environment. This makes planning of the operation of the business difficult and renders the rulemaking of decisions in tax matters impossible, as well as detracting from the merit of the tenets. The worrisomely large role played by official interpretations should also be noted.

Among the positive phenomena observed recently are a noticeable trend to reduce the number of tax regulations in enabling legislation and transfer them to Acts, as in the case of regulations on depreciation. However, many issues are still under the competence of the Minister of Finance, and the acceleration of the process of revoking officials of their competencies to make decisions in such important cases would be worthwhile. Positive changes involve providing the taxpayer with a choice in several situations in which previously provided for the application of a single mandatory solution with no possibility of adjusting to the specific situation of the entrepreneur.

Legal regulatory mechanism applied by other countries to support SMEs may be illustrated by a reference list. It would include the use of reduced rates, exclusion of VAT taxation in the case of low turnover, accelerated depreciation, and simplified forms of calculation of income for the purpose of taxation. However, on the basis of other countries' experiences, it is worth noting that the absence of specific tax incentives addressed to SMEs decides whether the particular tax system is beneficial for entrepreneurs, or rather what the general features of that system are, especially the level of tax rates and presence of general mechanisms to stimulate the development of business activities, innovativeness of enterprises and creation of new jobs.

Chapter 7.

Contribution of Small and Medium-Size Enterprises to the Generation of Public Sector Income

Income Taxes

Other Deductions from Profit

Tax Payment Card

Deductions from Wages of Employees of the SME Sector

VAT

Excise Tax

Customs Duty

Other Taxes and Fees

Summary

This chapter discusses the SME sector as a source of public revenue[1]. When analysing the public liabilities on small and medium-size enterprises, one cannot focus exclusively on taxes. This is because one of the features of the Polish system of public finance is the relatively small share of budgetary income contained within the total amount of public income that is the consequence of the exclusion of the majority of charges constituting the cost of labour for entrepreneurs from budgetary income. For this reason, the analysis takes into consideration the most important extra-budgetary encumbrances of the sector.

The picture drawn of the share of SMEs in the creation of public income would not be complete if the proceeds derived from taxes and other contributions paid by employees of enterprises were omitted. Although entrepreneurs are not directly required to pay those amounts, they significantly affect wage levels and are in fact an additional cost to entrepreneurs.

The analysis has covered proceeds derived from the following liabilities paid by entrepreneurs:
- corporate income tax,
- personal income tax,
- tax payment card,
- lump-sum tax on recorded revenue,
- VAT,
- excise tax,
- real estate tax,
- road tax,
- social insurance contribution,
- Labour Fund contribution,
- customs duties,
- mandatory payments to the State budget,
- other liabilities (other local taxes and fees, contributions and other payments to earmarked funds, tax-free loads on profit);

and proceeds derived from liabilities imposed on employees:
- personal income tax,
- social insurance contributions,
- general health insurance contributions.

7.1. Income Taxes

Corporate and personal income taxes paid by SMEs in 1996 amounted to PLN 3.8 billion, i.e., 8.5% of the total income of the public sector derived from those taxes. In 1999, the share increased to 12.7%, i.e., PLN 6.1 billion. A considerable increase of the SMEs' share in total proceeds derived from income taxes took place in 1999 (by 4.4 percentage points in relation to 1998) and might have been a side effect of the reform of the health care system implemented at that time, which led to the transfer of part of the proceeds derived from personal income tax paid to Health Funds in the form of health insurance contributions. This applies

[1] The paper from the Gdańsk Institute for Market Economics commissioned by the Polish Agency for Enterprise Development covered the years 1996–1999. The data presented have been estimated on the basis of items declared by enterprises in their F01 statistical forms. In individual categories of proceeds, those data may differ from actual values, which in particular refer to customs duties and the excise tax that are not fully reflected in the F01 statistical form data.

mainly to small enterprises, where the number of people paying health insurance contributions is the largest.

Table 7.1. Income Taxes in the Years 1996–1999 (%)

Specification	1996	1997	1998	1999
	PLN billion			
Total public sector income derived from income taxes[1]	**44,483.9**	**52,769.0**	**60,868.9**	**48,312.7**
Small and medium-size enterprises	3,784.6	4,799.7	5,049.3	6,114.3
Small enterprises	1,620.3	1,869.4	1,986.8	2,151.4
Medium-size enterprises	2,164.4	2,930.3	3,062.5	3,962.5
Large enterprises	5,884.3	6,913.1	6,452.1	6,430.7
Others[2]	34,815.0	41,056.2	49,367.5	35,767.7
	%			
Total public sector income derived from income taxes	**100.0**	**100.0**	**100.0**	**100.0**
Small and medium-size enterprises	8.5	9.1	8.3	12.7
Small enterprises	3.6	3.5	3.3	4.5
Medium-size enterprises	4.9	5.6	5.0	8.2
Large enterprises	13.2	13.1	10.6	13.3
Others	78.3	77.8	81.1	74.0

[1] Excluding proceeds derived from the tax payment card

[2] Private individuals generating income derived from sources other than business activity, and corporate entities as well as organisational units without legal status that pay corporate income tax.

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

A detailed analysis of income tax paid by enterprises by industrial branch clearly indicates that in the case of nine out of 14 sectors small and medium-size enterprises had better results than their large counterparts. Other sectors include: financial services, real estate services and rental, hotels and restaurants, and agriculture. With respect to the first two aforementioned sectors, this situation is the obvious consequence of the advantage held by large enterprises due to the benefits of economies of scale. In the case of agriculture, a plausible explanation may be that small farms do not conduct business in a form that would require that they pay income tax. The increase of proceeds derived from SMEs in the mining and quarrying sector, dominated by large entities, is an interesting phenomenon.

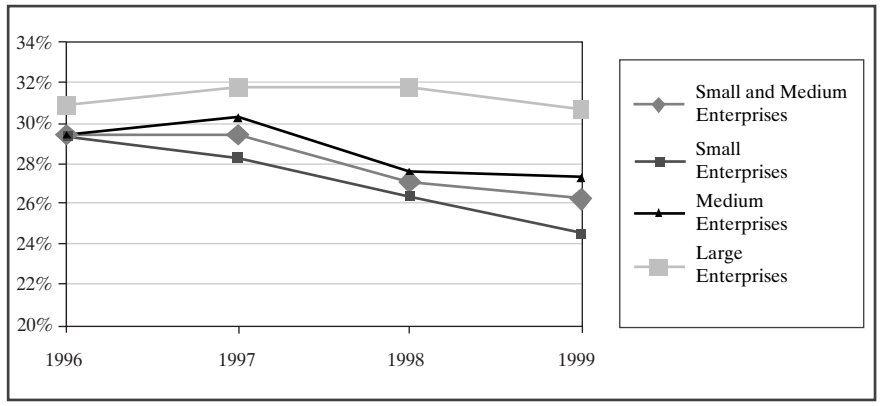
Table7.2. Comparison of the Rate of Change in Income Tax Proceeds.

NACE Industrial Branch	SME Sector		Large Enterprises		3:2	5:4
	1996	1999	1996	1999		
	PLN million				%	
1	2	3	4	5	6	7
Agriculture, Hunting and Forestry	20.0	19.8	9.1	10.3	99.4	113.3
Fishing and Fisheries	0.3	0.1	1.7	0.0	38.1	0.0
Mining and Quarrying	20.5	44.6	292.6	192.8	217.9	65.9
Manufacturing	1,249.8	1,746.2	2,822.3	3,025.1	139.7	107.2
Electricity, Gas and Water Supply	101.3	85.6	879.3	603.4	84.5	68.6
Construction	394.0	617.5	250.7	330.3	156.7	131.7
Wholesale and Retail Trade; Repairs	1,186.9	2,004.6	473.8	642.2	168,9	135,5
Hotels and Restaurants	13.6	24.0	41.0	103.5	176.6	252.5
Transport, Storage and Communication	137.4	206.7	839.0	979.4	150.4	116.7
Financial Intermediation	73.0	216.7	12.6	84.4	296.8	671.5
Real Estate, Renting and Business Services	536.1	1,055.7	105.4	260.3	196.9	246.9
Education	4.8	8.4	–	–	175.3	–
Health Care and Social Welfare	3.1	6.8	2.9	4.3	215.6	145.6
Other Community, Social and Personal Service Activities	43.8	77.3	153.9	194.7	176.7	126.5
Total	**3,786.6**	**6,114.3**	**5,884.3**	**6,430.7**	**161.6**	**109.3**

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

The comparison of effective tax rates provides for the determination of whether the burden of maintaining the public sector has been spread evenly between the SME sector and large enterprises. The larger the scale of business activities, the higher the effective income tax rate. This is probably due to several reasons. First, enterprises benefiting from lump-sum forms of taxation should be taken into consideration; second, among smaller enterprises the number of entities paying personal income tax at lower rates is larger (19% and 30% as compared to CIT between 38% and 32% in individual years). Starting from 1996, effective corporate income tax rates have been decreasing. The largest decrease has been noted in the case of the effective rate of tax paid by small firms, i.e., by almost 5% during the 1996–1999 period.

Chart 7.1. Effective Tax Rates Paid by Individual Groups of Enterprises



Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

7.2. Other Deductions from Profit

In addition to income taxes, the basic encumbrances on profit include some smaller categories, of which payment from profit is made to the State budget. The total contribution of the SME sector to public revenue derived from those sources amounted to more than PLN 550 million in 1999, i.e., an increase of 88.7% compared to 1996. Combined with the considerable decrease that took place in the case of large firms (over 52%), it led to a significant increase of the share of that sector in the total amounts paid to the State budget, from approximately one-fifth in 1996 to almost half three years later.

Table 7.3. Other Deductions from Profit in Individual Groups of Enterprises

Specification	1996	1997	1998	1999
	%			
Total	**100.0**	**100.0**	**100.0**	**100.0**
Small and Medium-Size Enterprises	19.1	24.6	32.0	48.2
Small Enterprises	7.7	9.3	10.8	11.4
Medium-Size Enterprises	11.4	12.4	21.2	36.7
Large Enterprises	80.9	78.4	68.0	51.8
	Previous year = 100			
Total	**–**	**107.8**	**72.1**	**96.2**
Small and Medium-Size Enterprises	–	122.3	106.6	144.9
Small Enterprises	–	129.9	84.1	11.6
Medium-Size Enterprises	–	117.2	123.4	166.9
Large Enterprises	–	104.3	62.2	73.3

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

Undoubtedly, one of the most serious reasons for such considerable changes is the intensive process of commercialisation of enterprises, which decrease the proceeds derived from the critically important budgetary resource entry: payments from profit to the State budget. In the

case of large enterprises, the decline in payments amounted to approximately 53% in the years 1997 – 1999, whereas the SME sector noted an increase of almost 200% at that time[2]. In the case of large firms, the decline can most certainly be attributed to subsequent "large privatisations" that took place during the period covered by the study.

7.3. Tax Payment Card

Taxpayers using the simplified form of taxation, i.e., the tax payment card, are small enterprises, employing – according to the statutory conditions – up to five employees. All of the income derived from the tax payment card, which is paid to local community budgets, is derived from the SME sector. Local communities' income derived from tax payment cards in 1996 amounted to PLN 352.6 million, but over the subsequent three years it decreased in nominal terms by 1.3% to the level of PLN 348.0 million. In real terms, this signifies a drop of 28.4%. During the period studied, proceeds derived from the tax payment card were growing in nominal terms until 1998, then, in 1999, they dropped significantly. As in the case of proceeds derived from personal income tax, this is due to the introduction of the health care system reform according to which the tax due is decreased by the health insurance contribution forwarded to Health Funds. This is not the only reason for reduced proceeds. Income derived from the tax payment card was also decreasing in real terms during the 1996-1998 period. The reason for the disappearance of this form of taxation is its decreasing attractiveness, as well as changes in legislation and structural changes in the SME sector resulting in the reduction of the number of entities entitled to use the tax payment card. Currently, proceeds derived from the tax payment card constitute less than 1% of the income of local communities, and one can assume that those proceeds will continue to decline.

Table 7.4. Local Communities' Income derived from the Tax Payment Card in the Years 1996–1999

	1996	1997	1998	1999	
	PLN million				1996=100
Proceeds derived from the tax payment card, current prices	352.6	376.6	338.7	348.0	98.7
Proceeds derived from the tax payment card, 1996 fixed prices	352.6	327.7	302.6	252.5	71.6
	Previous year = 100				
Changes in proceeds derived from the tax payment card in nominal terms	–	106.8	103.2	89.5	–
Changes in proceeds derived from the tax payment card in real terms	–	93.0	92.3	83.4	–

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

[2] Comparable data on 1996 are unavailable due to the different construction of the F01 statistical form in that year.

7.4. Deductions from Wages of Employees of the SME Sector

This category combines the burden on entrepreneurs as a result of their employment of personnel (social insurance contributions, Labour Fund contributions) and the burden on the employees themselves (personal income tax, social insurance and health insurance contributions).

The contribution of small and medium-size firms in this respect is considerable; in 1999 it reached PLN 55.2 billion, which constituted 53.8% of general proceeds derived from that source. Starting from 1996 this share has been growing continuously. Undoubtedly, the basic source of the changes observed is the increase in employment in the SME sector, which significantly exceeded the results achieved by other entities.

Table 7.5. Payments of Income Tax and Contributions Paid from Income of People Working in the SME sector

Specification	1996	1997	1998	1999
	PLN billion			
Proceeds derived from PIT, contributions to Social Insurance Funds (FUS), Labour Fund and Health Insurance[1]	**62,908.4**	**76,263.2**	**88,445.0**	**104,233.9**
Small and Medium-Size Enterprises	29,538.5	38,583.8	45,896.2	55,215.0
Other	33,369.9	37,679.3	42,548.8	49,018.9
	%			
Proceeds derived from PIT, contributions to Social Insurance Funds (FUS), Labour Fund and Health Insurance[1]	**100.0**	**100.0**	**100.0**	**100.0**
Small and Medium-Size Enterprises	47.0	50.6	51.9	53.0
Other	53.0	49.4	48.1	47.0

[1] Unaccounted for liabilities on people conducting business activities.

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

Of particular note, the public sector's income derived from deductions from wages paid by SMEs exceeds the total of other direct charges as well as the amount of all remaining fiscal burdens on SMEs.

7.5. VAT

Value added tax is among the basic sources of income for the State budget and there is a trend to increase its share in the budget. The contribution of the SME sector to the creation of VAT in the years 1996-1999 was growing considerably, from PLN 10.8 billion in the first year (10.8% of total income of the State budget) to PLN 23.4 billion in the last year (18.6% of total income of the State budget).

Both small and medium-size enterprises noted a significant increase in their share of VAT proceeds paid into the State budget. The increase in the share of medium-size firms was the high-

est, expanding their share by more than one-fourth in comparison with a 20% increase in the case of small businesses.

Table 7.6. State Budget Income derived from VAT by Groups of Enterprises in the Years 1996–1999

Specification	1996	1997	1998	1999
	PLN billion			
Total VAT	**28,014.9**	**36,914.5**	**42,868.6**	**48,803.6**
Small and Medium-Size Enterprises	10,805.6	14,782.5	19,416.8	23,415.9
Small Enterprises	4,747.8	6,512.7	8,236.6	10,068.4
Medium-Size Enterprises	6,057.8	8,269.8	11,180.2	13,347.5
Large Enterprises	13,804.2	16,672.3	20,164.7	21,867.2
Entities not covered by F01	3,405.1	5,459.7	3,287.1	3,520.6
	%			
Total VAT	**100.0**	**100.0**	**100.0**	**100.0**
Small and Medium-Size Enterprises	38.6	40.0	45.3	48.0
Small Enterprises	16.9	17.6	19.2	20.6
Medium-Size Enterprises	21.6	22.4	26.1	27.3
Large Enterprises	49.3	45.2	47.0	44.8
Entities not covered by F01	12.2	14.8	7.7	7.2

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

7.6. Excise Tax

Proceeds derived from excise tax generated by all enterprises required to complete the F01 statistical form amounted to PLN 14.0 billion in 1996 and increased during the study period to PLN 21.6 billion in 1999[3].

The revenue derived from excise tax in the SME sector changed during the study period from PLN 785.6 million in 1996 to PLN 1.8354 billion in 1999, i.e., by 230%. In the large enterprise sector the increase was much less dynamic, amounting to approximately 150%. The growing share of the SME sector in the total proceeds derived from excise tax, from 5.6% at the beginning of the period to 8.5% at the end, reflects that phenomenon.

The largest amount of revenue from excise tax is generated – from both SMEs and large enterprises – by the manufacturing sector, followed by wholesale and retail trade- also for all groups of enterprises. Low proceeds derived from excise tax may be noted in the real estate, renting and business services, and other services sectors.

[3] These amounts do not correspond fully with the amounts presented in the State budget. According to budget reports, income of the State budget derived from excise tax amounted to PLN 15.5 billion in 1996, whereas in 1999 it reached PLN 25.2 billion.

Table 7.7. Proceeds derived from Excise Tax in the Years 1996–1999 Based on the F01 Statistical Form

Specification	1996	1997	1998	1999
	PLN billion			
Total Income Derived from Excise Tax	**14,006.5**	**15,666.7**	**18,433.6**	**21,577.5**
SME Sector	785.6	980.9	1,431.0	1,835.4
Small Enterprises	125.9	126.0	242.0	291.5
Medium-Size Enterprises	659.7	854.9	1,189.0	1,543.9
Large Enterprises	13,220.9	14,685.8	17,002.6	19,742.1
	%			
Total Income Derived from Excise Tax	**100.0**	**100.0**	**100.0**	**100.0**
SME Sector	5.6	6.3	7.8	8.5
Small Enterprises	0.9	0,8	1.3	1.4
Medium-Size Enterprises	4.7	5.5	6.5	7.2
Large Enterprises	94.4	93.7	92.2	91.5

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

The uneven distribution of income derived from excise tax in the NACE classification is because only selected, specific products are encumbered by that tax. In 1999, 95.5% of proceeds derived from excise tax was derived from three groups of products – alcoholic beverages and beer, tobacco products, and fuel and engine oils, of which the products from the fuel and engine oils group accounted for the largest share of income derived from excise tax[4]. This structure of income derived from excise tax explains the low share of the SME sector in the generation of income from that source – excisable products are mainly manufactured in large enterprises.

7.7. Customs Duty

Income derived from customs duties declared in the F01 statistical form account for only approximately 30% of proceeds collected by the State budget. Based on the standard form, the income derived amounted to PLN 759.2 million in 1996 and declined to PLN 698.8 million in 1999, i.e., by over 3%[5]. The reason for the decrease was chiefly the reduction of customs duty rates.

Table 7.8. Proceeds derived from Customs Duties in the Years 1996–1999 Based on the F01 Statistical Form

Specification	1996	1997	1998	1999
	PLN billion			
Total Income Derived from Custom Duties	**1,759.2**	**2,335.2**	**1,814.6**	**1,698.8**
SME Sector	1.259.6	1,230.7	1,387.0	1,316.9
Small Enterprises	25.4	427.6	409.3	449.9
Medium-Size Enterprises	834.2	803.1	977.7	867.0
Large Enterprises	499.6	1,104.5	427.6	381.9

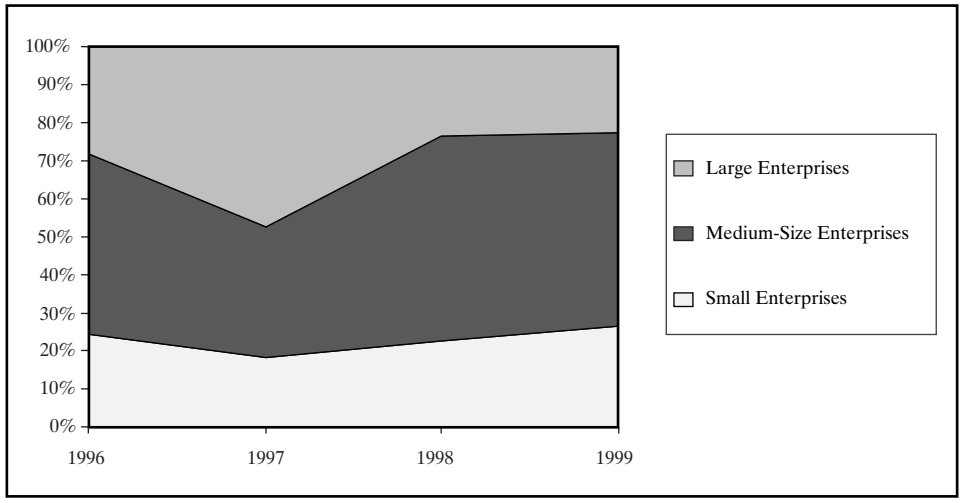
Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

[4] See: *Report from the Execution of the State Budget for the Period from January 1 to December 31, 1999 (Sprawozdanie z wykonania budżetu państwa za okres od 1 stycznia do 31 grudnia 1999 r.)*, Council of Ministers, Warsaw 2000, p. 132.

[5] According to the data from budget reports, State budget income from customs duties amounted to PLN 6.5 billion in 1996 and decreased to PLN 5.6 billion in 1999, i.e. by almost 14%.

The SME sector generated the majority of the income derived from customs duty during the study period. Its share constituted 71.6% of total income derived from that source at the beginning of the study, and increased to 77.5% in 1999. Only in 1997 was the share held by SMEs and large firms more closely apportioned. In that year, the share of large enterprises increased rapidly and this was the reason for the increase in the total amount of proceeds derived from customs duties in 1997.

Chart 7.2. Share of Individual Groups of Enterprises in Proceeds derived from Customs Duties in the Years 1996-1999



Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

In the SME sector the majority of revenues derived from customs duty was generated in the wholesale and retail trade sector. Revenues in that sector constituted over 75% of the total customs duty paid by SMEs. The proceeds derived from customs duties in the manufacturing sector came in second. In the case of large enterprises, in both aforementioned sectors, similar proceeds were noted, and they are also the largest in terms of absolute value. Such a distribution of proceeds derived from customs duties provides information about the structure of imports in the economy. Imports to enterprises in the manufacturing sector encompass semi-finished goods and materials. Consumer goods, as well as products used for further processing and machinery, were imported in the wholesale and retail trade sector.

7.8. Other Taxes and Fees

In the category of other taxes and fees, real estate tax, road tax, and stamp duty are the most important. Public sector proceeds derived from those sources amounted to PLN 7.2339 billion in 1996 and over the study period increased by over 50% to PLN 10.9665 billion in 1999.

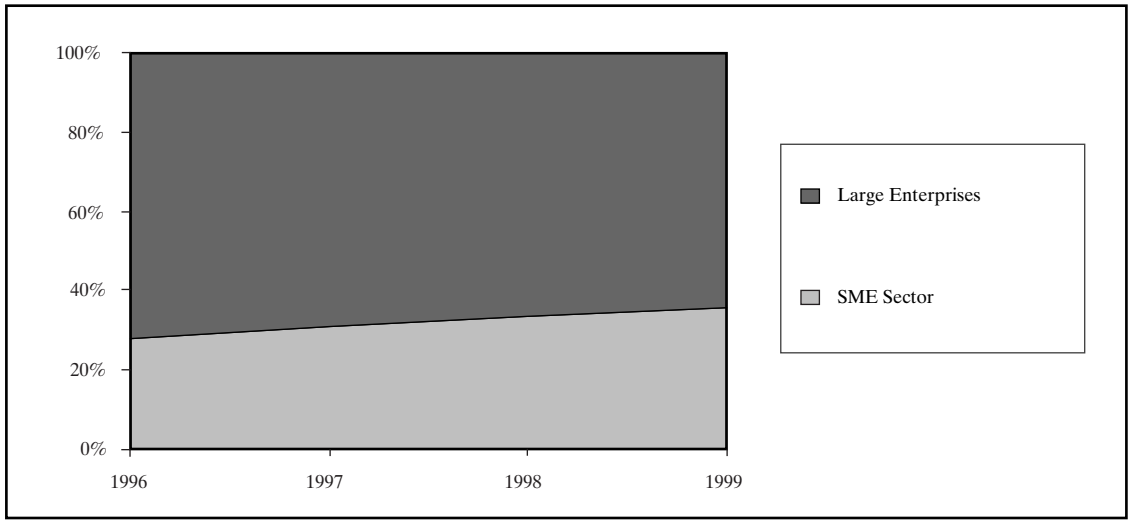
Table 7.9. Proceeds derived from Other Taxes and Charges in the Years 1996–1999

Specification	1996	1997	1998	1999
	PLN billion			
Income derived from Other Taxes and Fees	**7,233.9**	**8,375.2**	**9,681.7**	**10,966.5**
SME Sector	2,001.2	2,584.9	3,246.7	3,332.0
Small Enterprises	774.9	900.1	1,124.8	1,645.2
Medium-Size Enterprises	1,226.3	1,684.8	2,121.9	2,286.9
Large Enterprises	5,232.7	5,790.3	6,434.9	7,034.5

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

The proceeds derived from the SME sector increased almost twofold – from PLN 2.0012 billion in 1996 to PLN 3.9320 billion in 1999. An especially high increase was noted in the category of small enterprises – proceeds derived from this group were more than twice as high. The rate of growth of proceeds in the sector of large enterprises was not so large, amounting to only 134.4%. The effect of these changes was the increase of the share of the SME sector in total income derived from the other taxes and fees item. In the first year of the period covered by the study, the share of the SME sector amounted to 27.7%. In subsequent years it grew gradually and in 1999 it reached the level of 35.9%.

Chart 7.3. Share of Individual Groups of Enterprises in Proceeds derived from Other Taxes and Charges in the Years 1996–1999.



Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

The enhancement of the role of the SME sector may be attributed to the process of change within the structure of the Polish economy that are aimed at increasing the share of that sector in the whole economy. Additionally, the strong relationship between SMEs and local outlets should be noted.

Large differences between small and medium-size, and large firms are revealed when proceeds derived from other taxes and fees are compared by NACE sections. For both categories of enterprises, proceeds derived from manufacturing are a dominant item, however in the case

of SMEs, wholesale and retail trade, as well as real estate, renting, business services, and construction are other important areas. On the other hand, in the case of large enterprises, such sections as mining and quarrying, transport, storage and communication, as well as electricity, gas and water supply play a major role. The differences in the distribution of proceeds in the category of other taxes and fees probably reflect the differences in the distribution of the geographical location of enterprises.

7.9. Summary

Within the study period, the SME sector dynamically and continually increased its share in the generation of State budget proceeds. In 1996, this contribution amounted to PLN 47.4 billion, which accounted for 27.8% of public sector income. In 1999, the contribution of SMEs practically doubled, reaching PLN 91.3 billion, which led to an increase in the share of that sector to 36.1%. This phenomenon is indicative of a positive change in structure of the Polish economy towards an increase in the share of the small and medium-size enterprise sector.

Table 7.10. Contribution of the Small and Medium-Size Enterprise Sector to the Creation of Public Sector Income

	1996	**1997**	**1998**	**1999**
	PLN billion			
Public Sector Income	**170,474**	**200,026**	**227,283**	**253,343**
Contribution of Small and Medium-Size Enterprises	**47,398**	**61,949**	**75,151**	**91,332**
Income Taxes Paid by Entrepreneurs	3,485	4,800	5,049	6,114
Other Deductions from Profit	294	359	383	555
Charges on Wages of SME Employees	28,115	36,835	43,849	53,815
VAT	10,806	14,783	19,417	23,416
Excise Tax	786	981	1,431	1,835
Customs Duty	1,260	1,231	1,387	1,317
Proceeds derived from Tax payment card	353	377	389	348
Other Taxes and Charges	2,001	2,585	3,247	3,932
	%			
Public Sector Income	**100.0**	**100.0**	**100.0**	**100.0**
Contribution of Small and Medium-Size Enterprises	**27.8**	**31.0**	**33.1**	**36.1**
Income Taxes Paid by Entrepreneurs	2.2	2.4	4.2	2.4
Other Deductions from Profit	0.2	0.2	0.2	0.2
Charges on Wages of SME Employees	16.5	18.4	19.3	21.2
VAT	6.3	7.4	8.5	9.2
Excise Tax	0.5	0.5	0.6	0.7
Customs Duty	0.7	0.6	0.6	0.5
Proceeds derived from Tax payment card	0.2	0.2	0.2	0.1
Other Taxes and Charges	1.2	1.3	1.4	1.6

Source: a paper from the Gdańsk Institute for Market Economics commissioned by PAED.

The share of SMEs in the generation of public income is surprisingly high, and comparable with the contribution of large enterprises. This situation differs from international standards. Even in highly developed economies, SMEs are never a dominant source of public income although their share in the total geographical location of business entities is similar to that of Polish business entities, and reaches 97%. Undoubtedly, this is due to the extremely precarious financial condition of many large enterprises in Poland that do not generate any budgetary income and are rather recipients of subsidies and a burden for other taxpayers.

The largest source of income derived from the SME sector comes from the taxation of individuals employed in enterprises of that sector. Taxes and contributions paid under this category constituted 21% of the public sector income. Next, VAT and income taxes paid by entrepreneurs should be mentioned. However, it should be emphasised that direct forms of taxation, detrimental from the viewpoint of economic growth, are still a dominant item in the structure of budgetary proceeds.

To conclude, the development of the sector of small and medium-size enterprises not only builds a healthy market economy structure in Poland or fights unemployment, but it also translates directly into increased income for the public sector. Activities supporting small and medium-size firms should become one of the major instruments of the programme of organisation of public finance and reduction of the public deficit, which is very detrimental to the economy.

Chapter 8.

Entrepreneurs' Perspectives on the Tax System

Public Liabilities on Enterprises

Public Liabilities and Actual Cashflow of Firms

Depreciation of Fixed Assets

Tax Exemptions and Reliefs Available to Enterprises

Evaluation of the Tax System

Summary

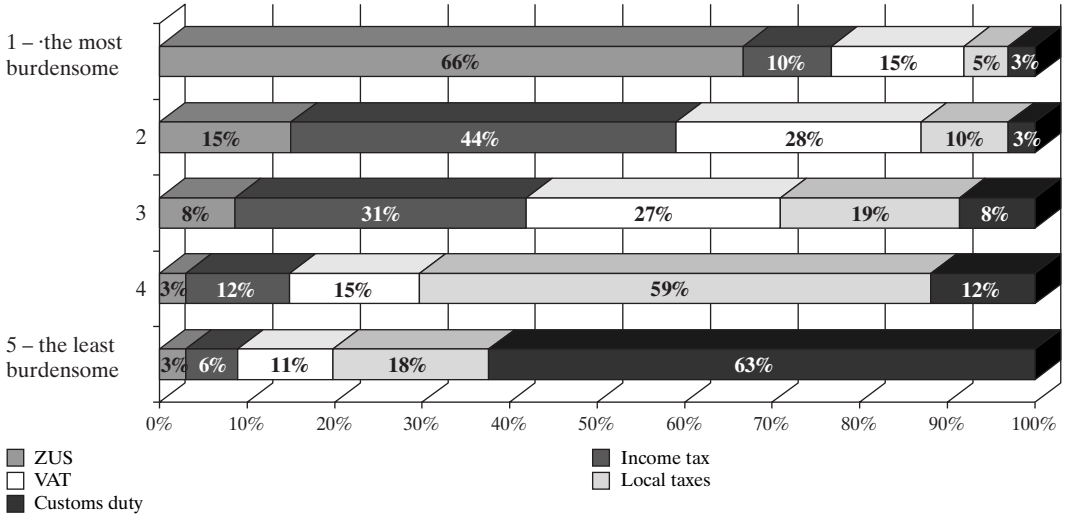
Small and medium-size firms with only small economic potential at their disposal are especially sensitive to the conditions in which they operate. The tax system is probably the most important element of the legal environment of enterprises. The decreasing rate of economic growth forces one to look more closely at the prospects of development of enterprises and at limitations consequential to liabilities imposed by public authorities. The results of research show that more and more entrepreneurs consider those liabilities to be the most significant obstacle in the development of their firms[1]. In 1998, taxes and other public liabilities were considered to be the most serious barrier to company development by only 18% of entrepreneurs, whilst in 1999 it was as high as 34%, and in mid-2000 almost 40%[2].

8.1. Public Liabilities on Enterprises

8.1.1. Financial Liabilities

Amongst all public liabilities, social insurance contributions were the most burdensome for entrepreneurs, followed by VAT and income tax. Only one in 20 entrepreneurs considered local taxes, including real estate tax, to be a considerable levy.

Chart 8.1. The Most Burdensome Public Liabilities From a Financial Point of View



Source: a PAED-commissioned paper prepared by the Gallup Institute.

[1] This chapter is based mainly on the results of research conducted by the Gallup Institute, as commissioned by the Polish Agency for Enterprise Development in February 2001, on a national sample of approximately 1,500 randomly selected private entrepreneurs employing fewer than 250 people. 46% of firms did not employ any employees, 31% employed fewer than nine people, 12%: 10-49 people, and 11% between 50 and 249 people. 68% of respondents were taxed based on universal rules, 22% paid a lump-sum tax on recorded revenue, and 10% paid taxes on the basis of the tax payment card. The results of the cyclical questionnaires circulated among entrepreneurs by the Department of Craft, Small and Medium Enterprises of the Ministry of Economy, presenting opinions of a group of about 1,000 Polish entrepreneurs are another significant source used in this chapter.

[2] *Economic Situation of SMEs in the Opinion of Entrepreneurs (Sytuacja Ekonomiczna MSP w ocenie przedsiębiorców)*, Department of Craft and SME, Ministry of the Economy, Warsaw 2000.

Social Insurance Contributions

Even the smallest firms – those not employing any employees – agreed that the social insurance contribution is the most burdensome levy – 71% of respondents of that category indicate this financial liability as the most burdensome for firms. However, the amount of social insurance contributions constitutes the largest burden for small businesses generating limited profits and employing up to nine people (93% respondents from that category).

VAT

Firms employing between one and 49 employees more often than other respondents identified VAT as the largest financial burden – 20% of firms with up to five employees, 19% of firms with up to nine employees, and 22% of firms with up to 49 employees. The smallest firms, which pay lump-sum taxes, are afraid that inclusion in the mandatory requirement to pay VAT will increase their financial burden.

Income Tax

Income tax is a financial levy that mainly affects firms employing over nine employees (16% in the category of enterprises with up to 49 employees, and 15% in the category of enterprises with up to 249 employees). Even more interesting, the form of taxation does not influence the perception of the income tax burden. Small lump-sum income tax paid on the basis of the tax payment card is, in the subjective opinion of a taxpayer operating on a very small scale and generating limited profits, just as significant a levy as tax that consumes more than 20 percent of income[3] the for largest businesses.

Income tax, more often than on the average, is considered to be the most burdensome financial liability by entrepreneurs representing the agriculture and forestry sector (15% of respondents in this group). Undoubtedly, this is also the result of the unequal competition against enterprises operating in those sectors from farmers who do not pay income tax whilst conducting similar or identical operations.

Local Taxes

Local taxes constitute the highest levy for only 11% of firms employing over nine employees and for 10% of firms with 50 employees or more. Among the individual industries, firms operating in the agriculture sector find it the most burdensome – 13% of respondents from that group considered local taxes as the most burdensome levy. The financial liability due to local taxes is considered to be a relatively low one, despite the fact that the relative deductions with regard to those taxes are rather insignificant. Only 9% of respondents benefited from any deductions in that respect. This number indicates that local community authorities are not keen to offer tax deductions to entrepreneurs. On the other hand, one should not be surprised because local communities reducing local taxes and, thus, reducing their own income were "punished" through the reduction of the compensatory subvention. Nevertheless, the small scale of preferential tax treatment offered to entrepreneurs by local authorities indicates that priority is given to other goals over the development of entrepreneurship.

[3] The effective income tax rate in the case of enterprises varies between 24 and 28%. See: Chapter 7.

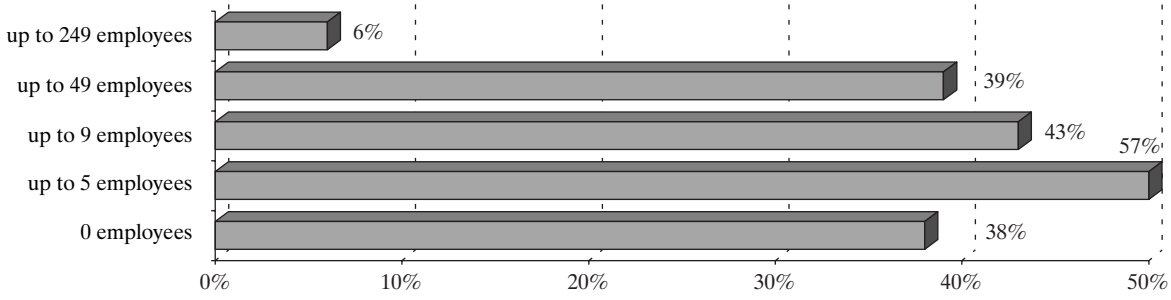
Customs Duties

Among all types of public liabilities the respondents found it the most difficult to estimate customs duty payments. Only businesses from the transport and forwarding industry that must deal with customs issues on a daily basis were much more likely to identify customs duties as the most burdensome liabilities (21% of respondents from that group).

8.1.2. Bureaucratic Burden

One half of all entrepreneurs declare that for matters related to taxes, i.e. preparation and submission of PIT, CIT and VAT declaration, or preparation of documents for accounting firms, they allocate not less than 13 hours per month. The size of the enterprise has the greatest influence on the number of hours needed to settle with the tax office. Also the form of taxation determines differences between firms with regard to the time devoted to tax issues. Entrepreneurs using accounting services spend only slightly less time on matters related to taxes than those who do their own accounting. Nevertheless, firms' use of accounting services is widely practiced (41%). Those services, provided by external firms, are the most extensively used by enterprises with up to 49 employees. The percentage declines rapidly in the case of firms with 50 employees or more.

Chart 8.2. Percentage of Firms Using Accounting Services in Individual Size Categories of Enterprises



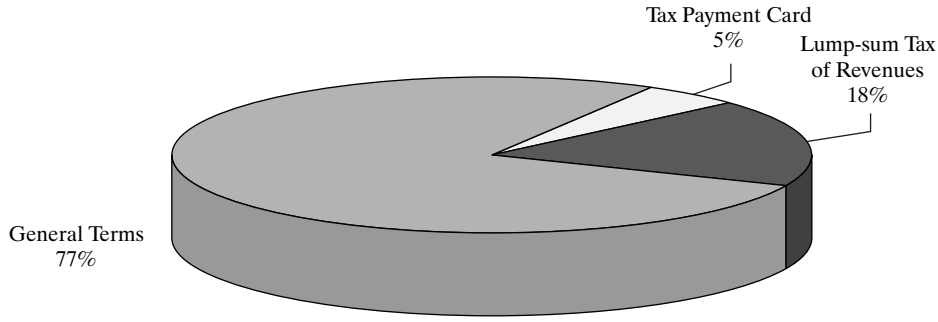
Source: a PAED-commissioned paper prepared by the Gallup Institute.

A relatively less widespread use of accounting services by the smallest firms may be explained by two factors. The first is that they are usually businesses subject to a simplified form of taxation. Taxpayers settling with tax authorities in the form of a tax payment card use accounting services less than half as often (20% of firms taxed in the form of a tax payment card) as firms maintaining complete accounting records (47%) and, in all probability, the services provided to them are of an occasional nature. This difference is even more apparent in the group of respondents who use an external service provider for settling with tax offices.

Despite the relatively widespread use of specialist services in providing advice on tax matters to their firms, entrepreneurs also seek tax information from other sources. They obtain assistance in resolving their tax queries from: newspapers/magazines and specialist publications

(22% of all respondents), managers they know (21%) as well as accounting firms and officials from tax offices (19% each). Entrepreneurs of the smallest firms (0 employees) most frequently turn to managers they know for assistance (24%), whereas newspapers and specialist publications are the main source of information (32%) for the largest enterprises (up to 249 employees).

Chart 8.3. Use of Accounting Services Based on the Form of Accounting Adopted



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Among firms using accounting services, such services are usually the source of information and advice in tax matters (36%).

Table 8.1. Average Number of Hours per Month Spent on Tax Issues by Respondents in Individual Categories

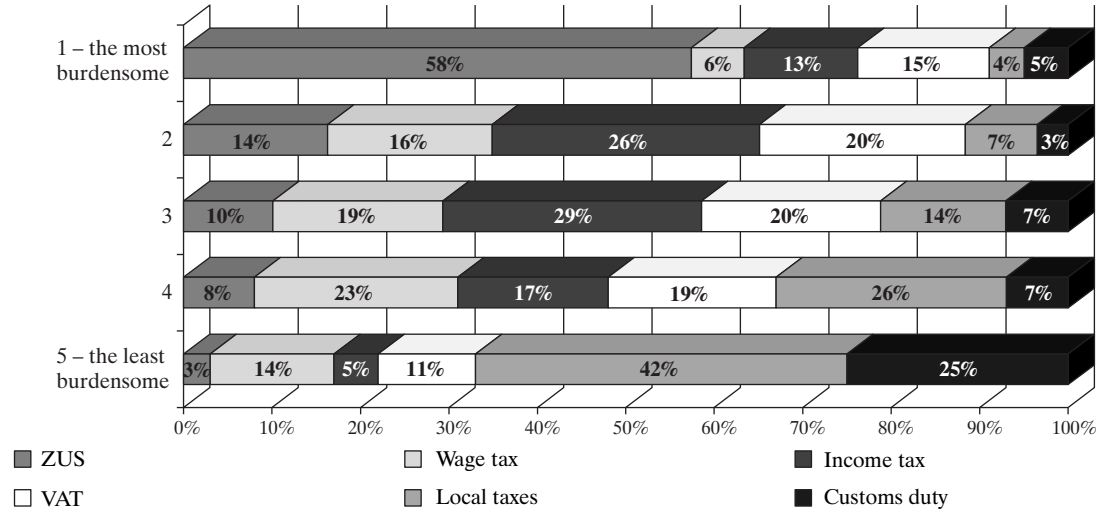
Group	Numbers of hours
Using accounting services	12
Not using accounting services	15

Firms taxed on universal rules	16
Firms taxed in the form of lump-sum tax from recorded revenue	10
Firms taxed in the form of the tax payment card	8

Firms not employing any employees	10
Firms with up to five employees	16
Firms with up to nine employees	30
Firms with up to 49 employees	59
Firms with up to 249 employees	73

Entrepreneurs included in the study found it difficult to determine which of the liabilities were more burdensome for their company from the point of view of bureaucracy than from the point of view of financial liability. Nevertheless, they also assessed the same public liabilities that were considered by the respondents to be the most burdensome financially as the most difficult due to reporting duties. As before, entrepreneurs stated that the method of paying social insurance contributions is the most bureaucratic procedure. This was followed by VAT and income tax – with a much smaller number of responses.

Chart 8.4. The Most Burdensome Public Liabilities from the Point of View of Their Reporting



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Social Insurance Contributions

The category for which contacts with the Social Insurance Institution (ZUS) constitute one of the greatest reporting burdens are firms employing up to nine employees (81% of respondents from that category). Among the smallest firms – those not employing any employees – this burden was considered to be the greatest by 59% of respondents. In larger firms, the answer clearly depended on the position of the respondent. Presidents and managing directors were more likely to consider ZUS declarations to be the greatest reporting burden than chief accountants and owners of firms – 72% of responses in the group of presidents and managing directors, as compared to 57% in the group of chief accountants and company owners.

The method of settlement with ZUS turns out to be especially problematic for firms that employ people and do not have specialised personnel departments. Sole proprietorships and human resource specialists from large businesses due to the small scale in the former instance and to professional knowledge in the latter find their contacts with the Social Insurance Institution much less problematic.

VAT

The red tape related to VAT constitutes the largest burden for chief accountants. 22% of respondents from that group pointed to VAT as the most demanding from the point of view of reporting duties. The largest firms from the SME sector – those employing up to 249 people – also mainly point to VAT as the most burdensome reporting duty (as many as 26% of businesses in that category). Across individual industries, VAT is considered to be the most burdensome in transport and forwarding (30% of responses in this sector). Also, small firms, which are currently not encumbered by the duty to pay VAT, are afraid of the bureaucratic burden related to VAT. For 29% of them it is the fact that they do not have to maintain VAT documentation that is the greatest benefit of not paying that tax.

Income Tax

Income tax is a reporting duty that is the most burdensome for firms taxed on universal rules (17% of responses in that group). The size of the firm and the industry in which it operates have no significant influence on responses.

Local Taxes

The burden of the reporting duty concerning local taxes is rather minor. All firms, regardless of the size of the industry and the form of conducting their business activity, agree that this is the least burdensome levy in that respect.

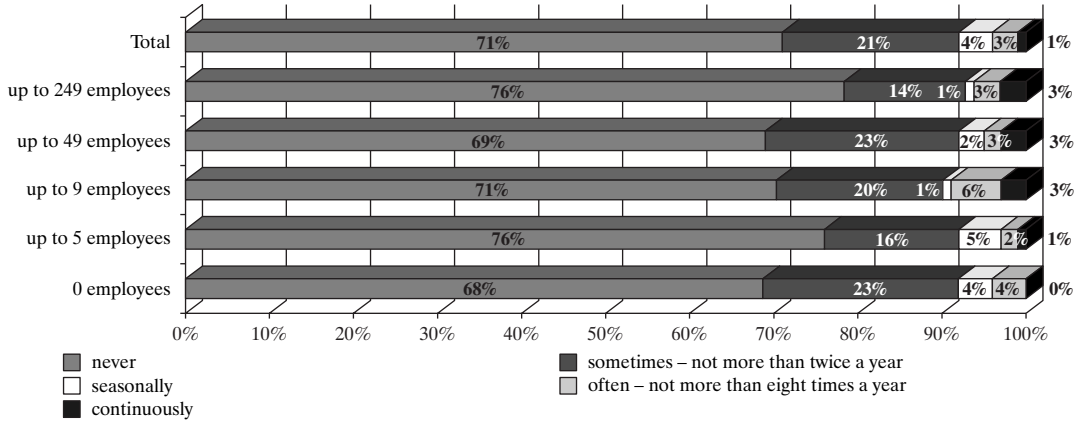
Customs Duties

As with the assessment of the financial burden, the respondents found it the most difficult to assess the bureaucratic burden related to customs duties. Also in this case, firms from the transport and forwarding sector identified customs duty as the most burdensome reporting duty much more often than others (40% of respondents from this group). For chief accountants this duty is also a considerable problem – 11% of responses in this group. Generally, the small number of respondents identifying customs duty as a bureaucratic burden may be due to the fact that the firms included in the survey usually do not engage in foreign trade.

8.2. Public Liabilities and Actual Cashflow of Firms

The majority of entrepreneurs declare that their financial situation is stable. As many as 71% of respondents declare that they never encounter any problems with cashflow. Such problems appear sporadically in the case of 21% of entities studied.

Chart 8.5. Disturbances in Cashflow in Individual Size Categories of Firms

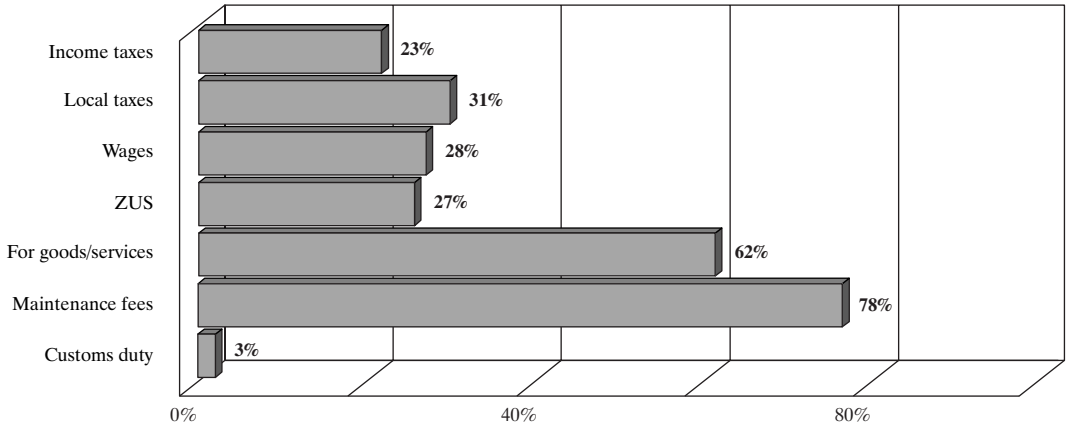


Source: a PAED-commissioned paper prepared by the Gallup Institute.

There are no significant differences in the financial situation of firms of various sizes. In the category of the largest firms within the small and medium-size enterprise sector there are slightly more businesses that are late in paying current liabilities.

When they experience a lack of cashflow, entrepreneurs, regardless of the size of their businesses, first stop paying liabilities within the private sector. These include: maintenance fees, and payments for goods and services. Undoubtedly, the soft labour market and high rate of unemployment have lead entrepreneurs to decide that the next safest method for maintaining liquidity is by late payment of wages to employees.

Chart 8.6. Financial Liabilities Not Paid as a First Priority (total of three answers)

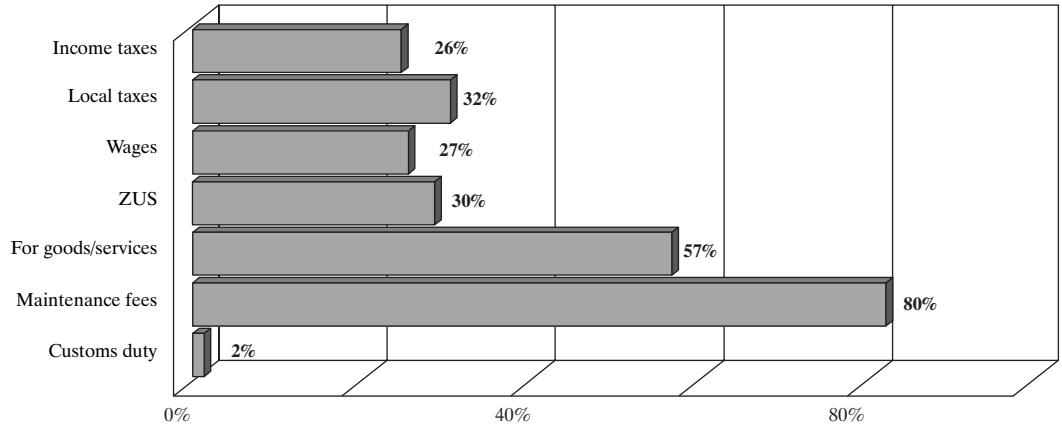


Source: a PAED-commissioned paper prepared by the Gallup Institute.

This order also does not change significantly when the option is changed to allow the choice of only a single liability to not be paid on time. ZUS is the only item that changes position, moving up to third place from fifth when a total of three responses is allowed.

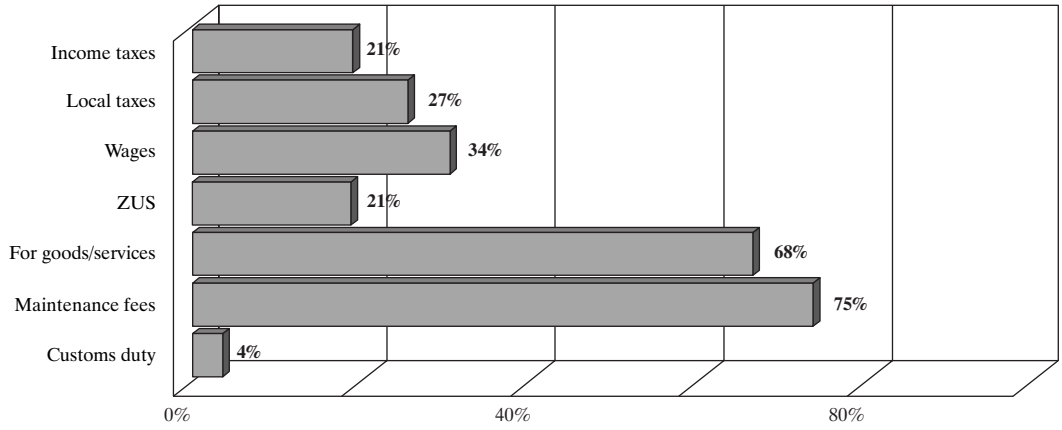
The order of two liabilities indicated as those usually not paid as a priority is reversed in firms employing more people, which means that large firms are more likely not to pay their contractors. The larger the firm, the less often it does not pay social insurance contributions; arrears towards ZUS are the most frequent in the case of sole proprietorships without any employees.

Chart 8.7. Financial Liabilities Not Paid as a First Priority – Firms without any employees



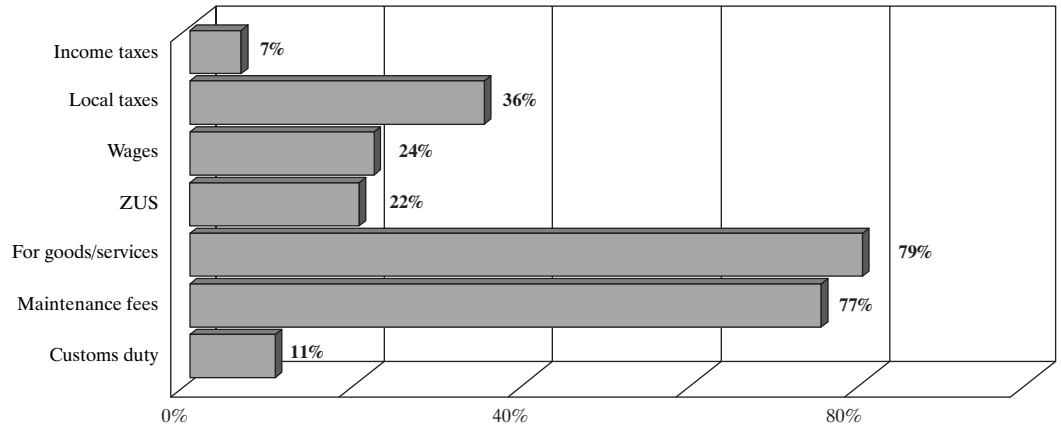
Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.8. Financial Liabilities Not Paid as a First Priority – Firms employing between one and nine employees



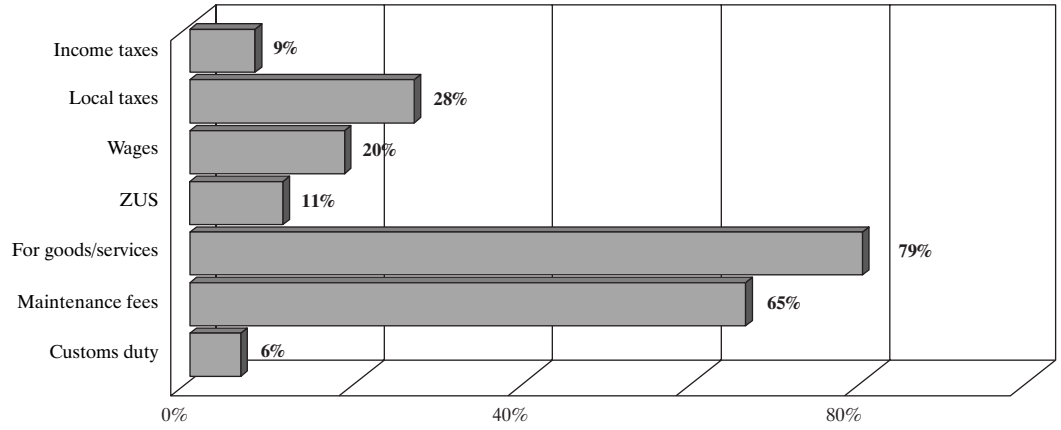
Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.9. Financial Liabilities Not Paid as a First Priority – Firms employing between 10 and 49 employees



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.10. Financial Liabilities Not Paid as a First Priority – Firms employing between 50 and 249 employees



Source: a PAED-commissioned paper prepared by the Gallup Institute.

8.3. Depreciation of Fixed Assets

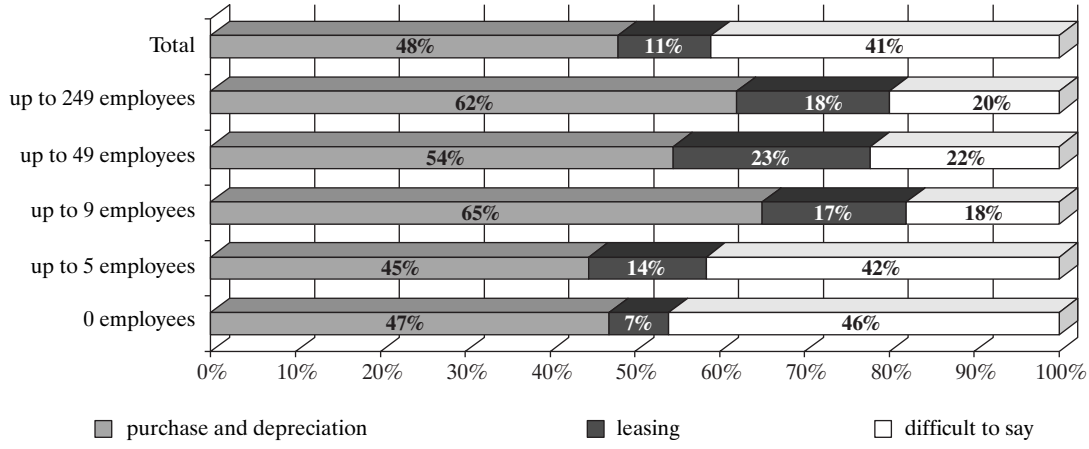
The current principles of depreciation of fixed assets were declared to be neutral for the company by about half of entrepreneurs. However, among the other half of the respondents, the opinion that depreciation regulations are unfavourable for enterprises appeared three times as often as the opinion that they are beneficial. The size of enterprise does not affect that assessment.

Although the depreciation rules are considered to be favourable for business to only one in five entrepreneurs, purchasing fixed assets and then depreciating them is – according to respondents – a better solution for the firm than, e.g., an operating lease. However, such a solution is probably not considered by a large number of firms included in the study (especially the smallest ones) and respondents could not suggest an option that would be more beneficial for the firm.

However, one should remember that the problem of depreciation does not affect taxpayers using the simplified forms of taxation. The lack of knowledge on the subject of depreciation among this category of entrepreneurs may thus be explained only by an obstinate mindset towards development involving the necessity to change the form of taxation but it does not affect the daily operation of the business.

However, the fact that as many as 36% of entrepreneurs paying taxes on universal rules cannot determine which solution is more beneficial (purchase and depreciation or leasing) is worrying. The barrier of the lack of knowledge prevents them from using solutions that would be more advantageous for the firm.

Chart 8.11. Preferred System of Utilisation of Fixed Assets



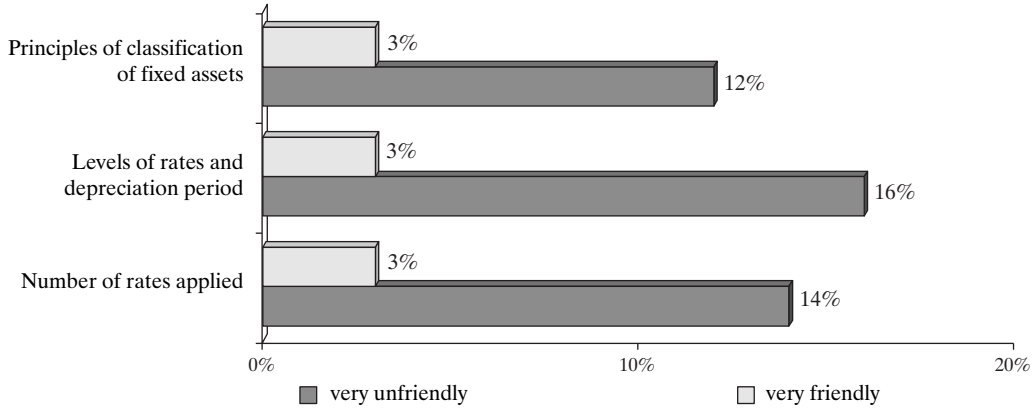
Source: a PAED-commissioned paper prepared by the Gallup Institute.

Among the representatives of various industries, transport and forwarding firms are less likely to see advantages in the purchase and depreciation of fixed assets (36% of responses). This confirms the need to regulate the principles concerning the lease of transport vehicles in a manner favourable for entrepreneurs.

The relative differences in opinions are the most noticeable in various job categories. The greatest enthusiasts of the purchase of fixed assets are presidents and managing directors (70%), less so chief accountants (53%), and less than half of company owners consider this to be a more favourable solution for the firm (47%).

It was equally difficult for the respondents to evaluate individual depreciation factors. The following factors were evaluated: level of depreciation rates, volume of those rates, and the principles of classification of fixed assets. Only two-thirds of respondents had formed an opinion on these factors. The method of classification of fixed assets received the highest rating, but differences between this element of depreciation and the levels and number of rates are very small.

Chart 8.12. Evaluation of Depreciation Principles



Source: a PAED-commissioned paper prepared by the Gallup Institute.

8.4. Tax Exemptions and Reliefs Available to Enterprises

The principle of application of tax preferences is widely supported by entrepreneurs. Two-thirds of participants of the survey believed that there are groups or types of business activities in Poland that should be treated preferentially. Over 80% of respondents agreed that groups privileged in terms of taxation should include: disabled people (81%), small firms (84%), people starting a business (88%) and employers creating new jobs (81%). Three-fourths of respondents believe that activities conducted in the community interest, regardless of who conducts it, should also receive special treatment.

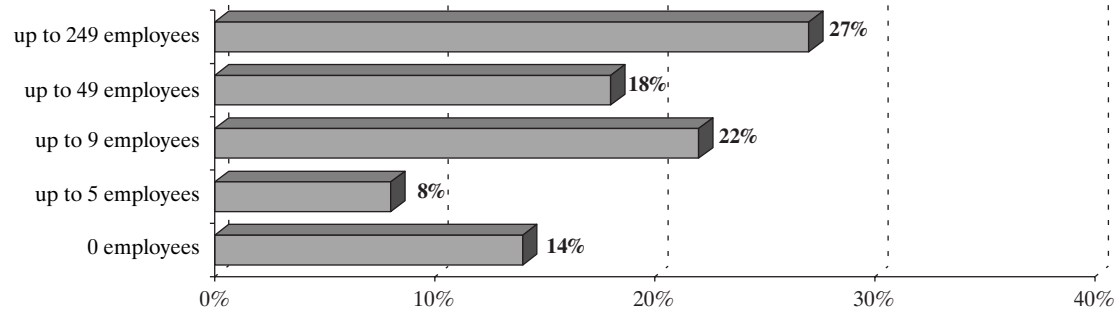
The awarding of preferences to investors met with much less support. The relatively high ecological awareness of entrepreneurs means that it was the reliefs related to environmental protection that received the greatest support among all investment reliefs (58%). Slightly less than half of respondents believe that reliefs should be available to all investing entities, or at least to those investing in modern technologies.

Entrepreneurs who agree to the application of individual preferences for the weakest in the market (small firms, start-ups) decidedly oppose the privileging of the strong, which are competition to the majority who are treated by the tax authorities without any special favour. Thus, only 6% agree to the awarding of more beneficial terms of taxation to foreign investors.

8.4.1. Investment Reliefs

Only 14% of entrepreneurs used investment reliefs during the last three years. Both small and large firms benefited from these, nevertheless, there were almost twice as many larger firms than the smallest. The scope of utilisation of investment reliefs by the smallest firms, which is limited in comparison with larger businesses, is due mainly to the widespread application of lump-sum forms of taxation in that category, used by 42% of enterprises without any employees. This excludes the possibility of benefiting from reliefs. Therefore, allowing only for those taxpayers taxed on universal rules in the group of sole proprietorships, the share of people benefiting from the possibility of making investment write-offs increases to 24% and is not much different from the level of utilisation of reliefs among larger businesses.

Chart 8.13. Application of Investment Reliefs in Individual Size Categories of Firms



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Construction companies (17%) and industry (17%) were sectors to benefit the most from investment reliefs.

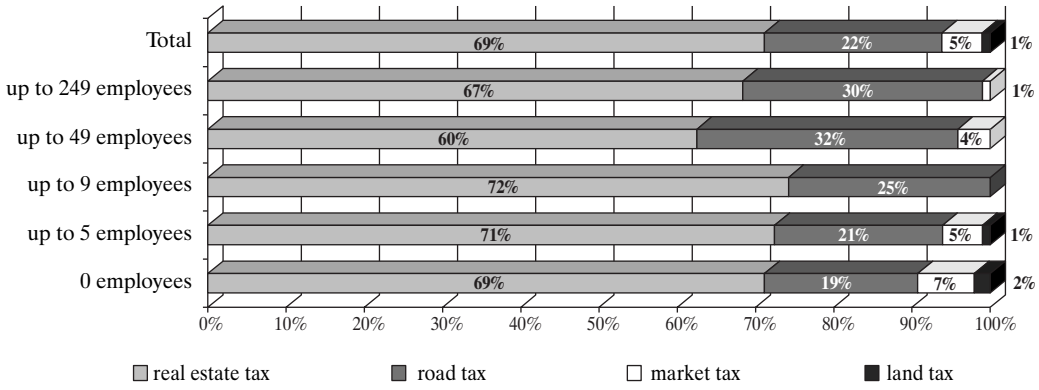
8.4.2. Reliefs and Exemptions in Local Taxes

Local taxes are paid by 61% of firms included in the research. As many as 91% of the largest firms pay at least one local tax, whereas among the smallest, only 56%. Almost half of sole proprietorships do not own real estate used for conducting business. Local taxes are most frequently paid by firms from the following sectors: agriculture and forestry (77%) as well as industry (73%) and trade (68%).

Among entrepreneurs paying local taxes, the majority pay only one type of tax. Most frequently they are real estate taxes (69%) and road taxes (22%).

74% of transport firms pay road tax, whereas 8% of trading firms and 7% of firms from the agricultural sector pay marketplace fee.

Chart 8.14. Type of Taxes Paid in Individual Size Categories of Firms



Source: a PAED-commissioned paper prepared by the Gallup Institute.

8.5. Evaluation of the Tax System

8.5.1. Opinions on the Current Tax System

A much smaller number of entrepreneurs see favourable features of the tax system rather than burdens related to that system. The performance of officials of the tax office is considered to be the most favourable feature – though rated quite low (other administration offices were rated even lower). Employees of the tax system are the most professional and helpful group of officials in the opinion of 40% of entrepreneurs.

Entrepreneurs' evaluations about the work of tax offices are varied. In the Lubelskie voivodship as many as 57% of entrepreneurs consider tax offices to be taxpayer-friendly, whereas in Warmińsko-Mazurskie, only 17%. The opportunities of operating a business under the same legal rules are very different in those voivodships due to the attitude of the public administration whose role in the fostering of a climate favourable for the development of business turns out to be very important.

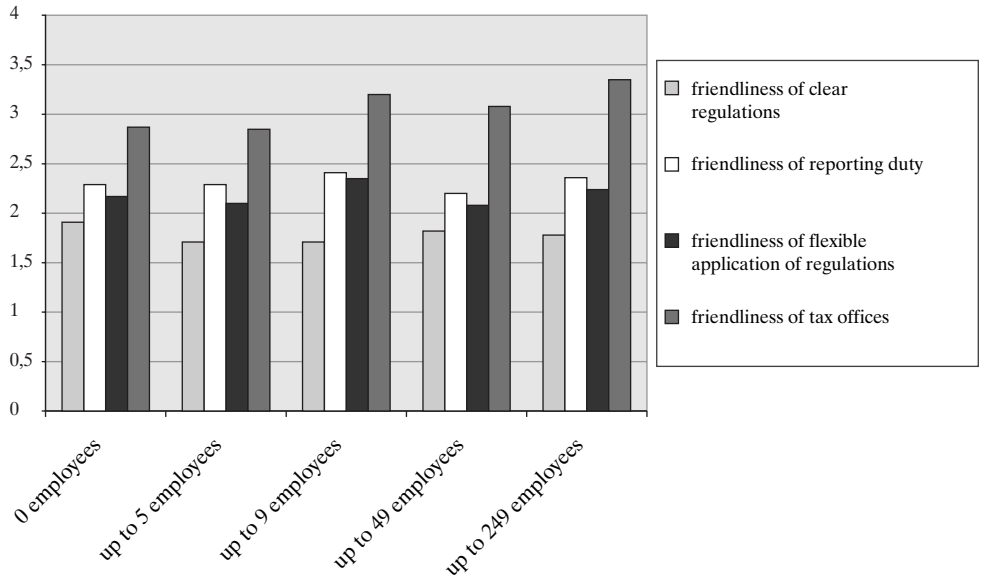
It appears that the favourable attitude of tax offices towards entrepreneurs is not always disinterested. When asked about the public authority where officials are the most corrupt, one in five entrepreneurs pointed to tax office employees. Only local government administration employees enjoy a worse opinion in that respect. However, there is a very clear trend in the evaluation of the susceptibility of tax system employees to corruption. The smaller the community in which tax offices function, the higher this susceptibility is. Urban-rural local communities and small towns tax offices are only slightly less corrupt than local government administrations. As the number of inhabitants increases, the opinion towards tax offices becomes better, and the opinion on the local government administration significantly deteriorates. It appears that this phenomenon may be explained in only one way. Local community offices in larger towns and cities, which have much larger wealth at their disposal, possess real means of "supporting" an entrepreneur in bids, sale of assets, etc. There are many more opportunities for corruption. Against the backdrop of local community offices, which are rated very low, tax offices where the scope of official authority does not depend on the size of the unit, simply seem better.

When identifying other favourable features of the tax system, entrepreneurs mentioned other features related to the functioning of the system: the frequency with which the tax is paid, and the control system. Elements related to the shaping of law were rated the lowest: clarity of legal provisions, level of tax rates, rigidity of regulations, as well as complicated reporting rules.

The rating of the "friendliness of regulations" (rate levels, clarity, reporting and frequency of paying taxes) and "friendliness of authorities" (work of the tax office, flexibility of application of regulations, and control system) depended on the size of the enterprise. The highest ratings – both with regard to the legal system and the functioning of tax authorities – were awarded by the largest firms, the lowest by firms employing up to five employees. The smallest businesses rated the friendliness of the system at the same level as firms with up to 49 employees, but their opinion of the work of tax offices themselves was lower.

Better opinions on the level of rates and reporting were noted by firms paying taxes in lump-sum forms of taxation. This is another piece of evidence that the possibility of selecting simplified forms of taxation makes running a business easier for entrepreneurs[4].

Chart 8.15. Evaluation of the Tax System in Different Size Categories of Firms



Source: a PAED-commissioned paper prepared by the Gallup Institute.

As can be seen, neither the size of the company nor the form of taxation changes the evaluation of the tax system in a significant way. However, entrepreneurs paying their taxes in lump-sum forms gave slightly higher ratings than the entire sample of entrepreneurs with regard to: levels of tax rates, clarity of regulations, reporting, and friendliness of control.

A slightly better evaluation of the tax system with regard to all elements (with the exception of the flexibility of regulations) was provided by presidents and managing directors. On the

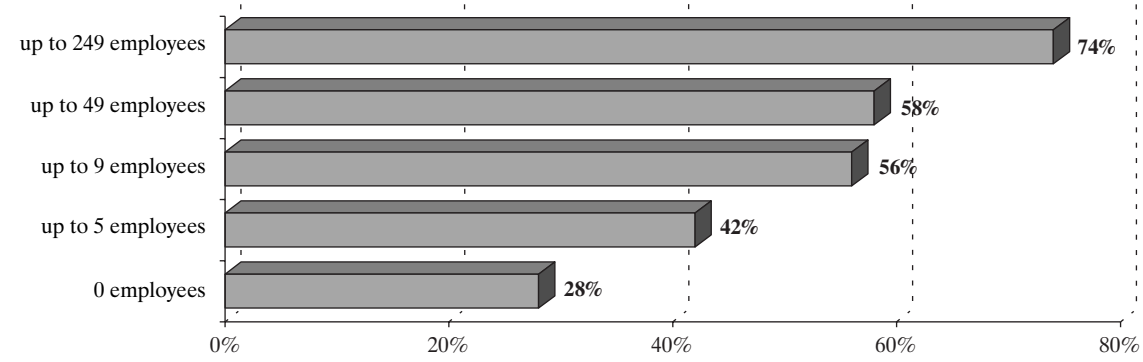
[4] The phenomenon of corruption of public authorities, observed more and more often by entrepreneurs, has been confirmed by annual research conducted by Transparency International. In 2000, Poland was classified as forty-third among 90 countries included in the research. The higher the rating, the less widespread the phenomenon. Unfortunately, all EU countries, the Czech Republic, Hungary, Slovenia and Estonia had better ratings (from: *The 2000 Corruption Perception Index*).

other hand, chief accountants who, among the participants of the survey, were the most competent group, valued the flexibility of implementing the regulations higher than others.

8.5.2. Tax Control

The amounts of penalties provided for in the Tax Penal Code decidedly exceed the financial sanctions that may be imposed on the entrepreneur in consequence of other violations of the law. It is true that the imposition of penalties is no longer a prerogative exclusively of administrative bodies but also a cognisance of courts; nevertheless, the tax audit verifying the correctness of settlements with tax authorities is probably the most formidable inspection for an entrepreneur. The correctness and strictness of such inspections often decide whether the company will continue to exist. However, the opinion held by entrepreneurs' on tax supervisory bodies are not the best. Over 40% of entrepreneurs do not believe in their efficiency in combating dishonest taxpayers. Only one in five believes that tax control fulfils its duties in this respect. A larger percentage of believers in the efficiency of tax control may be found among firms that have undergone such an audit and paid fines as a consequence. Opinions of the majority of entrepreneurs on tax control, however, are supported by recent experiences in contacts with tax controllers. Over the last three years one-third of all firms have been audited, usually only once. Nevertheless, there have been some cases of multiple audits (6–10) during the period of three years. The larger the firm, the more probable it is that an audit will be conducted. Also the payers of VAT must be prepared for an audit.

Chart 8.16. Tax Inspections Conducted During the Last Three Years in Individual Size Categories of Firms



Source: a PAED-commissioned paper prepared by the Gallup Institute.

For the majority of audited firms (78%) the audit ends positively. Others are subjected to tax sanctions that are considered to be very serious by one-third of those fined. Clear evidence as to the complicated nature of tax regulations is the fact that even the assistance of qualified advisors during the settlements with tax authorities does not protect one from mistakes and their consequences. Entrepreneurs using accounting services were fined as often as others.

Despite the severity of penalties, only 24% of those fined believed in the effectiveness of an appeal and were convinced that the penalty was undeserved. 36% of the appealing parties were found to be correct by the courts of second instance, which had found a mistake (63%) or a formal error made by controllers (37%). Unfortunately, as many as 22% of those appeal-

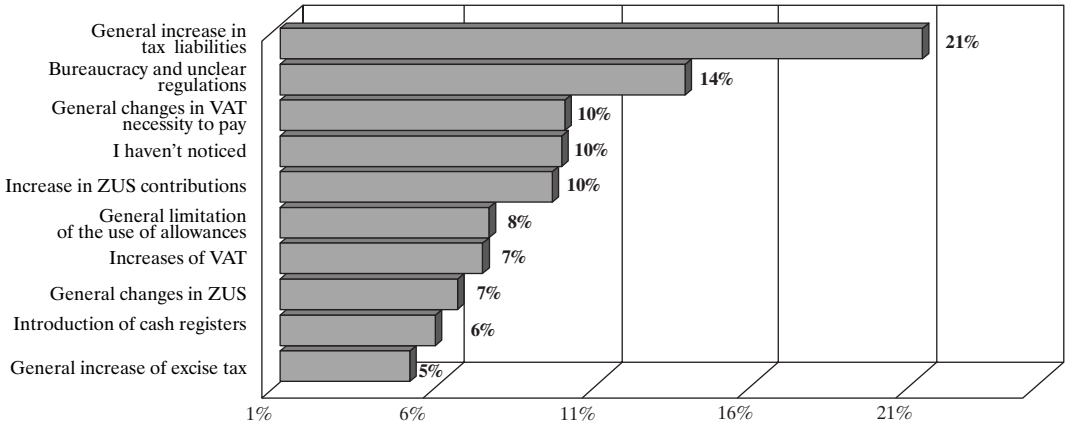
ing against the decision of the supervising bodies had to go to Supreme Administrative Court, and in some cases, to the Supreme Court.

The burdensomeness of the appeals procedure is undoubtedly one of the reasons for which some entrepreneurs approve of "simpler" methods of avoiding problems. Should any trouble arise and they are threatened with a fine, 23% of them would be willing to agree to the handing over of a financial benefit in order to avoid such problems.

8.5.3. Evaluation of Changes in the Tax System

About one-third of the respondents could not indicate the most unfavourable change in the tax system that had been introduced over the last three years. The remaining group gave an average of almost two responses. Among these responses, first place goes to the changes related generally to an increase of tax liabilities[5]. If one adds the increase of the VAT rate specified separately, changes in tax liabilities cause the largest level of discontent among respondents. Only 10% of respondents did not note any unfavourable changes.

Chart 8.17. Unfavourable Changes in the Tax System Introduced Over the Last Three Years. The Chart Contains Answers Given by at Least 5% of Respondents

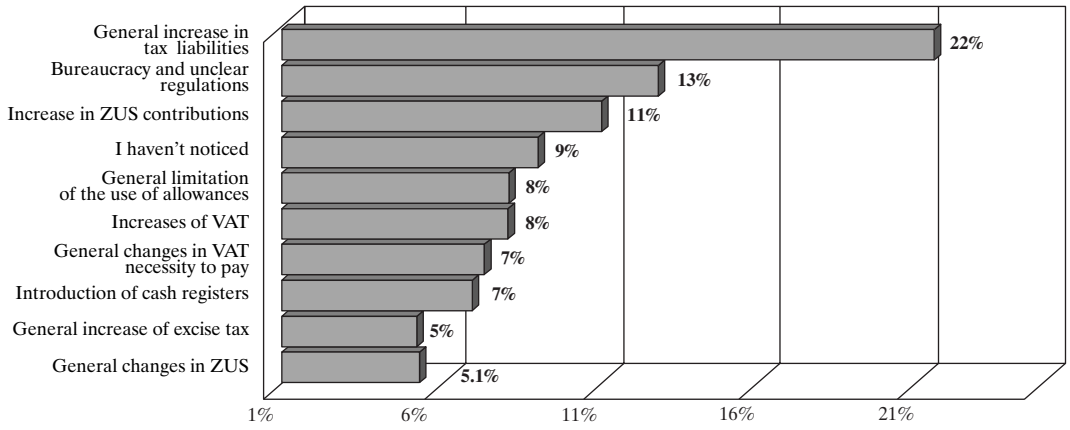


Source: a PAED-commissioned paper prepared by the Gallup Institute.

Mainly trading firms (50% of all those who identified the excise tax) complain about the increase in the excise tax, as do enterprises from the automotive industry (19%). The introduction of cash registers is also the largest problem for trading firms (62% of all those displeased with the necessity to use cash registers), as well as service firms (25%).

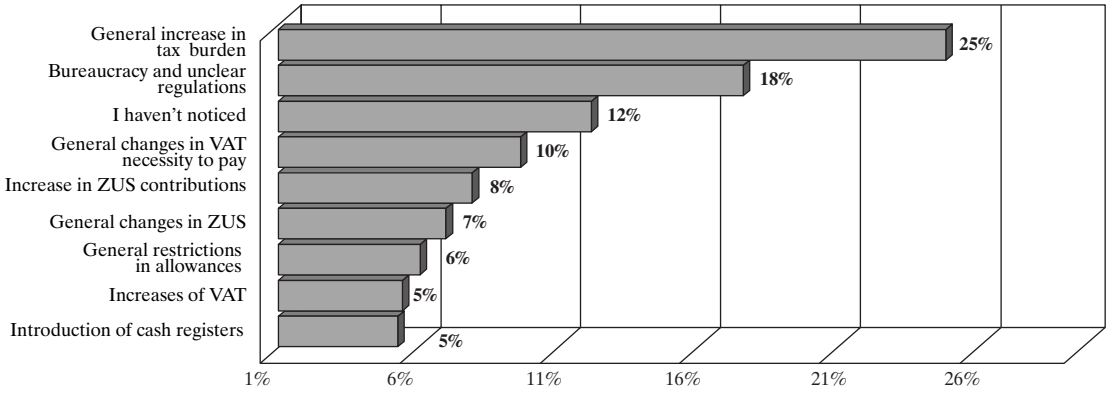
[5] Opinions of entrepreneurs in this respect do not fully coincide with the results of research, indicating a slow but steady decrease in the level of effective personal income tax rates starting from 1996 (see: Chapter 7).

Chart 8.18. Unfavourable Changes in the Tax System Introduced Over the Last Three Years – Firms Not Employing Any Employees



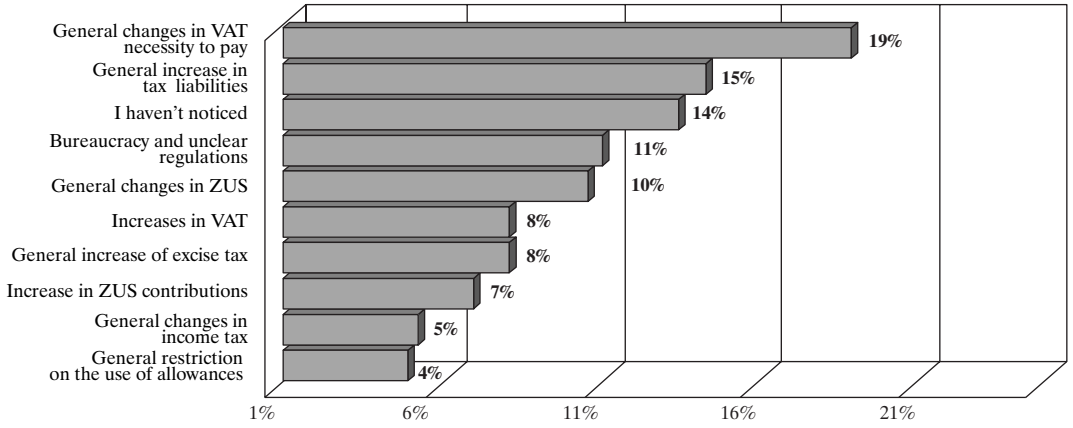
Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.19. Unfavourable Changes in the Tax System Introduced Over the Last Three Years – Firms With Up to Nine Employees



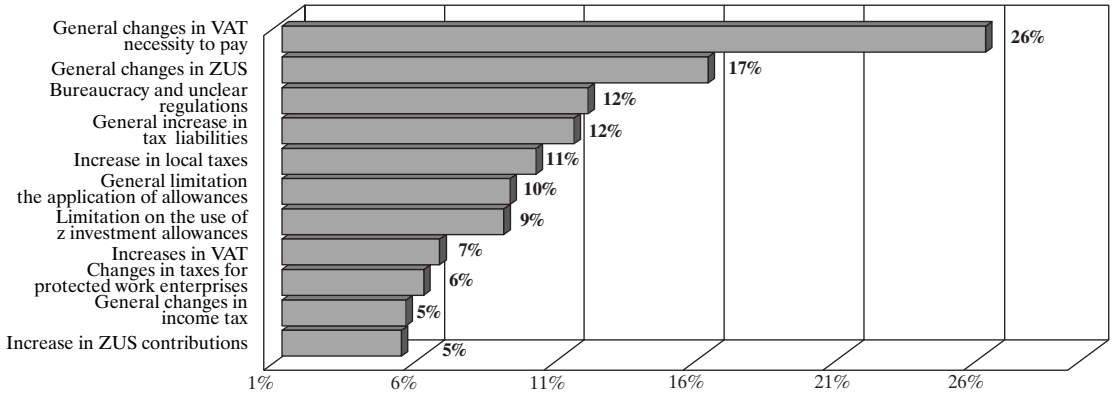
Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.20. Unfavourable Changes in the Tax System Introduced Over the Last Three Years – Firms With Up to 49 Employees



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Chart 8.21. Unfavourable Changes in the Tax System Introduced Over the Last Three Years – Firms With Up to 249 Employees

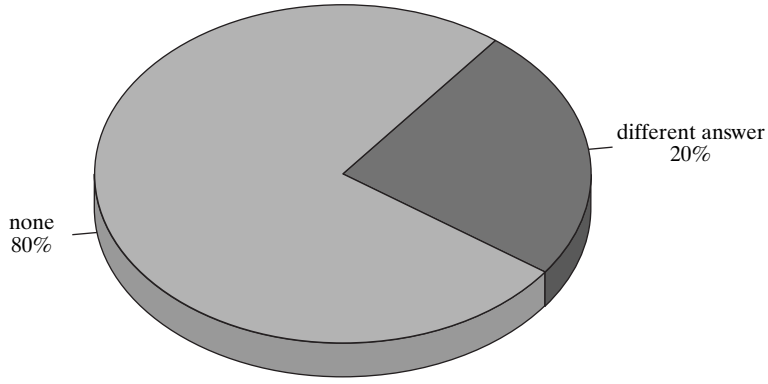


Source: a PAED-commissioned paper prepared by the Gallup Institute.

Firms employing over nine employees believe that the most unfavourable changes will take place with regard to VAT. The general increase of liabilities and bureaucracy were next in ranking. The largest firms are even more dissatisfied with the changes in VAT (those employing up to 249 people). The second, from the point of view of the frequency of answers – negatively assessed phenomena in the category of the largest firms, are changes in the social insurance system.

When asked about favourable changes in the tax system introduced over the last three years, the majority of respondents could not point to any such change.

Chart 8.22. Beneficial Changes in the Tax System Introduced over the Last Three Years



Source: a PAED-commissioned paper prepared by the Gallup Institute.

Those who noticed positive changes in the tax system usually mentioned the reduction of income tax (8% for all responses) and simplification of tax return forms (2% of all responses).

8.6. Summary

In analysing the opinions of entrepreneurs about the tax system and the duty to pay taxes, it would be difficult not to arrive at the conclusion that taxpayers would most like to not pay any tax at all. As many as one-third of all entrepreneurs state that the payment of tax is first of all the result of a sense of duty. One-third have no opinion on the subject. Others declare that the basic reasons for paying taxes are different, including fear of a tax control and its consequences. The level of compliance with the law and lack of justification for non-payment of taxes increase with the size of the firm.

Thus, entrepreneurs agree to bear the costs of the functioning of the State. However, they want everyone to bear those costs jointly and severally. Dishonest taxpayers guilty of tax evasion should be severely punished. This is the view of more than half of entrepreneurs. Only 17% of enterprises are tolerant of tax fraud. Entrepreneurs would also like the money they pay into the budget to be spent effectively. Unfortunately, as many as 54% of them believe that this money is at least partly wasted. That is why they postulate that the taxpayer should be given a choice concerning what the money earned will be spent on. They are also inclined (61%) to accept certain restrictions on taking advantage of benefits offered by the Authorities, if a decrease in taxes would be the end result.

Chapter 9.

Computerisation and the Internet in SMEs

Propagation of Computers and the Internet in Small Firms

Quality of Hardware Used

Use of Computers

Utilisation of the Internet

Barriers to Widespread Use of the Internet in Firms

Summary

The policy of the European Union towards small and medium-size enterprises has recently started to take on a new shape. Two characteristic phenomena are worth noting: whilst in the years 1997-2000 "Europeanisation" and internationalisation were promoted, competitiveness under the conditions of the "knowledge-driven economy" became a new slogan.

The European Charter of Small Firms, adopted in June 2000, specified 10 areas in which the European Union undertakes to meet the needs of small firms. They include:

1. Improvement of contacts between public authorities and enterprises via the Internet so that the reporting, submission of applications, settlements with tax offices, etc., will be faster and cheaper.
2. Promotion of verified models in e-business and application of goods business support systems.

In a working document entitled "Challenges Facing an Enterprise-Oriented Policy in the Knowledge-Driven Economy", basic theses were defined, as were the challenges facing the policy towards enterprises. The use of the Internet will be of revolutionary importance in business-to-business contacts and each enterprise will be required to demonstrate new behaviour in the market. Actions undertaken under the policy are to be concentrated on the promotion of verified models of behaviour.

9.1. Propagation of Computers and the Internet in Small Firms

Over the past few years, in Poland as elsewhere, information technologies developed very rapidly, which significantly influenced the operations of enterprises and their environment. The issues of computerisation and propagation of the Internet have been presented in the statistics prepared by the Central Statistical Office (GUS) in regard to the innovativeness of large and medium-size industrial enterprises[1]. Such a narrowly defined category of entities does not allow for an estimation of the scale of the phenomenon in the whole economy and it requires that results of surveys in a representative sample of enterprises be used.

The research conducted at the end of 1999 and the beginning of 2000 indicates that 99% of medium-size firms had at least one computer; among those enterprises 56% had Internet access, and 24% planned to acquire such access over the next 12 months[2]. As had been expected, the size of the company adequately matches the use of computers. The same research showed that only 27% of micro-enterprises (employing up to five people) had a computer, and only slightly over 11% had access to the Internet.

At the end of October and beginning of November 2000, extensive research focused on small firms was conducted into the use of computers and the Internet[3]. Despite the dynamic devel-

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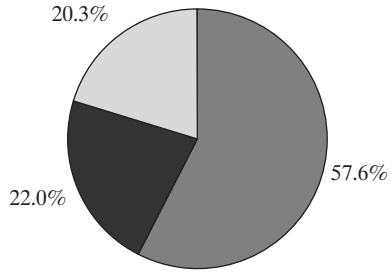
[1] Unfortunately, public statistical data refer only to entities operating in section C – Mining and Quarrying, section D – Manufacturing, and section E – Electricity, Gas and Water Supply, employing between 50 and 249 and more than 249 employees.

[2] The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999 conducted on a national representative sample of small and medium-size enterprises. For comparison with the latest data from April 2001, see Chart 1 in Annex 1 illustrating that Internet access among small and medium-size firms expanded in the years 1999-2001, based on the BiznesBus national survey of entrepreneurs conducted by DEMOSKOP.

[3] *The Internet and New Media – Defining Another Decade (Internet i nowe media – definiowanie kolejnej dekady)* – qualitative study utilising the focus-group methodology, and *Computer Hardware, Software and the Internet in Small Firms (Sprzęt komputerowy, oprogramowanie i Internet w małych firmach)* – survey based on a questionnaire survey conducted in a representative sample of small enterprises (N=768) by DEMOSKOP commissioned by the Polish Foundation for Small and Medium Enterprise Promotion and Development, financed by Hewlett Packard, Intel, Microsoft and Getin.

opment of the Internet, the position of small firms did not improve significantly in comparison with 1999. In the category of enterprises employing up to 50 people, proportions remained similar to those noted the year before: almost 60% of small firms do not have computers, and only slightly more than 20% have Internet access.

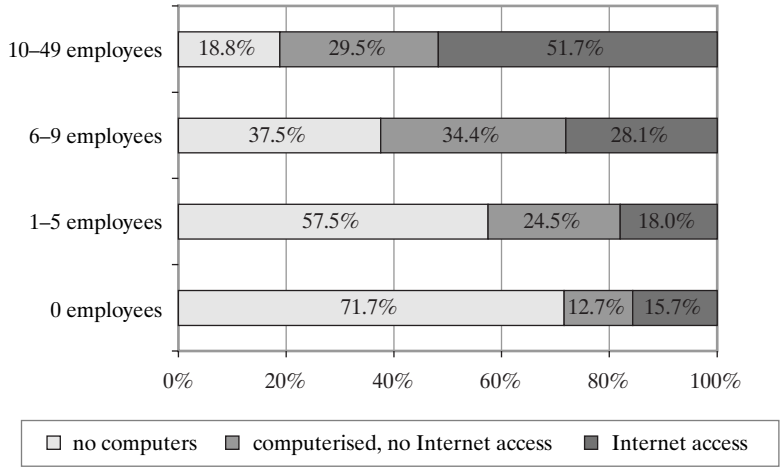
Chart 9.1. Utilisation of Computers and Access to Internet in Small Firms



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

The fewest number of computers is found in sole proprietorships without employees. Such firms usually operate in private homes, thus computers – if considered to be company assets – are also used for private purposes. It should also be taken into consideration that some of the self-employed individuals are also employees of other firms and their business has been registered in order to reduce their ZUS contributions and to help the employer avoid other levies related to employment on the basis of a contract of employment.

Chart 9.2. Utilisation of Computers and Access to Internet Depending on Company Size

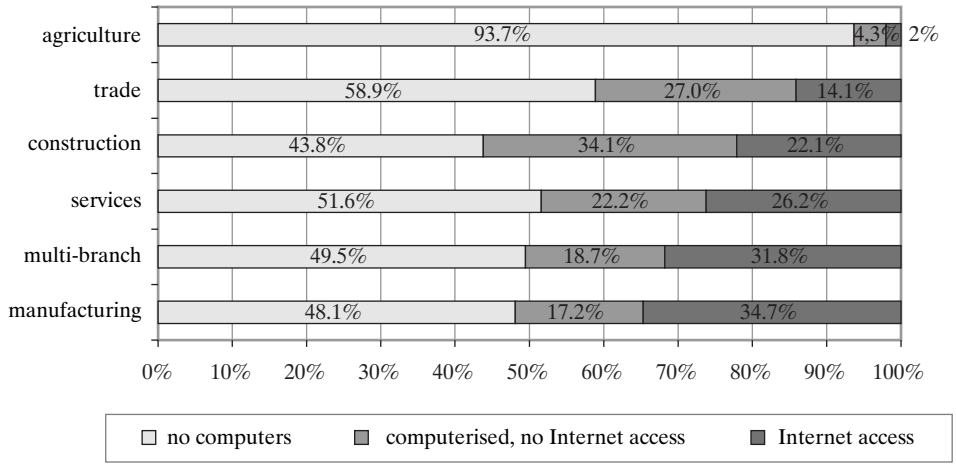


Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

The propagation of computers and the Internet varies across industries. The outcome is particularly unfavourable in trading enterprises and those operating in agriculture. Among agri-

cultural firms, almost 94% do not have computers and only 2% have Internet access. Only 4% planned to purchase computer hardware over the next six months. The broad use of computers in the construction industry is worthy of note (over 56% of entities had them, more than in manufacturing firms – 52%), with relatively fewer connections to the Internet.

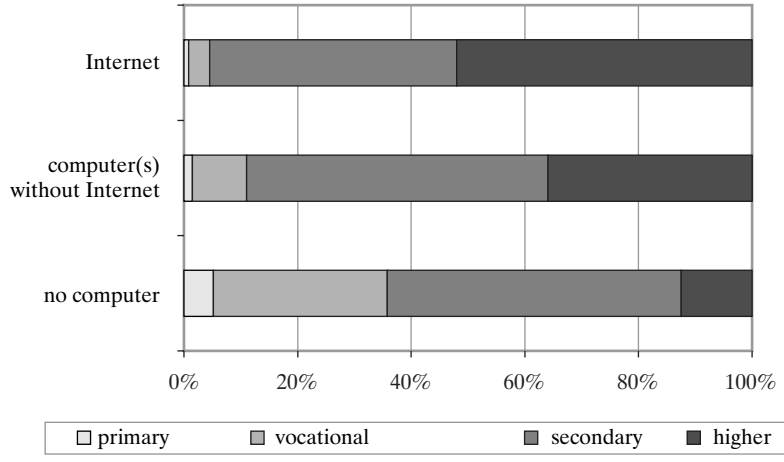
Chart 9.3. Utilisation of Computers and Access to Internet Depending on Industry



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

Whether the company has computers and Internet access mainly depended on the education of the tope executive. A higher education was instrumental in promoting the use of computer technology in the enterprise, also in regard to the stockpiling of equipment and the technological advancement of the equipment, as well as the multifaceted use of computers. However, among the firms connecting to the Internet, there are more and more enterprises operated by persons with a secondary education, which may be evidence that this form of communication with the world is becoming really widespread and that this tool is becoming more egalitarian. Business cooperation with foreign firms and location of the company in a city were factors that increased the likelihood that a company would have computers and Internet connectivity, as well.

Chart 9.4. Utilisation of Computers and Access to Internet Depending on the Manager's Education



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

9.2. Quality of Hardware Used

The percentage of employees with access to the Internet is an important indicator in the assessment of the level of computerisation.

In small firms, usually one computer is used. In 39% of firms there are fewer computers than employees utilising them in their work. However, 38% of firms provide each employee with a computer for use in the course of conducting work. The group of enterprises in which there are more computers than the number of people employed full-time is quite high – it makes up 23% of the small business sector. Such proportions are found in firms in which a number of the employees are employed on the basis of, e.g., a personal services contract or a fixed-job contract rather than on the basis of a contract of employment.

Microsoft's software is dominant among the operating systems used. A considerable percentage of firms use DOS and the older Windows 3.1/3.11 (8%). In about 8% of firms other operating programmes are used. Those entrepreneurs who, on the basis of the Act[4], will be required to settle liabilities towards ZUS via the P atnik computer programme, and who have one of the operating systems mentioned above, will have to change it because P atnik is not compatible with them. In the case of DOS and Windows 3.1/3.11. systems users, this will mean the replacement of all or part of the hardware because these systems are usually installed on computers that do not meet the minimum requirements of newer applications. Another solution is the use of accounting services.

However, computers used by small firms are relatively modern. Larger companies more often buy sophisticated equipment. Firms from the retail trade sector usually use the older generation of hardware.

One in three firms that have at least two computers have a local area network (36%). Connections between all computers in a company are often encountered in trading firms, whereas networks that include only some computers are often encountered in industrial enterprises.

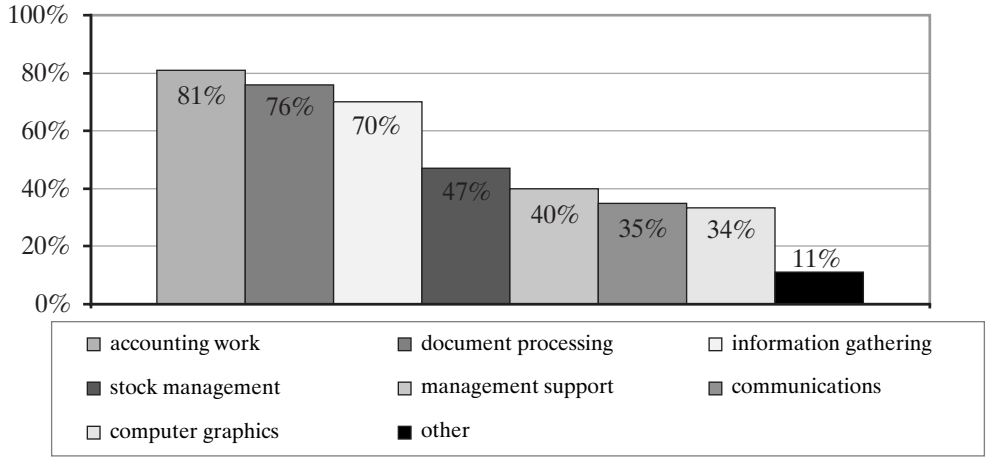
Software generally constitutes an element of the computer purchased; however the purchase of hardware without software is not uncommon – 24% of firms buy only hardware. Purchasing computer hardware without software may be to some extent the evidence of a breach of copyright, although some firms do buy hardware and software separately.

9.3. Use of Computers

The use of computers was usually higher in firms employing more than nine employees than in smaller firms. The only exception was the creation of computer graphics used by both micro-businesses and enterprises employing a larger number of employees.

[4] The Act of January 11, 2001, on the Amendment to the Act on Social Insurance System and Certain Acts, published on February 2, 2001, (Journal of Laws No. 8 item 64). From the effective date of the amended Act (from February 17, 2001) and in accordance with Article 47a, payers of contributions who settle social insurance contributions for more than 20 people are required to forward to ZUS an electronic document form from the current version of software provided by the Social Insurance Institution (ZUS) by way of electronic transmission not later than after: five months – if they settle contributions for at least 1,000 insured persons; six months- if they settle contributions for fewer than 1,000 and at least 100 insured persons; and seven months – if they settle contributions for less than 100 but at least 21 insured people. On the other hand, within one, two and three months from this date the aforementioned payers of contributions are required to forward application and settlement documents in the form of a printout from the current version of software provided by ZUS.

Chart 9.5. Utilisation of Computers in Firms



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

The main use of computers in small firms includes document preparation, accounting and finance, and creation of databases. More than two-thirds of firms use computers for the purpose of database creation. One in three firms using computers (33%) have software specially designed for database creation purposes. Firms located in large cities usually place an order for the software applications where such services are in all probability more accessible. Mainly office software is ordered (50%), and software is next, used for managing a firm (23%), the latter mainly in larger enterprises (39%).

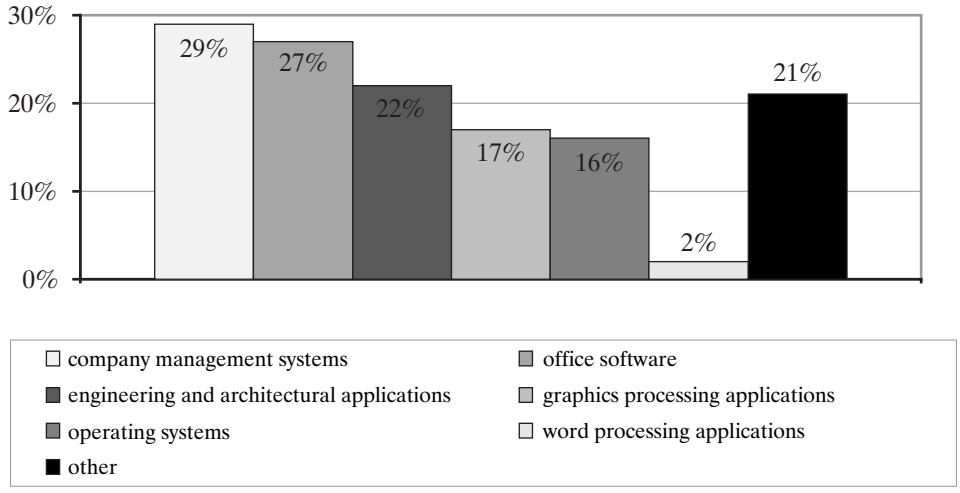
One in five firms using computers during the next six months, i.e., from November 2000 to April 2001, planned to purchase more units. It is not surprising that larger firms dominate among them, due to the foreign trade exchanges that they undertake; however, these plans are being made, rather unexpectedly, by businesses located in rural areas. The purchases planned will not be large, they will typically consist of one computer (72%). Firms are planning to upgrade the equipment they already have more often than they plan to purchase a new computer – one in four firms (27%). The most common change (52%) – especially in smaller firms – is the extension of operating memory. Many firms intend to replace the processor; more frequently, along with the motherboard (28%) than without it (15%).

Firms without computers, i.e., more than 50% of respondents, relatively rarely want to change this state of affairs: plans to purchase a computer within the next six months were made by 12% of them. The absence of computers in businesses is usually due to a lack of such a need (52%). Other relevant reasons include the costs of equipment (25%) and belief that the company is too small (21%). Representatives of firms located in large cities quoted the final argument most frequently (30%).

Among firms without computers, representatives of firms employing over nine employees (one in three) much more frequently than those in small firms contemplated the purchase of computers. It is interesting that purchases are more frequently planned by firms located in rural areas (13%), and especially in small towns of up to 20,000 inhabitants (17%). This is partly the result of the lower saturation with computer hardware of firms in small communities, which would become the natural growth area for computerisation of the economy.

The purchasing plans usually envisaged a single computer (91%).

Chart 9.6. Software Purchasing Plans



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

Plans of firms (among those equipped with computers) most frequently concern company management software and office applications (29% and 27% of firms, respectively). Only slightly less often, representatives of enterprises are interested in other types of software. 16% of firms think about a new operating system. Considering that many firms buy hardware without software, this percentage is quite high. The only applications in which managers were not interested were text editors (only 2%). One might assume then, that the text editors already installed in firms meet their needs completely. Over the next six months 19% of firms plan to order software. Firms without access to the Internet which do not intend to obtain that access rarely have such plans.

9.4. Utilisation of the Internet

The Internet remains a new phenomenon. Two-thirds of firms have been using it for a period of less than eighteen months. One in four enterprises without Internet access but equipped with computers was planning to obtain Internet access within the next six months.

A considerable majority of firms use a modem connection (86%). And it is the inadequate quality of connection that is the main reason for unfulfilled hopes with respect to the Internet. Nevertheless, most enterprises evaluate their Internet experiences positively, and a surprisingly large number of them, as many as 56%, declare that they do not need a better connection than they have been using thus far. Firms spend little on connections to the Internet – half spend less than PLN 100 per month, with 22% spending more than PLN 250.

Usually the Internet is used for obtaining information from web sites – 86 %. Almost 70% of firms use electronic mail, and 42% use free e-mail services. Downloading data, large files and programmes from web sites and presentation of the company's profile on the Internet is quite popular (45%). Approximately one in four enterprises used Internet-based calls (23%). The

least popular is the use of banking services (18%), advertising (18%) and sale of products and services via web pages (15%).

Chart 9.7. Utilisation of the Internet in Firms (1)

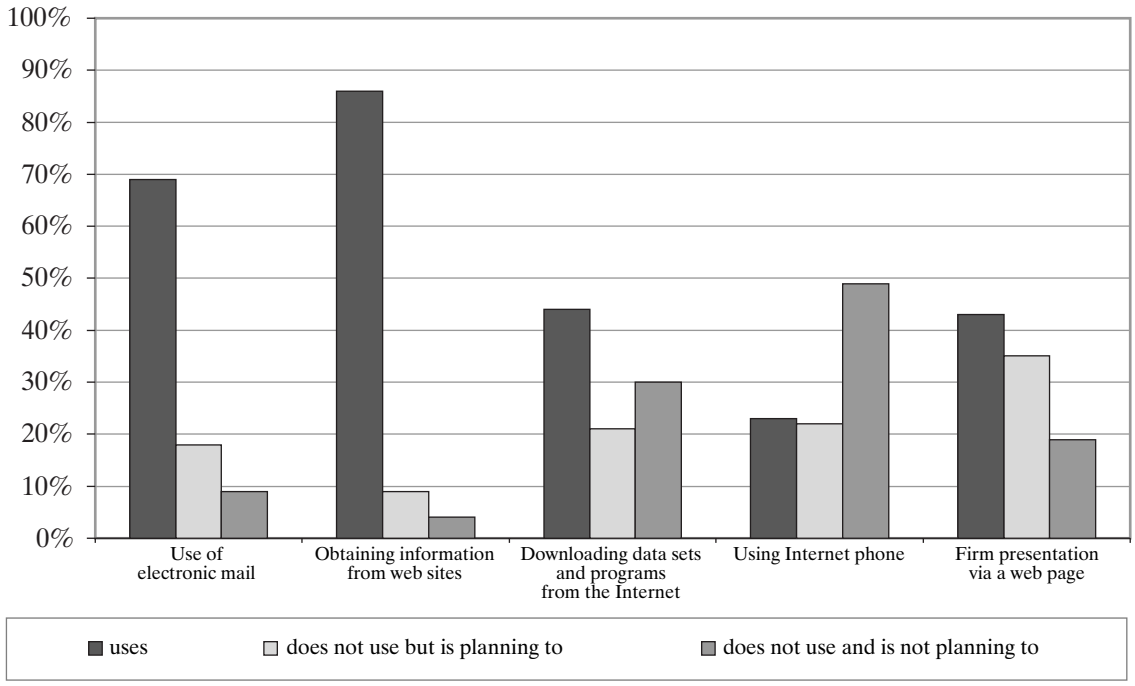
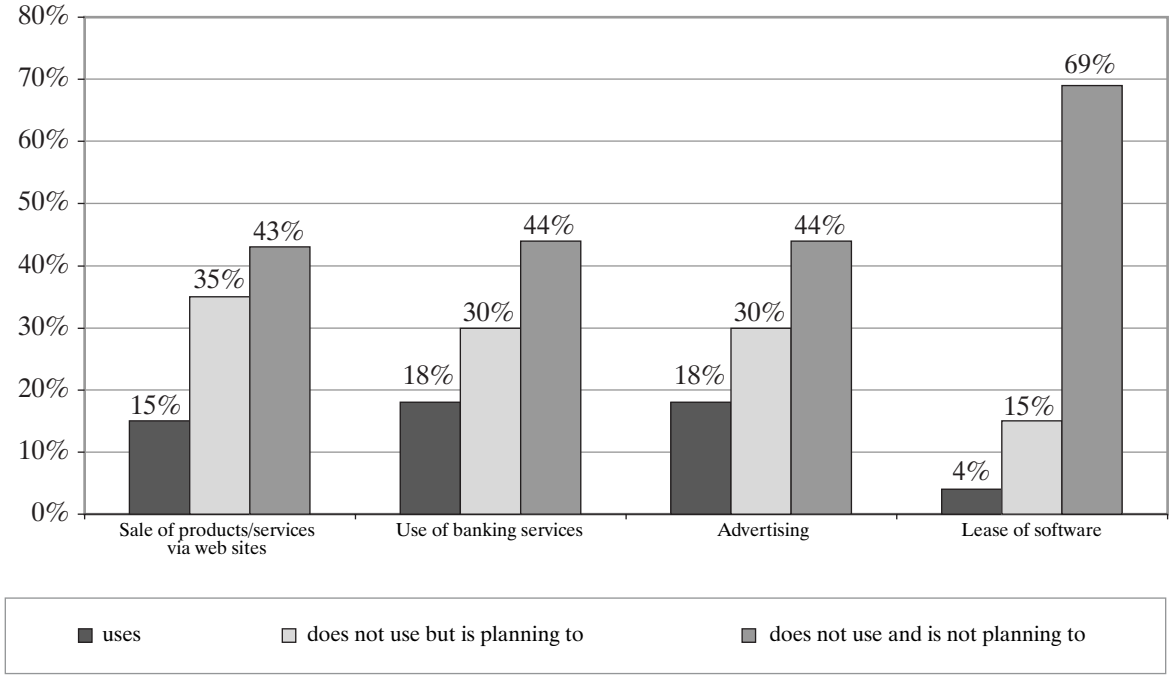


Chart 9.8. Utilisations of the Internet in Firms (2)



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

The possibility of leasing software for a rental fee is a certain novelty in the market – only 4% of firms were using this type of service, but many more are planning to take advantage of this opportunity in the future.

Generally, entrepreneurs are more oriented towards the inflow – rather than an outflow – of information as well as goods from the Internet environment to their company. They utilise free Internet services to a relatively small extent: they usually pay for their e-mail services and for the creation of web sites.

In their plans for the future, entrepreneurs demonstrated the most interest in establishing their company's web presence, which was expressed by more than one-third of businesses with Internet access, a rate similar to those interested in the sale of goods and services via the Internet, use of banking services, and advertising on other firms' pages or portals. These are areas in which development will be seen in the immediate future.

9.5. Barriers to Widespread Use of the Internet in Firms

When considering the issue of barriers in the propagation of computers or Internet access, one must realise that both the purchase of the computer equipment and connection to the Internet, objectively speaking, is neither too costly nor too problematic. Therefore, from the technical point of view, the status quo discussed above may soon change. The above-mentioned statutory regulation concerning the electronic transfer of documentation to ZUS will probably not be without relevance for increasing the number of computers and the propagation of the Internet. However, the attitudes towards computerisation observed in the group of entrepreneurs are of a much more long-lasting nature and they will decide the future of the new economy in Poland. Among those attitudes, elements in favour of the development of the Internet may be found and threats to development may be identified.

One threat to development is a low level of knowledge about various possibilities of using the Internet: only 35% of firms have their own web site, 32% use the Internet for advertising via banners, links, or place their logos on other pages. More than 60% of respondents are of the opinion that obtaining better information about the Internet would enable them to utilise it much better.

The lack of knowledge and skills necessary for using the Internet, among other things, leads to the belief that it is of little importance in the development of the company business. The importance of providing company information by establishing their company's presence on the web, or advertising in the form of banners or links, is also considered to be low, with 23% and 13% of entrepreneurs, respectively, recognizing the value of such action. In the largest number of cases (over 50%) considerable significance was attached to e-mail services and obtaining information from web sites. The importance of other opportunities offered by the Internet (buying, selling own products, making phone calls, leasing software, using financial and banking services) was identified by a much smaller number of respondents – fewer than 15%. A more proper evaluation of benefits of the Internet largely depends on an effective grasp of the Internet itself. Most entrepreneurs do not think of the Internet as a tool that could be used to increase their turnover, the result of the aforementioned model of "passive" use of the Internet.

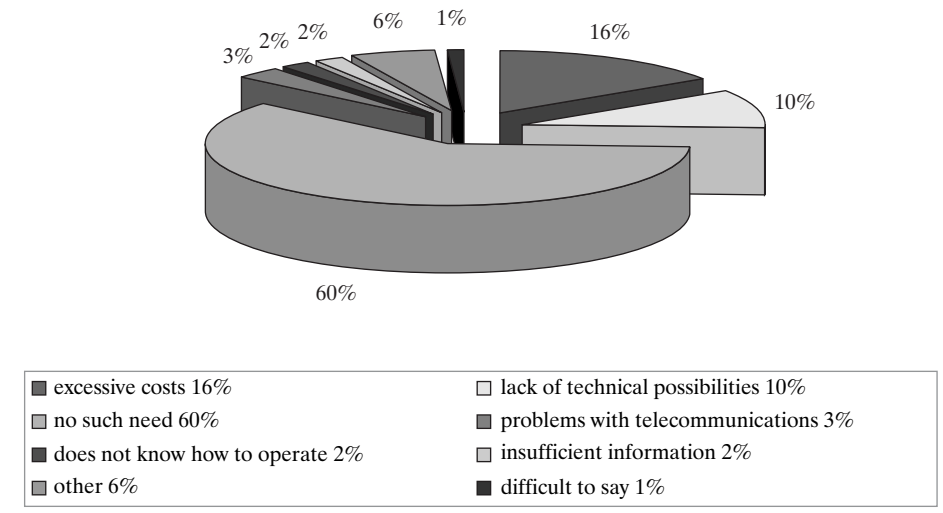
The main barrier, making it more difficult for representatives of firms with Internet access to learn more about the Internet and its possibilities, is lack of time. Over 70% declare that using the Internet is time-consuming. This is due to two elements – inefficiency in surfing web sites and insufficient skills in searching for the desired information, as well as poor quality of connections to the Internet.

In addition to time, costs play a significant role too – 40% of respondents think that the Internet is very expensive. This opinion about the costliness of the Internet is one of the widespread myths, because in 77% of firms with Internet access, the monthly expenditure on connections does not exceed PLN 250.

Another barrier may be the opinion that the Internet in Poland is still poorly developed, an opinion shared by more than 60% of respondents. This may promote passivity and a "wait-and-see" attitude. Some people who participated in the survey believed that the Internet is a type of toy – if it is not used for entertainment, students can use it as mainly as a study aide.

The statement of reasons identified by respondents for not using the Internet has been presented in the following chart.

Chart 9.9. Reasons for not using the Internet in the Firm



Source: The Polish Foundation for Small and Medium Enterprise Promotion and Development-commissioned survey performed by DEMOSKOP 1999.

9.6. Summary

Entrepreneurs have a positive attitude toward the Internet. Those who use it think that it has met their expectations. A large majority (almost 90%) are planning to use or are already using at least one form of utilisation of the Internet in their company.

Among the factors promoting the development of the Internet in firms that already have access to it, the most important factor is related unequivocally to the future activities of firms on the Internet. Over 70% of respondents believe that it will soon be difficult to conduct busi-

ness without the Internet. The same number think that this is a requirement for maintaining a presence on the market.

Representatives of firms with Internet access are in favour of the electronic form of reporting – almost 80% think that the electronic form of ZUS declarations is convenient, more than 70% believe this of tax declarations and more than 60% believe this of documents forwarded to the voivodship statistical office.

Chapter 10.

Business Environment

Business Support Institutions

Comparative Evaluation of Services for SMEs by Institutions Acting for SMEs and Entrepreneurs

Entrepreneurs' Opinions on the Public Administration

SME Support Programmes Implemented by the Polish SME Foundation and the National SME Services Network

Other Foreign Aid Programmes with Elements of Support for SMEs

Summary

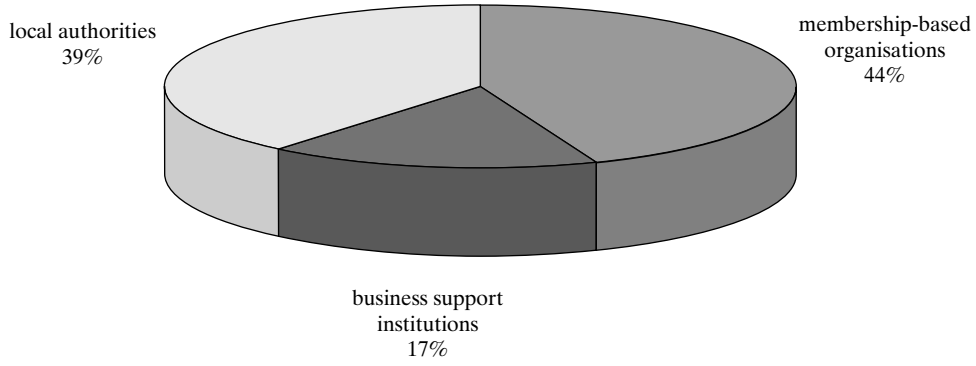
10.1. Business Support Institutions

There are many institutions supporting business and entrepreneurship defined in broad terms. Some concentrate exclusively on providing support for SMEs via the provision of advisory services, training, technology transfer, certification, financial activities, etc. Others act on behalf of other entities as well, but cater to the needs of SMEs. Both non-commercial and commercial institutions are among the organisations supporting SMEs. Due to the far-reaching nature of the subject, this chapter focuses on the analysis of activities of non-profit entities. The influence that the behaviour of public administration brings to bear on the development of SMEs is also presented.

10.1.1. Features of Institutions Providing Support to SMEs

The features have been identified based on the results of the Polish SME Foundation-commissioned survey conducted by the Gallup Institute[1] under the implementation of the programme entitled "Government Policy Guidelines for Small and Medium-Size Enterprises until 2002". 1,370 individuals took part in the survey. Among them, 538 people (39%) represented non-profit organisations supporting small and medium-size enterprises[2].

Chart 10.1. Business Support Institutions



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

The group of institutions described is not a representative sample, and neither is it the entire community of non-profit business support institutions in Poland. It is a group of organisations that are the most active in their support for SMEs. The emphasis of the analysis is not on the differences between individual areas of activity and conditions of operation of entrepreneurial organisations and business support units, but rather on their general characteristics as institutions having the greatest influence on the position of small and medium-size enterprises.

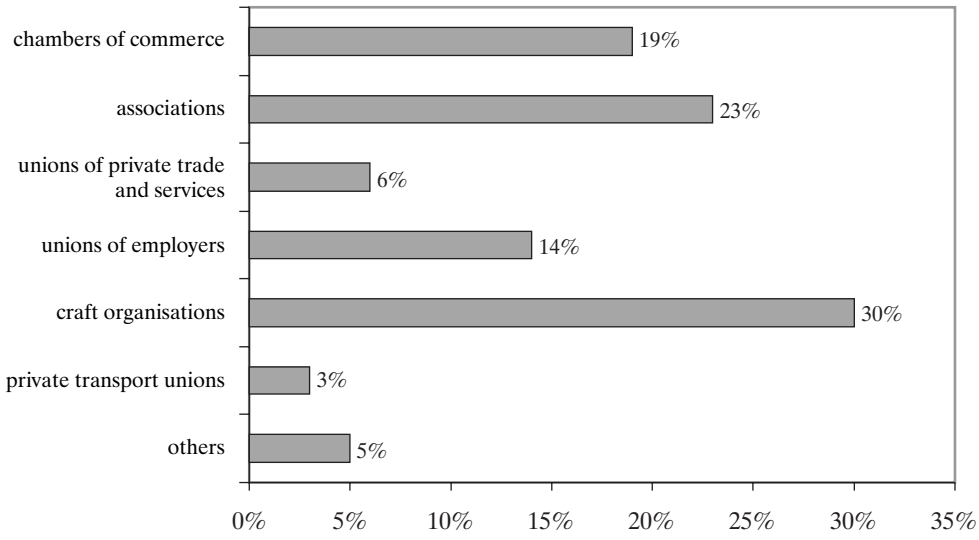
[1] The survey was conducted among the participants of the series of conferences entitled "Financing the Development of SMEs", which were held between September 1 and November 15, 2000.

[2] Non-profit financial institutions (26 out of 138 financial institutions represented at conferences were categorised as non-profits) were included in the group of business support units.

Entrepreneurial Organisations

Entrepreneurial organisations constitute a separate group among the entrepreneurial community. A total of 233 domestic organisations bringing together entrepreneurs were represented at the series of conferences. Of these, craft organisations made up the largest group (70). The private transport unions were the most underrepresented (six institutions). However, a relatively high number of entrepreneurial organisations have the legal status of an association. The majority of these entities are self-governed domestic organisations unrelated to any of the nationwide structures.

Chart 10.2. Types of Entrepreneurial Organisations



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

22% of the organisations represented are strictly industry-based, whereas 78% bring together representatives from various sectors. Membership-based organisations or their local agencies bring together an average of 300 members each, although the difference in membership figures is enormous: between seven and 8,000 members. Their strength and significance to the development of entrepreneurship are, therefore, unequal. Membership in organisations is still not popular among entrepreneurs, though only 15% of organisations require the payment of membership fees, and on average only 77% of members pay those fees.

The variety and weakness of entrepreneurial organisations is the consequence of the legal framework in 2000 in respect of forming associations by individuals conducting business activities. Entrepreneurs may form organisations on the basis of provisions contained in:

- Act of March 22, 1989, on Crafts (Journal of Laws No. 17 item 92, as amended);
- Act of May 30, 1989, on Chambers of Commerce (Journal of Laws No. 35 item 195, as amended);
- Act of May 3, 1989, on Professional Self-Government of Certain Entrepreneurs (Journal of Laws No. 35, item 194);
- Act of May 23, 1991, on Organisations of Employers (Journal of Laws No. 55, item 235);

- Act of April 7, 1989 – Law on Associations (Journal of Laws No. 20, item 104);
- Act of April 6, 1984, on Foundations (uniform text: Journal of Laws of 1991, No. 46 item 203, amendment in: Journal of Laws of 1997, No. 121 item 769).

This catalogue is completed by the collection of Acts regulating the operation of professional self-governments of groups of professionals (pharmacists, lawyers, chartered accountants, tax advisors, doctors, etc.), which has been extended this year to include:

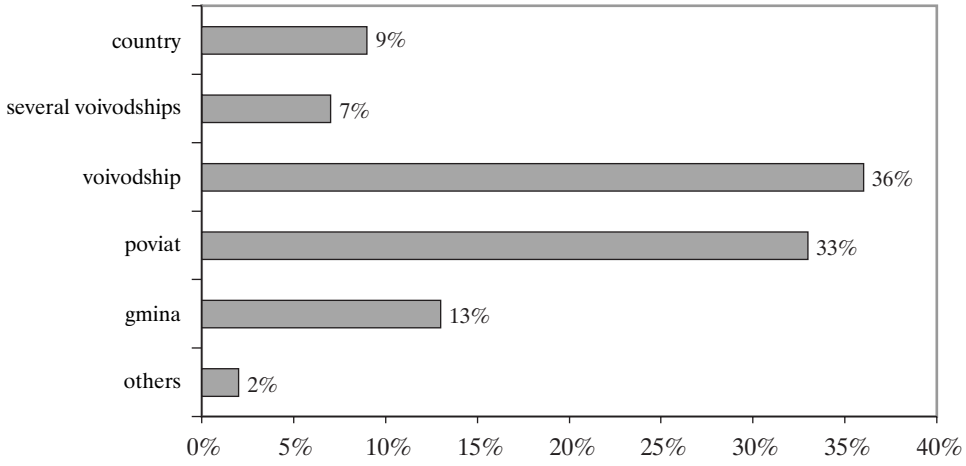
- Act of November 16, 2000, on Warehouses and on Amendment to the Civil Code, Civil Proceedings Code, and other Acts – mandating warehouses to organise into of chambers;
- Act of September 15, 2000, on Groups of Farm Producers and Their Unions, and on the Amendment to Certain Acts – introducing the possibility for farm producers to form groups of producers and unions of producer groups.

The plan to create a universal self-governing business body in 2000 provided for in the Business Activity Law has never materialised. The opposing standpoints of the largest entrepreneurial organisations have made the development of common mechanisms impossible.

Scale of Activities

269 institutions provided information on their range of activities. The largest number operate within a voivodship and a county, substantially fewer within the territory of a commune, country, or several voivodships.

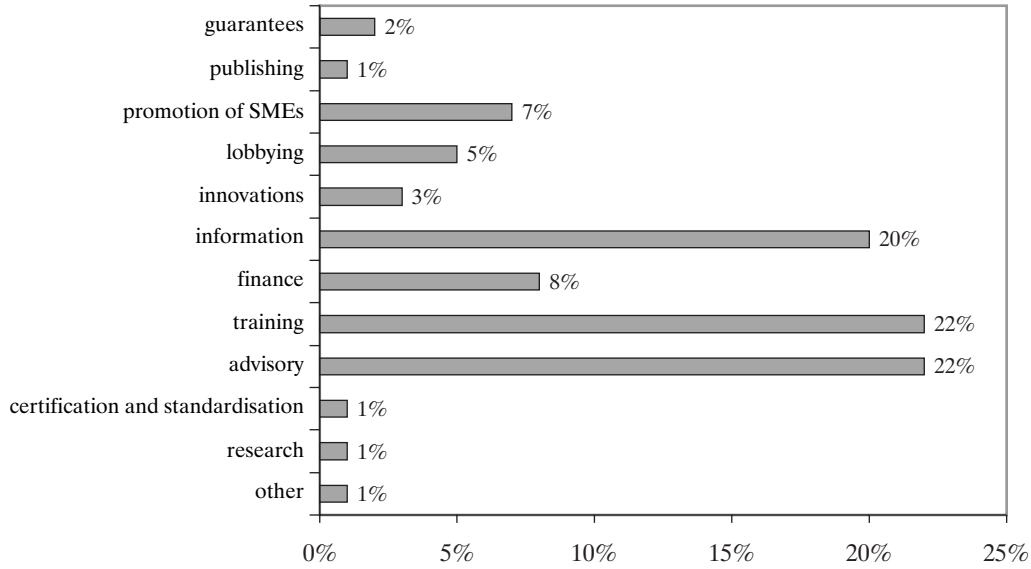
Chart 10.3. Range of Operation of Business Support Institutions



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Types of Activity

Chart 10.4. Types of Activity of Business Support Institutions (% of institutions citing a specific type of activity)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

The popularity of individual types of activity varies significantly. Advisory and training services are decidedly the dominant ones. Informational activities are almost as popular. The least popular activities were: assistance in the process of certification, as well as research and publishing activities.

Sources of Financing

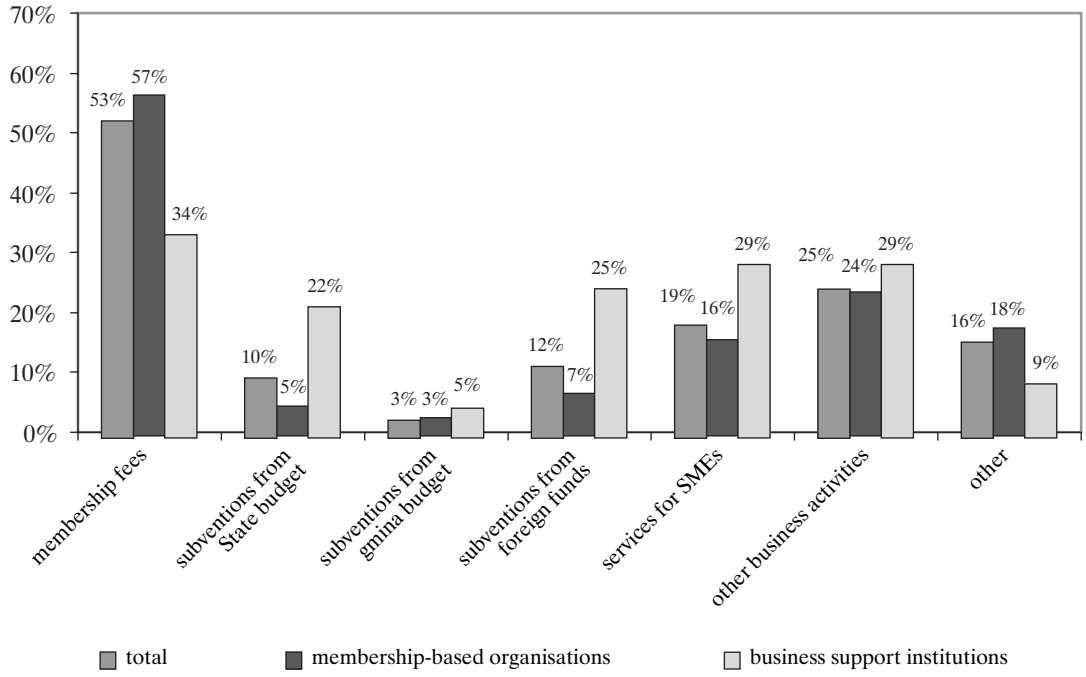
Chart 10.5. Sources of Financing Business Support Institutions (% of institutions citing a specific source)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Decidedly, the greatest number of institutions (160) identified membership fees as the source used to finance their activities, and of these, 129 are entrepreneurial organisations. 135 institutions identified the second source of financing identified – business activity other than services for SMEs. It is interesting that subsidies from the State budget, communal budget or from foreign resources were identified just as often, and there were no significant differences in the frequency with which membership-based organisation and business support units identified them.

Chart 10.6. Importance of Financing Sources of Business Support Institutions (mean percentage weight of individual sources)



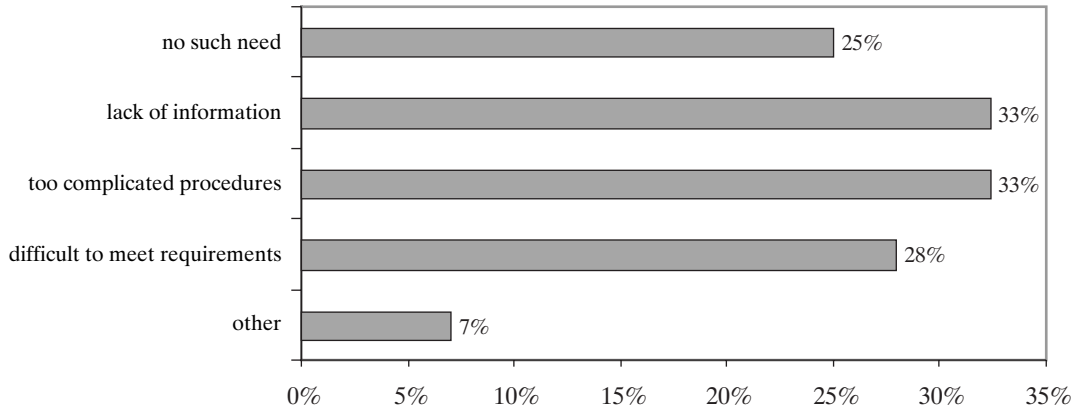
Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Although the involvement of local authorities in the financing of business support units is becoming a widespread phenomenon, the scale of financing remains small. Membership fees are the most important source of financing activities of institutions supporting SMEs. With respect to membership-based organisations, 57% of their budget comes from membership fees. Subsidies from the State budget and from foreign funds are important only to business support units. However, their activity is financed mainly from services for SMEs and other business activities.

Role of Aid Funds in the Financing of Business Support Institutions

To the question, whether the institution represented by the respondent utilises aid funds, 43% of survey participants replied yes: 61% are membership-based organisations, and 39% are business support institutions. Representatives of other entities that utilise no aid funds provided their reasons for not doing so.

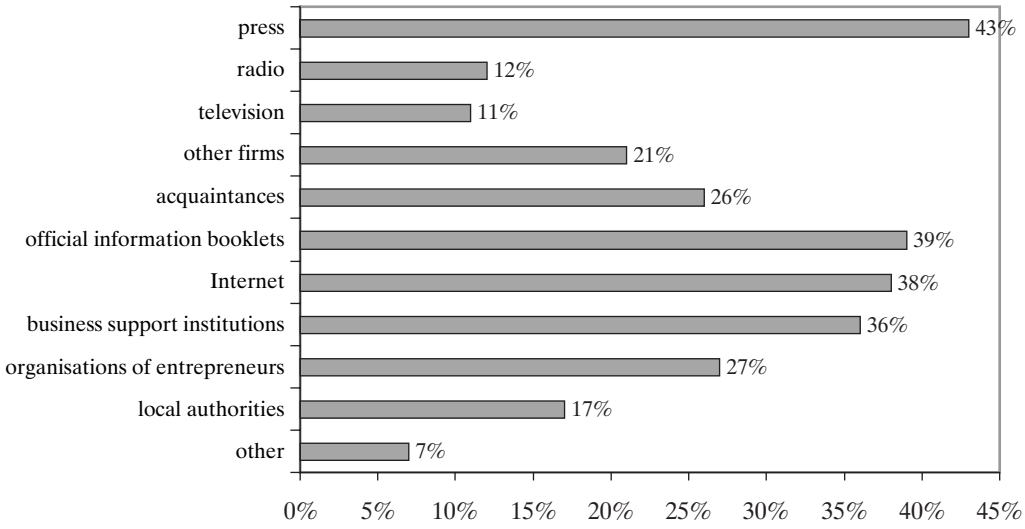
Chart 10.7. Reasons for which Institutions Acting in Support of SMEs Do Not Utilise Aid Funds (% of institutions citing the specific reason)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Only about one-quarter of institutions utilise no financing from aid funds because they have no need of them. A much greater number indicate the restricted access to aid funds due to the lack of information or too complicated procedures. The difficult to meet and unrealistic requirements that are the condition for obtaining the financing have also been identified by a large number of respondents – 28%. Thus, one might draw the conclusion that aid funds do not play a significant role in the financing of activities of business support institutions, although this is the consequence of various types of technical and formal limitations rather than the lack of requirement for funds. At the same time, it should be remembered that the group of institutions analysed in this document have been dominated by membership-based organisations that utilise aid funds to a much more limited extent than the much better prepared business support units.

Chart 10.8. Source of Information on Aid Funds (% of institutions citing a specific source)



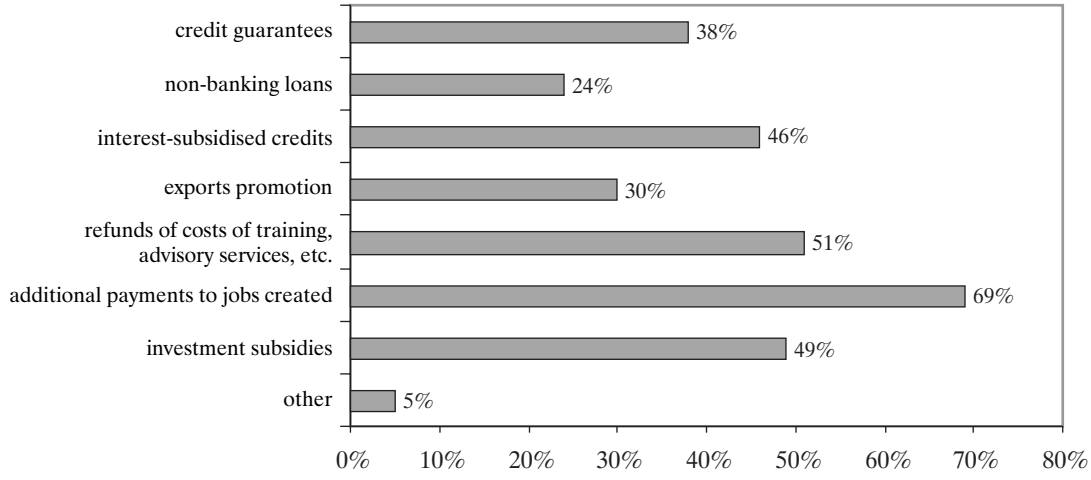
Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Respondents whose institutions utilise aid funds were asked to indicate sources from which they obtain information about those funds. The most popular source of information is the press – 43% of institutions have obtained or are obtaining information about aid funds from newspapers. Other media are cited much less frequently – 12% and 11% of respondents selected radio and television, which were actually the least important sources of information (with the exception of the 'other' category). The importance of official information booklets, the Internet and other institutions acting on behalf of the business sector is quite high, and in all cases were cited by a similar number of respondents – between 36% and 39%.

10.1.2. Opinions of Business Support Institutions on Selected Aspects of the Operations of SMEs

Participants of the series of conferences were asked to provide their opinions on certain aspects of the operations of SMEs in Poland. Because the conferences were devoted to the financing of activities of small and medium-size enterprises, most questions pertained to this subject.

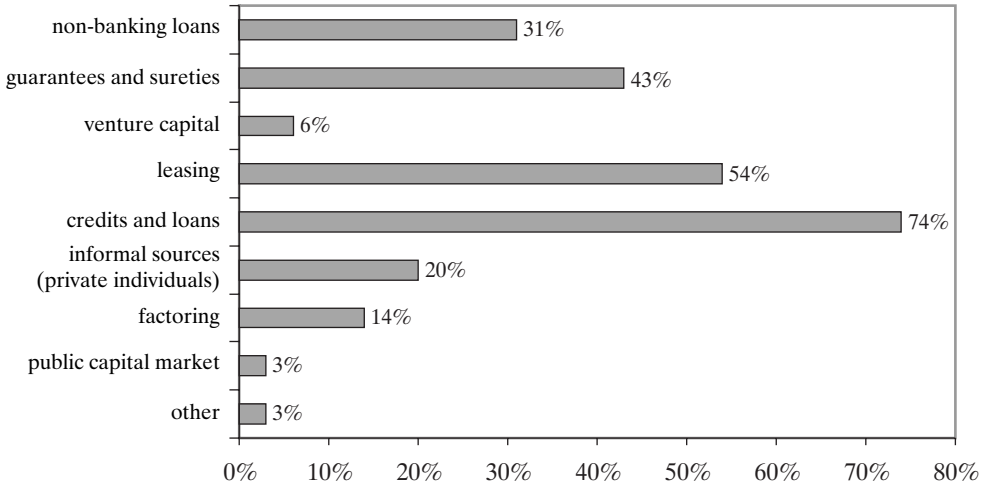
Chart 10.9. Opinions of Business Support Institutions on the Most Desired Forms of Support for SMEs from Public Funds (% of institutions citing the specific type of assistance)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Almost 70% of business support institutions cited the type of publicly funded support preferred by SMEs as being the subsidies for the creation of new jobs. About half of those institutions also believe that small and medium-size entrepreneurs expect interest-subsidised credits, investment subsidies, and refunds of the costs of training, advisory services, and business intelligence. Less popular forms include credit guarantees (38%), export promotion (30%) and non-banking loans (24%).

Chart 10.10. Opinions of Business Support Institutions on Forms of External Financing Preferred by SMEs (% of institutions citing the specific form of financing)

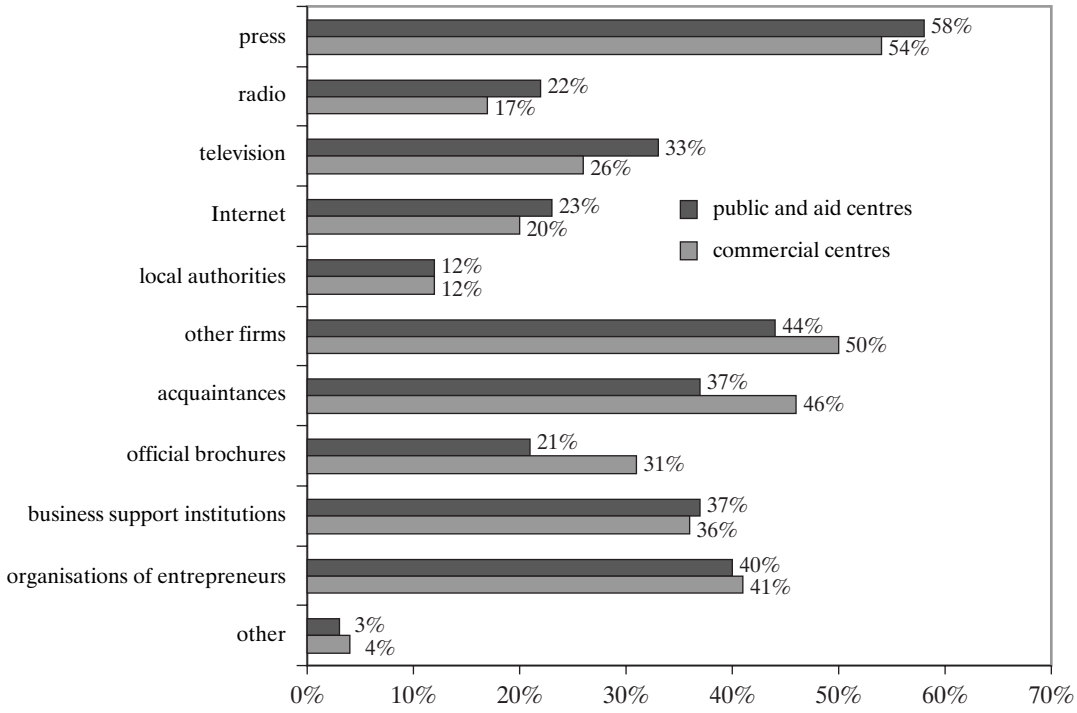


Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

The importance attached by business support institutions to individual forms of market financing for SMEs is much more varied than in the case of publicly funded support. Decidedly the most important forms include bank credits and loans, whereas slightly lower importance, though still high, is attached to leasing. Guarantees and sureties were identified by 43% of respondents, and non-banking loans by 31%. Financing from institutions other than those whose statutory goal is to provide those forms of financing is still very important, such as loans from private individuals. According to SME support institutions, these institutions are more important sources of financing than factoring, venture capital firms, or the open capital market.

Conference participants who represented institutions supporting SMEs were also asked to provide an evaluation of sources of information about the sources of financing used by small and medium-size entrepreneurs. In their opinion, the most crucial source of information for entrepreneurs is the press. Other firms and acquaintances are also important as sources of information. Likewise, business support institutions and entrepreneurial organisations consider themselves to be quite important as sources of information. They believe that their role is more important than the role of the press or other mass media (i.e., television, radio and the Internet), including official brochures, on these issues.

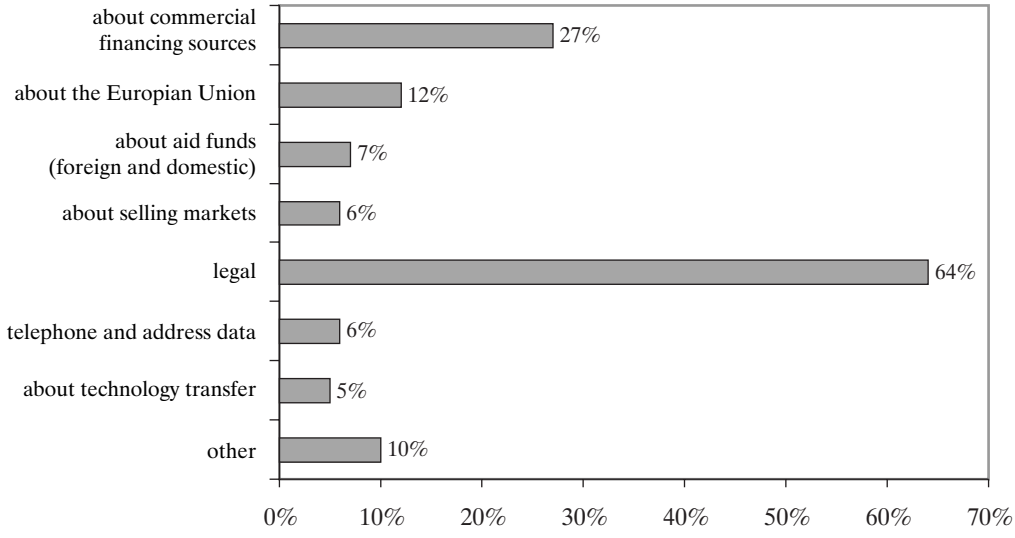
Chart 10.11. Opinions of Business Support Institutions on Sources of Information on Financing Used by SMEs (% of institutions citing the specific source)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

It is not surprising then, that in the opinion of individuals from the entrepreneurial community information providing activities are very important aspects of operations of their institutions.

Chart 10.12. Information Most Frequently Sought After by Entrepreneurs (% of institutions citing the specific type of information)

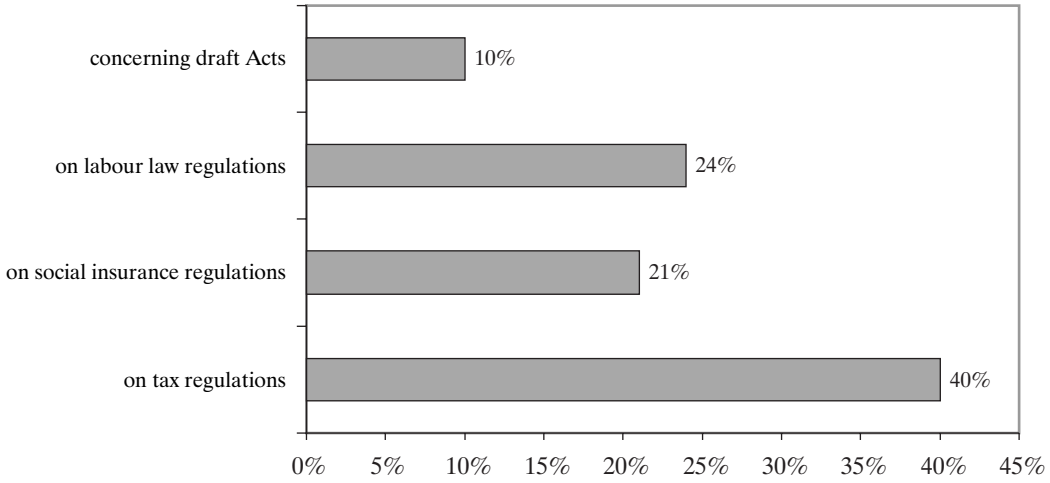


Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Decidedly, the most sought after type of information provided by business support centres is legal information: 64% of institutions claim that this was the type of information most frequently sought after by entrepreneurs. The second type of information required is sources of commercial financing, although it was identified by only 27% of institutions. Information about the European Union was crucial in the opinion of 12% of institutions; all other types of information were indicated by less than 10% of respondents.

Because legal information was found to be the most sought after by entrepreneurs, it is important to identify the issues that were of the most interest to firms.

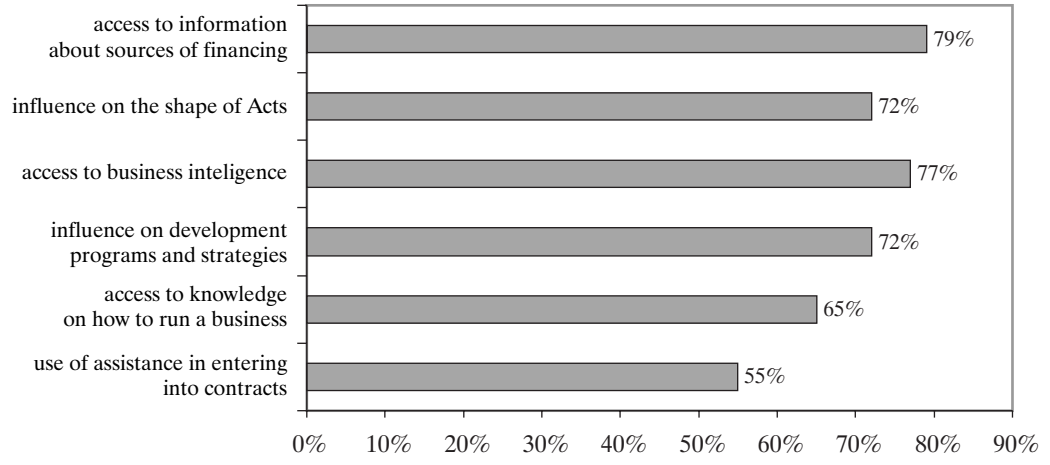
Chart 10.13. Information on Legal Regulations Sought by Entrepreneurs (% of institutions citing the specific type of regulations)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

The final question pertained to the evaluation of the influence of the introduction of business self-government on various factors shaping the environment in which small and medium-size enterprises function. The respondents were asked how they believed the introduction of business self-government will affect the position of entrepreneurs.

Chart 10.14. Opinions of Business Support Institutions on the Positive Influence of the Introduction of Business Self-Government on the Position of Entrepreneurs (% of institutions expecting improvement in the specific area)



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

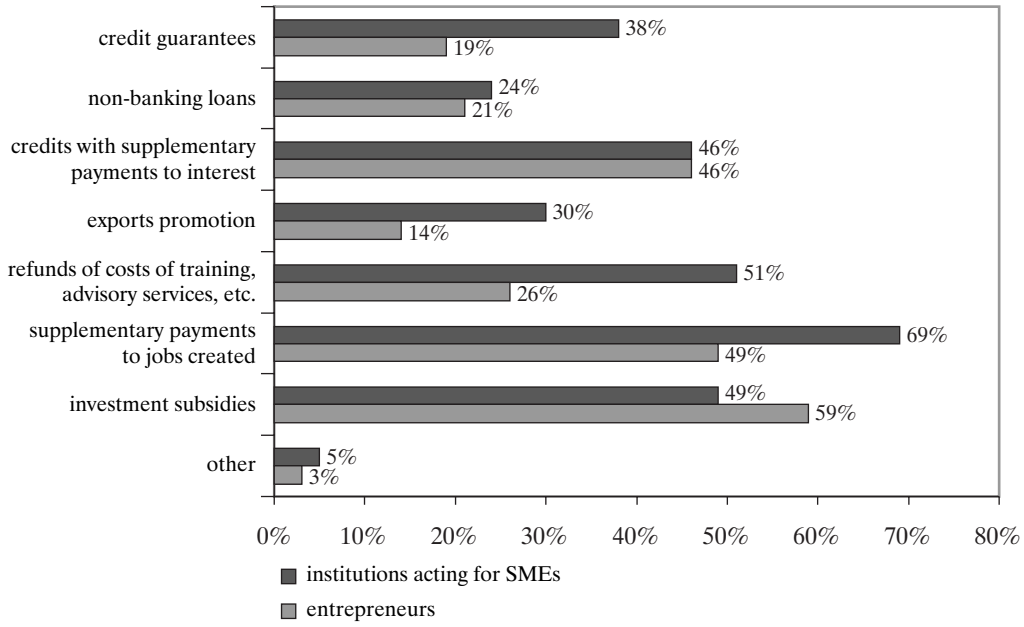
The respondents believe that the introduction of business self-government will have a positive effect on all areas of aid activities identified. Only 5% of respondents indicated that the introduction of self-government will have no positive influence on any of the areas, whereas 34% expect improvement in all six areas. Institutions acting for SMEs associate the introduction of self-government primarily with improved access to information on sources of financing (79%) and access to business intelligence (77%). Somewhat less frequently identified was an increase in influence on the shape of Acts and local development programmes and strategies (72% each). The fewest number of institutions expect improvement to assistance in entering into contracts, including contracts with foreign entities, and access to business operations and management information, on legal regulations, their interpretation, etc.

10.2. Comparative Evaluation of Services for SMEs by Institutions Acting for SMEs and Entrepreneurs[3]

The comparison of the opinions of business support centres with the opinions expressed by entrepreneurs will permit the assessment of the extent to which the support institutions are able to identify the needs of the firms for which they act.

The first question that may be compared refers to the forms publicly funded support preferred by small and medium-size enterprises.

Chart 10.15. Opinions of Business Support Institutions and Entrepreneurs on the Most Desired Forms of Publicly Funded Support for SMEs (% of institutions and entrepreneurs mentioning this type of assistance)



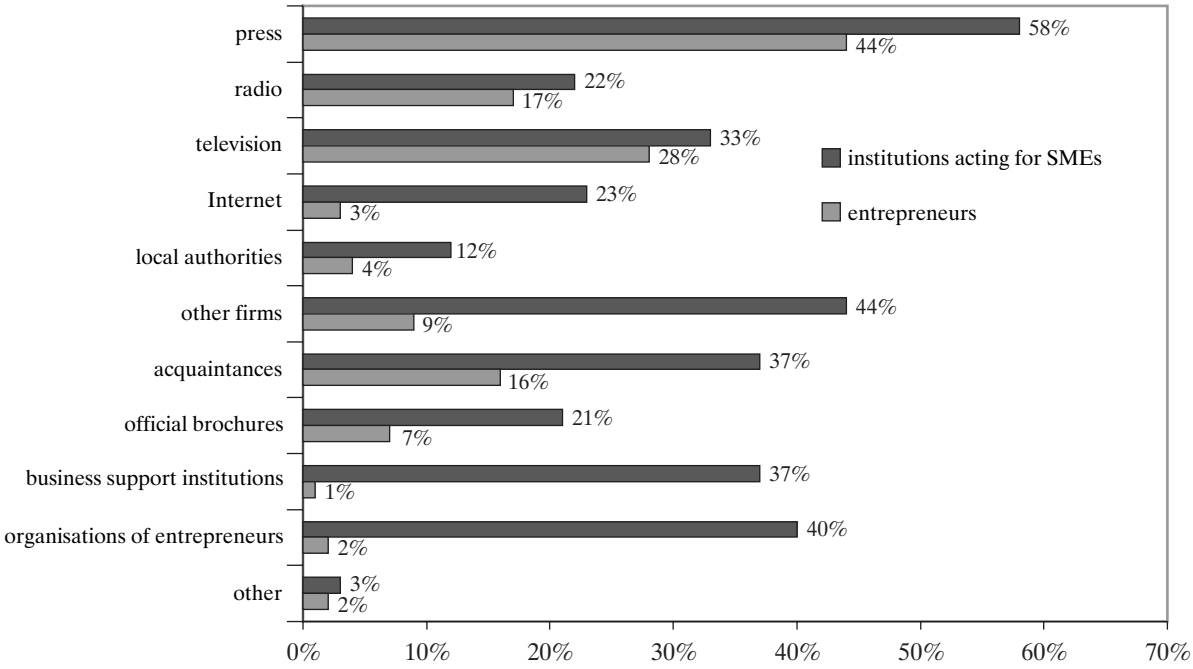
Source: PAED study based on the BiznesBus survey conducted by Demoskop.

[3] *Opinions of Managers on the Forms of Support, Business Self-Government, Sources of Information on Forms of Assistance, Environmental Protection, Press Information (Opinie menedżerów na temat form wspierania, samorządu gospodarczego, źródeł informacji o formach pomocy, ochrony úrodowiska i czytanej prasy)*, data from the BiznesBus survey conducted by Demoskop, Warsaw, November 2000. Although representatives of large enterprises were also present in the sampling, they constituted only 0.2% of the sample group, allowing the results of the study to be cited as a representative sampling of small and medium-size enterprises.

Unfortunately, it cannot be said that institutions supporting SMEs are well oriented in regard to the forms of public aid preferred by entrepreneurs. They overrate the importance of the refund of costs of training and advisory services, export promotion, and credit guarantees by almost twice. The first of these mistakes may be a consequence of their overrating of the relevance of training and advisory services for the functioning of firms in general because they provide such services themselves. They also significantly overrate the requirement for supplementary payments to jobs created (by 20%); on the other hand they underrate the importance of investment subsidies. The only form of publicly funded assistance for which the evaluation of SME support institutions correctly corresponded was with respect to interest-subsidised credits.

A comparison of the opinions of institutions from the SME community with those of entrepreneurs allows for an assessment of the extent to which entities that provide information and assistance on a daily basis to business owners are aware of the information sources utilised by entrepreneurs and on how the institutions themselves are evaluated as such sources.

Chart 10.16. Opinions of Business Support Institutions and Entrepreneurs on Sources of Information on Public Funds Used by SMEs (% of institutions and entrepreneurs citing the specific source)



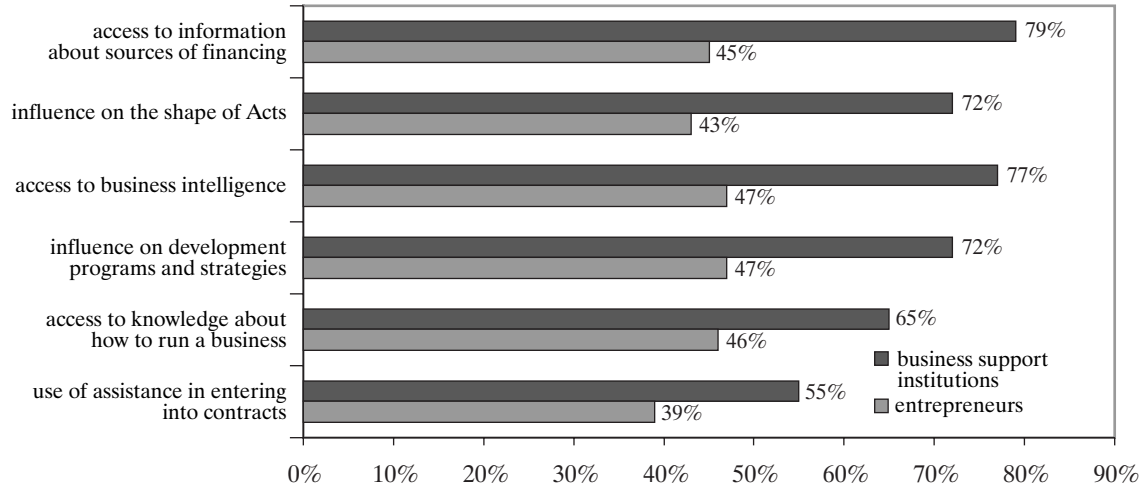
Source: PAED study based on the BiznesBus survey conducted by Demoskop.

The result of the comparison of the cognisance of entrepreneurial community institutions with the actual situation with respect to sources of information is extremely unfavourable. The institutions possess exceedingly poor grasp of the information sources used by entrepreneurs. Although they accurately identify the press as the most important source of information, they overrate its importance by far. They overrate the importance of the Internet by almost eight times, the importance of other firms by five times, official brochures and local authorities by three times, and acquaintances by more than twice. However, the toughest rating for business environment institutions is the disparity in the assessment of the importance of those institutions and entrepreneurial organisations: only 1–2% of entrepreneurs identified them as rele-

vant sources of information on public funds, whilst as many as 37–40% of those institutions considered themselves to be important sources of information.

A corresponding lack of orientation has been revealed with respect to the entrepreneurial community institutions – including entrepreneurial organisations – regarding the importance attached to business self-government by entrepreneurs. Again, institutions acting for SMEs are much more optimistic than the entrepreneurs themselves: as many as 95% of them expect improvement in at least one of the areas identified, whereas only 50% of entrepreneurs anticipate a positive influence of self-government on the position of enterprises.

Chart 10.17. Opinions of Business Support Institutions and Entrepreneurs on the Positive Influence of the Introduction of the Business Self-Government on the position of SMEs (% of institutions and entrepreneurs expecting improvement in the specific area)



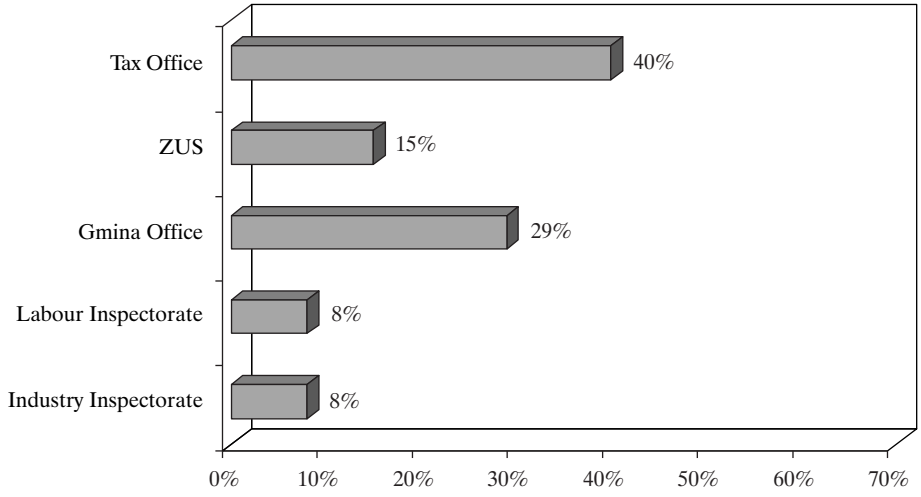
Source: PAED study based on the BiznesBus survey conducted by Demoskop.

It is worth noticing, however, that the proportions of answers in the groups of entrepreneurs and institutions acting for SMEs are similar, i.e. a similar number of entrepreneurs expect an improvement in the majority of areas (with the exception of assistance in entering into contracts), and a similar number of institutions expect positive changes in the majority of areas (here also with the exception of assistance in entering into contracts).

10.3. Entrepreneurs' Opinions on the Public Administration

In research conducted on a representative sample of small and medium-size entrepreneurs the question was asked with respect to an assessment of the friendliness of public administration offices towards firms with which those firms have the most contact. When asked which institution was most helpful to entrepreneurs, respondents pointed mainly to the tax office, and then to the commune office. Low ratings (8% each) for the Labour Inspectorate and other industry specific inspectorates may be explained by the oversight nature of their operations.

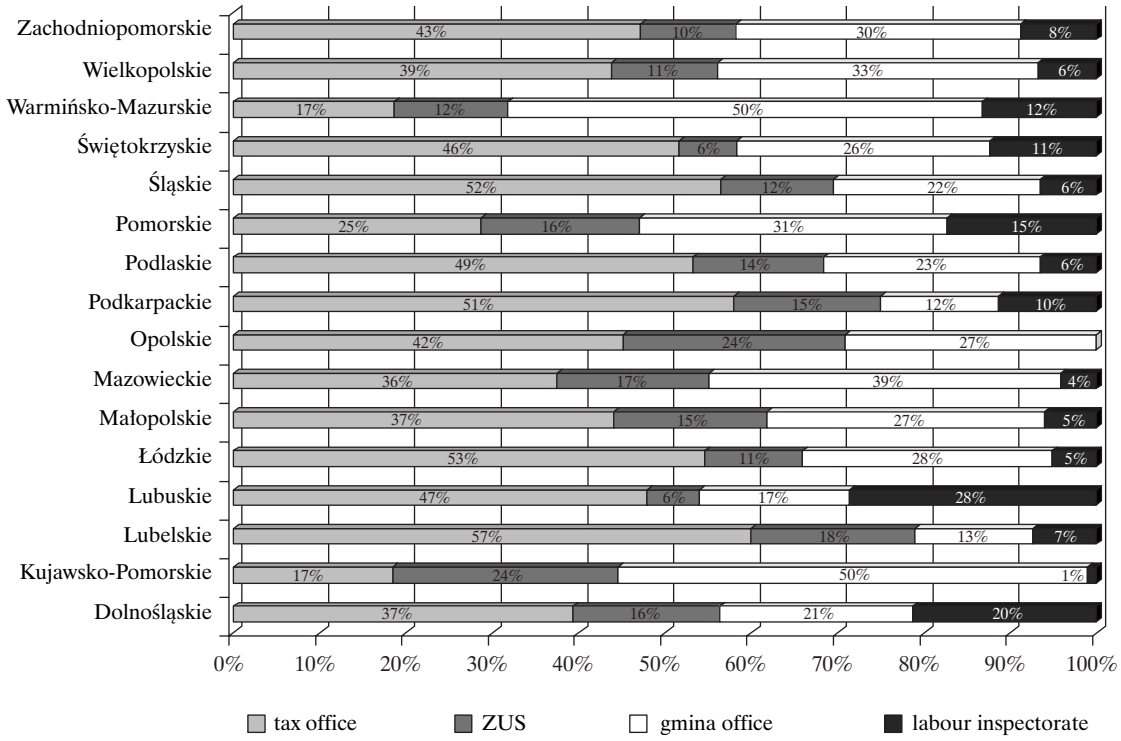
Chart 10.18. Assessment of Friendliness of Public Institutions



Source: PAED study based on a commissioned survey analysis performed by the Gallup Institute.

Rather large geographical differences exist with respect to this evaluation. Firms operating in rural and rural/urban local communities (communes) perceive the gmina office as the more helpful to entrepreneurs (47% and 44%, respectively) than the tax office (33% and 27%). Large differences in the evaluation of public institutions can be found also in individual voivodships.

Chart 10.19. Assessment of Friendliness of Public Institutions in Individual Voivodships



The process of granting public contracts is an important area of contact between SMEs and the public administration. Public procurement may be a significant source of contracts, which is why it is very important to investigate how bidders evaluate the public procurement system, in particular, contacts with the contracting parties that have public funds at their disposal.

Bidders are very critical of the currently binding public procurement system – they believe that it is excessively formal (48% of respondents) and that it is biased in favour of the contracting party (70%). This may mean that bidders do not believe that they are equal partners to the public administration in the public contract awarding procedure.

The behaviour of the awarding parties is assessed as negative, overall. This evaluation consists of both an assessment of the influence that the introduction of the Act has on the restriction of corruption (only 17% of respondents believe that this regulation operates in this way), as well as of an assessment of the preparations made by the awarding parties for the proceedings.

Table 10.1. Assessment of the Knowledge of Regulations Concerning Public Procurement Procedures by Awarding Parties

	%
Very good	2.02
Sufficient	33.82
Satisfactory	47.87
Insufficient for the purpose of conducting the proceedings correctly	16.29

Source: "Public Procurement – Law and Practice", survey conducted by the monthly "Public Procurement – Advisory".

Furthermore, administrative bodies are evaluated more unfavourably by small businesses rather than by large ones.

Among the most commonly cited reasons for bidders to withdraw from public procurement proceedings, the largest number of respondents identified those directly related to the performance of the awarding party: a belief that the decision had already been made or that non-objective or unfavourable criteria had been established for the selection of the contractor.

Table 10.2. Most Frequent Reasons for the Withdrawal of Entrepreneurs from Public Procurement Proceedings

	%
Belief that the decision had already been made	46.56
Selection criteria non-objective or unfavourable for firms	35.43
Excessive volume of required documents and difficulty in collecting it all	24.09
Too high a deposit	24.09
Too short a deadline for conducting the bid	20.85
Too high a performance	12.75
Unclear specifications for essential bid requirements	11.74
Other	10.12

More than one answer possible
Source: "Public Procurement – Law and Practice", survey conducted by the monthly "Public Procurement – Advisory".

Difficulties in completing a large number of documents and the amount of deposit are a greater problem for small businesses; however, they are considered to be the most burden-

some for all respondents in the study (60%). It should be emphasised that 67% of bidders claimed that, in the course of proceedings in which they had participated, the awarding parties demanded a collection of documents listed in the ordinance of the Council of Ministers of January 6, 1998, though no such obligation exists.

The responses of entrepreneurs to the question as to their reasons for not filing a protest also reflected their negative opinions. Moreover, two-thirds of participants of the survey declared that they had decided not to file a protest.

Table 10.3. Reasons for Not Filing a Protest

	%
Belief that it is fruitless to do so	73.01
Fear of hostile attitude of the procurement officer in future proceedings	64.11
Acceptance of explanations presented by the procurement officer	8.28
Other	1.84

Source: "Public Procurement – Law and Practice", survey conducted by the monthly "Public Procurement – Advisory".

The belief that filing a protest is fruitless appears to have been justified. Only one in four protests filed was accepted. Procurement officers are ill disposed towards bidders who file protests, which is reflected in the difficulties in gaining access to the documentation of the procurement proceedings. Over 70% of bidders who filed a protest encountered such difficulties from the procurement officer.

10.4. SME Support Programmes Implemented by the Polish SME Foundation and the National SME Services Network

10.4.1. Polish Foundation for Small and Medium Enterprise Promotion and Development. Basic Information

The Polish Foundation for Small and Medium Enterprise Promotion and Development operated in the years 1995–2000. From 1997, the Minister of the State Treasury became the Founder of the Foundation, and the Minister of the Economy supervised its work. The first years of operation were financed mainly from foreign funds – the European Union, International Financial Corporation and from the United States Agency for International Development (USAID).

The Foundation was created to encourage the conditions conducive to the development of the small and medium-size enterprise sector as an important element of the Polish economy, contributing considerably to the generation of the national revenue and to the enhancement of the welfare of Poland.

The Polish SME Foundation was also a forum for the exchange of opinions and experiences between the public and the private sector through the participation of representatives of entrepreneurs and Ministries that influence the creation of conditions conducive to business,

as well as financial and regional institutions on the Foundation Council. It cooperates with the Department of Crafts, Small and Medium-size Enterprises of the Ministry of the Economy, as well as the Sejm Committee for Small and Medium-size Enterprises; the Foundation's experts or area specialists acting on the Foundation's behalf participated in the development and issuance of opinions on programmes and drafts of regulations important to the sector.

The Foundation also undertook a number of research projects and analyses with respect to issues related to the development of small and medium-size enterprises, as well as gathering a collection of extensive information resources. From 1997, the Foundation published an annual report on the condition of the small and medium-size enterprise sector that presented basic statistics and information on the sector, collective results of research, and recommendations for the introduction of changes in order to reduce the barriers hindering the development of entrepreneurship.

During the Foundation's five years of existence, an organisational infrastructure was created to support the SME sector in Poland. A network the National Service System centres was established (over 150 accredited centres nationwide across Poland), Business Information Network centres were organised, and the Polish Network of Business Advisors (Polska Sieć Doradców Biznesu S.A.) was appointed.

Main Programmes Implemented by the Polish SME Foundation in the Years 1996–2000:

	Name of Programme	**Implementation period**	**Financing**
1.	Private Sector Development – PHARE '91	1992–1996	ECU 4 million
2.	Private Sector Development Programme of the Ministry of Industry and Trade – PHARE '91	1996–1997	ECU 2.1 million
3.	Support to Entrepreneurship in Poland Programme – STEP I PHARE '95	1995–1999	EUR 2.89 million
4.	Support to Entrepreneurship in Poland Programme – STEP II PHARE '96	1997–2000	EUR 2.75 million
5.	Support to Entrepreneurship in Poland Programme – Instutional Framework Extension – STEP-IFE (the so-called *Counterpart Funds*)[4]	1997–2001	PLN 14.19 million
6.	Small and Medium Enterprise Export Promotion Programme – EXPROM II	1996–2000	EUR 7.3 million
7.	Tourism Development Programme – TOURIN III PHARE '95 with co-financing from the Polish goverment	1998–1999	EUR 4.26 million PLN 1.15 million
8.	The European Union "RECONSTRUCION" Programme as well as Zloty Fund of Local Subsidies and Project of Technical Assistance in the Implementation of the Reconstruction Programme (*Counterpart Funds*)	1997–2000	EUR 64.96 million PLN 6.89 million
9.	Alleviation of Social and Regional Costs from Coal and Steel Restructuring in Poland Programme – INITIATIVE I – PHARE '98 with co-financing from the Council of Ministers' earmarked reserve funds	1999–2000	EUR 29.93 million PLN 4.5 million
10.	Alleviation of Social and Regional Costs from Coal and Steel Restructuring in Poland Programme and Regional Development in Silesia Programme – INITIATIVE II – PHARE '99	1999–2002	EUR 31.00 million
11.	Regional Development in the Warmia-Mazury and Podkarpacie Regions Programme, with co-financing from the Polish government	2000–2002	EUR 12.15 million PLN 5.8 million
12.	Support for the paticipation of Polish SMEs in European Union Programmes (amount available for Poland under the EU Third Multi-annual Programme for SMEs)	1999–2000	EUR 0.94 million
13.	Implementation of tasks arising from to the *Goverment Policy Guidelines Towards Small and Medium-Size Enterprises Until 2002*	2000	PLN 14.7 million

[4] These are European Union zloty funds.

The Polish Foundation for Small and Medium-size Enterprise Promotion and Development gradually evolved from an institution whose primary role was to implement European Union programmes addressed to the SME sector, particularly those supporting its environment, into an institution implementing the government's mission in the area of the development of entrepreneurship and the provision of direct assistance to firms mainly through the establishment of a system of local business support centres.

The Foundation was liquidated by the Act of November 9, 2000, on the Establishment of the Polish Agency for Enterprise Development (PARP), which started operations on January 1, 2001, and which is the successor to the Polish SME Foundation.

The purpose of the Agency is to participate in the implementation of economic development programmes, especially with respect to support for the development of small and medium-size enterprises (SMEs), exports, and Poland's socio-economic cohesion.

PARP carries out its duties through the autonomous performance of tasks or by co-financing the activities of other organisations and institutions with respect to:
- provision of advisory services to entrepreneurs,
- organisation of training and seminars,
- organisation of informational and promotional undertakings, trade fairs and exhibitions in Poland and abroad,
- gathering and provision of information relevant to entrepreneurs,
- creation and management of databases containing business information,
- development, issuance, and dissemination of publications,
- provision of expert services, including to government administration units and local government units,
- preparation and provision of analyses with respect to economic developments,
- co-financing the participation of Polish entrepreneurs in international promotional events, trade fairs and exhibitions, as well as in international programmes with respect to scientific research, development and implementation work.

With respect to the provision of financial instruments, PARP may:
- grant loans and subsidies,
- grant subsidies to entities acting for the development of entrepreneurship,
- take shares and stocks in companies with a specific profile of activities,
- purchase bonds issued by entrepreneurs.

The work of the Agency is managed by its President. The Agency's operations are supervised by the Supervisory Board composed of nine members appointed by the Minister competent for the economy. One member of the Board is appointed at the request of the Minister competent for regional development, four are proposed by national organisations that unite entrepreneurial organisations and employers[5].

[5] The Council appointed by the Ministry of the Economy in April 2000 is composed of the representatives of the Ministry of the Economy, the Ministry of Regional Development and Building Industry, as well as five organisations in which entrepreneurs and employers are associated.

10.4.2. PHARE Programmes Implemented by the Foundation in 2000

Programme of Support to Entrepreneurship in Poland – STEP II

The Programme of Support to Entrepreneurship in Poland – STEP II was implemented in the years 1997-2000 and encompassed activities aimed at enhancing the competitiveness of Polish small and medium-size enterprises and extending the scope of their operations in European markets:

- assistance to Polish governmental institutions and entrepreneurial organisations with respect to the preparation of strategies for the introduction of Polish SMEs to EU markets,
- development of a service market for the small and medium-size enterprise sector,
- promotion of entrepreneurship including the raising of awareness within society, decision-making circles, and entrepreneurs on the role of the SME sector in the economy.

In 2000, activities encompassed by the programme included:

- advisory assistance to civil servants and Members of Parliament in addressing the problems of SMEs in order to prepare them for the execution of duties with respect to the development of efficient policy towards SMEs, and tasks arising from the requirements identified in the process of preparation for integration with the European Union,
- advisory assistance to entrepreneurial organisations in order to prepare them for executing a number of duties resulting from Poland's future membership in the European Union, especially in obtaining information on decisions made at the EU level as well as analysis of the results of those decisions and influence upon them,
- enhancement of the structure of the National SME Services Network through advisory assistance in the development and implementation of the mechanisms of support for the process of development of the network and increasing the professionalism of centres, as well as imparting to them specialist knowledge on methodologies and procedures related to the implementation of programmes financed by the European Union,
- increasing the access of SMEs to external sources of financing through the extension and enrichment of banking institutions' product lines for SMEs as well as initiation of long-term cooperation of those institutions with the infrastructure and environment of small business,
- provision of comprehensive services for entrepreneurs from the SME sector due to the co-financing of the cost of services. The offer included information access services to the so-called European Competence Centres, advisory and training services, as well as facilitating the access of Polish SMEs to financial services and networking services for those seeking business partners,
- enhancing the awareness of Polish SMEs with respect to the important aspects of the integration process and policies of the European Union towards that sector.

EUR 650,000 were spent on the implementation of the programme in 2000.

Programme of Support to Entrepreneurship in Poland – Development of Institutional Business Support Structures – STEP-IFE

The STEP-IFE Programme activities focus on support for the process of building institutional structures that operate for the benefit of enhancing the competitiveness of Polish SMEs during the period of Poland's accession to the European Union. The programme comple-

mented the activities undertaken under STEP and EXPROM II Programmes; it also constituted one of the instruments of State policy towards small and medium-size enterprises.

The programme undertook the implementation of expert services activities, which produced studies and expert appraisals on the small and medium-size enterprise sector and the development of the system of business support institutions. The tasks implemented were related to support for the system itself and the co-financing of services provided by centres to small and medium-size enterprises. In 2000, approximately 900 services were co-financed from the funds of the STEP-IFE Programme; they were provided to over 3,500 representatives of small and medium-size enterprises. More than PLN 1.6 million was earmarked for the co-financing of services in 2000. The co-financing of activities related to European integration, undertaken by entrepreneurial organisations, also constituted an element of the programme.

Promotion of International Cooperation: EXPROM II Programme

In 2000, the Polish SME Foundation completed the implementation of the "Small and Medium Enterprise Export Promotion Programme – EXPROM II" financed from EU funds under the PHARE Programme.

Over 300 small and medium-size manufacturers taking part in export activities and representing the sectors manufacturing furniture, products made from plastics, foundry products, clothing, medical instruments, as well as parts and subassemblies for the automotive industry, benefited from the Programme. The total value of assistance granted from Programme funds for activities implemented for the benefit of enterprises amounted to EUR 5.3 million. Enterprises co-financed their participation in the programme by an amount of 30% to 75%, and the total contribution from enterprises amounted to more than EUR 7.8 million. Surveys conducted at the end of the programme indicated that almost 80% of beneficiaries noted an increase in the level of exports, more than 70% increased both the number of markets and foreign customers, and one in five enterprises that had not previously been an exporter began direct exports.

The Programme also contributed to the development and implementation – in the form of group activities – of medium-term export development strategies for sectors included in the programme. Group activities, particularly trade missions and collective participation in sector specific foreign trade fairs, proved to be the most effective form of support for the development of SME exports.

The Programme allowed the testing of instruments of direct influence on the pro-export development of SMEs in selected sectors of industry. The instruments took the form of financial/advisory packages aimed at enhancing the competitiveness of enterprises in international markets. Packages included – to a varied extent depending on the needs and abilities of the individual enterprise – assistance in the preparation of an enterprise export development plan; advisory services and training in marketing of exports, organisation and techniques of conducting exports, search for foreign partners, identifying instruments to finance pro-export development; financial assistance and advisory assistance for the implementation of selected pro-export activities, as well as subsidies for pro-export investments.

Programmes of the European Union – INITIATIVE and INITIATIVE II (Alleviation of Social and Regional Costs from Coal and Steel Restructuring in Poland) and Regional Development in Silesia – PHARE 1999

Under the PHARE fund for the years 1998 and 1999, the European Union earmarked EUR 61 million for support for the government's two restructuring programmes – of the coal industry (EUR 32 million) and the steel industry (EUR 20 million). The funds supported the establishment of two new programmes: PL9811 INITIATIVE and PL9903.01 INITIATIVE II the purposes of which are to alleviate the social and regional costs of the reduction of employment in both sectors. An additional objective of the INITIATIVE II Programme is support for regional development within the following voivodships: Śląskie, Małopolskie and Dolnośląskie (EUR 9 million).

The Programme supports active social schemes financed from State budget funds:
- re-qualifying vocational training for employees made redundant in both sectors;
- co-financing of the activation of social nets – social benefits in the mining sector and training contracts – benefits for re-qualification training in the steel industry,

as well as the creation of new jobs in the small and medium-size enterprises sector through:
- refunding social insurance contributions to employers employing former workers from both sectors;
- granting preferential loans for former employees, or for their spouses, of both sectors who are starting their own businesses and SMEs planning to employ former workers from the mining and steel sectors;
- a system of subsidies to the interest on bank credits granted to SMEs that are planning to employ former employees from the mining and steel sectors;
- a system of subsidies for advisory services provided to entities benefiting from the above-mentioned instruments[6].

Regional Development in Warmia, Mazury and Podkarpacie Regions Programme – PHARE 1999

The main purpose of the Programme is to introduce to the socio-economic programmes in Poland the criteria and methodology of determining the objectives of the Polish structural policy and development of rural areas that are compliant with the principles of the European Union. The Programme in the form of investment support is implemented in Podkarpackie and Warmińsko-Mazurskie voivodships, and in the form of technical assistance for local governments in all 16 voivodships.

Three basic components may be distinguished under the Programme.

Component I encompasses investment activities in Podkarpackie voivodship and in Warmińsko-Mazurskie voivodship as well as activities aimed at the development of human resources and improvement of personnel responsible for the programming and implementation of activities aimed at the implementation of the individual development strategies in 16 voivodships in Poland.

A Fund of Local Subsidies was created under the Programme. The resources of that Fund

[6] See Chapter 3.2.3 in which the effects of the Programme are described.

were earmarked for the co-financing of investments utilised for the implementation of the priorities formulated in the strategic documents with respect to the development of voivodships included in the investment part of the programme and pertaining to:
- creation of new permanent jobs;
- creation or modernisation of the infrastructure supporting the development of small and medium-size enterprises;
- innovations and technology transfer;
- education and labour market;
- transport and transport infrastructure.

Communes were eligible to apply for assistance from the resources of the Fund. The budget of the Fund amounts to EUR 4.5 million for each of the voivodships. The amount of the subsidy for the implementation of one project may not be less than EUR 20,000 or more than EUR 500,000, and the subsidy for a project may not exceed more than 50% of costs. In addition, the project is co-financed from the State budget by an amount of half of the PHARE fund share. In 2000, 28 communes utilised the resources of the Fund in order to implement projects valued at EUR 8.2 million.

The staff development project prepared in 2000 will focus on the dissemination of the best models and experiences from the EU in the area of preparation and implementation of regional operating programmes.

Moreover, in 2000, the following activities were prepared for implementation:
- component II of the Programme, aimed at introducing ecological methods of farm production as well as diversification of business activities, ensuring an alternative source of income for farms, as well as the creation of jobs for people living in rural areas. The implementation of the component will take place by way of investment activities (subsidies) supported by advisory services and training;
- component III, aimed at the preparation of regional staff taking part in the process of programme drafting in the context of preparation for EU membership and future use of Structural Funds in Lubelskie and Podlaskie voivodships.

National Programmes of Support for SMEs Under the PHARE 2000 Programme

Two PHARE-funded programmes for projects for the support of SMEs nationwide were implemented in Poland in 2000: "National SME Development Programme" and "National Development of Exports".

Three instruments of direct support for entrepreneurs were drafted in the "National SME Development Programme": *Introduction to Quality* (implementation of quality control systems, certification and standardisation in SMEs), *Innovations and Technologies for the Development of a Business* (advisory and training services for firms undergoing the process of strategic planning of development based on new technologies and innovations) as well as the *Preparation for the Functioning in the European Market* (training programme for SMEs privatised through employee leasing). The Programme's budget amounts to EUR 6 million.

In the "National Development of Exports" project, two additional instruments extend the offer for SMEs: *Introduction to Exports* (training programme for firms starting exporting activities)

and *Exports Promotion Programme* (individual and group activities for exporting firms).

The *Introduction to Exports* Programme provides for subsidies to co-finance 60% of the costs of participation in the advisory and training programme for firms starting exporting activities; up to approximately EUR 1,000 per participant was planned in the subsidy; EUR 1.1. million was envisaged under the Programme to co-finance this instrument;

The *Exports Promotion Programme* envisages subsidies for exporters from the SME sector to pay for up to 60% of the costs of implementation of promotional and marketing activities aimed at the development of the export market. The subsidy of between EUR 1,500 and EUR 10,000 will cover the costs of advisory, training and informational services, market research, participation in foreign trade fairs and trade missions, organisation of local trade missions, and the development and publication of promotional materials. EUR 2.8 million was earmarked for the co-financing of the Programme.

The *National Development of Exports Programme* also foresees the development of the concept of new SME exports support instruments in the form of export consortia created by SMEs and mutual export contract insurance funds. The Programme will also support the regions in the development of their export potential through advisory and training services for regional authorities and organisations with respect to the preparation and implementation of regional projects for export promotion instruments.

10.4.3. Third Multi-annual European Union Programme for Small and Medium Enterprises

The Third Multiannual Programme for SMEs is one of three components of the European Union programme known under the name of the Integrated Programme for the Small and Medium-size Enterprise and the Craft Sector. This is the first European Commission programme in which – based on a decision by the Association Council on November 5, 1998 – Poland was granted the opportunity to participate in the programme on principles similar to those applied to Member States. The Polish SME Foundation administered the programme in Poland in 2000. In the years 1999-2000 the, programme's resources were to support activities in the following areas:

Development of the Network of Euro Info Centres – following a contest conducted in 1999 a network of 12 Euro Info Centres was created in Poland as a part of the European system. The purpose of the network is to provide advisory assistance and information on the European Union, conditions and regulations of the European Communities, facilitate the initiation of cooperation by SMEs through available systems of matching partners, as well as the organisation of the participation of enterprises in trade fairs. EUR 500,000 was spent for this purpose in the years 1999–2000.

Europartenariat, Interprise, IBEX Trade Fairs. In the years 1999–2000, 330 Polish enterprises participated jointly in the Europartenariat, Interprise and IBEX trade fairs. During the Europartenariat trade fair in Potsdam co-organised by the Polish side 65 firms exhibited their portfolio of offerings. Due to a change in its policy, the European Commission withdrew from the organisation of subsequent Europartenariat, Interprise and IBEX trade fairs under the current scheme.

Crafts – under this component, activities focused on three basic areas: culture of entrepreneurship, crafts and small and micro-enterprises, as well as on women, young entrepreneurs and enterprises conducted by persons representing special needs groups. Under the programme, Polish organisations could participate in a competition for pilot activities promoting entrepreneurship in secondary schools (under the programme entitled "The Propagation of the Spirit of Enterprise in Secondary Schools in the Wrocław Region"). In September 2000, a contract was concluded with the Business Development Association in Wrocław to implement the project in selected schools of the Dolnośląskie voivodship. In this area of activities, funds of EUR 100 000 were utilised.

BC-Net (Business Cooperation Network) is one of the main EU information systems for entrepreneurs, containing commercial, financial and technical offers of economic cooperation. 13 Local Consultants were accredited in the system in Poland, and the Polish Foundation of Small and Medium-size Enterprise Promotion and Development performed the role of the National Contact Point. The purpose of BC-Net was the promotion of international cooperation between small and medium-size enterprises, as well as assistance in seeking business partners through the distribution of offers of cooperation. During the period of 1999-2000, Polish firms introduced 175 offers into the system. As a consequence of a reorientation of activities and following an assessment of the effectiveness of the system, the European Commission made a decision to withdraw its support of the BC-Net system in its current form as of December 31, 2000.

10.4.4. Business Information Network – BIN

The Business Information Network (BIN) comprises 21 centres across Poland that provide primarily information services as well as advisory and training services for small and medium-size enterprises. The majority of them operate at the same time as the centres of the National SME Services Network. An important element of the service offering of the BIN network is access to networking databases, which facilitates the search for business partners, as well as the provision of access to information on tenders announced in the European Union. The Centres often have data on trade fairs in Poland and abroad, industry-based exhibitions, etc. Some operate business intelligence agencies.

10.4.5. National SME Services Network

Basic Information

The National SME Services Network (KSU) was established in 1996 upon the initiative of the Polish SME Foundation. Its purpose is to develop a comprehensive market of services for SMEs on the basis of local, regional and national business support institutions.

Currently, the National SME Services Network is composed of over 150 institutions providing advisory, training, informational, and financial services for SMEs. These include business support centres, regional development agencies, employers' organisations, research and development institutes, foundations and associations.

Extension of the Network

The National SME Services Network is not a limited membership structure. Activities aimed at extending the Network were continued in 2000. Application forms were filed by 86 organisations in response to a national membership drive conducted in the fourth quarter of the year; 54 qualified for inclusion on the centres' network waiting list. Since 2000, only those centres meeting the Network's standards are accepted, consequently those organisations are then subjected to an accreditation audit. As a result of these activities, 25 new organisations obtained accreditation in the National SME Services Network and, thus, were included in the system.

Accreditation of the National SME Services Network Centres

From the Network's launch, one of its most important tasks was to ensure uniform standards and the provision of high quality services. In 2000, the implementation of standards began and the process of accreditation of centres in the National SME Sector Network was initiated. The accreditation is a voluntary activity. A centre may obtain accreditation in one or several areas of services:

- advisory services for SMEs,
- training services for SMEs,
- information services for SMEs,
- financial services for SMEs (guarantee funds and loan funds).

The accreditation criteria include the following areas of the operation of centres:

- activities performed under the network of KSU centres;
- quality control system developed and implemented in compliance with the requirements of KSU;
- work methods;
- human resources;
- material resources;
- procedures developed and applied, including procedures for the provision of advisory, training, informational, and financial services, compliant with the requirements of standardisation.

A team of independent auditors perform the evaluation of centres from the point of view of their compliance with requirements specified in the standardisation. The KSU Coordination Board makes the decision on the awarding of accreditation. The KSU centre accreditation is awarded for a period of three years.

By the end of 2000, 89 audits had been conducted, including 12 repeat (revised) audits and three audits for the extension of the scope of services. On the basis of these audits, the Accreditation Committee applied to the KSU Coordination Board for the awarding of accreditation to 61 KSU centres.

Participation of the National SME Services Network in the Implementation of Government Policy Towards SMEs

In 2000, the centres of the National SME Services Network were included in the execution of the State's action plans in support of small and medium-size enterprises under the implementation of the "Government Policy Guidelines for Small and Medium-Size Enterprises Until 2002". The projects encompassed:

- facilitation of the access of small entrepreneurs to information on how to operate a business;
- provision of advisory services for small and medium-size enterprises through the established consultation-advisory network;
- conducting a series of conferences for entrepreneurial organisations on sources of financing.

The project entitled *Facilitation of the Access of Small Entrepreneurs to Information on How to Operate a Business* enabled the individuals managing small enterprises to apply for a refund of a portion of the cost of their training in company management. The refunds were paid out by 30 Training Refund Centres (PRS) selected from among the KSU centres. Refunds for more than 8,000 training participants were paid out in the course of the implementation period. The total value of refunds paid out exceeded PLN 6 million.

Most frequently, the refunds were provided for training in managerial competencies (26%), marketing of the management (19.5%) and finance management (12%). Computer training and training in human resources management accounted for approximately 8%, and language training for less than 5%. The recipients of refunds were mainly small enterprises, including sole proprietors (57%), private partnerships (about 26%) and limited liability companies (12.5%).

Under the project entitled *Provision of Services for Small and Medium-Size Enterprises Through the Consulting and Advisory Network*, small and medium-size entrepreneurs could obtain free or partially paid advisory services.

In 2000, 48 Consulting and Advisory Centres (PKD) were in operation, together with their 39 branches whose task was to provide the representatives of small and medium-size enterprises and individuals starting up their businesses with free advice on how to run a business. The scope of services included:

- advisory services related to the administrative and legal aspects of running a business,
- simple advisory services related to the management of the enterprise (advice on law, finance, planning, management, marketing, production, innovations, exports, quality control, and human resources),
- information on the available sources of financing of the activities of SMEs,
- information on access to services for SMEs – possibilities and principles of obtaining more comprehensive, paid (or partly paid) services.

Consulting and Advisory Centres provided services to approximately 20,000 customers. Services provided to firms that were already operational were dominant (80%). In this group, the largest share of services (76%) was provided to micro-businesses employing up to five individuals. Over 20% were for services for small firms (up to 50 employed individuals), and only 4% for medium-size firms employing up to 250 individuals. Information services on the available sources of financing for business activities were the most sought after.

From October 2000, the scope of advice available in PKDs was extended by free advice with respect to the use of IT resources and tools. These services were available in 40 PKDs and their branches. During the period from November to December 2000 over 1,000 individuals benefited from the PKDs' provision of this new scope of services.

Representatives of small and medium-size enterprises could also utilise the co-financing of specialist advisory services in 22 KSU centres. Services were provided directly at the request of specific firms and a large share was referred to activities geared towards preparing the enterprises for the introduction of quality systems. 222 such services were provided. The total value of these services is almost PLN 2 million, and the co-financing from the project funds constituted about 60%.

Under the project entitled the Series of Conferences for Entrepreneurial Organisations on the Sources of Financing, in cooperation with the KSU centres, 32 conferences were organised throughout Poland. 2,500 people participated in the conferences. Representatives of membership-based organisations uniting entrepreneurs were the most numerous (26.5% of respondents) followed by representatives of commercial firms (26%) and representatives of local authorities (18%).

Training for Consultants

12 training sessions on four topics were prepared and conducted for the benefit of KSU consultants. Jointly, 221 consultants benefited from training in project management, logistics in SMEs, diagnosis on the needs of an enterprise, and on public procurement. Moreover, three training sessions were conducted in the field of preparation and supervision of documentation of the quality system from the point of view of gaining KSU accreditation.

10.5. Other Foreign Aid Programmes with Elements of Support for SMEs

The following programmes do not constitute the complete listing of assistance available for small and medium-size firms. We have concentrated on two types of programmes: those providing the largest scale of assistance in the form of the financial support most expected by entrepreneurs, as well as on the least known programmes, that at the same time contain elements of support for SMEs.

10.5.1. Socio-Economic Cohesion Programme PHARE 2000

The Socio-Economic Cohesion Programme PHARE 2000 will be implemented in the years 2001–2003. In addition to the national programmes of aid available to SMEs under the Programme implemented, as discussed in Chapter 10.4.2., a number of direct activities for entrepreneurs will be undertaken in regional programmes. Subsidies for co-financing of the costs of advisory services and training as well as investments are the basic form of support for those activities.

Three instruments of direct support for SMEs will be available within the projects for five voivodships included in the PHARE 2000 Socio-Economic Cohesion Programme: *Company Development Programme* (basic advisory services for firms), *Company Development Programme for Exporters* (co-financing of export development programmes), *Investment Subsidy Programme* (subsidies for SMEs for investment projects financed from bank credits).

Subsidies for co-financing of individual instruments will amount to a maximum of EUR 1,500 for advisory services to EUR 50,000 for investment subsidies. Entrepreneurs will co-pay a minimum of 40% of the value of the service for advisory services and 75% (including bank credits) for investment subsidies. The total value of public funds in the PHARE 2000 Socio-Economic Cohesion Programme amounts to more than EUR 26 million (including EUR 20 million for investment subsidies).

Additional important instruments for those starting up a business and in regard to training were defined in this programme under the so-called "human resources development" axis. The separation of this area of support for SMEs is the consequence of the need to adjust the scheme to future financing from Structural Funds under which activities for individuals setting up their businesses and for training for SMEs are actually financed from the European Social Fund.

10.5.2. Fifth Framework Programme (Fifth FP) of Research, Technological Progress and Presentation (1998-2002)

By implementing the strategy of preparation for accession to the European Union, in 1999 Poland became an associate member of the Fifth Framework Programme of Research, Technological Progress and Presentation. The basic tasks of the programme include enhancing the competitiveness of EU enterprises and reinforcing the relations between science and industry. Participants of the Fifth FP may include Polish science and research units, small, medium-size and large enterprises, administration units, and institutions. The condition of participation is the creation of international consortia, which will undertake research and development work aimed at resolving issues defined as a priority by the European Commission. The programme consists of four thematic programmes and three horizontal programmes. The Second Horizontal Programme entitled "Promotion of Innovations and Support of the Participation of Small and Medium-size Enterprises in SME Research Projects" includes assistance in the creation of consortia with the participation of SMEs for the purpose of applying for "researcher's grant" as a pre-qualifying stage to participate in research projects.

Under the Second Horizontal Programme addressed to small and medium-size enterprises, 18 projects are currently implemented; 21 Polish enterprises are taking part in these projects. The winning of the "Excellence Centres" competition by nine Polish research institutes out of 34 centres in Central Europe was a remarkable success.

Following two competition contests, 20 subsidies were granted to enterprises in 2000 for the purpose of co-financing the costs of preparation of applications for CRAFT or/and EXPLORATORY AWARDS projects.

European Network of Innovation Relay Centres (IRC)

The European Network of Innovation Relay Centres IRC operates under the Innovation/SME Programme of the European Commission. The network, composed of almost 70 centres, extends across the European Union, Iceland, Norway, Switzerland (associated country) as well as Israel and Central and Eastern European countries.

The primary purpose of the IRC network is the promotion of innovativeness and technological exchange between organisations in Europe. The activities include advisory services, consulting, and training. The IRC network provides services to firms, especially those from the SME sector.

From July 2000, three Innovation Relay Centres began operations in Poland:
- IRC East Poland (Mazowieckie, Lubelskie, Podlaskie, Pomorskie, Warmińsko-Mazurskie),
- IRC South Poland (Łódzkie, Małopolskie, Podkarpackie, Śląskie, Świętokrzyskie),
- IRC West Poland (Dolnośląskie, Kujawsko-Pomorskie, Lubuskie, Opolskie, Wielkopolskie, Zachodniopomorskie).

An primary goal of the network is to assist European regions and enterprises in the identification of their technological needs, as well as in finding technological solutions. IRCs also assist in conducting negotiations in technology transfer and they organise the promotion of innovations.

10.5.3. Leonardo da Vinci. EU Education Programme

Poland gained access to the Programme in 1998. In the first two years, 320 projects were put forward – 163 were accepted for implementation, mainly in the area of exchange and practical training (124). The remaining included 36 pilot programmes and two programmes on research and analyses.

In 2000 the Second edition of the Programme was announced for the years 2000-2006; it will ensure broad access to education and help create potential for the continuing update of knowledge and improving qualifications, especially for young people, in order to adapt to the future needs of the labour market. All institutions involved in vocational training, i.e., training institutions, vocational schools, universities, research institutes, enterprises, especially SMES, social partners and public authorities, may participate in the programme.

The Programme is implemented through projects involving international cooperation between partners from a minimum of two or three countries, depending on the types of projects, which include those relevant for SMEs:
- Exchanges for instructors, vocational guidance officers, human resource department managers, training organisers, as well as teachers, including language teachers, and includes practical training sessions for pupils, students, young employees, and graduates;
- Research and analyses conducted in areas of vocational education, academic research, studies and expert appraisals, sectoral and industry-related analyses.

10.5.4. Small Grants Programme

The European Commission Delegation in Poland implements the Small Grants Programme. The purpose of the Programme is to provide financial assistance to initiatives promoting the concept of membership in the European Union, increasing the level of knowledge about the European Union as well as issues related to the integration of Poland in European structures.

Among others, three projects for development of entrepreneurship obtained co-financing under the Programme. These will provide for the implementation of the training programme for women-operated small firms within the territory of local communities (communes) of the Pomorskie voivodship, preparation and conducting of a series of training sessions devoted to the European Union, and publication of a guidebook for enterprises on European Integration based on direct experiences of the advisory centre in its work with SME sector representatives.

10.5.5. Agrolinia 2000 Programme

AGROLINIA 2000 is an aid programme for Polish rural areas and for agriculture, financed from the repayment of credits from EU PHARE funds. The programme provides for the granting of credits for small and medium-size undertakings in agriculture, agricultural and food processing, and services, as well as in activities related to training and publication. The programme provides two types of credits: investment credits with a long repayment period and bundled credits with a simplified application procedure. Credits are granted on preferential terms through nine cooperative banks and banks uniting cooperative banks. The interest rate charged on investment credits amounts to 17.43% p.a., while on bundled credits, 15.38%. Moreover, a grace period of up to two years may be granted for the repayment of principal on investment credits. Credits are most frequently applied for by farmers, individuals conducting business on the basis of a registration in the register of enterprises and private partnerships. In 1999, 284 credits were granted for a total of more than PLN 17 million. In 2000, 189 credits were granted (70 investment credits and 119 package credits) for a total of more than PLN 12 million.

10.5.6. Financial Aid Programme for SMEs Administered by the European Commission

On April 19, 1999, the European Commission adopted premises for a project of financing the small and medium-size enterprises sector in countries applying for EU membership. EUR 50 million from the PHARE fund was earmarked for that purpose, as was EUR 150 million from the resources of the European Bank of Reconstruction and Development. The programme is administered directly by the European Commission, whereas on the Polish side three banks participate in the implementation of the project: Wielkopolski Bank Kredytowy S.A., Bank Śląski S.A. and Fortis Bank Polska S.A. The programme assumes that SMEs will be financed through working credits and investment credits. The most important objective is to attract new customers from the private sector, who previously have not used bank credits. Moreover, the implementation of the programme is to lead to the introduction of working credits and investment credits to the banks' product lines, encouraging banks to finance firms from the SME

sector, starting a technical support programme providing training, courses and advisory services, as well as the adjustment of existing credit procedures to requirements related to the financing of private enterprises. Credits for which firms may apply starting from 2000 are earmarked for the financing of medium- and long-term investments, which will improve the market position of the SMEs and will provide for the creation of new jobs. The support available under the programme is varied and differs by cooperating banks. The benefit of credits offered under the programme is the simplified procedure of applying for those credits and flexibility in financing many needs consequential to business activities conducted by SMEs. Enterprises that want to utilise the assistance are qualified according to the criterion of the number of employees – the owner of a firm who is interested in the assessment may employ no more than 250 employees.

10.5.7. Assistance from USAID Funds

Firma 2000

The Firma 2000 project was implemented from October 1996 to the end of March 2000. The total budget amounted to USD 6.6 million. The main purpose was to raise the quality of advisory and training services for small and medium-size enterprises provided in 30 business support centres. The support was addressed to enterprises operating in the market for at least one year and employing between 10 and 250 people. It included: technical assistance with respect to the strategic analysis of the company, formulation and implementation of strategies, market research and analyses, sales and marketing strategy, financial and management analysis, obtaining capital, negotiations, management, as well as employee issues and staff training. During the implementation of the project, approximately 6,000 people utilised the advisory services, over 28,000 people were trained, and an amount of almost USD 23 million was distributed among 626 beneficiaries of the programme. Moreover, 270 SMEs benefited from technology transfer, as well as advisory services in marketing, production techniques, management of internal activities, quality control and product design.

Fabrykat 2000

The Fabrykat 2000 project was implemented in the years 1998–2000. The total budget amounted to more than USD 4.2 million. The purpose was to provide advisory services to four Technology Transfer Centres (in Kraków, Warsaw, Łódź and Wrocław), and later, the transfer of modern technologies to small and medium-size enterprises. The project also encompassed the implementation of technological innovations from the initial concept to commercialisation, and the improvement of production technologies utilised by small and medium-size firms. Enterprises could obtain assistance in specific undertakings through cooperation with one of the Centres included in the programme. The forms of support included training, consultations with experts, introduction of practical solutions from the most appropriate centres, and facilitation of contacts with institutions involved in technology transfer. More than 140 SMEs participated in the programme.

MIKRO Fund, MIKRO Initiative

The MIKRO Fund was established in 1994 from the resources of the Polish-American Entrepreneurship Fund. An amount of USD 20 million was earmarked for that purpose. This is a loan fund for small entrepreneurs that – for various reasons – do not qualify for a bank credit. The support of the MIKRO Fund for small firms includes two types of loans: individual loans, secured by the personal guarantee of the borrower and of three additional guarantors, and group loans for two, three or four borrowers, secured by personal guarantees and mutual guarantees by each borrower. Loans are granted by the network of local agencies located in 30 towns for a period of three months to two years. The amount of the first loan may not exceed PLN 5,000, whereas subsequent loans increase to PLN 30,000. By mid-2000, the MIKRO Fund granted over 41,000 loans for a total of more than PLN 278 million. The MIKRO Initiative operating on similar terms complements the activities of the Fund, under which – by the end of 2000 – 2,104 loans were granted for a total amount exceeding PLN 19 million.

10.5.8. Bilateral Programmes

Canadian-Polish Entrepreneurship Foundation

The Canadian-Polish Entrepreneurship Foundation grants credits to small and medium-size enterprises from Zachodniopomorskie, Lubuskie, and Dolnośląskie voivodships through the intermediation of Bank PEKAO S.A. and five Business Incubators. Also, Canadian-Polish joint-venture companies operating across the territory of Poland are the beneficiaries of the programme. Assistance is granted to enterprises employing up to 300 employees, however, preference is given to those that employ between five and 100 people. CPEF support includes:

- credit for starting up a business START,
- short-term credit for current operations (operating credit),
- short-term investment credit,
- medium-term flexible operating and/or investment credit,
- increased risk credit.

The interest rate of credits is negotiated individually, however, it may not be lower than the current commercial interest rate by more than three percentage points. 362 credits have been granted so far.

Canadian Executive Service Overseas CESO

During the years 1998–2000, CESO (Canadian Executive Service Overseas) implemented the "Bridge for Business" programme, the main purpose of which was to provide assistance in identifying potential business partners and in effective initiation and follow up of correspondence with potential partners. The tasks of the organisation also included assistance provided to Polish entrepreneurs in seeking out Canadian trade fairs. The effect of the implementation of the programme is seven contracts under which modern technologies from the field of municipal and industrial waste treatment, water treatment and liquid waste treatment were introduced to Poland. The recipients of the above-mentioned contracts were local communities, however, they are carried out by private enterprises selected in tenders.

Foundation of Polish-German Cooperation

The Foundation was established by the Minister of Finance of the Republic of Poland on behalf of the State Treasury, based on the implementation of provisions contained in the agreement entered into between the Government of the Republic of Poland and the Government of the Federal Republic of Germany on November 7, 1990. Its main purpose is to grant subsidies to projects implemented in Poland in cooperation with a German entity. The Foundation supports, e.g., projects pertaining to the modernisation or development of infrastructure, such as: environmental protection, transport, telecommunications, and protection of historical monuments. From April 2000, the maximum amount of a subsidy may not exceed the zloty equivalent of DEM 50,000. The applicant's own share should contribute to at least 40% of the total costs of the project. In 1999, subsidies were granted to 34 projects for a total amount of almost PLN 10 million.

Polish-German Economy Support Society

The Polish-German Economy Support Society was founded in 1994 upon the initiative of Governments of Poland and Germany. The fundamental objective of the Society is to support the economic undertakings of Polish and German SMEs, to assist them in initiating economic contacts, and to look after the investors from the point of setting up a business in the border region to the point of starting up the production. The Society supports cooperation and investment projects on both sides of the border, provides advisory services prior to starting business activity and develops economic data and information on investment conditions. The Society prepares contact and cooperation exchanges, exhibitions and training seminars, as well as information seminars for entrepreneurs. From the start of its operation, the Society has received more than 8,000 enquiries from Polish and German firms, institutions and local governments in respect to the possibilities of initiating cross-border economic cooperation. So far, the Society has initiated the establishment of 160 joint venture companies and conclusion of almost 140 long-term cooperation agreements. In 2000, cooperation meetings of entrepreneurs were organised (including the Third Polish-German Building Forum in which more than 300 firms took part), and an Internet economic database – "Polish Business Offers" – was launched.

10.6. Summary

Following 10 years of economic transformation in Poland, many institutions that supporting small and medium-size enterprises now exist. Following a brief period of more limited assistance to SMEs, new significant support programmes are appearing. The role of the small and medium-size enterprise sector in the area of the PHARE programme allocated for co-financing the development of regions is particularly important. However, the service offerings of entrepreneurial community institutions and the available support programmes lack the specialised advisory services sought after by firms, particularly with respect to legal and financial advice. Despite the sizeable elements in the PHARE 2000 Socio-Economic Cohesion Programme related to that field, the scale of investment support programmes for entrepreneurs is still insufficient.

The large group of institutions supporting SMEs varies significantly internally. In addition to those with substantial potential and knowledge, there are many centres that cannot provide specialist assistance to entrepreneurs. In the context of European Integration the relatively low potentiality of gaining information on how to use EU funds among entrepreneurial organisations – which are the most natural source of assistance for company owners seeking help – is particularly worrying.

A new and a particularly important event is the involvement of the entrepreneurial community institutions in the implementation of the government programme of support for small enterprises. The successful implementation of tasks by the National Services Network centres under the "Government Policy Guidelines Towards SMEs Until 2002" is well positioned to become the cornerstone for the establishment of such a method of reaching entrepreneurs with the public authorities' proposal.

Chapter 11.

Tax-related and Financial Barriers to the Development of Enterprises

Level of Fiscal Stringency

Complexity of the Tax Legal System

Lack of Clarity of Regulations

Instability of the System

Entrepreneurs' Opinions on the Barriers Related to the Tax System

Access to Sources of Financing

The year 2000 was another in which public authorities undertook a number of attempts at removing barriers to business development. Some were successful, others – unfortunately – were not finalised before the end of the year, and consequently many of the barriers identified in 1999 were also there at the end of 2000[1]. This pertains particularly to a number of difficulties related to the management of the financing of SME development.

On the one hand, no provision meets the needs of SMEs or provides sufficient support for the sector from public funds. On the other hand, we are witnessing the high and constant growth of fiscal stringency, a process of chipping away of a large amount of income from entrepreneurs. The unfinished system of tax reform made those barriers more discernible. The near perspective of integration with the European Union invites a comparison between the Polish tax system and similar systems in place in European Union countries and other candidate countries, as well as the organisation of the tax system in a manner that allows entrepreneurs to compete on par with companies from those countries.

11.1. Level of Fiscal Stringency

In 2000, the tax freedom day – the day when taxpayers stop working to pay their tax and social insurance bills and start working for themselves – was on June 16 in Poland. This day is a symbolic date determined by the share of public expenditure in GDP and changes every year. In 1999, the day fell on June 16, the same as in 2000; two years ago – June 23; and three years ago – June 28.

11.1.1. Income Taxes

There has been a noticeable trend to decrease the scope of tax reliefs over the last 10 years in the area of income taxes. The outcome of such a trend for taxpayers may be beneficial, provided that the elimination of those reliefs is accompanied by a reduction of tax rates, as has been the case with the corporate income tax. Unfortunately, with respect to the personal income tax paid by over 1.2 million small entrepreneurs, reliefs are removed but tax rates remain the same.

The Polish tax system does nothing to stimulate a balanced development of regions. An approach used successfully, albeit with numerous controversies, in some countries of the European Union (e.g., in Spain) is the variable tax rate based on the level of wealth of a particular region. Also the opportunity for local communities to participate in the regulation of the level of taxation does not exist, consequently the local authorities are unable to utilise tax policy to stimulate the development of the local economy.

The exceptionally low tax-free amount, very low tax brackets and relatively high personal income tax rates also worsen the competitiveness of Polish small enterprises in relation to EU member businesses. The maximum tax rate in Poland is attained at a much lower income level than in EU countries. In the recently initiated tax system reform, Poland's largest trade partner – Germany – is aiming to raise its tax-free amounts and reduce tax rates. The conditions for operating a small business will deteriorate comparatively should the tax conditions remain unchanged in Poland.

[1] See: *Report on the Condition of the Small and Medium-Size Enterprise Sector in the Years 1997–1998*, Warsaw 1999.

11.1.2. VAT and Excise Tax

The increase in the tax burden is the most visible with respect to direct taxes. The negative trend to restrict the allowable deductions to assessed VAT and the increase of the excise tax burden should be emphasised, which is particularly conspicuous in the case of excise tax paid on engine fuels. Another potential development barrier for the smallest enterprises may be the decrease in the level of turnover that, when reached, results in the loss of the right to exemption from VAT. This is actually a narrow option and a move in the opposite direction from the generally positive trend observed with respect to income taxes, which consists in providing the taxpayer with the right to choose their taxation plan.

The economically imposed relinquishment of the exemption from VAT is also brought about by regulations, particularly with respect to the services market, which discriminate against taxpayers who do not hold VAT payer status, (e.g., a taxpayer is not entitled to issue an invoice for services rendered to a VAT payer who benefits from tax reliefs).

Encumbering small entities with VAT imposes upon them additional costs related to the purchase of cash registers and the establishment of accounting services. These costs add up to several thousand zloty a year, which, with respect to the smallest firms, constitutes as much as 20% of their income.

11.1.3. Local Taxes

An especially conspicuous barrier resulting from the Act on Local Taxes and Charges is the prospect of imposing on commercial property a much higher real estate tax rate than on other real estate. In addition, the regulations that provide for the establishment of a relationship between the tax rate and the area of the real estate rather than its market value do not promote the development of enterprises.

11.2. Complexity of the Tax Legal System

The tax system is overly complex. Tax regulations from almost 80 legal acts may be applied to business activities conducted by SMEs. In 1990, there were fewer than 60 such regulations, and in 1994, approximately 70. Legal acts are also more extensive than in 1990, and the provisions they contain are more detailed. Such a complicated system exposes small firms to penalties resulting from the failure to observe tax regulations because it is often impossible for company owners to navigate the scattered and complicated regulations. For similar reasons, entrepreneurs cannot utilise available preferences.

The simplification of the tax system, which consists primarily of the removal of reliefs and the decrease of rates, is not improving the situation. This is because the tax law is complicated mainly by regulations with respect to revenue and the cost of generating that revenue. The simplification of the tax system should, therefore, aim to simplify the methods of calculating revenue and the costs of generating revenue.

11.3. Lack of Clarity of Regulations

Both the regulations and explanations issued by the Minister of Finance with respect to the application of the vaguely formulated laws are unclear and difficult to comprehend.

The fundamental shortcoming of normative acts is the abuse of provisions that refer to other regulations. The provision of Article 14 section 7a of the Act on VAT and Excise Tax is one such example. This provision refers the reader to Article 7 section 2d; then Article 7 section 2d refers you to Article 7 section 2b and Article 7 section 2b refers you to Article 7 section 2a, and to Article 9 section 1 and Article 9 section 1a; then Article 9 section 1 refers you to Article 5, Article 2, and to Article 9 section 3, and Article 9 section 1a refers you to Article 5 section 1a and Article 5 section 1b. By no means is this the end of the chain of cross-references that begins in Article 14 section 7a.

Another flaw of the tax regulations is the abuse of the injunction to use some provisions "accordingly". In the Act on VAT and Excise Tax in its wording from December 31, 2000, the command to use provisions "accordingly" was used 19 times – 11 in 1994, which is not a small number either. For comparison, in the previously binding Act on Sales Tax, the command to use provisions "accordingly" was used only twice. The use of regulations "accordingly" is a complicated legal issue, and an explanation of the complexities related to it gives rise to difficulties not only to entrepreneurs but also to experienced lawyers.

The complicated regulations, the large number of legal acts, and the extensiveness of the acts themselves make it necessary for the Minister of Finance to explain provisions of the tax law. Unfortunately, explanations are also written in an unclear or complicated manner, which in turn forces taxpayers to interpret those explanations as well. An example from the letter of the Ministry of Finance, Department of Tax Control, August 3, 1999, ref. No. KS 9/2127/99/1301:

"*According to provisions of Article 12 section 1 item 2 of the Act of February 15, 1992, on Corporate Income Tax (uniform text in Journal of Laws of 1993 No. 106, item 482, as amended), where revenues include especially the value of free services received, and due to the lack of exclusion of capitalised interest on loans received in Article 12 section 4 item 1, there are no grounds for not accepting the unassessed and unpaid interest on interest-free loans received by a limited liability company from its shareholders as free services mentioned in Article 12 section 1 item 2 of the Act of February 15, 1999, on Corporate Income Tax.*"[2]

This sentence may become clear only after it has been read several times by an expert lawyer.

11.4. Instability of the System

The constant changes in legal acts are a significant drawback to the Polish tax system. In the years 1994–2000 the Personal Income Tax Act was amended 42 times, the Corporate Income Tax Act 41 times, and the Act on Local Taxes and Charges 17 times. The intention of those changes is often to define the regulations more precisely. Despite the justified assumption that in making such changes they ensure the unequivocal nature of regulations, it is difficult to ignore their negative consequences. Frequent changes to the already complicated law make it

[2] Source: LEX for Windows (OMEGA).

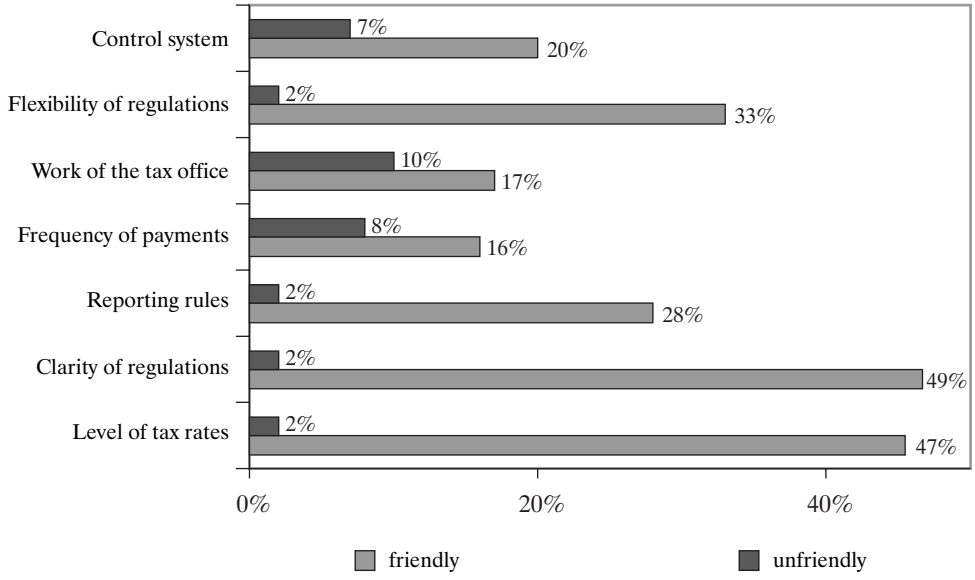
impossible for taxpayers and tax authorities to use the assistance of court decisions and the extremely helpful historical interpretation.

11.5. Entrepreneurs' Opinions on the Barriers Related to the Tax System

The amount of taxes and fees related to conducting business is, according to entrepreneurs, the most serious barrier to the development of a firm. Almost 40% of respondents identified this specific item. Only a low turnover, cited by 25% of respondents, has a comparably bad influence on the condition of an enterprise. Other burdens (inflation, bureaucracy, cost of labour, competition in the market) deteriorate their ability to operate in the market only to a very minor extent[3].

In the opinion of entrepreneurs, it is the form of the law and not its operation that is especially unfriendly for taxpayers. When asked to evaluate the individual elements of the tax system, entrepreneurs determined that the work of clerks in tax offices is the most taxpayer-friendly. The clarity of regulations and the level of tax rates were rated the lowest[4].

Chart 11.1. Evaluation of Individual Elements of the Tax System



The smallest firms, which do not have specialised accounting services, indicated that they considered the structure of the tax law to be an especially serious barrier to their development.

It is significant that more than two-thirds of the entrepreneurs who were questioned as to negative changes in the tax system over the last three years indicated at least two such changes – most frequently, the increase in the actual tax burden and the growing complication of regulations. As many as 80% of respondents could not identify a single favourable change in the

[3] *Economic Condition of SMEs in the Opinion of Entrepreneurs*, Ministry of Economy – Department of Crafts, Small and Medium-size Enterprises, Warsaw 2000.

[4] *Opinions of Entrepreneurs About the Tax System*, study of the Gallup Institute commissioned by the Polish Agency for Enterprise Development, March 2001.

tax Acts since 1997. Only entrepreneurs subject to the Corporate Income Tax Act identified the reduction of the tax as a positive change.

11.6. Access to Sources of Financing

SMEs find it difficult to access sources of financing. This is clearly illustrated in the study that the Ministry of Economy conducted in 1999 on a nationwide sampling of small and medium-size firms[5]. The study indicates that only 16% of enterprises regularly use credits to finance their activities. Unfortunately, they are mainly firms included in the group of medium-size businesses. Small and very small enterprises are a traditionally marginal group of recipients of credits.

More than 90% of small firms use their own funds, using mainly family loans (35%) and, occasionally, zloty credits (over 25%). More than 10% of firms declare that they use leasing in their operations, and 7% use other sources of financing, such as loans from aid funds[6].

In the group of medium-size enterprises, over 90% of firms state that they use their own funds, then zloty credits (42%) and leasing (more than 17%).

The trend to finance a company from its own funds, without taking on debt capital, has been maintained for many years. There are at least several reasons for such circumstances. First, the historical aspect plays a role: the instability of financial markets, considerable fluctuations of foreign exchange rates, and changes in interest rates. Second, the cost of capital remains high. Third, although the range of products offered by financial institutions has been extended significantly, it has still not been adjusted to meet the needs of small firms.

11.6.1. Financing from Bank Sources

Small firms use bank products to a limited extent. The most popular bank products include: current accounts, credit cards, and the so-called direct debit. The largest group of small firms utilise operating credits in zlotys (approximately 17%), overdrafts (approximately 10%), and investment credits (more than 9%). Only 4.5% of enterprises declare they have used leasing, and factoring is used by only slightly more than 1% of small firms.

Medium-size enterprises most frequently utilise current accounts, credit cards, and operating credits (more than 32%). More than 19% of enterprises utilise an overdraft, and more than 16% utilise zloty investment credits. Leasing is used by slightly more than 10% of firms, and factoring by about 4%.

Although the range of products offered by banks is quite large and includes more than 30 items, only several of these have recipients in the group of small and medium-size firms. This is due to the high level of formalities and bureaucratic-intensive procedures. The amount and type of security required is also not inconsequential. In general, the perception of services such as factoring or forfaiting are addressed to large enterprises. In addition, not all banks use modern financial instruments to the same extent. The standard product line for the so-called

[5] Surveys conducted by the Ministry of Economy entitled *Economic Condition of SMEs in the Opinion of Entrepreneurs* conducted in September 1998, June 1999, and January 2000.

[6] Study conducted by the Foundation for Education and Scientific Research of the Marketing Research Centre – Indicator, in September 2000.

institutional customers is not very broad. Small firms, which usually do business with a single bank, have only a few instruments amongst which to choose.

Consequently, SMEs do not use banking services widely because of their expense and difficulty to access; moreover, banks do not meet their expectations, as this group of recipients remains to be fully appreciated by them.

11.6.2. Financial Aid from Non-Commercial Institutions

Financial aid granted to entrepreneurs by SME support institutions constitutes a very insignificant portion of their operations. This is partly the effect of the structure and size of funds they have at their disposal, which are composed primarily of membership fees and budgetary subsidies, and frequently also the effect of absence of State budgetary assistance. Such institutions focus primarily on providing training and advisory services.

More than 82% of small firms and 77% of medium-size firms state that they do not intend to use non-commercial sources of financing. One of the reasons for this state of affairs may be the very low level of visibility of small business support institutions. Over 60% of entrepreneurs know of no such institution.

11.6.3. Access to Sources of Financing

In the opinion of entrepreneurs, commercial institutions cannot adjust their products to the specific needs of their customers and make standard financial instruments more easily available to them. Meanwhile, it is the accessibility of financing, quality of service, and its adjustment to their needs that is the most important for small and very small firms.

Studies conducted in 2000[7] led to the determination of the five criteria identified by small enterprises in the selection of a bank. These are: location of the bank (close to the company office), reputation, tradition and experience, skills of employees, and speed of settlements. For medium-size firms, these were: reputation, speed of settlements, tradition and experience, location, and level of commissions and fees. Entrepreneurs also identified areas that, in their opinion, are among the banks' weaknesses. The group of small enterprises cited bureaucracy, excessive formalities and the time-consuming review of credit applications (a total of 13% of respondents), slow service and settlements (more than 11%) and costs of credit (more than 10%). The largest share of negative opinions in total in this group of respondents referred to the efficiency of operation of banks and the costs of services provided.

In the group of medium-size firms, the most frequently cited weaknesses of the banking sector were the high costs of bank services (almost 17% of all responses), slow service and settlements (almost 16%) and too expensive credits (more than 13%). Contrary to the opinion of small enterprises, no objections were raised as to the quality and the range of products, but a relatively large number of negative responses related to the skills of bank personnel.

[7] *Banks in Evaluation and Opinions of Small Enterprises. Banks in Evaluation and Opinions of Medium-Size Enterprises*, Foundation for Education and Bank Studies, Warsaw 2000

In the opinion of entrepreneurs, cooperative banks are more accessible than commercial banks, whereas the level of service is the same[8]. They are perceived as competitive from the point of view of prices, with reduced formalisation of procedures. Entrepreneurs gave higher marks to their speed of service and access to credits.

[8] Study entitled *Banks and Bank Branches in the Opinion of Entrepreneurs*, conducted under the competition "Entrepreneur-Friendly Bank" by the Warsaw Institute of Banking.

Chapter 12.

Independent Experts on Tax Law

Changes in the Polish tax legal system have been under discussion for several years. The diagnosis that the set of tax regulations can hardly be called a system because of a lack of criteria of purpose, internal logic, and transparency, was formulated by the Ministry of Finance itself in the *White Paper*[1] of 1998, which was to be the basis for the introduction of widespread tax reforms. One cannot fail to notice that several changes leading in the right directions were introduced. In this chapter we present the opinions of independent experts on further developments necessary for the improvement of the tax system in Poland.

Nicholas H. Stern – the chief economist at the European Bank for Reconstruction and Development – presented his views on the rules of the tax reform in March 1999[2]. One of the most important aspects of a tax system is the influence taxes have on economic behaviour. A pro-market tax system should provide the budget with the necessary proceeds in such a manner so as to cause a minimum distortion to all things that promote the spirit of entrepreneurship, which, in turn, is the driving force behind the new economic order. Another important issue is that of ensuring the simplicity and clarity of methodologies applied, which prevent corruption and the persecution of the taxpayer by the tax administration. An analysis of macroeconomic data conducted by Stern illustrates that taxes in the Central and Eastern European countries are high in comparison with other countries. Generally speaking, tax and fiscal problems thus amount to the need for a gradual reduction of budgetary income outlays and, at the same time, of expenditures.

The basic rule of the tax reform that should be carried out in Poland is the establishment of a wide tax base and, simultaneously, maintenance of lower tax rates. The wide tax base guarantees increased efficiency of the system, however, its structure may be very problematic from the policy point of view since it requires such things as the reduction of tax reliefs or the removal of loopholes. Nevertheless, it merits mentioning that the effect of redistribution is generally achieved not on the side of taxes but on the side of expenditures – which is why it is important to verify the efficiency of expenditures and whether they reach those areas in which they are most needed.

The tax system should be simple and transparent, which evokes the objection that not all problems that appear will be resolved in reality, but the benefits to be drawn from such a system are much more important than the gluing together of a system from pieces in the name of solving individual problems. Such a method of creating a system makes it extremely complicated. In Poland, the level of complexity of the system and the large number of opportunities to reduce the tax are conspicuous. Such a situation may result in too much authority being given to the tax administration.

Also, the mutual influence between taxes and the social security system should be carefully analysed. Despite the closeness of the concept of social insurance contributions and of personal income tax, there are considerable difficulties – conceptual and administrative – in the attempts to tie them together.

Stern also warns against the all too frequent use of pro-investment tax incentives because it is the steady economic growth and healthy investment environment created due to the removal of bureaucratic barriers by the government that are important for investments.

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[1] *White Paper on Taxes. An Analysis of the Current Tax System – Proposed Changes*, Ministry of Finance, 1998, www.mofnet.gov.pl.

[2] Nicholas Stern, *What Tax Reform is Required for Rapid Economic Growth?*, publications of BRE Bank – Case, No. 41, Warsaw 1999.

The Adam Smith Centre proposed the following rules for a modified Polish tax system[3]:

- taxes should play no role other than a fiscal one,
- tax rates should be moderate,
- taxes should be varied so that each individual tax is relatively low but their total meets the requirements of the State Treasury,
- taxes should be simple and clear,
- costs of the collection of taxes should be as low as possible,
- taxes should be neutral in economic decisions,
- taxes should not be excessively burdensome.

According to the experts from the Adam Smith Centre, the following changes are necessary in order to introduce these rules:

- *Significant reduction of charges from wages*, which increased from about 50% to more than 80% of net remuneration during the last decade. The taxation of labour to such an extent is against the tax rule demanding moderate tax rates and violates another one, which speaks to neutrality for political decisions. A proposal has been presented to replace the tax on employee income with a flat rate tax of 15%, without reliefs, exemptions, and tax-free amounts. Combined with the reduced burden on remuneration, the tax base should be expanded, allowing proceeds from taxes to remain at the previous level. The social insurance contribution and contributions to earmarked funds should be decreased considerably – to the level of about 20% of gross wages, and the shortfall in ZUS income would have to be compensated with subventions from the State budget, while the contributions would first have to replenish individual accounts in the second pillar of social insurance.
- *Abolition of corporate income tax.* Corporate income tax violates the rule of simplicity: the problem of definition of the tax base results in considerable difficulties, and once the tax base is finally defined, another problem arises – the verification of tax declarations. This tax is not indifferent to the shape of economic decisions made because it forces entrepreneurs to incur unnecessary expenses and reduces the level of efficiency of companies. Finally, the corporate income tax is inconsistent with the rule of minimisation of the costs of collection. It forces taxpayers to perform onerous and complicated work related to maintaining tax documentation.
- *Considerable simplification of taxes on the business activities of natural persons*, those who are self-employed and members of professions. The postulate of simplicity and clarity is not met with respect to regulations that govern the use of simplified forms of taxation, e.g., lump-sum tax on turnover. In this case the tax base is unequivocal (although determining it requires limited expenditures), but the possibility of verification of that tax base in retail turnover is simply illusionary (true, one can imagine procedures that would allow the overcoming of this obstacle, but then you would be in conflict with the rule requiring economical collection). Taxes charged on this category of people should therefore be close to today's tax card – e.g., the number of places in a guest house or restaurant, number of square metres of a shop floor, etc., should be the basis for assessing the tax. Also the number of people employed would affect the amount of tax to be paid. Those taxes would have to be of a local nature because only local authorities would be capable of observing the effects of taxes levied on labour markets and entrepreneurship.

[3] *Public Interest No. 2, June 16, 2000, Tax Freedom Day*, Adam Smith Centre, Warsaw 2000.

The disparity in income due to the liquidation or reduction of some taxes would have to be compensated by:

- *Introduction of a turnover tax on companies*, which would replace the eliminated corporate income tax. An advantage of such tax would be its simplicity and moderate rate (a 2% rate is anticipated).
- *Introduction of tax on the value of fixed assets* for firms maintaining accounting records. This tax, at the rate of 2%, would reduce the discriminatory effects of work-related taxation to some extent.
- *Wider base of the basic VAT rate and increase in excise taxes.* The smallest firms would be exempted from VAT. The resulting financial balance of changes in the economic outlook of 1997 would have been more or less as follows (amounts quoted in billions of zloty):

Table 12.1 Influence of Changes Proposed, Estimates as of 1997

		Before the change	After the change
1	Contributions to ZUS and other funds	50	20
2	Tax on remuneration	17	17
3	CIT	13	0
4	Turnover tax	0	20
5	Tax on fixed assets	0	12
6	VAT	37	42
7	Excise tax	18	22
8	PIT on business activity of private individuals	10	0
9	Lump-sum tax on business activity of private individuals, members of professions, etc.	0	10
TOTAL		145	143

Source: Adam Smith Centre.

Among the weaknesses of the system of public finance, the experts included its disintegration expressed in the multitude of foundations and agencies that were autonomous in terms of the budget on the one hand and, on the other hand – paradoxically – the strong centralisation in the financial relationships between the State and local governments. The self-generated income of county (poviat) and voivodship self-governments constitutes only several percent of their expenditure. With respect to local communes (gminas), about 40% of their income is derived from government contributions and subventions. Utilising the opportunity of the change in the tax system, all of the taxes on employee income and on business activities of small firms should be left at the disposal of local governments. Earmarked taxes for the Labour Fund, Health Funds, the Fund of Guaranteed Employee Benefits, State Fund of Rehabilitation of Disabled People and similar funds should be eliminated, and the burden of financing the tasks that they perform should be transferred to the State budget.

From analyses commissioned by the Polish Agency for Enterprise Development and conducted by experts from the Adam Smith Centre and the Institute for Market Economy Research we have also taken recommendations with respect to the improvement of the current tax system and to making it more entrepreneur-friendly. The catalogue presented here makes no pretence of being a complete list of changes necessary for the improvement of the tax-related status of entrepreneurs. The recommendations for changes presented here are those that appeared, in the experts' opinions, the most frequently and those that have not been presented extensively before.

Changes:

- reduction of the number of amendments to legal acts, and if amendments are made they should have a long *vacatio legis*,
- abandoning the excessive use of cross-references in regulations,
- abandoning the unjustified changes that make regulations "more precise" – leaving it to legal doctrine and court decisions,
- reducing the number of legal acts regulating the rules of taxation and, in particular, abandoning the regulation of taxes in secondary legislation,
- removal of differences that exist with respect to the real estate tax in the taxation of entrepreneurs and non-entrepreneurs,
- simplification of income taxes not only through the elimination of reliefs and reduction of the number of tax rates but also through the simplification of regulations with respect to the exclusion of some costs from the costs of earning revenue, and the simplification of the calculation of revenue,
- vesting entrepreneurs who are natural persons with the same rights as are vested in corporate entities, e.g., with regard to the possibility of selecting the rules for paying advances for income tax, or allowing for the business a single income tax, regardless of the legal status of the entrepreneur,
- reduction of the number of tax rates and raising tax brackets in regard to personal income tax,
- reduction of the number of VAT rates to two,
- abandoning restrictive regulations with respect to the prohibition of deducting VAT assessed – prosecuting dishonest taxpayers by using criminal law institutions,
- maintenance and expansion of the positive trend of vesting taxpayers with the right to choose the taxation options,
- application of lump-sum taxation of VAT for the smallest firms,
- variation of the frequency of paying advances for corporate income tax depending on the amount of tax due,
- radical increase in the share of local communes (gminas) in the proceeds from corporate income tax and awarding gminas with the right to freely regulate the level of taxation within statutorily defined limits,
- application of accelerated depreciation with respect to new investments,
- reduction of the taxpayer's liability for the mistakes of the public administration.

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Table 1. Gross Value-Added Generated by Enterprises of Various Sizes in 1998, Including the Grey Area of the Economy (in PLN million)

Specification	Total GDP in 1998	Gross Value-Added													
		Total Gross Value-Added	Generated By Enterprises	Including Enterprises											
				Small(0–49 Employees)						Medium-size(50-249 Employees)			Large (More than 249 Employees)		
				Total	Including		Including up to 5 Employees			Total	Including		Total	Including	
					Public Sector	Private Sector	Total	Public Sector	Private Sector		Public Sector	Private Sector		Public Sector	Private Sector
Total	**553,560.1**	**485,177.0**	**393,660.6**	**211,361.2**	**2,804.0**	**208,557.2**	**137,724.2**	**92.2**	**137,632.0**	**56,171.1**	**10,358.7**	**45,812.4**	**126,128.3**	**68,198.0**	**57,930.3**
Total Without A and B Section		**462,079.8**	**388,805.5**	**209,747.1**	**2,642.5**	**207,104.6**	**137,053.6**	**91.0**	**136,962.6**	**54,685.2**	**9,380.3**	**45,304.9**	**124,373.2**	**66,966.6**	**57,406.6**
A. Agriculture, Hunting and Forestry		22,930.9	4,688.8	1,574.0	153.1	1,420.9	668.6	0.7	667.9	1,457.5	955.1	502.4	1,657.3	1,141.5	515.8
B. Fishing and Fisheries		166.3	166.3	40.1	8.4	31.7	2.0	0.5	1.5	28.4	23.3	5.1	97.8	89.9	7.9
C+D+E. Industry		133,962.9	133,636.2	32,353.7	631.8	31,721.9	12,424.7	0.0	12,424.7	19,316.7	3,322.2	15,994.5	81,965.8	43,934.5	38,031.3
C. Mining and Quarrying		13,897.0	13,897.0	220.7	12.2	208.5	62.3	0.0	62.3	636.6	336.1	300.5	13,039.7	12,600.6	439.1
D. Manufacturing		104,339.5	104,127.1	31,600.1	195.8	31,404.3	12,326.7	0.0	12,326.7	17,231.7	1,755.2	15,476.5	55,295.3	17,952.0	37,343.3
E. Electricity, Gas and Water Supply		15,726.4	15,612.0	532.9	423.8	109.1	35.7	0.0	35.7	1,448.4	1,230.9	217.5	13,630.7	13,381.8	248.9
F. Construction		41,988.8	41,623.9	23,673.6	175.4	23,498.2	14,748.7	31.0	14,717.7	9,077.5	956.7	8,120.8	8,872.8	535.0	8,337.8
G. Trade and Repairs		100,339.1	100,224.1	84,240.5	272.7	83,967.8	61,188.5	17.7	61,170.8	9,945.8	840.0	9,105.8	6,037.8	1,364.2	4,673.6
H. Hotels and Restaurants		5,503.6	5,147.7	3,563.7	34.9	3,528.8	2,416.1	0.5	2,415.6	424.0	71.9	352.1	1,160.0	608.1	551.9

I. Transportation, Storage and Communications		30,948.9	29,541.3	10,019.3	202.9	9,816.4	7,694.8	12.0	7,682.8	2,238.3	995.1	1,243.2	17,283.7	15,162.3	2,121.4
J. Financial Services		7,717.0	7,648.8	3,584.2	497.1	3,087.1	597.1	0.2	596.9	3,741.2	1,408.9	2,332.3	323.4	-468.9	792.3
K. Real Estate, Renting and Business Services		56,654.5	54,352.5	40,767.2	484.7	40,282.5	29,216.2	18.8	29,197.4	8,454.9	1,253.6	7,201.3	5,130.4	2,598.5	2,531.9
L. Public Administration and National Defence		25,939.8	-	-	-	-	-	-	-	-	-	-	-	-	-
M. Education		20,556.4	1,216.4	1,157.0	40.0	1,117.0	505.6	3.1	502.5	59.4	7.3	52.1	-	-	-
N. Health Care and Social Welfare		19,225.5	4,433.1	2,725.1	192.7	2,532.4	1,538.3	7.5	1,530.8	228.5	115.1	113.4	1,479.5	1,479.5	0.0
O. Other Community, Social and Personal Service Activities		19,239.2	10,977.5	7,658.7	110.3	7,548.4	6,719.5	0.2	6,719.3	1,198.9	409.5	789.4	2,119.9	1,753.5	366.4
P. Private Households with Employed Persons		4.1	4.1	4.1	-	4.1	4.1	-	4.1	-	-	-	-	-	-

Enterprises: State-owned, municipal, foreign and owned by social organizations and foundations, State organizational units (without universities and army units), cooperatives, companies (joint-stock companies, limited liability companies, general partnerships, limited partnerships, private partnerships), as well as sole proprietorships conducting business activities, excluding individual farms. The enterprise class dose not include: budgetary units, budgetary establishments, auxiliary companies of budgetary establishments, special resources and targeted funds, social organizations, political parties, trade unions, associations, foundations, religious organizations, as well as universities and individual farms.

Table 2. Structure of Gross Domestic Product and Gross Value-Added Generated by Enterprises in 1998, Including the Grey Area of Economy (%)

Specification	Total	Gross Value-Added Generated by Enterprises* (Without the A and B Sections)											
		Total	Including Enterprises										
			Small(0–49 Employees)						Medium-size (50–249 Employees)			Large (More than 249 Employees)		
			Total	Inluding		Including up to 5 Employees			Total	Inluding		Total	Inluding	
				Public sector	Private sector	Total	Public sector	Private sector		Public sector	Private sector		Public sector	Private sector
Total	**100.0**	**70.3**	**37.9**	**0.5**	**37.4**	**24.7**	**0.0**	**24.7**	**9.9**	**1.7**	**8.2**	**22.5**	**12.1**	**10.4**
Total Without A and B Section		**100.0**	**53.9**	**0.7**	**53.2**	**35.2**	**0.0**	**35.2**	**14.1**	**2.4**	**11.7**	**32.0**	**17.2**	**14.8**
C+D+E. Industry		100.0	24.2	0.5	23.7	9.3	0.0	9.3	14.5	2.5	12.0	61.3	32.8	28.5
C. Mining and Quarrying		100.0	1.6	0.1	1.5	0.4	0.0	0.4	4.6	2.4	2.2	93.8	90.6	3.2
D. Manufacturing		100.0	30.4	0.2	30.2	11.8	0.0	11.8	16.6	1.7	14.9	53.0	17.2	35.8
E. Electricity, Gas and Water Supply		100.0	3.4	2.7	0.7	0.2	0.0	0.2	9.3	7.9	1.4	87.3	85.7	1.6
F. Construction		100.0	56.9	0.4	56.5	35.5	0.1	35.4	21.8	2.3	19.5	21.3	1.3	20.0
G. Trade and Repairs		100.0	84.0	0.3	83.7	61.0	0.0	61.0	9.9	0.8	9.1	6.1	1.4	4.7
H. Hotels and Restaurants		100.0	69.3	0.7	68.6	46.9	0.0	46.9	8.2	1.4	6.8	22.5	11.8	10.7
I. Transportation, Storage and Communications		100.0	33.9	0.7	33.2	6.0	0.0	26.0	7.6	3.4	4.2	58.5	51.3	7.2
J. Financial Services		100.0	46.8	6.5	40.3	7.8	0.0	7.8	48.9	18.4	30.5	4.3	-6.1	10.4
K. Real Estate, Renting and Business Services		100.0	75.0	0.9	74.1	53.7	0.0	53.7	15.5	2.3	13.2	9.5	4.8	4.7
M. Education		100.0	95.1	3.3	91.8	41.6	0.3	41.3	4.9	0.6	4.3	-	-	-
N. Health Care and Social Welfare		100.0	61.4	4.3	57.1	34.7	0.2	34.5	5.2	2.6	2.6	33.4	33.4	0.0
O. Other Community, Social and Personal Activities		100.0	69.8	1.0	68.8	61.2	0.0	61.2	10.9	3.7	7.2	19.3	16.0	3.3

* Enterprises: State-owned, municipal, foreign and owned by social organizations and foundations, State organizational units (without universities and army units), cooperatives, companies (joint-stock companies, limited liability companies, general partnerships, limited partnerships, private partnerships), as well as sole proprietorships conducting business activities, excluding individual farms. The enterprise class dose not include: budgetary units, budgetary establishments, auxiliary companies of budgetary establishments, special resources and targeted funds, social organizations, political parties, trade unions, associations, foundations, religious organizations, as well as universities and individual farms.

Table 3. Gross Value Added Generated by Enterprises of Various Sizes in 1999, Including the Grey Area of the Economy (in PLN million)

Specification	Total	Gross Value-Added													
		Total	Total	Including Enterprises											
				Small (0–49 Employees)						Medium-size (50–249 Employees)			Large (Over 249 Employees)		
				Total	Including		Including up to 5 Employees			Total	Including		Total	Including	
					Public Sector	Private Sector	Total	Public Sector	Private Sector		Public Sector	Private Sector		Public Sector	Private Sector
Total	**615,559.6**	**536,564.9**	**438,268.4**	**235,212.5**	**3,073.4**	**232,139.1**	**155,052.7**	**109.0**	**154,943.7**	**64,328.3**	**11,811.3**	**52,517.0**	**138,727.6**	**68,965.9**	**69,761.7**
Total Without A and B Section		**515,574.1**	**433,422.4**	**233,620.2**	**3,031.8**	**230,588.4**	**154,303.2**	**108.1**	**154,195.1**	**62,855.6**	**1,163.9**	**51,791.7**	**136,946.6**	**67,360.2**	**69,586.4**
A. Agriculture, Hunting and Forestry		20,851.6	4,706.8	1,558.1	39.4	1,518.7	747.4	0.6	746.8	1,452.4	731.8	720.6	1,696.3	1,532.0	164.3
B. Fishing and Fisheries		139.2	139.2	34.2	2.2	32.0	2.1	0.3	1.8	20.3	15.6	4.7	84.7	73.7	11.0
C+D+E. Industry		145,162.6	144,949.3	32,517.5	868.6	31,648.9	14178.0	0.0	14,178.0	25,336.0	4,183.6	21,152.4	87,095.8	42,182.0	44,913.8
C. Mining and Quarrying		13,938.1	13,938.1	257.5	27.0	230.5	78.2	0.0	78.2	1,142.8	702.6	440.2	12,537.8	12,087.7	450.1
D. Manufacturing		112,644.9	112,431.6	31,703.7	448.5	31,255.2	14,042.8	0.0	14,042.8	21,984.9	1,585.3	20,399.6	58,743.0	14,535.7	44,207.3
E. Electricity, Gas and Water Supply		18,579.6	18,579.6	556.3	393.1	163.2	57.0	0.0	57.0	2,208.3	1,895.7	312.6	15,815.0	15,558.6	256.4
F. Construction		47,143.3	46,893.3	26,569.4	145.9	26,423.5	16,299.4	33.8	16,265.6	10,101.5	1,068.6	9,032.9	10,222.4	598.7	9,623.7
G. Trade and Repairs		111,887.4	111,761.4	93,745.1	222.3	93,522.8	66,459.9	18.3	66,441.6	10,407.4	704.7	9,702.7	7,608.9	1,169.7	6,439.2
H. Hotels and Restaurants		6,690.3	6,313.3	4,149.3	29.8	4,119.5	2,684.0	0.6	2,683.4	487.4	73.8	413.6	1,676.6	157.0	1,519.6
I. Transportation, Storage and Communications		35,653.5	33,957.8	11,074.4	217.4	10,857.0	8,366.5	13.2	8,353.3	2,577.1	1,330.6	1,246.5	20,306.3	17,175.3	3,131.0
J. Financial Services		10,824.1	10,676.9	4,498.2	640.8	3,857.4	746.1	0.3	745.8	4,730.5	1,816.2	2,914.3	1,448.2	548.1	900.1

K. Real Estate, Renting and Business Services		63,826.6	60,507.3	47,095.1	557.3	46,537.8	35,522.5	26.1	35,496.4	7,685.4	1,328.2	6,357.2	5,726.8	3,101.6	2,625.2
L. Public Administration and National Defence		26,892.3	-	-	-	-	-	-	-	-	-	-	-	-	-
M. Education		23,762.5	2,300.7	2,224.0	60.7	2,163.3	651.3	4.6	646.7	70.4	7.4	63.0	6.3	0.0	6.3
N. Health Care and Social Welfare		21,658.8	3,161.1	2,785.0	91.0	2,694.0	1,765.2	9.6	1,755.6	135.2	11.0	124.2	240.9	224.9	16.0
O. Other Community, Social and Personal Service Activities		22,068.2	12,896.8	8,957.7	198.0	8,759.7	7,625.8	1.6	7,624.2	1324.7	539.8	784.9	2,614.4	2,202.9	411.5
P. Private Households with Employed Persons		4.5	4.5	4.5	-	4.5	4.5	0.0	4.5	-	-	-	-	-	-

* Enterprises: State-owned, municipal, foreign and owned by social organizations and foundations, State organizational units (without universities and army units), cooperatives, companies (joint-stock companies, limited liability companies, general partnerships, limited partnerships, private partnerships), as well as sole proprietorships conducting business activities, excluding individual farms. The enterprise class dose not include: budgetary units, budgetary establishments, auxiliary companies of budgetary establishments, special resources and targeted funds, social organizations, political parties, trade unions, associations, foundations, religious organizations, as well as universities and individual farms.

Table 4. Structure of Gross Domestic Product and Gross Value-Added Generated by Enterprises in 1999, Including the Grey Area of the Economy (%)

Specification	Total	Gross Value-Added Generated by Enterprises* (Without the A and B Sections)											
		Total	Including Enterprises										
			Small (0–49 Employees)						Medium-size (50–249 Employees)			Large (Over 249 Employees)	
			Total	Including		Including up to 5 Employees			Total	Including		Total	Including
				Public Sector	Private Sector	Total	Public Sector	Private Sector		Public Sector	Private Sector		Public Sector	Private Sector
Total	**100.0**	**70.4**	**38.0**	**0.5**	**37.5**	**25.0**	**0.0**	**25.0**	**10.2**	**1.8**	**8.4**	**22.2**	**10.9**	**11.3**
Total Without A and B Section		**100.0**	**53.9**	**0.7**	**53.2**	**35.6**	**0.0**	**35.6**	**14.5**	**2.6**	**11.9**	**31.6**	**15.5**	**16.1**
C+D+E. Industry		100.0	22.4	0.6	21.8	9.8	0.0	9.8	17.5	2.9	14.6	60.1	29.1	31.0
C. Mining and Quarrying		100.0	1.9	0.2	1.7	0.6	0.0	0.6	8.2	5.0	3.2	89.9	86.7	3.2
D. Manufacturing		100.0	28.2	0.4	27.8	12.5	0.0	12.5	19.5	1.4	18.1	52.3	12.9	39.4
E. Electricity, Gas and Water Supply		100.0	3.0	2.1	0.9	0.3	0.0	0.3	11.9	10.2	1.7	85.1	83.7	1.4
F. Construction		100.0	56.6	0.3	56.3	34.8	0.1	34.7	21.6	2.3	19.3	21.8	1.3	20.5
G. Trade and Repairs		100.0	83.9	0.2	83.7	59.4	0.0	59.4	9.3	0.6	8.7	6.8	1.0	5.8
H. Hotels and Restaurants		100.0	65.7	0.5	65.2	42.5	0.0	42.5	7.8	1.2	6.6	26.5	2.5	24.0
I. Transportation, Storage and Communications		100.0	32.6	0.6	32.0	24.6	0.0	24.6	7.6	3.9	3.7	59.8	50.6	9.2
J. Financial Services		100.0	42.2	6.0	36.2	7.0	0.0	7.0	44.3	17.0	27.3	13.5	5.1	8.4
K. Real Estate, Renting and Business Services		100.0	77.9	0.9	77.0	58.7	0.0	58.7	12.7	2.2	10.5	9.4	5.1	4.3
M. Education		100.0	96.7	2.6	94.1	28.3	0.2	28.1	3.0	0.3	2.7	0.3	0.0	0.3
N. Health Care and Social Welfare		100.0	88.2	2.9	85.3	55.8	0.3	55.5	4.2	0.3	3.9	7.6	7.1	0.5
O. Other Community Social and Personal Activities		100.0	69.4	1.5	67.9	59.1	0.0	59.1	10.3	4.2	6.1	20.3	17.1	3.2

* Enterprises: State-owned, municipal, foreign and owned by social organizations and foundations, State organizational units (without universities and army units), cooperatives, companies (joint-stock companies, limited liability companies, general partnerships, limited partnerships, private partnerships), as well as sole proprietorships conducting business activities, excluding individual farms. The enterprise class dose not include: budgetary units, budgetary establishments, auxiliary companies of budgetary establishments, special resources and targeted funds, social organizations, political parties, trade unions, associations, foundations, religious organizations, as well as universities and individual farms.

Table 5. Enterprises Registered in the REGON System by Ownership and NACE Industrial Branch (as of December 31, 1999)

Specification	Total	Including Enterprises Employing				
		Up to 50			50-249	Over 249
		Total	Including			
			Up to 9	10-49		
TOTAL	**3,013,876**	**2,978,574**	**2,865,517**	**113,057**	**28,870**	**6,432**
public sector	**95,275**	**77,277**	**43,362**	**33,915**	**14,346**	**3,652**
private sector	**2,918,601**	**2,901,297**	**2,822,155**	**79,142**	**14,524**	**2,780**
C - Mining and Quarrying	**1,652**	**1,464**	**1,257**	**207**	**92**	**96**
public sector	149	41	20	21	37	71
private sector	1,503	1,423	1,237	186	55	25
D - Manufacturing	**367,320**	**358,302**	**331,958**	**26,344**	**6,768**	**2,250**
public sector	3,288	1,900	1,294	606	737	651
private sector	364,032	356,402	330,664	25,738	6,031	1,599
E - Electricity, Gas and Water Supply	**2,860**	**2,140**	**1,619**	**521**	**497**	**223**
public sector	1,239	610	212	398	420	209
private sector	1,621	1,530	1,407	123	77	14
F - Construction	**332,264**	**329,512**	**317,111**	**12,401**	**2,335**	**417**
public sector	1,488	999	644	355	406	83
private sector	330,776	328,513	316,467	12,046	1,929	334
G - Trade and Repairs	**1,106,205**	**1,102,564**	**1,082,027**	**20,537**	**3,239**	**402**
public sector	1,027	753	489	264	197	77
private sector	1,105,178	1,101,811	1,081,538	20,273	3,042	325
H - Hotels and Restaurants	**91,523**	**91,182**	**87,873**	**3,309**	**286**	**55**
public sector	889	798	353	445	80	11
private sector	90,634	90,384	87,520	2,864	206	44
I - Transportation, Storage and Communications	**249,799**	**248,361**	**245,534**	**2,827**	**782**	**656**
public sector	1,604	606	273	333	399	599
private sector	248,195	247,755	245,261	2,494	383	57
J - Financial Services	**93,769**	**92,485**	**89,423**	**3,062**	**1,135**	**149**
public sector	1,583	1036	289	747	465	82
private sector	92,186	91,449	89,134	2,315	670	67
K - Real Estate and Business Services	**379,607**	**376,981**	**369,678**	**7,303**	**2,253**	**373**
public sector	22,490	21,230	20,144	1,086	1,053	207
private sector	357,117	355,751	349,534	6,217	1,200	166
L - Public Administration	**15,152**	**12,010**	**8,591**	**3,419**	**2,588**	**554**
public sector	11,309	8,186	4,864	3,322	2,572	551
private sector	3,843	3,824	3,727	97	16	3
M - Education	**63,197**	**57,174**	**39,830**	**17,344**	**5,898**	**125**
public sector	28,260	22,306	6,388	15,918	5,834	120
private sector	34,937	34,868	33,442	1,426	64	5
N - Health Care and Social Welfare	**130,625**	**128,063**	**118,109**	**9,954**	**1,625**	**937**
public sector	15,810	13,431	5,238	8,193	1,455	924
private sector	114,815	114,632	112,871	1,761	170	13
O - Other Community, Social and Personal Service Activities	**179,635**	**178,068**	**172,241**	**5,827**	**1,372**	**195**
public sector	6,139	5,381	3,154	2,227	691	67
private sector	173,496	172,687	169,087	3,600	681	128
P - Private Households with Employed Persons	**264**	**264**	**263**	**1**	**-**	**-**
public sector	-	-	-	-	-	-
private sector	264	264	263	1	-	-
Q - International Organisations and Units	**4**	**4**	**3**	**1**	**-**	**-**
public sector	-	-	-	-	-	-
private sector	4	4	3	1	-	-
Total (section C - I, K, M, N and O)	**2,904,687**	**2,873,811**	**2,767,237**	**106,574**	**25,147**	**5,729**
public sector	**82,383**	**68,055**	**38,209**	**29,846**	**11,309**	**3,019**
private sector	**2,822,304**	**2,805,756**	**2,729,028**	**76,728**	**13,838**	**2,710**

Table 6. Number of Active Enterprises by NACE Industrial Branch in 1998

Specification	Number of Active Enterprises			
	Total	0-49 Employees	50-249 Employees	Over 249 Employees
TOTAL	**1,726,993**	**1,709,870**	**13,658**	**3,465**
public sector	**5,814**	**2,223**	**2,312**	**1,279**
private sector	**1,721,179**	**1,707,647**	**11,346**	**2,186**
C - Mining and Quarrying	**977**	**824**	**92**	**61**
public sector	109	23	39	47
private sector	868	801	53	14
D - Manufacturing	**234,226**	**226,395**	**5,934**	**1,897**
public sector	1,628	490	621	517
private sector	232,598	225,905	5,313	1,380
E - Electricity, Gas and Water Supply	**1,654**	**1,105**	**379**	**170**
public sector	656	179	316	161
private sector	998	926	63	9
F - Construction	**204,276**	**202,044**	**1,911**	**321**
public sector	601	249	317	35
private sector	203,675	201,795	1,594	286
G - Trade and Repairs	**680,638**	**677,614**	**2,747**	**277**
public sector	483	309	143	31
private sector	680,155	677,305	2,604	246
H - Hotels and Restaurants	**51,169**	**50,988**	**154**	**27**
public sector	101	63	31	7
private sector	51,068	50,925	123	20
I - Transportation, Storage and Communications	**177,781**	**177,009**	**550**	**222**
public sector	542	165	208	169
private sector	177,239	176,844	342	53
J - Financial Services	**920**	**873**	**39**	**8**
public sector	33	29	3	1
private sector	887	844	36	7
K - Real Estate and Business Services	**201,942**	**200,378**	**1,315**	**249**
public sector	848	435	313	100
private sector	201,094	199,943	1,002	149
M - Education	**23,470**	**23,454**	**16**	**0**
public sector	56	53	3	0
private sector	23,414	23,401	13	0
N - Health Care and Social Welfare	**77,056**	**76,752**	**121**	**183**
public sector	321	53	85	183
private sector	76,735	76,699	36	0
O - Other Community, Social and Personal Service Activities	**72,884**	**72,434**	**400**	**50**
public sector	436	175	233	28
private sector	72,448	72,259	167	22
Total (without J section)	**1,726,073**	**1,708,997**	**13,619**	**3,457**
public sector	**5,781**	**2,194**	**2,309**	**1,278**
private sector	**1,720,292**	**1,706,803**	**11,310**	**2,179**

* Without sole proprietorships and private partnerships employing up to 5 people, which are researched by GUS based on the representative method starting from 1999.

Table 7. Number of Active Enterprises by NACE Industrial Branch in 1999

Specification	Number of Active Enterprises			
	Total	0-49 Employees	50-249 Employees	Over 249 Employees
TOTAL	**1,819,200**	**1,801,748**	**14,268**	**3,184**
public sector	**4,507**	**1,407**	**2,128**	**972**
private sector	**1814,693**	**1,800,341**	**12,140**	**2,212**
C - Mining and Quarrying	**1,059**	**892**	**104**	**63**
public sector	106	17	43	46
private sector	953	875	61	17
D - Manufacturing	**243,346**	**235,279**	**6,276**	**1,791**
public sector	1,317	277	616	424
private sector	242,029	235,002	5,660	1,367
E - Electricity, Gas and Water Supply	**1,791**	**1,229**	**398**	**164**
public sector	647	168	323	156
private sector	1,144	1,061	75	8
F - Construction	**214,264**	**211,943**	**2,023**	**298**
public sector	409	106	277	26
private sector	213,855	211,837	1,746	272
G - Trade and Repairs	**677,616**	**674,436**	**2,878**	**302**
public sector	322	175	119	28
private sector	677,294	674,261	2,759	274
H - Hotels and Restaurants	**58,461**	**58,274**	**158**	**29**
public sector	83	45	33	5
private sector	58,378	58,229	125	24
I - Transportation, Storage and Communications	**169,878**	**169,113**	**555**	**210**
public sector	481	116	208	157
private sector	169,397	168,997	347	53
J - Financial Services	**57,896**	**57,832**	**56**	**8**
public sector	23	17	5	1
private sector	57,873	57,815	51	7
K - Real Estate and Business Services	**213,643**	**212,013**	**1,381**	**249**
public sector	700	305	307	88
private sector	212,943	211,708	1,074	161
M - Education	**24,085**	**24,057**	**27**	**1**
public sector	42	37	5	0
private sector	24,043	24,020	22	1
N - Health Care and Social Welfare	**82,931**	**82,841**	**69**	**21**
public sector	50	14	17	19
private sector	82,881	82,827	52	2
O - Other Community, Social and Personal Service Activities	**74,230**	**73,839**	**343**	**48**
public sector	327	130	175	22
private sector	73,903	73,709	168	26
Total (without J section)	**1,761,304**	**1,743,916**	**14,212**	**3,176**
public sector	**4,484**	**1,390**	**2,123**	**971**
private sector	**1,756,820**	**1,742,526**	**12,089**	**2,205**

Table 8. Rate of Change in the Number of Active Enterprises, 1997–1999 (Preceding Year = 100%)

Specification	Total			0-50* Employees			51-250** Employees			over 250*** Employees		
	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999
TOTAL (without J section)	**118.2**	**109.0**	**102.0**	**118.3**	**109.1**	**102.0**	**108.1**	**104.3**	**104.4**	**102.3**	**101.1**	**91.9**
public sector	**90.9**	**99.7**	**77.6**	**100.0**	**104.5**	**63.4**	**95.3**	**96.7**	**91.9**	**73.9**	**97.2**	**76.0**
private sector	**118.3**	**109.0**	**102.1**	**118.4**	**109.1**	**102.1**	**111.4**	**106.0**	**106.9**	**134.6**	**103.6**	**101.2**
C - Mining and Quarrying	**127.7**	**102.5**	**108.4**	**134.1**	**102.4**	**108.3**	**109.3**	**111.0**	**113.0**	**92.9**	**93.8**	**103.3**
public sector	90.2	98.2	97.2	86.4	121.1	73.9	102.6	97.5	110.3	83.9	90.4	97.9
private sector	135.2	103.1	109.8	135.9	101.9	109.2	116.7	123.8	115.1	162.5	107.7	121.4
D - Manufacturing	**109.4**	**110.4**	**103.9**	**109.5**	**110.7**	**103.9**	**110.2**	**104.3**	**105.8**	**99.2**	**95.8**	**94.4**
public sector	76.8	88.9	80.9	92.6	99.4	56.5	88.6	87.6	99.2	59.9	82.1	82.0
private sector	109.8	110.6	104.1	109.6	110.8	104.0	114.2	106.7	106.5	142.8	102.1	99.1
E - Electricity, Gas and Water Supply	**132.8**	**109.2**	**108.3**	**153.6**	**110.7**	**111.2**	**106.8**	**108.4**	**105.0**	**101.2**	**102.4**	**96.5**
public sector	106.6	109.9	98.6	116.9	121.1	93.9	104.8	108.7	102.2	101.3	101.3	96.9
private sector	158.1	108.8	114.6	162.7	108.8	114.6	118.0	106.8	119.0	100.0	128.6	88.9
F - Construction	**137.5**	**110.1**	**104.9**	**138.0**	**110.2**	**104.9**	**104.5**	**101.5**	**105.9**	**104.4**	**95.8**	**92.8**
public sector	84.0	92.6	68.1	92.6	95.4	42.6	90.3	91.0	87.4	37.7	87.5	74.3
private sector	137.8	110.1	105.0	138.1	110.2	105.0	108.5	103.9	109.5	137.2	96.9	95.1
G - Trade and Repairs	**114.2**	**104.9**	**99.6**	**114.3**	**104.9**	**99.5**	**105.6**	**102.4**	**104.8**	**101.1**	**104.1**	**109.0**
public sector	88.6	90.1	66.7	91.9	93.7	56.6	88.4	84.5	83.2	67.3	83.8	90.3
private sector	114.3	104.9	99.6	114.3	104.9	99.6	107.1	103.7	106.0	110.1	107.4	111.4
H - Hotels and Restaurants	**128.4**	**102.3**	**114.3**	**128.5**	**102.3**	**114.3**	**118.2**	**113.8**	**102.6**	**110.0**	**122.7**	**107.4**
public sector	115.8	114.8	82.2	126.1	110.3	71.4	104.3	125.0	106.5	85.7	116.7	71.4
private sector	128.5	102.3	114.3	128.5	102.3	114.3	121.8	111.3	101.6	123.1	125.0	120.0
I - Transportation, Storage and Communications	**116.0**	**114.6**	**95.6**	**116.0**	**14.7**	**95.5**	**107.3**	**104.3**	**100.9**	**97.8**	**100.9**	**94.6**
public sector	97.9	98.7	88.7	103.6	96.0	70.3	96.7	102.0	100.0	94.0	97.7	92.9
private sector	116.0	114.7	95.6	116.0	114.7	95.6	115.5	105.8	101.5	114.6	112.8	100.0
K - Real Estate and Business Services	**119.4**	**111.3**	**105.8**	**119.5**	**111.4**	**105.8**	**108.2**	**107.0**	**105.0**	**110.1**	**119.7**	**100.0**
public sector	102.5	101.7	82.5	106.0	103.8	70.1	98.5	96.6	98.1	101.1	109.9	88.0
private sector	119.5	111.4	105.9	119.5	111.4	105.9	112.2	110.8	107.2	118.2	127.4	108.1
M- Education	**152.9**	**138.5**	**102.6**	**153.0**	**138.5**	**102.6**	**91.7**	**145.5**	**168.8**	**-**	**-**	**-**
public sector	112.5	622.2	75.0	114.3	662.5	69.8	100.0	300.0	166.7	-	-	-
private sector	152.9	138.2	102.7	153.0	138.2	102.6	90.9	130.0	169.2	-	-	-
N - Health Care and Social Welfare	**124.7**	**114.8**	**107.6**	**124.6**	**114.7**	**107.9**	**173.1**	**132.2**	**57.0**	**239.5**	**177.7**	**11.5**
public sector	237.3	180.3	15.6	221.4	177.4	26.4	242.1	180.4	20.0	240.5	181.2	10.4
private sector	124.5	114.6	108.0	124.5	114.6	108.0	133.3	81.8	144.4	200.0	-	-
O - Other Community, Social and Personal Service Activities	**124.2**	**114.3**	**101.8**	**124.4**	**114.4**	**101.9**	**101.4**	**105.1**	**85.8**	**106.0**	**94.3**	**96.0**
public sector	104.0	104.3	75.0	107.1	107.2	74.3	101.8	101.8	75.1	104.0	107.7	78.6
private sector	124.4	114.4	102.0	124.5	114.4	102.0	100.7	110.3	100.6	108.0	81.5	118.2

* In 1999 number of employees 0-49.
** In 1999 number of employees 50-249.
*** In 1999 number of employees over 249.

Table 9. Working Population in the National Economy (as of December 31, 1998)

Specification	Total	Including Enterprises Employing				
		Up to 49			50–249 Employees	Over 249 Employees
		Total	Including			
			Up to 9	10-49		
TOTAL	**11,346,057**	**4,608,873**	**2,885,196**	**1,723,677**	**2,483,738**	**4,253,446**
public sector	**4,498,871**	**520,694**	**54,814**	**465,880**	**1,211,205**	**2,766,972**
private sector	**6,847,186**	**4,088,179**	**2,830,382**	**1,257,797**	**1,272,533**	**1,486,474**
C - Mining and Quarrying	**288,046**	**5,425**	**1,762**	**3,663**	**11,395**	**271,226**
public sector	267,990	418	20	398	5,302	262,270
private sector	20,056	5,007	1,742	3,265	6,093	8,956
D - Manufacturing	**3,017,936**	**969,671**	**499,103**	**470,568**	**692,866**	**1,355,399**
public sector	549,584	12,160	2,897	9,263	86,209	451,215
private sector	2,468,352	957,511	496,206	461,305	606,657	904,184
E - Electricity, Gas and Water Supply	**263,282**	**15,562**	**1,744**	**13,818**	**51,195**	**196,525**
public sector	248,378	12,042	627	11,415	43,932	192,404
private sector	14,904	3,520	1,117	2,403	7,263	4,121
F - Construction	**896,062**	**500,407**	**318,192**	**182,215**	**215,901**	**179,754**
public sector	70,941	6,460	722	5,738	38,174	26,307
private sector	825,121	493,947	317,470	176,477	177,727	153,447
G - Trade and Repairs	**2,091,963**	**1,619,400**	**1,248,616**	**370,784**	**273,428**	**199,135**
public sector	54,353	6,918	739	6,179	16,286	31,149
private sector	2,037,610	1,612,482	1,247,877	364,605	257,142	167,986
H - Hotels and Restaurants	**226,149**	**1,78,624**	**124,035**	**54,589**	**18,056**	**29,469**
public sector	38,152	20,570	3812	16,758	4,011	13,571
private sector	187,997	1,58,054	120,223	37,831	14,045	15,898
I - Transportation, Storage and Communications	**852,626**	**239,269**	**192,462**	**46,807**	**70,974**	**542,383**
public sector	552,903	5,526	909	4,617	35,005	512,372
private sector	299,723	233,743	191,553	42,190	35,969	30,011
J - Financial Services	**329,621**	**81,380**	**55,914**	**25,466**	**24,290**	**223,951**
public sector	162,641	1,244	239	1,005	8,176	153,221
private sector	166,980	80,136	55,675	24,461	16,114	70,730
K - Real Estate and Business Services	**720,167**	**372,259**	**248,727**	**123,532**	**182,846**	**165,062**
public sector	166,826	31,456	6,299	25,157	69,849	65,521
private sector	553,341	340,803	242,428	98,375	112,997	99,541
L - Public Administration	**410,082**	**90,678**	**3,020**	**87,658**	**193,706**	**125,698**
public sector	409,716	90,312	2,911	87,401	193,706	125,698
private sector	366	366	109	257	-	-
M - Education	**914,136**	**148,995**	**19,104**	**129,891**	**505,306**	**259,835**
public sector	879,694	125,498	4,162	121,336	499,598	254,598
private sector	34,442	23,497	14,942	8,555	5,708	5,237
N - Health Care and Social Welfare	**1,011,683**	**201,671**	**55,273**	**146,398**	**158,053**	**651,959**
public sector	947,558	147,786	15,045	132,741	149,937	649,835
private sector	64,125	53,885	40,228	13,657	8,116	2,124
O - Other Community, Social and Personal Service Activities	**324,304**	**185,532**	**117,244**	**68,288**	**85,722**	**53,050**
public sector	150,135	60,304	16,432	43,872	61,020	28,811
private sector	174,169	125,228	100,812	24,416	24,702	24,239
Market Sector (Sections C - K and O)	**9,010,156**	**4,167,529**	**2,807,799**	**1,359,730**	**1,626,673**	**3,215,954**
public sector	2,261,903	157,098	32,696	124,402	367,964	1,736,841
private sector	6,748,253	4,010,431	2,775,103	1,235,328	1,258,709	1,479,113
Sector Dominated by Non-Market Services (Sections L, M, N)	**2,335,901**	**441,344**	**77,397**	**363,947**	**857,065**	**1,037,492**
public sector	2,236,968	363,596	22,118	341,478	843,241	1,030,131
private sector	98,933	77,748	55,279	22,469	13,824	7,361

Table 10. Working Population in the National Economy (as of December 31, 1999)

Specification	Total	Including Enterprises Employing				
		Up to 49			50–249 Employees	Over 249 Employees
		Total	Including			
			Up to 9	10-49		
TOTAL	**11,148,011**	**4,595,706**	**2,882,829**	**1,712,877**	**2,556,037**	**3,996,268**
public sector	**4,234,981**	**552,375**	**60,634**	**491,741**	**1,208,097**	**2,474,509**
private sector	**6,913,030**	**4,043,331**	**2,822,195**	**1,221,136**	**1,347,940**	**1,521,759**
C - Mining and Quarrying	**251,708**	**5,567**	**2,135**	**3,432**	**12,340**	**233,801**
public sector	230,976	518	30	488	5,035	225,423
private sector	20,732	5,049	2,105	2,944	7,305	8,378
D - Manufacturing	**2,818,795**	**907,233**	**459,836**	**447,397**	**712,095**	**1,199,467**
public sector	457,437	12,222	2,641	9581	84,971	360,244
private sector	2,361,358	895,011	457,195	437,816	627,124	839,223
E - Electricity, Gas and Water Supply	**256,636**	**15,959**	**2,078**	**13,881**	**52,318**	**188,359**
public sector	240,215	12,201	691	11,510	43,261	184,753
private sector	16,421	3,758	1,387	2,371	9,057	3,606
F - Construction	**870,375**	**487,593**	**313,117**	**174,476**	**225,423**	**157,359**
public sector	66,886	7,984	732	7,252	37,389	21,513
private sector	803,489	479,609	312,385	167,224	188,034	135,846
G - Trade and Repairs	**2,082,760**	**1,585,227**	**1,228,620**	**356,607**	**283,737**	**213,796**
public sector	41,387	5,929	688	5,241	13,633	21,825
private sector	2,041,373	1,579,298	1,227,932	351,366	270,104	191,971
H - Hotels and Restaurants	**215,437**	**166,640**	**115,790**	**50,850**	**18,642**	**30,155**
public sector	24,455	16,297	2,475	13,822	5,067	3,091
private sector	190,982	150,343	113,315	37,028	13,575	27,064
I - Transportation, Storage and Communications	**825,484**	**245,086**	**197,064**	**48,022**	**72,311**	**508,087**
public sector	519,279	7,984	821	7,163	35,719	475,576
private sector	306,205	237,102	196,243	40,859	36,592	32,511
J - Financial Services	**379,255**	**103,092**	**81,964**	**21,128**	**31,789**	**244,374**
public sector	136,985	1,007	89	918	7,998	127,980
private sector	242,270	102,085	81,875	202,10	23,791	116,394
K - Real Estate and Business Services	**757,713**	**387,537**	**263,761**	**123,776**	**187,396**	**182,780**
public sector	159,942	29,615	6,616	22,999	65,043	65,284
private sector	597,771	357,922	257,145	100,777	122,353	117,496
L - Public Administration	**437,943**	**92,296**	**5,551**	**86,745**	**204,092**	**141,555**
public sector	436,243	90,908	5,107	85,801	203,780	141,555
private sector	1,700	1,388	444	944	312	-
M - Education	**936,333**	**178,379**	**25,740**	**152,639**	**498,505**	**259,449**
public sector	896,428	152,181	8,409	143,772	490,743	253,504
private sector	39,905	26,198	17,331	8,867	7,762	5,945
N - Health Care and Social Welfare	**954,707**	**222,432**	**68,648**	**153,784**	**164,711**	**567,564**
public sector	877,161	155,227	17,158	138,069	155,433	566,501
private sector	77,546	67,205	51,490	15,715	9,278	1,063
O - Other Community, Social and Personal Service Activities	**360,865**	**198,665**	**118,525**	**80,140**	**92,678**	**69,522**
public sector	147,587	60,302	15,177	45,125	60,025	27,260
private sector	213,278	138,363	103,348	35,015	32,653	42,262
Market Sector (Sections C - K and O)	**8,819,028**	**4,102,599**	**2782,890**	**1,319,709**	**1,688,729**	**3,027,700**
public sector	2,025,149	154,059	29,960	124,099	358,141	1,512,949
private sector	6,793,879	3,948,540	2752,930	1,195,610	1,330,588	1,514,751
Sector Dominated by Non-Market Services (Sections L, M, N)	**2,328,983**	**493,107**	**99,939**	**393,168**	**867,308**	**968,568**
public sector	2,209,832	398,316	30,674	367,642	849,956	961,560
private sector	119,151	94,791	69,265	25,526	17,352	7,008

Table 11. Share of People Working in Enterprises of Different Sizes in the Total Number of Working People by NACE Industrial Branch, 1998-1999 (Number of People Working in Specific NACE Section in Total = 100%)

Specification	1998					1999				
	Total	<9 Emp.	10-49 Emp.	50-249 Emp.	>249 Emp.	Total	<9 Emp.	10-49 Emp.	50-249 Emp.	>249 Emp.
TOTAL	**100.0**	25.4	15.2	21.9	37.5	**100.0**	25.9	15.4	22.9	35.8
public sector	**39.7**	0.5	4.1	10.7	24.4	**37.9**	0.5	4.4	10.8	22.2
private sector	**60.3**	24.9	11.1	11.2	13.1	**62.1**	25.4	11.0	12.1	13.6
C - Mining and Quarrying	**100.0**	0.6	1.2	4.0	94.2	**100.0**	0.8	1.4	4.9	92.9
public sector	**93.0**	0.0	0.1	1.8	91.1	**91.8**	0.0	0.2	2.0	89.6
private sector	**7.0**	0.6	1.1	2.2	3.1	**8.2**	0.8	1.2	2.9	3.3
D - Manufacturing	**100.0**	16.5	15.6	23.0	44.9	**100.0**	16.3	15.9	25.2	42.6
public sector	**18.2**	0.1	0.2	2.9	15.0	**16.2**	0.1	0.3	3.0	12.8
private sector	**81.8**	16.4	15.4	20.1	29.9	**83.8**	16.2	15.6	22.2	29.8
E - Electricity, Gas and Water Supply	**100.0**	0.7	5.2	19.5	74.6	**100.0**	0.8	5.4	20.4	73.4
public sector	**94.3**	0.3	4.3	16.7	73.0	**93.7**	0.3	4.5	16.9	72.0
private sector	**5.7**	0.4	0.9	2.8	1.6	**6.3**	0.5	0.9	3.5	1.4
F - Construction	**100.0**	35.5	20.4	24.1	20.0	**100.0**	36.0	20.0	25.9	18.1
public sector	**7.9**	0.1	0.6	4.3	2.9	**7.7**	0.1	0.8	4.3	2.5
private sector	**92.1**	35.4	19.8	19.8	17.1	**92.3**	35.9	19.2	21.6	15.6
G - Trade and Repairs	**100.0**	59.7	17.7	13.1	9.5	**100.0**	59.0	17.1	13.7	10.2
public sector	**2.6**	0.0	0.3	0.8	1.5	**2.0**	0.0	0.3	0.7	1.0
private sector	**97.4**	59.7	17.4	12.3	8.0	**98.0**	59.0	16.8	13.0	9.2
H - Hotels and Restaurants	**100.0**	54.9	24.1	8.0	13.0	**100.0**	53.7	23.6	8.7	14.0
public sector	**16.9**	1.7	7.4	1.8	6.0	**11.3**	1.1	6.4	2.4	1.4
private sector	**83.1**	53.2	16.7	6.2	7.0	**88.7**	52.6	17.2	6.3	12.6
I - Transportation, Storage and Communications	**100.0**	22.5	5.5	8.5	63.5	**100.0**	23.9	5.8	8.8	61.5
public sector	**64.9**	0.1	0.5	4.3	60.0	**62.9**	0.1	0.9	4.3	57.6
private sector	**35.1**	22.4	5.0	4.2	3.5	**37.1**	23.8	4.9	4.5	3.9
J - Financial Services	**100.0**	17.0	7.6	7.4	68.0	**100.0**	21.6	5.6	8.4	64.4
public sector	**49.4**	0.1	0.3	2.5	46.5	**36.1**	0.0	0.3	2.1	33.7
private sector	**50.6**	16.9	7.3	4.9	21.5	**63.9**	21.6	5.3	6.3	30.7
K - Real Estate and Business Services	**100.0**	34.6	17.2	25.4	22.8	**100.0**	34.9	16.3	24.7	24.1
public sector	**23.2**	0.9	3.5	9.7	9.1	**21.1**	0.9	3.0	8.6	8.6
private sector	**76.8**	33.7	13.7	15.7	13.7	**78.9**	34.0	13.3	16.1	15.5
L - Public Administration	**100.0**	0.7	21.5	47.2	30.6	**100.0**	1.3	19.8	46.6	32.3
public sector	**99.9**	0.7	21.4	47.2	30.6	**99.6**	1.2	19.6	46.5	32.3
private sector	**0.1**	0.0	0.1	-	-	**0.4**	0.1	0.2	0.1	-
M - Education	**100.0**	2.1	14.2	55.3	28.4	**100.0**	2.8	16.3	53.2	27.7
public sector	**96.2**	0.5	13.2	54.7	27.8	**95.8**	0.9	15.4	52.4	27.1
private sector	**3.8**	1.6	1.0	0.6	0.6	**4.2**	1.9	0.9	0.8	0.6
N - Health Care and Social Welfare	**100.0**	5.5	14.5	15.6	64.4	**100.0**	7.2	16.1	17.3	59.4
public sector	**93.7**	1.5	13.2	14.8	64.2	**91.9**	1.8	14.5	16.3	59.3
private sector	**6.3**	4.0	1.3	0.8	0.2	**8.1**	5.4	1.6	1.0	0.1
O - Other Services, Community, Social	**100.0**	36.2	21.1	26.4	16.3	**100.0**	32.8	22.2	25.7	19.3
public sector	**46.3**	5.1	13.5	18.8	8.9	**40.9**	4.2	12.5	16.6	7.6
private sector	**53.7**	31.1	7.6	7.6	7.4	**59.1**	28.6	9.7	9.1	11.7
Market Sector (Sections C - K and O)	**100.0**	31.2	15.0	18.1	35.7	**100.0**	31.5	15.0	19.1	34.4
public sector	**25.1**	0.4	1.3	4.1	19.3	**23.0**	0.3	1.4	4.1	17.2
private sector	**74.9**	30.8	13.7	14.0	16.4	**77.0**	31.2	13.6	15.0	17.2
Sector Dominated by Non-Market Services (Sections L, M, N)	**100.0**	3.3	15.7	36.7	44.3	**100.0**	4.3	16.9	37.2	41.6
public sector	**95.8**	1.0	14.7	36.1	44.0	**94.9**	1.3	15.8	36.5	41.3
private sector	**4.2**	2.3	1.0	0.6	0.3	**5.1**	3.0	1.1	0.7	0.3

Table 12. Working Population in Market Sector, 1998–1999 by NACE Industrial Branch (Market Sector in Total = 100%)

Specification	Total		0-9 Emp.		10-49 Emp.		0-49 Emp.		50-249 Emp.		0-249 Emp.		>249 Emp.	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
TOTAL (C-K sections and O)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
public sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
private sector	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
C - Mining and Quarrying	**3.2**	**2.9**	**0.1**	**0.1**	**0.3**	**0.3**	**0.1**	**0.1**	**0.7**	**0.7**	**0.3**	**0.3**	**8.4**	**7.7**
public sector	11.8	11.4	0.1	0.1	0.3	0.4	0.3	0.3	1.4	1.4	1.1	1.1	15.1	14.9
private sector	0.3	0.3	0.1	0.1	0.3	0.2	0.1	0.1	0.5	0.5	0.2	0.2	0.6	0.6
D - Manufacturing	**33.5**	**31.9**	**17.7**	**16.5**	**34.6**	**33.8**	**23.3**	**22.1**	**42.6**	**42.2**	**28.7**	**28.0**	**42.2**	**39.6**
public sector	24.3	22.6	8.9	8.8	7.4	7.7	7.7	7.9	23.5	23.7	18.7	19.0	26.0	23.8
private sector	36.6	34.9	17.9	16.6	37.2	36.7	23.9	22.7	48.1	47.1	29.7	28.9	61.1	55.3
E - Electricity, Gas and Water Supply	**2.9**	**2.9**	**0.1**	**0.1**	**1.0**	**1.1**	**0.4**	**0.4**	**3.1**	**3.1**	**1.2**	**1.2**	**6.1**	**6.2**
public sector	11.0	11.9	1.9	2.3	9.2	9.3	7.7	7.9	11.9	12.1	10.6	10.8	11.1	12.2
private sector	0.2	0.2	0.0	0.1	0.2	0.2	0.1	0.1	0.6	0.7	0.2	0.2	0.3	0.2
F - Construction	**9.9**	**9.9**	**11.3**	**11.3**	**13.4**	**13.2**	**12.0**	**11.9**	**13.3**	**13.3**	**12.4**	**12.3**	**5.6**	**5.2**
public sector	3.1	3.3	2.2	2.4	4.6	5.8	4.1	5.2	10.4	10.4	8.6	8.9	1.5	1.4
private sector	12.2	11.8	11.4	11.3	14.3	14.0	12.3	12.1	14.1	14.1	12.7	12.6	10.4	9.0
G - Trade and Repairs	**23.2**	**23.6**	**44.4**	**44.0**	**27.3**	**27.0**	**38.8**	**38.7**	**16.8**	**16.8**	**32.5**	**32.3**	**6.2**	**7.1**
public sector	2.4	2.0	2.3	2.3	5.0	4.2	4.4	3.8	4.4	3.8	4.4	3.8	1.8	1.4
private sector	30.2	30.0	45.1	44.6	29.5	29.4	40.3	40.0	20.4	20.3	35.6	35.1	11.4	12.7
H - Hotels and Restaurants	**2.5**	**2.4**	**4.4**	**4.2**	**4.0**	**3.9**	**4.3**	**4.1**	**1.1**	**1.1**	**3.4**	**3.2**	**0.9**	**1.0**
public sector	1.7	1.2	11.6	8.3	13.5	11.1	13.1	10.6	1.1	1.4	4.7	4.2	0.8	0.2
private sector	2.8	2.8	4.3	4.1	3.1	3.1	3.9	3.8	1.1	1.0	3.3	3.1	1.1	1.8
I - Transportation, Storage and Communications	**9.5**	**9.4**	**6.9**	**7.1**	**3.4**	**3.6**	**5.7**	**6.0**	**4.4**	**4.3**	**5.4**	**5.5**	**16.9**	**16.8**
public sector	24.5	25.6	2.8	2.7	3.7	5.8	3.5	5.2	9.5	10.0	7.8	8.5	29.4	31.5
private sector	4.4	4.5	6.9	7.1	3.4	3.4	5.8	6.0	2.9	2.8	5.1	5.2	2.0	2.1
J - Financial Services	**3.7**	**4.3**	**2.0**	**2.9**	**1.9**	**1.6**	**2.0**	**2.5**	**1.5**	**1.9**	**1.8**	**2.3**	**7.0**	**8.1**
public sector	7.2	6.8	0.7	0.3	0.8	0.7	0.8	0.7	2.2	2.2	1.8	1.8	8.8	8.5
private sector	2.5	3.6	2.0	3.0	2.0	1.7	2.0	2.6	1.3	1.8	1.8	2.4	4.8	7.7
K - Real Estate and Business Services	**8.0**	**8.6**	**8.9**	**9.5**	**9.1**	**9.4**	**8.9**	**9.4**	**11.2**	**11.1**	**9.6**	**9.9**	**5.1**	**6.0**
public sector	7.4	7.9	19.2	22.1	20.2	18.5	20.0	19.2	19.0	18.2	19.3	18.5	3.8	4.3
private sector	8.2	8.8	8.7	9.3	8.0	8.4	8.5	9.1	9.0	9.2	8.6	9.1	6.7	7.8
O - Other Community, Social and Personal Service Activities	**3.6**	**4.1**	**4.2**	**4.3**	**5.0**	**6.1**	**4.5**	**4.8**	**5.3**	**5.5**	**4.7**	**5.0**	**1.6**	**2.3**
public sector	6.6	7.3	50.3	50.7	35.3	36.5	38.4	39.2	16.6	16.8	23.0	23.4	1.7	1.8
private sector	2.6	3.1	3.6	3.8	2.0	2.9	3.1	3.5	2.0	2.5	2.8	3.2	1.6	2.8
Market Sector (Market Sector and Non-Market Sector Total = 100%)	**79.4**	**79.1**	**97.3**	**96.5**	**78.9**	**77.0**	**90.4**	**89.3**	**65.5**	**66.1**	**81.7**	**81.0**	**75.6**	**75.8**
public sector	50.3	47.8	59.6	49.4	26.7	25.2	30.2	27.9	30.4	29.6	30.3	29.1	62.8	61.1
private sector	98.6	98.3	98.0	97.5	98.2	97.9	98.1	97.7	98.9	98.7	98.3	97.9	99.5	99.5

Table 13. Rate of Change in the Number of Working People, 1997-1999 (Preceding Year = 100%)

Specification	Total			0–50 Employees*			51–250 Employees**			>250 Employees***		
	1997	1998	1999	1997	1998	1999	1997	1998	1999	1997	1998	1999
TOTAL	**102.8**	**99.5**	**98.3**	**105.9**	**102.2**	**99.7**	**106.5**	**101.1**	**102.9**	**98.0**	**95.9**	**94.0**
public sector	**89.5**	**94.1**	**94.1**	**96.2**	**96.5**	**106.1**	**101.9**	**96.6**	**99.7**	**84.2**	**92.6**	**89.4**
private sector	**115.1**	**103.4**	**101.0**	**107.3**	**103.0**	**98.9**	**111.9**	**105.8**	**105.9**	**148.2**	**102.7**	**102.4**
C - Mining and Quarrying	**94.1**	**87.7**	**87.4**	**116.3**	**113.3**	**102.6**	**104.9**	**115.5**	**108.3**	**93.6**	**86.4**	**86.2**
public sector	92.0	86.2	86.2	104.0	89.7	123.9	93.0	100.7	95.0	92.0	85.9	86.0
private sector	161.2	114.4	103.4	117.8	115.8	100.8	123.2	132.7	119.9	247.8	103.9	93.5
D - Manufacturing	**98.5**	**97.6**	**93.4**	**97.6**	**101.4**	**93.6**	**109.3**	**103.0**	**102.8**	**94.8**	**92.6**	**88.5**
public sector	59.5	84.1	83.2	92.7	89.0	100.5	88.2	86.0	98.6	55.7	83.7	79.8
private sector	119.4	101.2	95.7	97.6	101.6	93.5	114.2	106.0	103.4	161.0	97.8	92.8
E - Electricity, Gas and Water Supply	**99.6**	**93.8**	**97.5**	**120.5**	**110.1**	**102.6**	**105.5**	**98.7**	**102.2**	**97.2**	**91.5**	**95.8**
public sector	99.0	93.0	96.7	118.9	110.6	101.3	103.4	98.4	98.5	97.2	90.9	96.0
private sector	114.7	109.7	110.2	126.6	108.4	106.8	120.8	101.0	124.7	94.8	130.7	87.5
F - Construction	**103.3**	**101.0**	**97.1**	**104.6**	**101.9**	**97.4**	**104.8**	**102.7**	**104.4**	**98.6**	**96.6**	**87.5**
public sector	61.8	92.4	94.3	93.0	85.8	123.6	89.0	89.7	97.9	38.6	98.7	81.8
private sector	110.3	101.8	97.4	104.8	102.2	97.1	109.9	106.1	105.8	132.4	96.3	88.5
G - Trade and Repairs	**107.5**	**102.7**	**99.6**	**107.2**	**102.0**	**97.9**	**108.7**	**101.7**	**103.8**	**107.7**	**110.0**	**107.4**
public sector	80.6	75.1	76.1	93.2	92.4	85.7	88.5	81.3	83.7	75.9	69.4	70.1
private sector	108.8	103.7	100.2	107.3	102.1	97.9	110.7	103.4	105.0	125.0	123.4	114.3
H - Hotels and Restaurants	**106.3**	**106.8**	**95.3**	**104.0**	**106.3**	**93.3**	**113.6**	**121.8**	**103.2**	**118.1**	**102.3**	**102.3**
public sector	96.1	83.1	64.1	96.2	72.1	79.2	103.0	106.9	126.3	94.0	99.9	22.8
private sector	109.5	113.3	101.6	105.7	113.3	95.1	117.8	126.9	96.7	153.1	104.5	170.2
I - Transportation, Storage and Communications	**104.4**	**97.0**	**96.8**	**121.2**	**103.9**	**102.4**	**109.8**	**100.8**	**101.9**	**98.3**	**93.8**	**93.7**
public sector	97.8	93.1	93.9	103.1	88.8	144.5	100.9	97.5	102.0	97.5	92.8	92.8
private sector	121.4	105.3	102.2	121.9	104.3	101.4	121.2	104.3	101.7	118.1	115.1	108.3
J - Financial Services	**107.5**	**107.0**	**115.1**	**171.7**	**118.4**	**126.7**	**100.2**	**112.7**	**130.9**	**96.8**	**102.8**	**109.1**
public sector	91.8	98.8	84.2	112.9	95.0	80.9	97.0	98.3	97.8	91.4	98.8	83.5
private sector	133.9	116.4	145.1	173.4	118.8	127.4	102.3	121.9	147.6	113.4	112.7	164.6
K - Real Estate and Business Services	**112.8**	**108.8**	**105.2**	**117.7**	**106.6**	**104.1**	**107.2**	**100.7**	**102.5**	**108.3**	**126.0**	**110.7**
public sector	86.6	96.3	95.9	71.5	91.2	94.1	99.2	88.9	93.1	83.0	109.1	99.6
private sector	126.3	113.3	108.0	126.8	108.3	105.0	114.2	109.8	108.3	146.3	140.4	118.0
L - Public Administration	**107.4**	**100.1**	**106.8**	**102.3**	**104.9**	**101.8**	**108.2**	**95.0**	**105.4**	**110.1**	**105.2**	**112.6**
public sector	107.2	100.3	106.5	101.7	105.9	100.7	108.2	95.0	105.2	110.1	105.2	112.6
private sector	195.7	30.0	464.5	187.5	31.3	379.2	-	-	-	-	-	-
M -Education	**101.2**	**99.1**	**102.4**	**99.0**	**102.0**	**119.7**	**105.1**	**98.9**	**98.7**	**95.7**	**97.7**	**99.9**
public sector	100.6	98.8	101.9	95.9	103.5	121.3	105.1	98.7	98.2	95.3	96.7	99.6
private sector	119.6	107.3	115.9	118.8	94.1	111.5	101.6	127.7	136.0	186.1	199.7	113.5
N - Health Care and Social Welfare	**103.1**	**98.8**	**94.4**	**116.4**	**100.4**	**110.3**	**100.1**	**105.6**	**104.2**	**100.3**	**96.8**	**87.1**
public sector	101.1	98.8	92.6	104.3	101.6	105.0	102.4	106.1	103.7	100.2	96.7	87.2
private sector	144.6	98.2	120.9	167.6	97.1	124.7	72.3	96.1	114.3	231.5	159.0	50.0
O - Other Community, Social and Personal Service Activities	**98.2**	**90.1**	**111.3**	**93.5**	**90.3**	**107.1**	**98.3**	**93.7**	**108.1**	**117.4**	**84.2**	**131.0**
public sector	96.1	90.2	98.3	90.0	78.0	100.0	101.2	96.8	98.4	105.0	111.4	94.6
private sector	100.0	90.0	122.5	95.7	97.8	110.5	92.4	87.1	132.2	128.0	65.1	174.4
Market Sector (Sections C - K and O)	**102.7**	**99.6**	**97.9**	**105.7**	**102.3**	**98.4**	**107.4**	**102.1**	**103.8**	**97.4**	**95.2**	**94.1**
public sector	80.7	89.6	89.5	88.8	83.6	98.1	95.3	91.4	97.3	77.6	89.8	87.1
private sector	114.8	103.5	100.7	106.7	103.2	98.5	112.3	105.7	105.7	148.1	102.4	102.4
Sector Dominated by Non-Market Services (Sections L, M, N)	**103.1**	**99.1**	**99.7**	**107.0**	**101.8**	**111.7**	**104.9**	**99.1**	**101.2**	**100.1**	**98.0**	**93.4**
public sector	102.0	99.1	98.8	100.6	103.3	109.5	105.4	99.0	100.8	99.9	97.7	93.3
private sector	135.8	100.4	120.4	149.1	95.3	121.9	80.8	106.7	125.5	199.3	186.0	95.2

* In 1999 number of employees 0-49.
** In 1999 number of employees 50-249.
*** In 1999 number of employees over 249.

Table 14. Revenue from the Sale of Products, Goods and Materials, in 1998 by Ownership and NACE Industrial Branch (Current Prices - in PLN million)

Specification	Total	Including Enterprises Employing		
		0-49 Employees	50–249 Employees	over 249 Employees
TOTAL	**1,156,919.0**	**460,021.2**	**239,057.3**	**457,840.5**
public sector	**255,014.1**	**6,925.4**	**26,909.9**	**221,178.8**
private sector	**901,904.9**	**453,095.8**	**212,147.4**	**236,661.7**
C - Mining and Quarrying	**23,639.8**	**456.5**	**1,173.4**	**22,009.9**
public sector	21,789.0	76.3	487.5	21,225.2
private sector	1,850.8	380.2	685.9	784.7
D - Manufacturing	**358,354.1**	**59,924.6**	**76,240.6**	**222,188.9**
public sector	81,693.2	762.8	7,474.6	73,455.8
private sector	276,660.9	59,161.8	68,766.0	148,733.1
E - Electricity, Gas and Water Supply	**67,238.7**	**862.3**	**4,270.7**	**62,105.7**
public sector	65,831.4	623.3	3,707.5	61,500.6
private sector	1,407.3	239.0	563.2	605.1
F - Construction	**72,460.5**	**30,600.5**	**21,823.9**	**20,036.1**
public sector	4,918.6	432.2	2,855.5	1,630.9
private sector	67,541.9	30,168.3	18,968.4	18,405.2
G - Trade and Repairs	**472,160.9**	**295,852.6**	**102916.8**	**73,391.5**
public sector	29,885.4	3,234.1	6380.8	20,270.5
private sector	442,275.5	292,618.5	96536.0	53,121.0
H - Hotels and Restaurants	**7,482.8**	**4,484.3**	**845.9**	**2,152.6**
public sector	1,252.8	77.2	145.2	1,030.4
private sector	6,230.0	4,407.1	700.7	1,122.2
I - Transportation, Storage and Communications	**64,045.0**	**18,789.0**	**7,010.0**	**38,246.0**
public sector	34,069.9	369.7	2,225.9	31,474.3
private sector	29,975.1	18,419.3	4,784.1	6,771.7
J - Financial Services*	**12,826.2**	**8,694.6**	**3,568.4**	**563.2**
public sector	352.4	76.2	259.8	16.4
private sector	12,473.8	8,618.4	3,308.6	546.8
K - Real Estate and Business Services	**58,779.8**	**31,137.2**	**17,468.0**	**10,174.6**
public sector	7,741.7	957.7	2,190.0	4,594.0
private sector	51,038.1	30,179.5	15,278.0	5,580.6
L - Public Administration	**1,462.1**	**1,342.7**	**119.4**	**-**
public sector	73.0	56.1	16.9	-
private sector	1,389.1	1,286.6	102.5	-
M - Education	**5,928.7**	**3,112.5**	**423.3**	**2,392.9**
public sector	2,660.1	27.9	239.3	2,392.9
private sector	3,268.6	3,084.6	184.0	-
N - Health Care and Social Welfare	**12,540.4**	**4,764.4**	**3,196.9**	**4,579.1**
public sector	4,746.6	231.9	926.9	3,587.8
private sector	7,793.8	4,532.5	2,270.0	991.3
Total (without J, M and N Sections)	**1,136,702.0**	**446,871.4**	**234,946.2**	**454,884.4**
public sector	**251,928.6**	**6,765.2**	**26,393.9**	**218,769.5**
private sector	**884,773.4**	**440,106.2**	**208,552.3**	**236,114.9**

* Excluding sole proprietorships and private partnerships employing up to five people, which are researched by GUS based on the representative method starting from 1999.

Table 15. Revenue from the Sale of Products, Goods, and Materials in 1999 by Ownership and NACE Industrial Branch (Current Prices - in PLN million)

Specification	Total	Including Enterprises Employing		
		0–49 Employees	50–249 Employees	over 249 Employees
TOTAL	**1,397,458.4**	**596,206.4**	**295,015.4**	**506,236.6**
public sector	**258,226.6**	**6,409.8**	**30,247.0**	**221,569.8**
private sector	**1,139,231.8**	**589,796.6**	**264,768.4**	**284,666.8**
C - Mining and Quarrying	**25,345.2**	**665.3**	**1,949.3**	**22,730.6**
public sector	22,713.0	65.2	889.5	21,758.3
private sector	2,632.2	600.1	1,059.8	972.3
D - Manufacturing	**412,256.6**	**78,493.6**	**92,472.9**	**241,290.1**
public sector	84,273.7	767.9	8,438.2	75,067.6
private sector	327,982.9	77,725.7	84,034.7	166,222.5
E - Electricity, Gas and Water Supply	**71,092.9**	**1,204.4**	**6,912.4**	**62,976.1**
public sector	69,231.6	864.8	6,015.6	62,351.2
private sector	1,861.3	339.6	896.8	624.9
F - Construction	**94,922.8**	**43,770.8**	**27,273.4**	**23,878.6**
public sector	4,637.3	275.8	2,738.2	1,623.3
private sector	90,285.5	43,495.0	24,535.2	22,255.3
G - Trade and Repairs	**579,695.5**	**364,935.5**	**127,020.5**	**87,739.5**
public sector	23,632.6	2,406.7	5,550.9	15,675.0
private sector	556,062.9	362,528.8	121,469.6	72,064.5
H - Hotels and Restaurants	**10,165.4**	**6,645.3**	**992.6**	**2,527.5**
public sector	566.9	72.7	169.5	324.7
private sector	9,598.5	6,572.6	823.1	2,202.8
I - Transportation, Storage and Communications	**76,237.0**	**24,130.4**	**7,571.6**	**44,535.0**
public sector	37,827.8	545.2	2,282.8	34,999.8
private sector	38,409.2	23,585.2	5,288.8	9,535.2
J - Financial Services	**26,556.1**	**20,852.7**	**5,003.9**	**699.5**
public sector	444.4	85.9	x	x
private sector	26,111.7	20,766.8	x	x
K - Real Estate and Business Services	**80,380.7**	**44,882.4**	**22,406.3**	**13,092.0**
public sector	8,922.4	988.7	2,668.4	5,265.3
private sector	71,458.3	43,893.7	19,737.9	7,826.7
M - Education	**2,181.0**	**1,940.7**	**229.3**	**x**
public sector	101.1	75.0	26.1	-
private sector	2,079.9	1,865.7	203.2	x
N - Health Care and Social Welfare	**3,991.8**	**3,244.3**	**308.9**	**438.6**
public sector	504.7	23.4	x	x
private sector	3,487.1	3,220.9	x	x
O - Other Community, Social and Personal Service Activities	**14,633.4**	**5,441.0**	**2,874.3**	**6,318.1**
public sector	5,371.1	238.5	1,046.4	4,086.2
private sector	9,262.3	5,202.5	1,827.9	2,231.9
Total (without J, M and N Sections)	**1,364,729.5**	**570,168.7**	**289,473.3**	**505,087.5**
public sector	**257,176.4**	**6,225.5**	**29,799.5**	**221,151.4**
private sector	**1,107,553.1**	**563,943.2**	**259,673.8**	**283,936.1**

Table 16. Gross Sales Profitability in Enterprises of Various Sizes Maintaining Accounting Records and Employing More Than Nine People by Ownerships and NACE* Industrial Branch (%)

Specification	Total		10-49 Employees		50-249 Employees		over 249 Employees	
	1998	1999	1998	1999	1998	1999	1998	1999
TOTAL	**2.0**	**1.4**	**3.2**	**2.3**	**2.5**	**2.6**	**1.2**	**0.4**
public sector	**0.1**	**-0.5**	**4.3**	**-3.4**	**1.2**	**1.9**	**-0.1**	**-0.8**
private sector	**2.7**	**2.1**	**3.1**	**2.5**	**2.7**	**2.7**	**2.3**	**1.4**
C - Mining and Quarrying	**-13.2**	**-10.6**	**-1.4**	**-10.0**	**-2.2**	**-6.6**	**-13.9**	**-11.0**
public sector	-14.2	-11.6	-7.7	-47.8	-7.4	-15.8	-14.4	-11.2
private sector	0.6	-0.6	0.0	2.9	3.0	3.8	-1.2	-6.0
D - Manufacturing	**2.6**	**1.6**	**3.4**	**2.4**	**2.8**	**2.4**	**2.3**	**1.2**
public sector	0.6	-1.3	-5.3	-14.5	-1.8	-8.6	0.9	-0.2
private sector	3.2	2.4	3.6	2.9	3.3	3.5	3.0	1.8
E - Electricity, Gas and Water Supply	**1.8**	**1.3**	**2.9**	**1.3**	**2.6**	**2.4**	**1.7**	**1.1**
public sector	1.7	1.2	3.2	2.3	2.9	2.8	1.7	1.1
private sector	3.5	2.8	1.4	-3.4	0.8	-0.3	6.5	9.1
F - Construction	**4.8**	**3.6**	**5.9**	**4.0**	**5.1**	**4.0**	**3.7**	**3.0**
public sector	2.5	0.5	1.1	-0.6	3.4	0.2	1.3	1.0
private sector	5.0	3.9	6.0	4.1	5.4	4.4	3.9	3.2
G - Trade and Repairs	**1.5**	**1.6**	**2.6**	**2.5**	**1.6**	**1.8**	**-0.5**	**0.1**
public sector	0.1	0.4	0.7	0.4	1.0	0.7	-0.3	0.4
private sector	1.6	1.7	2.7	2.6	1.7	1.9	-0.6	0.1
H - Hotels and Restaurants	**5.8**	**5.9**	**2.5**	**1.4**	**3.5**	**2.1**	**7.8**	**8.7**
public sector	8.6	6.3	-1.3	-3.0	0.9	0.1	10.4	11.7
private sector	4.3	5.9	2.9	1.9	4.0	2.5	5.4	8.3
I - Transportation, Storage and Communications	**1.8**	**-1.7**	**2.4**	**-1.0**	**-1.4**	**-3.0**	**2.3**	**-1.6**
public sector	2.1	-1.9	5.3	-11.8	-2.1	0.1	2.3	-1.9
private sector	1.2	-1.3	2.2	0.1	-1.2	-4.2	2.3	-0.3
J - Financial Services	**8.9**	**2.8**	**6.2**	**-1.9**	**5.5**	**6.1**	**21.4**	**11.7**
public sector	23.7	7.5	22.5	-6.5	27.5	x	21.1	x
private sector	3.9	1.9	2.3	-1.5	2.1	x	21.8	x
K - Real Estate and Business Services	**4.7**	**5.2**	**3.7**	**2.8**	**5.2**	**8.1**	**4.9**	**2.8**
public sector	4.9	13.7	5.4	-0.8	4.3	21.8	5.7	9.3
private sector	4.5	2.7	3.5	3.1	5.3	4.4	4.2	-1.9
M - Education	**7.0**	**6.1**	**8.8**	**9.2**	**3.9**	**2.1**	**-**	**x**
public sector	12.3	17.9	12.8	17.4	10.8	19.2	-	-
private sector	5.9	3.3	7.8	6.4	2.9	0.1	-	x
N - Health Care and Social Welfare	**-4.5**	**0.8**	**0.4**	**1.0**	**1.1**	**1.1**	**-6.6**	**0.4**
public sector	-5.9	0.3	2.2	3.4	0.1	x	-6.6	x
private sector	1.4	1.3	0.1	0.7	2.6	x	-	x
O - Other Community, Social and Personal Service Activities	**5.2**	**2.7**	**3.0**	**-1.7**	**0.5**	**-1.4**	**8.9**	**5.5**
public sector	8.6	8.6	4.4	-0.3	3.5	4.0	10.3	10.3
private sector	0.5	-4.2	2.7	-2.0	-1.4	-5.0	2.7	-4.7

* Second degree financial liquidity ratios quoted in columns 1, 2 and 5 were assessed in ZBSE GUS and PAN on the basis of information prepared by GUS. Ratios quoted in other columns were calculated in GUS.

Table 17. Net Sales Profitability in Enterprises of Various Sizes Maintaining Accounting Records and Employing More Than Nine People by Ownerships Sector and NACE* Industrial Branch (%)

Specification	Total		10-49 Employees		50-249 Employees		over 249 Employees	
	1998	1999	1998	1999	1998	1999	1998	1999
TOTAL	**0.6**	**0.1**	**2.0**	**1.1**	**1.3**	**1.2**	**-0.3**	**-0.8**
public sector	**-1.4**	**-1.9**	**2.4**	**-4.7**	**-0.2**	**-0.5**	**-1.6**	**-2.1**
private sector	**1.4**	**0.9**	**2.0**	**1.3**	**1.5**	**1.4**	**1.0**	**0.1**
C - Mining and Quarrying	**-14.2**	**-11.5**	**-3.5**	**-11.8**	**-4.6**	**-8.3**	**-14.8**	**-11.7**
public sector	-15.0	-12.3	-8.9	-48.4	-9.5	-17.0	-15.2	-11.9
private sector	-1.3	-2.6	-2.2	0.7	0.3	1.6	-2.4	-7.8
D - Manufacturing	**1.1**	**0.3**	**2.0**	**1.1**	**1.4**	**1.0**	**0.9**	**0.0**
public sector	-0.8	-2.3	-7.3	-16.2	-2.8	-9.4	-0.4	-1.3
private sector	1.7	1.1	2.2	1.6	1.9	2.1	1.5	0.5
E - Electricity, Gas and Water Supply	**0.8**	**0.2**	**1.3**	**0.0**	**1.4**	**1.1**	**0.7**	**0.1**
public sector	0.7	0.2	1.6	1.0	1.6	1.4	0.7	0.1
private sector	1.5	0.8	0.1	-4.8	-0.3	-1.3	3.4	5.5
F - Construction	**3.0**	**2.2**	**4.1**	**2.5**	**3.2**	**2.5**	**2.0**	**1.7**
public sector	0.7	-0.6	-0.5	-1.5	1.5	-1.0	-0.3	0.1
private sector	3.2	2.4	4.2	2.6	3.5	2.9	2.3	1.8
G - Trade and Repairs	**0.7**	**0.7**	**1.8**	**1.5**	**0.8**	**0.9**	**-1.3**	**-0.6**
public sector	-0.8	-0.3	0.0	-0.3	0.0	-0.1	-1.1	-0.3
private sector	0.8	0.8	1.8	1.6	0.9	1.0	-1.3	-0.7
H - Hotels and Restaurants	**3.5**	**3.2**	**1.2**	**0.3**	**1.8**	**0.6**	**4.9**	**5.0**
public sector	5.2	3.6	-2.1	-3.9	-1.0	-1.6	6.5	7.9
private sector	2.7	3.1	1.5	0.7	2.4	1.0	3.5	4.6
I - Transportation, Storage and Communications	**-0.7**	**-3.6**	**1.0**	**-2.2**	**-2.8**	**-4.4**	**-0.6**	**-3.7**
public sector	-0.8	-4.0	4.4	-12.6	-2.9	-1.0	-0.7	-4.1
private sector	-0.6	-2.8	0.7	-1.2	-2.8	-5.7	0.1	-2.1
J - Financial Services	**5.3**	**0.4**	**3.6**	**-3.1**	**3.1**	**3.0**	**12.9**	**6.6**
public sector	15.9	3.9	16.5	-8.3	17.7	x	12.7	x
private sector	1.7	-0.2	0.5	-2.7	0.8	x	13.2	x
K - Real Estate and Business Services	**2.8**	**2.4**	**1.9**	**0.9**	**3.3**	**4.6**	**2.8**	**0.3**
public sector	3.1	8.0	2.7	-2.8	2.8	12.3	3.9	6.3
private sector	2.6	0.8	1.8	1.2	3.4	2.5	1.9	-4.1
M - Education	**5.7**	**4.8**	**7.0**	**7.4**	**3.3**	**1.5**	**-**	**x**
public sector	11.2	16.3	11.9	15.5	9.2	18.8	-	-
private sector	4.6	2.1	5.8	4.6	2.6	-0.6	-	x
N - Health Care and Social Welfare	**-5.0**	**-0.3**	**-0.5**	**0.1**	**0.4**	**0.2**	**-6.8**	**-0.8**
public sector	-6.2	-1.0	1.6	1.8	-0.4	x	-6.8	x
private sector	0.2	0.4	-0.8	-0.1	1.5	x	-	x
O - Other Community, Social and Personal Service Activities	**2.1**	**0.0**	**1.5**	**-3.4**	**-1.8**	**-3.5**	**4.9**	**2.3**
public sector	4.7	5.0	3.4	-1.6	2.0	2.6	5.6	5.9
private sector	-1.5	-5.8	1.0	-3.7	-4.0	-7.6	1.7	-5.3

* Second degree financial liquidity ratios quoted in columns 1, 2 and 5 were assessed in ZBSE GUS and PAN on the basis of information prepared by GUS. Ratios quoted in other columns were calculated in GUS.

Table 18. Second Degrees Financial Ratios in Enterprises of Various Sizes Maintaining Accounting Records and Employing More Than Nine People by Ownerships Sector and NACE* Industrial Branch (%)

Specification	Total		10-49 Employees		50-249 Employees		over 249 Employees	
	1998	1999	1998	1999	1998	1999	1998	1999
TOTAL	**74.6**	**74.2**	**78.8**	**81.0**	**77.5**	**80.9**	**71.9**	**68.5**
public sector	**69.7**	**65.9**	**98.9**	**87.1**	**76.9**	**88.7**	**66.8**	**61.6**
private sector	**77.1**	**77.7**	**77.6**	**80.5**	**76.2**	**79.7**	**77.5**	**74.5**
C - Mining and Quarrying	**33.2**	**27.6**	**56.5**	**25.6**	**72.3**	**36.1**	**31.8**	**26.9**
public sector	31.4	25.7	39.2	6.4	49.4	21.1	31.0	26.4
private sector	97.2	68.0	62.4	77.5	96.6	106.2	123.7	44.1
D - Manufacturing	**69.2**	**68.9**	**74.3**	**71.5**	**70.5**	**69.5**	**68.1**	**68.3**
public sector	53.6	53.8	33.2	30.8	49.4	40.5	54.9	57.3
private sector	75.2	73.9	78.9	76.3	74.2	74.7	74.8	73.2
E - Electricity, Gas and Water Supply	**85.2**	**79.4**	**156.8**	**131.9**	**104.3**	**88.8**	**82.6**	**77.2**
public sector	84.7	79.3	183.1	162.2	108.1	91.4	82.1	76.9
private sector	103.8	82.3	96.4	72.0	82.3	74.7	137.7	96.0
F - Construction	**111.6**	**103.4**	**107.3**	**97.0**	**105.1**	**98.0**	**122.3**	**113.4**
public sector	109.1	109.1	56.7	78.7	116.1	119.9	124.5	101.3
private sector	111.8	103.0	110.7	97.6	103.3	95.9	122.1	114.3
G - Trade and Repairs	**65.7**	**69.6**	**65.7**	**67.9**	**66.0**	**76.9**	**65.1**	**62.3**
public sector	82.1	81.4	94.4	93.8	88.7	83.5	78.7	78.8
private sector	63.9	68.7	65.1	67.4	64.6	76.6	60.8	58.8
H - Hotels and Restaurants	**101.1**	**89.7**	**88.3**	**80.7**	**89.7**	**98.9**	**108.0**	**88.8**
public sector	218.3	81.9	99.9	107.7	174.4	96.2	231.6	71.5
private sector	66.7	90.8	87.1	78.2	80.1	99.4	54.9	91.2
I - Transportation, Storage and Communications	**90.1**	**78.3**	**82.5**	**73.8**	**65.2**	**68.5**	**98.5**	**80.6**
public sector	98.5	82.7	75.0	67.9	78.2	84.7	99.8	83.1
private sector	69.7	71.5	83.8	75.1	62.3	64.3	68.6	73.6
J - Financial Services	**102.1**	**81.8**	**133.3**	**107.6**	**59.8**	**47.6**	**152.1**	**163.5**
public sector	339.3	251.2	332.4	347.3	378.9	x	249.1	x
private sector	79.7	67.8	109.6	91.3	48.0	x	108.2	x
K - Real Estate and Business Services	**154.5**	**151.8**	**129.0**	**134.1**	**147.4**	**177.3**	**212.7**	**138.8**
public sector	188.1	267.9	163.6	130.5	181.7	484.3	201.0	199.4
private sector	147.3	131.5	125.4	134.5	142.7	136.3	221.7	117.3
M - Education	**141.0**	**150.3**	**132.8**	**175.7**	**159.9**	**130.2**	**-**	**x**
public sector	100.8	349.3	113.6	338.1	80.2	371.0	-	-
private sector	149.5	131.0	136.2	150.9	181.4	116.6	-	x
N - Health Care and Social Welfare	**72.9**	**94.6**	**97.8**	**80.6**	**130.8**	**87.5**	**65.1**	**109.3**
public sector	71.8	115.0	197.8	113.5	170.8	x	65.1	x
private sector	84.3	77.0	86.1	78.0	82.2	x	x	x
O - Other Community, Social and Personal Service Activities	**87.8**	**111.3**	**98.0**	**177.6**	**65.1**	**52.9**	**130.8**	**162.9**
public sector	178.3	110.5	123.6	177.6	151.5	52.9	200.7	162.9
private sector	60.2	84.7	94.0	183.6	52.6	36.6	54.8	107.5

* Second degree financial liquidity ratios quoted in columns 1. 2 and 5 were assessed in ZBSE GUS and PAN on the basis of information prepared by GUS. Ratios quoted in other columns were calculated by GUS.

Table 19. Investment Expenditure in the National Economy in 1999 by NACE Industrial Branch (in PLN '000)

Specification	National Economy in Total	Including Enterprises Employing				
		Total	Employing			
			0-49	0-9	50-249	> 249
Total (Sections from C to O)	**123,480,001.9**	**101,099,607.5**	**25,406,579.7**	**11,598,386.6**	**21,908,237.9**	**53,784,789.9**
Buildings and Structures	62,588,785.3	43,176,110.5	12,849,145.5	5,507,341.1	9,504,426.8	20,822,538.2
Machines, Technical Equipment and Tools	45,273,335.8	43,026,634.8	6,632,274.6	3,033,612.0	7,868,946.9	28,525,413.3
Means of Transport	12,119,986.6	11,669,522.6	5,143,277.7	2,664,116.0	3,912,468.7	2,613,776.2
C - Mining and Quarrying	**2,424,472.4**	**2,423,968.0**	**49,433.5**	**20,457.1**	**171,942.7**	**2,202,591.8**
Buildings and Structures	1,131,375.4	1,131,375.4	11,604.3	3,110.7	37,283.0	1,082,488.1
Machines, Technical Equipment and Tools	1,127,797.4	1,127,334.8	21,073.9	3,022.2	112,985.1	993,275.8
Means of Transport	66,732.7	66,703.2	8,183.5	6,196.3	9,741.8	48,777.9
D - Manufacturing	**28,402,259.3**	**28,400,233.5**	**3,837,158.7**	**1,408,156.6**	**6,049,924.0**	**18,513,150.8**
Buildings and Structures	8,265,446.2	8,264,434.4	1,420,376.3	434,593.8	1,956,446.7	4,887,611.4
Machines, Technical Equipment and Tools	17,557,091.6	17,556,203.9	1,767,305.1	672,420.1	3,499,662.5	12,289,236.3
Means of Transport	1,616,922.0	1,616,805.6	534,963.9	246,170.9	443,453.0	638,388.7
E - Electricity, Gas and Water Supply	**10,606,926.0**	**8,818,862.3**	**548,244.9**	**335,272.7**	**868,027.6**	**7,402,589.8**
Buildings and Structures	5,776,942.8	4,083,649.8	403,123.0	268,824.4	382,420.0	3,298,106.8
Machines, Technical Equipment and Tools	4,209,450.6	4,145,384.8	126,794.8	54,389.9	377,641.4	3,640,948.6
Means of Transport	133,027.4	119,326.0	7,823.8	3,419.4	19,430.2	92,072.0
F - Construction	**8,576,664.5**	**4,591,755.4**	**1,608,890.7**	**496,192.5**	**2,354,223.1**	**628,641.6**
Buildings and Structures	6,720,499.2	2,948,185.7	932,512.3	137,941.3	1,788,566.0	227,107.4
Machines, Technical Equipment and Tools	1,157,113.4	1,046,797.3	322,827.3	143,666.1	416,055.1	307,914.9
Means of Transport	564,328.7	518,827.9	298,842.3	204,041.2	133,473.4	86,512.2
G - Trade and Repairs	**14,507,801.6**	**14,493,233.2**	**4,502,678.4**	**2,450,787.0**	**3,687,160.3**	**6,303,394.5**
Buildings and Structures	7,418,761.2	7,405,060.2	1,929,145.1	884,965.7	1,886,545.0	3,589,370.1
Machines, Technical Equipment and Tools	4,775,577.0	3,675,082.9	1,253,773.9	703,992.5	120,734.0	2,300,575.0
Means of Transport	2,022,801.4	2,022,608.5	1,241,894.3	832,468.9	508,937.3	271,776.9
H - Hotels and Restaurants	**1,108,174.7**	**1,036,549.7**	**363,055.2**	**257,003.8**	**202,528.6**	**470,965.9**
Buildings and Structures	761,637.2	703,202.2	249,800.5	179,183.9	152,539.9	300,861.8
Machines, Technical Equipment and Tools	283,498.4	272,348.0	79,278.6	54,340.3	37,333.2	155,736.2
Means of Transport	44,359.3	42,854.0	28,502.6	20,448.4	5,823.3	8,528.1
I - Transportation, Storage and Communications	**15,168,640.6**	**14,580,903.5**	**1,594,627.8**	**1,142,683.4**	**1,416,876.4**	**11,569,399.3**
Buildings and Structures	5,713,100.6	5,380,666.5	495,660.5	337,354.1	606,038.9	4,278,967.1
Machines, Technical Equipment and Tools	6,314,629.5	6,266,636.6	271,752.9	143,575.6	351,971.7	5,642,912.0
Means of Transport	2,451,618.4	2,264,389.0	784,608.4	645,687.5	298,981.1	1,180,799.5
J - Financial Services	**10,093,965.5**	**9,545,231.5**	**2,929,776.7**	**490,381.2**	**3,569,098.8**	**3,046,356.0**
Buildings and Structures	1,663,684.7	1,556,766.6	153,973.0	55,196.6	219,222.6	1,183,571.0
Machines, Technical Equipment and Tools	4,605,402.5	4,149,284.8	1,222,294.4	234,581.4	1,185,735.0	1,741,255.4
Means of Transport	3,670,654.5	3,665,536.1	1,437,175.1	196,810.5	2,130,258.0	98,103.0
K - Real Estate and Business Services	**19,132,323.8**	**14,068,948.9**	**9,142,286.7**	**4,409,681.0**	**2,953,672.0**	**1,972,990.2**
Buildings and Structures	15,231,695.9	10,241,030.0	6,901,161.3	2,986,813.6	2,172,290.5	1,167,578.2
Machines, Technical Equipment and Tools	2,373,950.4	2,313,532.6	1,215,152.4	766,865.7	421,693.4	676,686.8
Means of Transport	1,081,432.5	1,072,930.0	675,661.6	412,337.6	286,972.8	110,295.6
L - Public Administration	**2,096,564.8**	**109,097.8**	**16,635.4**	**15,919.1**	**55,981.5**	**36,480.9**
Buildings and Structures	1,444,251.0	63,484.4	13,350.0	12,957.2	40,663.2	9,471.2
Machines, Technical Equipment and Tools	544,454.1	41,026.2	2,815.6	2,627.2	12,917.5	25,293.1
Means of Transport	76,499.1	4,557.7	454.4	334.7	2,394.2	1,709.1
M - Education	**2,876,578.2**	**281,976.3**	**144,440.6**	**79,822.4**	**96,641.3**	**40,894.4**
Buildings and Structures	2,225,885.4	148,397.3	50,702.7	10,708.4	64,944.7	32,749.9
Machines, Technical Equipment and Tools	527,818.4	72,614.2	45,304.9	29,057.3	19,800.8	7,508.5
Means of Transport	81,456.4	54,829.9	43,319.3	35,838.3	10,874.8	635.8
N - Health Care and Social Welfare	**2,327,287.9**	**1,548,042.1**	**218,957.8**	**177,894.2**	**144,090.3**	**1,184,994.0**
Buildings and Structures	1,254,596.1	661,753.6	30,275.9	18,306.3	52,455.7	579,022.0
Machines, Technical Equipment and Tools	975,706.2	516,201.0	157,169.9	131,711.4	80,058.3	278,972.8
Means of Transport	76,041.8	55,972.2	30,479.6	27,380.3	7,046.3	18,446.3
O - Other Community, Social and Personal Service Activities	**6,158,342.6**	**1,221,805.3**	**470,393.3**	**314,135.6**	**338,071.3**	**413,340.7**
Buildings and Structures	4,980,909.6	588,104.4	257,460.6	177,385.1	145,010.6	185,633.2
Machines, Technical Equipment and Tools	820,846.3	444,187.7	146,730.9	93,362.3	132,358.9	165,097.9
Means of Transport	234,122.4	164,180.5	51,369.9	32,982.0	55,079.5	57,731.1

Table 20. Investment Expenditure in the Public Sector in 1999 by NACE Industrial Branch (in PLN '000)

Specification	National Economy in Total	Including Enterprises Employing				
		Total	Employing			
			0–49	0–9	50–249	>249
Total (Sections from C to O)	**47,315,119.1**	**30,712,347.9**	**1,261,568.5**	**250,917.7**	**2,446,418.8**	**27,004,360.6**
Buildings and Structures	27,172,057.1	13,419,157.1	822,922.2	144,160.4	1,216,973.0	11,379,261.9
Machines, Technical Equipment and Tools	16,307,206.3	14,146,662.3	280,535.6	66,863.9	863,262.7	13,002,864.0
Means of Transport	2,334,800.5	1,916,027.9	107,540.6	28,961.4	323,244.5	1,485,242.8
C - Mining and Quarrying	**2,186,629.6**	**2,186,125.2**	**11,014.9**	**1,183.2**	**40,921.4**	**2,134,188.9**
Buildings and Structures	1,081,299.8	1,081,299.8	3,837.5	1,075.8	9,396.1	1,068,066.2
Machines, Technical Equipment and Tools	978,522.2	978,059.6	6,799.4	107.4	26,366.8	944,893.4
Means of Transport	48,371.3	48,341.8	295.5	0.0	4,714.6	43,331.7
D - Manufacturing	**4,925,800.6**	**4,923,774.8**	**97,179.7**	**16,339.6**	**214,439.6**	**4,612,155.5**
Buildings and Structures	1,588,129.1	1,587,117.3	44,515.3	3,278.9	53,277.4	1,489,324.6
Machines, Technical Equipment and Tools	2,878,726.1	2,877,838.4	42,946.1	10,988.7	127,991.2	2,706,901.1
Means of Transport	114,064.2	113,947.8	4,939.4	446.9	12,921.5	96,086.9
E - Electricity, Gas and Water Supply	**9,227,039.1**	**8,111,076.4**	**186,396.8**	**8,061.2**	**563,950.5**	**7,360,729.1**
Buildings and Structures	4,801,720.8	3,780,528.8	131,990.3	6,891.7	354,299.4	3,294,239.1
Machines, Technical Equipment and Tools	3,908,418.7	3,844,352.9	50,801.0	975.7	188,717.1	3,604,834.8
Means of Transport	124,391.4	110,700.0	3,202.8	3.7	17,166.0	90,331.2
F - Construction	**4,216,179.6**	**231,270.5**	**88,256.3**	**7,582.7**	**84,637.9**	**58,376.3**
Buildings and Structures	3,923,142.1	150,828.6	81,723.5	3,859.7	41,185.4	27,919.7
Machines, Technical Equipment and Tools	169,132.0	58,815.9	3,175.0	1,668.8	31,574.9	24,066.0
Means of Transport	65,808.6	20,306.8	2,481.2	1,491.3	11,689.3	6,136.3
G - Trade and Repairs	**345,805.6**	**331,242.8**	**14,509.9**	**1,391.1**	**90,867.2**	**225,865.7**
Buildings and Structures	189,845.0	176,147.8	3,528.0	429.5	50,955.9	121,663.9
Machines, Technical Equipment and Tools	125,161.5	124,668.7	6,860.6	481.5	27,430.5	90,377.6
Means of Transport	26,827.8	26,635.4	4,066.2	437.6	11,540.7	11,028.5
H - Hotels and Restaurants	**163,405.1**	**91,780.1**	**7,744.8**	**782.2**	**31,159.1**	**52,876.2**
Buildings and Structures	119,333.3	60,898.3	4,988.7	684.6	27,050.4	28,859.2
Machines, Technical Equipment and Tools	38,044.6	26,894.2	2,373.9	67.7	3,477.0	21,043.3
Means of Transport	3,620.7	2,115.4	194.2	5.3	539.7	1,381.5
I - Transportation, Storage and Communications	**10,032,971.4**	**9,445,234.3**	**138,243.3**	**56,208.1**	**366,996.5**	**8,939,994.5**
Buildings and Structures	4,163,619.5	3,831,185.4	80,428.4	33,097.0	185,274.8	3,565,482.2
Machines, Technical Equipment and Tools	4,062,719.8	4,014,726.9	41,935.6	20,313.5	69,166.0	3,903,625.3
Means of Transport	1,436,780.9	1,249,551.5	9,164.5	1,377.1	111,101.1	1,129,285.9
J - Financial Services	**2,204,808.5**	**1,636,074.5**	**48,647.6**	**19,052.4**	**323,936.0**	**1,263,490.9**
Buildings and Structures	700,313.2	593,395.1	10,359.5	464.4	113,030.6	470,005.0
Machines, Technical Equipment and Tools	1,368,059.5	911,941.8	18,507.8	10,104.9	127,344.5	766,089.5
Means of Transport	129,081.2	123,962.8	14,421.2	8,419.5	83,560.9	25,980.7
K - Real Estate and Business Services	**2,215,233.7**	**1,710,466.3**	**556,082.3**	**109,472.3**	**319,967.2**	**834,416.8**
Buildings and Structures	1,565,644.0	1,134,446.5	394,047.3	69,013.7	175,818.5	564,580.7
Machines, Technical Equipment and Tools	468,211.7	407,892.0	75,426.8	18,662.4	106,501.0	225,964.2
Means of Transport	130,780.5	122,319.0	57,646.2	15,771.6	28,511.7	36,161.1
L - Public Administration	**2,077,589.4**	**97,528.5**	**14,278.4**	**13,576.9**	**53,959.5**	**29,290.6**
Buildings and Structures	1,438,081.9	63,213.7	13,131.7	12,738.9	40,659.5	9,422.5
Machines, Technical Equipment and Tools	533,859.4	31,535.7	944.3	770.7	11,743.7	18,847.7
Means of Transport	74,298.6	2,763.7	187.0	67.3	1,556.3	1,020.4
M - Education	**2,622,768.0**	**32,169.0**	**13,451.3**	**1,733.0**	**10,119.6**	**8,598.1**
Buildings and Structures	2,087,022.5	12,720.0	5,664.3	526.1	1,452.1	5,603.6
Machines, Technical Equipment and Tools	460,239.0	5,633.1	2,177.3	520.4	540.6	2,915.2
Means of Transport	39,464.9	13,057.4	5,158.8	399.5	7,819.3	79.3
N - Health Care and Social Welfare	**2,097,092.0**	**1,317,846.2**	**17,169.0**	**819.6**	**121,092.3**	**1179,584.9**
Buildings and Structures	1,214,886.0	622,043.5	3,857.3	135.4	43,036.9	575,149.3
Machines, Technical Equipment and Tools	819,485.7	659,980.5	12,313.0	534.2	70,070.1	577,597.4
Means of Transport	45,458.6	25,389.0	972.2	132.8	6,123.3	18,293.5
O - Other Community, Social and Personal Service Activities	**4,999,796.5**	**597,759.3**	**68,594.2**	**14,715.4**	**224,372.0**	**304,793.1**
Buildings and Structures	4,299,019.9	325,332.3	44,850.4	11,964.7	121,536.0	158,945.9
Machines, Technical Equipment and Tools	496,626.1	204,322.6	16,274.8	1,668.0	72,339.3	115,708.5
Means of Transport	95,851.8	56,937.3	4,811.4	408.8	26,000.1	26,125.8

Table 21. Investment Expenditure in the Private Sector in 1999 by NACE Industrial Branch (in PLN '000)

Specification	National Economy in Total	Including Enterprises Employing				
		Total	Employing			
			0–49	0–9	50–249	>249
Total (Sections from C to O)	**76,164,882.8**	**70,387,259.6**	**24,145,011.2**	**11,347,468.9**	**19,461,819.1**	**26,780,429.3**
Buildings and Structures	35,416,728.2	29,756,953.4	12,026,223.3	5,363,180.7	8,287,453.8	9,443,276.3
Machines, Technical Equipment and Tools	28,966,129.5	28,879,972.5	6,351,739.0	2,966,748.1	7,005,684.2	15,522,549.3
Means of Transport	9,785,186.1	9,753,494.7	5,035,737.1	2,635,154.6	3,589,224.2	1,128,533.4
C - Mining and Quarrying	**237,742.8**	**237,842.8**	**38,418.6**	**19,273.9**	**131,021.3**	**68,402.9**
Buildings and Structures	50,075.6	50,075.6	7,766.8	2,034.9	27,886.9	14,421.9
Machines, Technical Equipment and Tools	149,275.2	149,275.2	14,274.5	2,914.8	86,618.3	48,382.4
Means of Transport	18,361.4	18,361.4	7,888.0	6,196.3	5,027.2	5,446.2
D - Manufacturing	**23,476,458.7**	**23,476,458.7**	**3,739,979.0**	**1,391,817.0**	**5,835,484.4**	**13,900,995.3**
Buildings and Structures	6,677,317.1	6,677,317.1	1,375,861.0	431,314.9	1,903,169.3	3,398,286.8
Machines, Technical Equipment and Tools	14,678,365.5	14,678,365.5	1,724,359.0	661,431.4	3,371,671.3	9,582,335.2
Means of Transport	1,502,857.8	1,502,857.8	530,024.5	245,724.0	430,531.5	542,301.8
E - Electricity. Gas and Water Supply	**1,379,886.9**	**707,785.9**	**361,848.1**	**327,211.5**	**304,077.1**	**41,860.7**
Buildings and Structures	975,222.0	303,121.0	271,132.7	261,932.7	28,120.6	3,867.7
Machines, Technical Equipment and Tools	301,031.9	301,031.9	75,993.8	53,414.2	188,924.3	36,113.8
Means of Transport	8,626.0	8,626.0	4,621.0	3,415.7	2,264.2	1,740.8
F - Construction	**4,360,484.9**	**4,360,484.9**	**1,520,634.4**	**488,609.8**	**2,269,585.2**	**570,265.3**
Buildings and Structures	2,797,357.1	2,797,357.1	850,788.8	134,081.6	1,747,380.6	199,187.7
Machines, Technical Equipment and Tools	987,981.4	987,981.4	319,652.3	141,997.3	384,480.2	283,848.9
Means of Transport	498,520.1	498,520.1	296,360.1	202,549.9	121,784.1	80,375.9
G - Trade and Repairs	**14,161,996.0**	**14,161,990.4**	**4,488,168.5**	**2,449,395.9**	**3,596,293.1**	**6,077,528.8**
Buildings and Structures	7,228,916.2	7,228,912.4	1,925,617.1	884,536.2	1,835,589.1	3,467,706.2
Machines, Technical Equipment and Tools	4,650,415.5	4,650,414.2	1,246,913.3	703,511.0	1,193,303.5	2,210,197.4
Means of Transport	1,995,973.6	1,995,973.1	1,237,828.1	832,031.3	497,396.6	260,748.4
H - Hotels and Restaurants	**944,769.6**	**944,769.6**	**355,310.4**	**256,221.6**	**171,369.5**	**418,089.7**
Buildings and Structures	642,303.9	642,303.9	244,811.8	178,499.3	125,489.5	272,002.6
Machines, Technical Equipment and Tools	245,453.8	245,453.8	76,904.7	54,272.6	33,856.2	134,692.9
Means of Transport	40,738.6	40,738.6	28,308.4	20,443.1	5,283.6	7,146.6
I - Transportation, Storage and Communications	**5,135,669.2**	**5,135,669.2**	**1,456,384.5**	**1,086,475.3**	**1,049,879.9**	**2,629,404.8**
Buildings and Structures	1,549,481.1	1,549,481.1	415,232.1	304,257.1	420,764.1	713,484.9
Machines, Technical Equipment and Tools	2,251,909.7	2,251,909.7	229,817.3	123,262.1	282,805.7	1,739,286.7
Means of Transport	1,014,837.5	1,014,837.5	775,443.9	644,310.4	187,880.0	51,513.6
J - Financial Services	**7,889,157.0**	**7,889,157.0**	**2,861,129.1**	**471,328.8**	**3,245,162.8**	**1,782,865.1**
Buildings and Structures	963,371.5	963,371.5	143,613.5	54,732.2	106,192.0	713,566.0
Machines, Technical Equipment and Tools	3,237,343.0	3,237,343.0	1,203,786.6	224,476.5	1,058,390.5	975,165.9
Means of Transport	3,541,573.3	3,541,573.3	1,422,753.9	188,391.0	2,046,697.1	72,122.3
K - Real Estate and Business Services	**16,917,090.1**	**12,357,482.6**	**8,586,204.4**	**4,300,208.7**	**2,633,704.8**	**1,137,573.4**
Buildings and Structures	13,666,051.9	9,106,583.5	6,507,114.0	2,917,799.9	1,996,472.0	602,997.5
Machines, Technical Equipment and Tools	1,905,738.7	1,905,640.6	1,139,725.6	748,203.3	315,192.4	450,722.6
Means of Transport	950,652.0	950,611.0	618,015.4	396,566.0	258,461.1	74,134.5
L - Public Administration	**18,975.4**	**11,569.3**	**2,357.0**	**2,342.2**	**2,022.0**	**7,190.3**
Buildings and Structures	6,169.1	270.7	218.3	218.3	3.7	48.7
Machines, Technical Equipment and Tools	10,594.7	9,490.5	1,871.3	1,856.5	1,173.8	6,445.4
Means of Transport	2,200.5	1,797.0	267.4	267.4	840.9	688.7
M - Education	**253,810.2**	**249,807.3**	**130,989.3**	**78,089.4**	**86,521.7**	**32,296.3**
Buildings and Structures	138,862.9	135,677.3	45,038.4	10,182.3	63,492.6	27,146.3
Machines, Technical Equipment and Tools	67,579.4	66,981.1	43,127.6	28,536.9	19,260.2	4,593.3
Means of Transport	41,991.5	41,772.5	38,160.5	35,438.8	3,055.5	556.5
N - Health Care and Social Welfare	**230,195.9**	**230,195.9**	**201,788.8**	**177,074.6**	**22,998.0**	**5,409.1**
Buildings and Structures	39,710.1	39,710.1	26,418.6	18,170.9	9,418.8	3,872.7
Machines, Technical Equipment and Tools	156,220.5	156,220.5	144,856.9	131,177.2	9,988.2	1,375.4
Means of Transport	30,583.2	30,583.2	29,507.4	27,247.5	923.0	152.8
O - Other Community, Social and Personal Service Activities	**1,158,546.1**	**624,046.0**	**401,799.1**	**299,420.2**	**113,699.3**	**108,547.6**
Buildings and Structures	681,889.7	262,772.1	212,610.2	165,420.4	23,474.6	26,687.3
Machines, Technical Equipment and Tools	324,220.2	239,865.1	130,456.1	91,694.3	60,019.6	49,389.4
Means of Transport	138,270.6	107,243.2	46,558.5	32,573.2	29,079.4	31,605.3

Table 22. Investment Expenditure per Worker in the Market Sector in Enterprises of Various Size by NACE Industrial Branch in 1999 (Current Prices - in PLN '000)

Specification	Total Market Sector				Including							
	Total	10–49 Emp.	50–249 Emp.	>249 Emp.	Public Market Sector				Private Market Sector			
					Total	10–49 Emp.	50–249 Emp.	>249 Emp.	Total	10–49 Emp.	50–249 Emp.	>249 Emp.
Total (Sections from C to O)	**11.2**	**6.1**	**12.8**	**17.3**	**14.5**	**7.9**	**6.3**	**17.0**	**10.3**	**6.0**	**14.5**	**17.7**
Buildings and Structures	4.8	3.1	5.5	6.7	6.3	5.2	3.2	7.1	4.4	3.0	6.2	6.2
Machines, Technical Equipment and Tools	4.8	1.6	4.6	9.2	6.6	1.7	2.2	8.2	4.2	1.6	5.2	10.2
Means of Transport	1.3	1.2	2.3	0.9	0.9	0.7	0.9	1.0	1.4	1.3	2.7	0.7
C - Mining and Quarrying	**9.6**	**8.9**	**13.9**	**9.4**	**9.5**	**21.3**	**8.1**	**9.5**	**11.5**	**7.6**	**17.9**	**8.2**
Buildings and Structures	4.5	2.1	3.0	4.6	4.7	7.4	1.9	4.7	2.4	1.5	3.8	1.7
Machines, Technical Equipment and Tools	4.5	3.8	9.2	4.2	4.2	13.1	5.2	4.2	7.2	2.8	11.9	5.8
Means of Transport	0.3	1.5	0.8	0.2	0.2	0.6	0.9	0.2	0.9	1.6	0.7	0.7
D - Manufacturing	**10.1**	**4.2**	**8.5**	**15.4**	**10.8**	**8.0**	**2.5**	**12.8**	**9.9**	**4.2**	**9.3**	**16.6**
Buildings and Structures	2.9	1.6	2.7	4.1	3.5	3.6	0.6	4.1	2.8	1.5	3.0	4.0
Machines, Technical Equipment and Tools	6.2	1.9	4.9	10.2	6.3	3.5	1.5	7.5	6.2	1.9	5.4	11.4
Means of Transport	0.6	0.6	0.6	0.5	0.2	0.4	0.2	0.3	0.6	0.6	0.7	0.6
E - Electricity, Gas and Water Supply	**34.4**	**34.4**	**16.6**	**39.3**	**33.8**	**15.3**	**13.0**	**39.8**	**43.1**	**96.3**	**33.6**	**11.6**
Buildings and Structures	15.9	25.3	7.3	17.5	15.7	10.8	8.2	17.8	18.5	72.1	3.1	1.1
Machines, Technical Equipment and Tools	16.2	7.9	7.2	19.3	16.0	4.2	4.4	19.5	18.3	20.2	20.9	10.0
Means of Transport	0.5	0.5	0.4	0.5	0.5	0.3	0.4	0.5	0.5	1.2	0.2	0.5
F - Construction	**5.3**	**3.3**	**10.4**	**4.0**	**3.5**	**11.1**	**2.3**	**2.7**	**5.4**	**3.2**	**12.1**	**4.2**
Buildings and Structures	3.4	1.9	7.9	1.4	2.3	10.2	1.1	1.3	3.5	1.8	9.3	1.5
Machines, Technical Equipment and Tools	1.2	0.7	1.8	2.0	0.9	0.4	0.8	1.1	1.2	0.7	2.0	2.1
Means of Transport	0.6	0.6	0.6	0.5	0.3	0.3	0.3	0.3	0.6	0.6	0.6	0.6
G - Trade and Repairs	**7.0**	**2.8**	**13.0**	**29.5**	**8.0**	**2.4**	**6.7**	**10.3**	**6.9**	**2.8**	**13.3**	**31.7**
Buildings and Structures	3.6	1.2	6.6	16.8	4.3	0.6	3.7	5.6	3.5	1.2	6.8	18.1
Machines, Technical Equipment and Tools	2.3	0.8	4.3	10.8	3.0	1.2	2.0	4.1	2.3	0.8	4.4	11.5
Means of Transport	1.0	0.8	1.8	1.3	0.6	0.7	0.8	0.5	1.0	0.8	1.8	1.4
H - Hotels and Restaurants	**4.8**	**2.2**	**10.9**	**15.6**	**3.8**	**0.5**	**6.1**	**17.1**	**4.9**	**2.4**	**12.6**	**15.4**
Buildings and Structures	3.3	1.5	8.2	10.0	2.5	0.3	5.3	9.3	3.4	1.6	9.2	10.1
Machines, Technical Equipment and Tools	1.3	0.5	2.0	5.2	1.1	0.1	0.7	6.8	1.3	0.5	2.5	5.0
Means of Transport	0.2	0.2	0.3	0.3	0.1	0.0	0.1	0.4	0.2	0.2	0.4	0.3
I - Transportation, Storage and Communications	**17.7**	**6.5**	**19.6**	**22.8**	**18.2**	**17.3**	**10.3**	**18.8**	**16.8**	**6.1**	**28.7**	**80.9**
Buildings and Structures	6.5	2.0	8.4	8.4	7.4	10.1	5.2	7.5	5.1	1.8	11.5	21.9
Machines, Technical Equipment and Tools	7.6	1.1	4.9	11.1	7.7	5.3	1.9	8.2	7.4	1.0	7.7	53.5
Means of Transport	2.7	3.2	4.1	2.3	2.4	1.1	3.1	2.4	3.3	3.3	5.1	1.6
J - Financial Services	**25.1**	**28.2**	**112.3**	**12.5**	**11.9**	**48.3**	**40.5**	**9.9**	**32.6**	**28.0**	**136.4**	**15.3**
Buildings and Structures	4.1	1.5	6.9	4.8	4.3	10.3	14.1	3.7	4.0	1.4	4.5	6.1
Machines, Technical Equipment and Tools	10.9	11.9	37.3	7.1	6.7	18.4	15.9	6.0	13.4	11.8	44.5	8.4
Means of Transport	9.7	13.9	67.0	0.4	0.9	14.3	10.4	0.2	14.6	13.9	86.0	0.6
K - Real Estate and Business Services	**18.6**	**23.6**	**15.8**	**10.8**	**10.7**	**18.8**	**4.9**	**12.8**	**20.7**	**24.0**	**21.5**	**9.7**
Buildings and Structures	13.5	17.8	11.6	6.4	7.1	13.3	2.7	8.6	15.2	18.2	16.3	5.1
Machines, Technical Equipment and Tools	3.1	3.1	2.3	3.7	2.6	2.5	1.6	3.5	3.2	3.2	2.6	3.8
Means of Transport	1.4	1.7	1.5	0.6	0.8	1.9	0.4	0.6	1.6	1.7	2.1	0.6
O - Other Community, Social and Personal Service Activities	**3.4**	**2.4**	**3.6**	**5.9**	**4.1**	**1.1**	**3.7**	**11.2**	**2.9**	**2.9**	**3.5**	**2.6**
Buildings and Structures	1.6	1.3	1.6	2.7	2.2	0.7	2.0	5.8	1.2	1.5	0.7	0.6
Machines, Technical Equipment and Tools	1.2	0.7	1.4	2.4	1.4	0.3	1.2	4.2	1.1	0.9	1.8	1.2
Means of Transport	0.5	0.3	0.6	0.8	0.4	0.1	0.4	1.0	0.5	0.3	0.9	0.7

Table 23. Enterprises Registered in the REGON system by Voivodship (as of December 31, 1999)

Specification	Total	Including Enterprises Employing				
		Up to 49			50–249 Employees	>249 Employees
		Total	Including:			
			Up to 9	10–49		
POLAND	**3,013,876**	**2,978,574**	**2,865,517**	**113,057**	**28,870**	**6,432**
Dolnośląskie	260,997	258,139	250,214	7,925	2,313	545
Kujawsko-Pomorskie	154,640	152,797	147,365	5,432	1,521	322
Lubelskie	127,042	125,463	120,740	4,723	1,300	279
Lubuskie	83,282	82,254	79,280	2,974	861	167
Łódzkie	201,253	198,952	191,328	7,624	1,913	388
Małopolskie	243,244	240,434	231,263	9,171	2,333	477
Mazowieckie	500,103	494,675	476,166	18,509	4,269	1,159
Opolskie	71,263	70,363	67,435	2,928	733	167
Podkarpackie	122,598	120,992	116,053	4,939	1,285	321
Podlaskie	77,812	76,856	74,161	2,695	809	147
Pomorskie	183,747	181,648	174,526	7,122	1,745	354
Śląskie	373,669	369,081	353,478	15,603	3,668	920
Świętokrzyskie	80,545	79,565	76,542	3,023	803	177
Warmińsko-Mazurskie	94,181	92,851	89,037	3,814	1,140	190
Wielkopolskie	275,327	272,066	260,855	11,211	2,724	537
Zachodniopomorskie	164,173	162,438	157,074	5,364	1,453	282

Table 24. Number of Active Enterprises in 1998 and 1999 by Voivodship

Specification		Number of Active Enterprises			
		Total	0–49 Employees	50–249 Employees	>249 Employees
POLAND*	**1998**	**1,740,048**	**1,722,925**	**13,658**	**3,465**
	1999	**1,819,200**	**1,801,748**	**14,268**	**3,184**
Dolnośląskie	1998	129,046	127,629	1,110	307
	1999	149,159	147,762	1,132	265
Kujawsko-Pomorskie	1998	92,209	91,208	819	182
	1999	94,158	93,139	851	168
Lubelskie	1998	72,937	72,221	568	148
	1999	73,885	73,182	574	129
Lubuskie	1998	49,178	48,678	409	91
	1999	52,105	51,600	416	89
Łódzkie	1998	128,105	126,954	918	233
	1999	132,196	131,041	960	195
Małopolskie	1998	146,652	145,311	1,073	268
	1999	158,932	157,575	1,116	241
Mazowieckie	1998	284,301	281,793	1,924	584
	1999	261,588	258,909	2,126	553
Opolskie	1998	40,840	40,388	361	91
	1999	42,022	41,579	361	82
Podkarpackie	1998	70,586	69,802	588	196
	1999	74,394	73,616	595	183
Podlaskie	1998	42,569	42,166	322	81
	1999	42,506	42,099	333	74
Pomorskie	1998	105,112	104,102	842	168
	1999	115,825	114,780	886	159
Śląskie	1998	227,171	224,829	1,806	536
	1999	232,836	230,431	1,918	487
Świętokrzyskie	1998	50,958	50,473	392	93
	1999	50,979	50,490	404	85
Warmińsko-Mazurskie	1998	53,245	52,657	510	78
	1999	57,999	57,405	511	83
Wielkopolskie	1998	157,291	155,621	1,362	308
	1999	180,144	178,400	1,453	291
Zachodniopomorskie	1998	89,848	89,093	654	101
	1999	100,473	99,741	632	100

* Number of active enterprises in 1998 is larger here than in table 6 by 13,055 units from the “forestry” subsection, which – for technical reasons – could not be eliminated from voivodship aggregates.

Table 25. Working Population in the National Economy in 1998 and 1999 by Voivodship

Specification		Total	Including Enterprises Employing				
			Up to 49 Employees			50–249 Employees	>249 Employees
			Total	Including:			
				0–9	10–49		
POLAND	**1998**	**11,346,057**	**4,608,873**	**2,885,196**	**1,723,677**	**2,483,738**	**4,253,446**
	1999	**11,148,011**	**4,595,706**	**2,882,829**	**1,712,877**	**2,556,037**	**3,996,268**
Dolnośląskie	1998	854,502	335,628	206,601	129,027	200,443	318,431
	1999	867,346	362,779	238,167	124,612	202,132	302,435
Kujawsko-Pomorskie	1998	573,408	241,906	151,098	90,808	148,933	182,569
	1999	543,535	220,995	132,372	88,623	152,236	170,304
Lubelskie	1998	482,185	181,090	110,586	70,504	122,458	178,637
	1999	465,057	180,363	111,020	69,343	124,307	160,387
Lubuskie	1998	278,329	125,002	75,963	49,039	69,502	83,825
	1999	275,949	131,529	84,777	46,752	70,035	74,385
Łódzkie	1998	749,860	338,871	215,804	123,067	166,275	244,714
	1999	725,948	332,414	210,012	122,402	168,971	224,563
Małopolskie	1998	873,915	361,459	236,309	125,150	191,447	321,009
	1999	878,243	375,511	251,895	123,616	198,679	304,053
Mazowieckie	1998	2,068,935	791,779	510,353	281,426	370,456	906,700
	1999	2,056,379	730,193	443,324	286,869	394,914	931,272
Opolskie	1998	258,986	99,727	57,159	42,568	64,462	94,797
	1999	261,348	109,029	66,498	42,531	65,298	87,021
Podkarpackie	1998	497,433	182,348	110,015	72,333	115,302	199,783
	1999	493,979	191,082	117,898	73,184	119,919	182,978
Podlaskie	1998	265,511	109,967	65,604	44,363	69,272	86,272
	1999	259,768	111,926	67,812	44,114	70,387	77,455
Pomorskie	1998	618,776	289,837	179,606	110,231	148,673	180,266
	1999	626,036	299,605	191,566	108,039	148,471	177,960
Śląskie	1998	1,649,992	585,690	362,057	223,633	299,672	764,630
	1999	1,551,645	580,209	361,977	218,232	310,425	661,011
Świętokrzyskie	1998	316,516	124,371	79,489	44,882	75,290	116,855
	1999	304,426	120,550	76,029	44,521	77,085	106,791
Warmińsko-Mazurskie	1998	357,606	168,224	108,732	59,492	96,583	92,799
	1999	344,691	158,482	99,048	59,434	96,024	90,185
Wielkopolskie	1998	1,000,237	433,156	259,355	173,801	230,619	336,462
	1999	1,020,966	457,846	280,472	177,374	243,789	319,331
Zachodniopomorskie	1998	499,866	239,818	156,465	83,353	114,351	145,697
	1999	472,695	233,193	149,962	83,231	113,365	126,137

Table 26. Working Population in the Market Sector in 1998 and 1999 by Voivodship

Specification		Total	Including Enterprises Employing				
			Up to 49 Employees			50–249 Employees	>249 Employees
			Total	Including:			
				0–9	10–49		
POLAND	**1998**	**9,010,156**	**4,167,529**	**2,807,799**	**1,359,730**	**1,626,673**	**3,215,954**
	1999	**8,819,028**	**4,102,599**	**2,782,890**	**1,319,709**	**1,688,729**	**3,027,700**
Dolnośląskie	1998	660,888	296,054	200,486	95,568	131,369	233,465
	1999	678,441	319,586	230,800	88,786	132,987	225,868
Kujawsko-Pomorskie	1998	450,215	217,515	146,646	70,869	94,081	138,619
	1999	420,311	194,344	127,127	67,217	97,878	128,089
Lubelskie	1998	342,781	155,681	106,175	49,506	65,334	121,766
	1999	324,967	151,383	104,635	46,748	67,463	106,121
Lubuskie	1998	216,019	108,434	72,634	35,800	45,111	62,474
	1999	215,868	115,132	81,915	33,217	44,698	56,038
Łódzkie	1998	593,801	307,747	211,526	96,221	108,510	177,544
	1999	568,916	297,191	204,080	93,111	112,525	159,200
Małopolskie	1998	677,134	328,344	229,453	98,891	125,087	223,703
	1999	680,154	339,342	242,963	96,379	130,008	210,804
Mazowieckie	1998	1,719,957	743,863	500,011	243,852	258,535	717,559
	1999	1,708,463	677,777	430,413	247,364	282,719	747,967
Opolskie	1998	197,856	86,925	55,259	31,666	41,430	69,501
	1999	198,791	94,911	64,057	30,854	41,632	62,248
Podkarpackie	1998	376,102	157,127	106,968	50,159	64,711	154,264
	1999	371,821	162,867	113,118	49,749	67,658	141,296
Podlaskie	1998	189,358	94,286	62,922	31,364	37,931	57,141
	1999	184,448	94,780	65,148	29,632	38,535	51,133
Pomorskie	1998	488,728	261,744	175,018	86,726	98,050	128,934
	1999	496,569	268,856	186,656	82,200	99,888	127,825
Śląskie	1998	1,378,590	544,189	354,644	189,545	217,703	616,698
	1999	1,281,624	533,291	352,162	181,129	224,334	523,999
Świętokrzyskie	1998	241,509	110,504	77,465	33,039	45,286	85,719
	1999	229,102	105,029	73,545	31,484	45,943	78,130
Warmińsko-Mazurskie	1998	272,340	148,162	104,977	43,185	60,344	63,834
	1999	259,390	136,028	94,359	41,669	58,668	64,694
Wielkopolskie	1998	810,910	391,660	251,911	139,749	158,749	260,501
	1999	840,356	405,873	267,517	138,356	171,125	263,358
Zachodniopomorskie	1998	393,968	215,294	151,704	63,590	74,442	104,232
	1999	369,807	206,209	144,395	61,814	72,668	90,930

Table 27. Revenue from the Sale of Products, Goods and Materials in 1998 and 1999 by Voivodship (current prices – in PLN million)

Specification		Total	Including Enterprises Employing		
			0–49 Employees	50–249 Employees	>249 Employees
POLAND	**1998**	**1,157,454.3**	**460,556.3**	**239,057.2**	**457,840.8**
	1999	**1,397,458.4**	**596,206.3**	**295,015.7**	**506,236.5**
Dolnośląskie	1998	77,596.5	36,298.3	17,922.4	23,375.9
	1999	89,314.3	42,341.7	21,543.6	25,428.9
Kujawsko-Pomorskie	1998	48,056.4	21,184.2	11,388.1	15,484.1
	1999	56,713.3	25,682.0	12,964.2	18,067.0
Lubelskie	1998	34,783.7	16,633.2	7,987.2	10,163.3
	1999	39,593.6	20,334.8	7,931.5	11,327.2
Lubuskie	1998	21,991.9	10,875.8	4,833.3	6,282.8
	1999	28,296.2	15,605.0	5,681.0	7,010.2
Łódzkie	1998	58,169.0	28,632.2	12,649.3	16,887.4
	1999	72,620.9	38,981.3	15,058.3	18,581.2
Małopolskie	1998	82,277.9	36,503.1	15,796.9	29,977.9
	1999	110,274.9	55,445.0	20,112.0	34,718.0
Mazowieckie	1998	325,349.4	96,939.4	62,093.9	166,316.2
	1999	399,520.4	125,243.3	83,059.4	191,217.7
Opolskie	1998	22,428.5	10,492.4	4,897.5	7,038.6
	1999	27,946.8	13,413.9	6,383.5	8,149.4
Podkarpackie	1998	38,329.9	15,416.1	7,731.9	15,182.0
	1999	43,793.8	19,859.3	8,948.0	14,986.5
Podlaskie	1998	22,962.1	9,979.0	4,568.1	8,414.9
	1999	26,300.1	12,263.9	5,510.2	8,526.0
Pomorskie	1998	59,370.0	27,747.1	12,914.9	18,708.0
	1999	77,652.8	42,521.7	13,972.2	21,158.9
Śląskie	1998	163,100.5	60,747.0	27,901.9	74,451.6
	1999	185,548.9	73,728.7	36,747.3	75,072.9
Świętokrzyskie	1998	24,570.7	9,796.8	5,812.3	8,961.6
	1999	29,932.2	12,790.4	6,689.7	10,452.1
Warmińsko-Mazurskie	1998	26,430.3	13,068.2	6,317.6	7,044.4
	1999	30,661.4	15,383.9	7,039.9	8,237.6
Wielkopolskie	1998	108,552.8	45,292.2	26,292.6	36,968.0
	1999	128,046.6	54,600.2	32,012.0	41,434.4
Zachodniopomorskie	1998	43,484.7	20,951.4	9,949.3	12,584.0
	1999	51,242.6	28,011.0	11,362.9	11,868.7

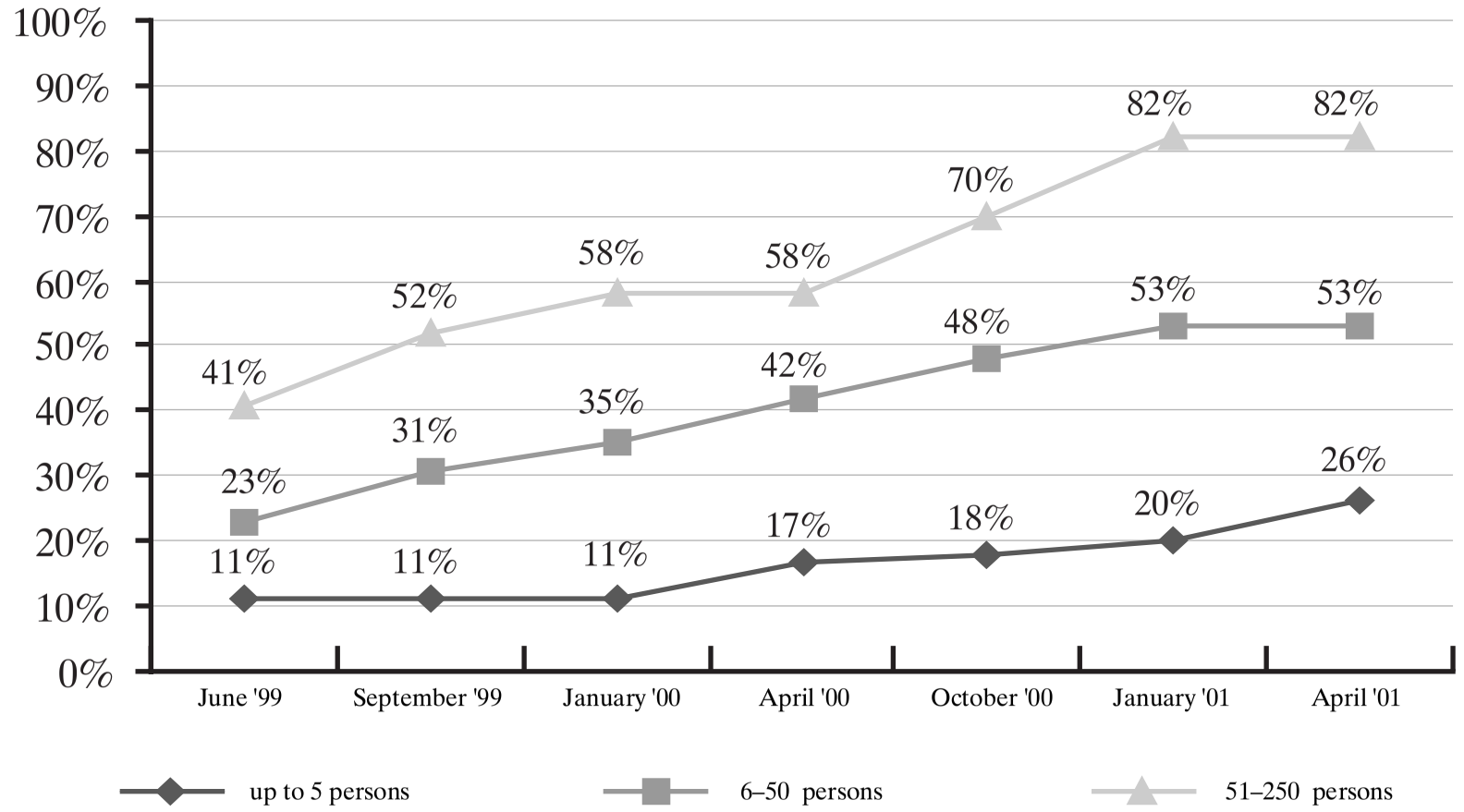
Table 28. Investment Expenditure of Enterprises in 1999 by Voivodships (current prices – in PLN million)

Specification	Total	Including Enterprises Employing				
		Up to 49 Employees			50–249 Employees	>249 Employees
		Total	Including			
			0–9	10–49		
POLAND	**101,099.6**	**25,406.6**	**11,598.4**	**13,808.2**	**21,908.2**	**53,784.8**
Dolnośląskie	8,282.9	1,743.2	955.7	787.5	1,600.3	4,939.4
Kujawsko-Pomorskie	3,616.0	841.3	431.4	409.9	635.9	2,138.8
Lubelskie	3,077.4	927.3	536.5	390.7	707.8	1,442.3
Lubuskie	2,306.5	458.0	244.9	213.1	503.5	1,345.0
Łódzkie	5,293.2	1,169.1	550.9	618.2	1,198.0	2,926.1
Małopolskie	6,513.6	1,528.9	743.1	785.8	1,094.8	3,889.9
Mazowieckie	29,647.1	8,287.5	3,137.9	5,149.6	7,013.9	14,345.7
Opolskie	1,755.8	372.2	219.0	153.2	363.9	1,019.7
Podkarpackie	3,158.9	748.9	520.0	228.9	836.5	1,573.5
Podlaskie	1,490.2	402.5	177.0	225.5	311.8	775.9
Pomorskie	5,528.7	1,811.7	694.0	1,117.7	940.0	2,777.0
Śląskie	13,782.6	3,050.3	1,540.8	1,509.5	2,391.2	8,341.1
Świętokrzyskie	2,280.2	301.4	179.2	122.2	739.5	1,239.3
Warmińsko-Mazurskie	1,882.4	587.3	309.3	278.0	377.5	917.6
Wielkopolskie	9,046.1	2,117.1	723.7	1,393.4	2,452.8	4,476.3
Zachodniopomorskie	3,438.1	1,060.2	635.1	425.0	740.8	1,637.0

Table 29. Structure of Foreign Trade of SMEs by Voivodship in 1999

	Total exports in USD million	**Exports of SMEs in USD million**	**Share of SMEs in total exports (%)**	**Share of voivodships in total exports of SMEs (%)**	**Total imports in USD million**	**Imports of SMEs in USD million**	**Share of SMEs in total imports (%)**	**Share of voivodships in total imports of SMEs (%)**	**Balance of FT of SMEs (USD million)**	**Population '000**	**Exports of SMEs *per capita* (USD/ person)**	**Imports of SMEs *per capita* (USD/ person)**
	27,407.4	13,072.1	47.6	100.0	45,911.2	30,041.5	65.4	100.0	-16,969.4	38,654.0	338	777
Dolnośląskie	2,439.2	961.1	39.4	7.4	2,846.5	1,845.3	64.8	6.1	-884.2	2,979.1	322	619
Kujawsko-Pomorskie	1,315.5	658.1	50.0	5.0	1,423.2	876.2	61.5	2.9	-218.1	2,100.5	313	417
Lubelskie	685.1	433.9	63.3	3.3	550.9	339.6	61.6	1.1	94.3	2,237.1	193	151
Lubuskie	1,041.4	510.9	49.0	3.9	872.3	443.9	50.9	1.5	67.0	1,023.0	499	433
Łódzkie	1,178.5	753.5	63.9	5.8	2,020.1	1,535.1	76.0	5.1	-781.6	2,656.5	283	577
Małopolskie	1,260.7	526.1	41.7	4.0	2,295.5	1,319.4	57.4	4.4	-793.3	3,219.8	163	409
Mazowieckie	4,988.1	2,822.6	56.5	21.6	19,374.5	13,932.1	71.9	46.4	-11,109.5	5,065.7	557	2,750
Opolskie	548.1	289.2	52.7	2.2	642.7	441.0	68.6	1.5	-151.8	1,088.4	265	405
Podkarpackie	1,096.2	509.0	46.4	3.9	826.4	413.1	49.9	1.4	95.9	2,124.4	239	194
Podlaskie	356.2	269.7	75.4	2.1	413.2	241.6	58.5	0.8	28.1	1,222.9	220	197
Pomorskie	2,110.3	867.0	41.0	6.6	2,571.0	1,374.0	53.4	4.6	-507.0	2,189.5	395	627
Śląskie	4,439.9	1,192.8	26.8	9.1	4,453.4	2,291.5	51.4	7.6	-1,098.7	4,873.1	244	470
Świętokrzyskie	274.0	156.2	57.0	1.2	413.2	279.7	67.7	0.9	-123.5	1,323.7	118	211
Warmińsko-Mazurskie	794.8	346.2	43.5	2.6	642.7	307.1	47.7	1.0	39.1	1,464.6	236	209
Wielkopolskie	3,206.6	1,996.6	62.2	15.3	4,820.6	3,520.8	73.0	11.7	-1,524.2	3,353.6	595	1,049
Zachodniopomorskie	1,644.4	778.4	47.3	6.0	1,331.4	880.4	66.1	2.9	-102.0	1,732.1	449	508

Chart 1. Internet Access of Companies in 1999–2000



Source: BiznesBus DEMOSKOP Research

Annex 2. Tax Legislation Binding in 2000

General Provisions

1. Tax Regulations Act – Journal of Laws of 1997 No. 137, item 926, as amended.
2. Regulation with respect to the execution of certain provisions of the Tax Regulations Act – Journal of Laws of 1997 No. 162, item 1,124, as amended.
3. Regulation with respect to the maintaining of simplified accounts – Journal of Laws of 1999 No. 105, item 1,199.
4. Regulation with respect to the jurisdiction of tax authorities in the cases of certain tax liabilities and individual categories of taxpayers – Journal of Laws of 1999 No. 110, item 1,277.
5. Regulation with respect to the jurisdiction of tax authorities in the cases of certain tax liabilities and in the cases of overpaid taxes collected by payers – Journal of Laws of 1999 No. 6, item 38.
6. Regulation with respect to the desisting from the collection of contributions to the State Fund of Rehabilitation of Disabled People – Journal of Laws of 2000 No.13, item 170.
7. Act on Principles of Recording and Identifying Taxpayers and Payers – Journal of Laws of 1995 No. 142, item 702, as amended.
8. Regulation with respect to the execution of certain provisions of the Act on Principles of Recording and Identifying Taxpayers and Payers – Journal of Laws of 1999 No. 16, item 144.
9. Regulation with respect to the procedure applied by tax authorities making changes in tax liabilities of a debtor consequential to a bank arrangement entered into – Journal of Laws of 1993 No. 66, item 313, as amended.
10. Act on Professional and Social Rehabilitation and Employment of Disabled People – Journal of Laws of 1997 No. 123, item 776, as amended.
11. Regulation with respect to the specimen of declarations submitted to the Board of the State Fund of Rehabilitation of Disabled People by employers obliged to make contributions to that Fund – Journal of Laws of 1998 No. 143, item 923.
12. Act on Tax Control – Journal of Laws of 1999 No. 54, item 572, as amended.
13. Regulation with respect to the scope and principles of exercising special tax supervision – Journal of Laws of 1997 No. 86, item 545.

VAT and Excise Tax

14. Act on VAT and Excise Tax – Journal of Laws of 1993 No. 11, item 50, as amended.
15. Regulation with respect to the execution of certain provisions of the Act on VAT and Excise Tax – Journal of Laws of 1999 No. 109, item 1,245, as amended.
16. Regulation with respect to the specimen of VAT and excise tax declarations – Journal of Laws of 1999 No. 106, item1207.
17. Regulation with respect to the definition of the specimen of a registration application with respect to VAT and excise tax, specimen of a confirmation of such an application, specimen of a statement on the cessation of conducting transactions taxed with VAT or excise tax, and principles of determining temporary identification numbers for taxpayers of VAT and excise tax – Journal of Laws of 1999 No. 106, item 1,208.

18. Regulation with respect to the identification of taxpayers who are not obliged to submit a registration application – Journal of Laws of 1999 No. 109, item 1,242.
19. Regulation with respect to excise tax – Journal of Laws of 1999 No. 105, item 1,197 as amended.
20. Regulation with respect to the level of standards of maximum admissible losses (shortages) of some excisable products – Journal of Laws of 1999 No. 111, item 1,288.
21. Regulation with respect to cash registers – Journal of Laws of 1999 No. 98, item 1,143.
22. Regulation with respect to the criteria and technical conditions which must be met by cash registers and conditions of using such cash registers by taxpayers – Journal of Laws of 1999 No. 109, item 1,249.
23. Regulation with respect to the list of goods for the purpose of collection of VAT and excise tax in imports – Journal of Laws of 1999 No. 111, item1290.
24. Regulation with respect to the detailed scope, procedure and method of determining the difference of VAT subject to refunding in the case when the taxpayer sells certain goods or provides certain services – Journal of Laws of 1999 No. 109, item 1,250.
25. Regulation with respect to the principles and procedure of refunding VAT and excise tax to diplomatic delegations, consular offices, and members of personnel of those delegations and offices, as well as other people of the same status on the basis of Acts, contracts or international customs – Journal of Laws of 1999 No. 109, item 1,251.
26. Regulation with respect to the determination of the list of goods to be used for the purposes of fire protection to which the 0% VAT rate is applied – Journal of Laws of 1999 No. 98, item 1,144.
27. Regulation with respect to the determination of the minimum total value of purchases, consequential to the documents issued by vendors, from which the traveller may claim a refund of VAT – Journal of Laws of 1999 No. 71, item 797.
28. Regulation with respect to the procedure of the acceptance by tax offices of the guarantee deposit made by entities whose line of business involves the refunding of VAT to travellers – Journal of Laws of 1999 No. 71, item 798.
29. Regulation with respect to the desisting from the collection of lump-sum VAT on transport services consisting of occasional transport of people in buses registered abroad – Journal of Laws of 1999 No. 61, item 663.
30. Regulation with respect to the desisting from the assessment and collection of VAT – Journal of Laws of 1999 No. 109, item 1,243.
31. Act on Marking Goods with Excise Tax Stamps – Journal of Laws of 1993 No. 127, item 584, as amended.
32. Regulation with respect to marking with excise tax stamps – Journal of Laws of 1994 No. 26, item 93, as amended.
33. Ordinance concerning the list of goods subject to marking with excise tax stamps according to the Systematic List of Products (SWW) and Polish Combined Nomenclature of goods in foreign trade (PCN) – Monitor Polski gazette of 1995 No. 62, item 691, as amended.
34. Ordinance concerning the specimen of the application for the issuance and sale of excise bands or issuance of an authorisation to issue excise bands – Monitor Polski gazette of 1994 No. 14, item 106, as amended.

Corporate Income Tax

35. Corporate Income Tax Act – Journal of Laws of 2000 No. 54, item 654, as amended.
36. Regulation with respect to the execution of certain provisions of the Corporate Income Tax Act – Journal of Laws of 1997 No. 116, item 747.
37. Act on Employing Prisoners – Journal of Laws of 1997 No. 123, item 777.
38. Regulation with respect to the partial desisting from the collection of corporate income tax due from certain business entities – Journal of Laws of 1998 No. 93, item 587.
39. Regulation with respect to the desisting from the collection of income tax and redemption of tax arrears in the case of income tax on income generated from mergers and consolidations of certain banks – Journal of Laws of 1999 No. 61, item 664, as amended.
40. Regulation with respect to the desisting from the collection of corporate income tax from certain corporate entities – Journal of Laws of 2000 No. 13, item 164.
41. Regulation with respect to the specification of employing establishments in which the penalty of restricted freedom is served and in which socially useful work rules in lieu of an unrecoverable fine is performed, specific duties of those establishments concerning the employment of convicts and principles of management of funds obtained from that source, as well as allowances to which such establishments are entitled (§13) – Journal of Laws of 1998 No. 113, item 720.

Personal Income Tax

42. Personal Income Tax Act – Journal of Laws of 2000 No. 14, item 176, as amended.
43. Regulation with respect to the execution of certain provisions of the Personal Income Tax Act – Journal of Laws of 1995 No. 35, item 173, as amended.
44. Regulation with respect to the change of the Regulation with respect to the execution of certain provisions of the Personal Income Tax Act – Journal of Laws of 1997 No. 128, item 834.
45. Regulation with respect to the definition of types of expenditures on refurbishment and modernisation of a house or flat which are deducted from income tax – Journal of Laws of 1996 No. l56, item 788.
46. Regulation with respect to the definition of types of educational equipment and aids, the purchase of which entitles the purchaser to deduct the expenses incurred from income tax – Journal of Laws of 1996 No. 156, item 784.
47. Regulation with respect to detailed principles of providing financial assistance from company social benefits fund for the reduction of housing expenses, free from personal income tax – Journal of Laws of 1998 No. 134, item 876.
48. Regulation with respect to the level of benefits from social welfare in relation to the introduction of personal income tax – Journal of Laws of 1992 No. 41, item 180.
49. Regulation with respect to depreciation of fixed assets and intangible assets – Journal of Laws of 1997 No. 6, item 35, as amended.
50. Regulation with respect to the execution of certain provisions of the Personal Income Tax Act and the Corporate Income Tax Act – Journal of Laws of 1997 No. l, item 3, as amended.
51. Regulation with respect to depreciation of fixed assets and intangible assets, as well as the revaluation of fixed assets – Journal of Laws of 1995 No. 7, item 34, as amended.
52. Act on Lump-Sum Tax on Certain Revenues Generated by Natural Persons – Journal of Laws of 1998 No. 144, item 930, as amended.

53. Regulation with respect to the execution of certain provisions of the Act on Lump-Sum Tax on Certain Revenues Generated by Natural Persons – Journal of Laws of 1998 No. 161, item 1,078.
54. Regulation with respect to the definition of specimen of tax declarations, statements and information with respect to lump-sum income tax on certain revenues generated by natural persons – Journal of Laws of 1999 No. 28, item 260, as amended.
55. Regulation with respect to the exemption of certain groups of taxpayers from the duty to withhold advances for personal income tax – Journal of Laws of 2000 No. 9, item 123.
56. Regulation with respect to the desisting from the collection of personal income tax – Journal of Laws of 1998 No. 132, item 866.
57. Regulation with respect to the desisting from the collection of personal income tax – Journal of Laws of 1998 No. 156, item 1,022.
58. Regulation with respect to the desisting from the collection of personal income tax – Journal of Laws of 2000 No. 12, item 144.
59. Regulation with respect to the desisting from the collection of personal income tax – Journal of Laws of 2000 No. 12, item 145.
60. Regulation with respect to the desisting from the collection of personal income tax – Journal of Laws of 2000 No. 26, item 311.
61. Regulation with respect to the exemption of certain groups of taxpayers from the duty to withhold advances for personal income tax – Journal of Laws of 2000. No. 13, item 166.

Joint Provisions With Respect to Personal Income Tax and Corporate Income Tax

62. Regulation with respect to the inclusion of objects of rental or lease agreements with respect to items or property rights to assets belonging to parties of the agreements – Journal of Laws of 1993 No. 28, item 129.
63. Regulation with respect to the method and procedure of determination of taxpayers' income through the estimation of prices in transactions entered into by those taxpayers – Journal of Laws of 1997 No. 128, item 833.
64. Regulation with respect to the definition of the types of waste the use of which entitles an exemption from income tax, and on detailed principles of determining the value of waste used in the production process – Journal of Laws of 1998 No. 8, item 29.
65. Regulation with respect to the desisting from the assessment and collection of income tax on certain types of income of foreign natural and legal persons residing or having their registered office abroad – Journal of Laws of 2000 No. 13, item 163.
66. Regulation with respect to the identification of poviats (gminas) threatened with structural recession and social degradation in which special economic and financial instruments and other preferences are applied and the right to benefit and stipends is granted to the unemployed resident in them – Journal of Laws of 1999 No. 110, item 1,265.
67. Act on Application of Special Tax Solutions in Relation to the Liquidation of the Effects of the Flood Which Took Place in July 1997 – Journal of Laws of 1997 No. 113, item 736, as amended.
68. Act on Application of Special Tax Solutions in Relation to the Liquidation of the Effects of the Flood Which Took Place in July 1997 – Journal of Laws of 1997 No. 80, item 491, as amended.

69. Regulation with respect to the value up to which the membership fee of the union of employers is included among costs of revenue – Journal of Laws of 1996 No. 145, item 669.
70. Act on Company Social Benefit Fund – Journal of Laws of 1996 No. 70, item 335, as amended.
71. Act on the Employment of Prisoners – Journal of Laws of 1997 No. 123, item 777.

Stamp Duty

72. Act on Stamp Duty – Journal of Laws of 1989 No. 4, item 23, as amended.
73. Regulation with respect to stamp duty – Journal of Laws of 1994 No. 136, item 705, as amended.
74. Regulation with respect to the method of collection, payment and refunding of stamp duty, method of maintaining registers of that stamp duty, and cases in which payment for stamp duty is made in the form of stamps or by purchasing an official blank promissory note – Journal of Laws of 1999 No. 109, item 1,247.
75. Regulation with respect to the specimen of stamp duty stamps and official blank promissory notes and terms of their replacement – Journal of Laws of 1999 No. 106, item 1,209.
76. Regulation with respect to the prolongation of the deadline for the payment of stamp duty on promissory notes – Journal of Laws of 1999 No. 105, item 1,202.
77. Regulation with respect to the desisting from the collection of stamp duty – Journal of Laws of 1998 No. 114, item 735.

Local Taxes

78. Act on Local Taxes and Charges – Journal of Laws of 1991 No. 9, item 31, as amended.
79. Regulation with respect to Total Financial Liability – Journal of Laws of 1999 No. 105, item 1,200.
80. Regulation with respect to the procedure of submitting identification applications and updating applications by taxpayers of farm tax, forest tax, and real estate tax – Journal of Laws of 1999 No. 111, item 1,291.

Annex 3. Tables Illustrating the Contribution of SMEs to the Generation of Public Sector Income

Table 1. Revenues of Enterprises in 1999 (in PLN million)

Table 2. Proceeds from Income Taxes from Enterprises in 1999 (in PLN million)

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Table 1. Revenues of Enterprises in 1999.

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**835,374.5**	**39,428.4**	**172,377.1**	**285,879.9**	**337,689.1**
A. Agriculture, Hunting and Forestry	11,400.7	468.1	3,279.9	2,703.2	4,949.6
B. Fisheries and Fishing	655.2	2.6	61.3	115.3	476.1
C. Mining and Quarrying	23,686.8	367.2	256.8	1,987.2	21,075.7
D. Manufacturing	289,152.4	8,780.6	27,953.2	87,089.7	165,328.9
E. Electricity, Gas and Water Supply	51,864.5	688.2	938.9	6,899.4	43,338.0
F. Construction	51,473.0	1,414.3	12,006.8	25,780.3	12,271.6
G. Wholesale and Retail Trade; Repairs	303,678.2	22,593.1	103,301.7	123,706.0	54,077.4
H. Hotels and Restaurants	2,988.5	79.4	705.4	877.5	1,326.1
I. Transportation, Storage and Communications	39,716.7	1,075.1	6,230.5	7,176.3	25,234.8
J. Financial Services	10,715.8	1,955.8	3,969.6	4,652.9	137.5
K. Real Estate, Renting and Business Services	40,675.9	1,724.9	12,086.7	21,100.7	5,763.6
M. Education	501.4	71.7	200.7	229.1	
N. Health Care and Social Welfare	1,018.3	52.8	230.7	302.2	432.6
O. Other Community Services	7,846.9	154.6	1,154.9	3,260.2	3,277.2

Source: Central Statistical Office data

Table 2. Proceeds from Income Taxes from Enterprises in 1999

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**12,545.0**	**378.9**	**1,772.5**	**3,962.9**	**6,430.7**
A. Agriculture, Hunting and Forestry	30.1	1.8	8.4	9.7	10.3
B. Fisheries and Fishing	0.1	0.0	0.1	0.0	0.0
C. Mining and Quarrying	237.4	3.7	5.0	36.0	192.8
D. Manufacturing	4,771.3	129.1	378.6	1,238.5	3,025.1
E. Electricity, Gas and Water Supply	689.0	1.5	16.8	67.3	603.4
F. Construction	947.8	21.8	200.2	395.5	330.3
G. Wholesale and Retail Trade; Repairs	2,646.8	157.7	772.8	1,074.1	642.2
H. Hotels and Restaurants	127.6	1.0	8.1	14.9	103.5
I. Transportation, Storage and Communications	1,186.1	10.3	79.7	116.7	979.4
J. Financial Services	301.1	10.4	46.0	160.4	84.4
K. Real Estate, Renting and Business Services	1,316.1	32.4	230.8	792.5	260.3
M. Education	8.4	2.9	3.5	2.0	
N. Health Care and Social Welfare	11.0	1.3	2.6	2.9	4.3
O. Other Community Services	272.1	5.0	20.0	52.4	194.7

Source: Central Statistical Office data

Table 3. Other Deductions from the Financial Results of Enterprises in 1999

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**1,151.8**	**22.5**	**109.1**	**423.0**	**597.2**
A. Agriculture, Hunting and Forestry	69.3	5.4	39.8	23.5	0.7
B. Fisheries and Fishing	0.0	0.0	0.0	0.0	0.0
C. Mining and Quarrying	21.5	0.8	0.2	2.4	17.0
D. Manufacturing	333.2	3.9	17.4	92.2	219.6
E. Electricity, Gas and Water Supply	147.5	0.0	0.2	8.6	138.7
F. Construction	34.8	1.1	7.7	21.4	4.6
G. Wholesale and Retail Trade; Repairs	127.4	6.0	26.9	76.5	18.0
H. Hotels and Restaurants	1.5	0.0	0.3	0.5	0.8
I. Transportation, Storage and Communications	67.8	1.7	2.1	4.2	59.9
J. Financial Services	48.3	0.1	4.6	36.8	6.9
K. Real Estate, Renting and Business Services	263.7	2.9	9.3	148.0	103.6
M. Education	0.4	0.0	0.1	0.3	
N. Health Care and Social Welfare	1.5	0.1	0.1	0.2	1.1
O. Other Community Services	34.9	0.5	0.5	8.5	25.3

Source: Central Statistical Office data

Table 4. Proceeds from VAT from enterprises in 1999

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**45,283.0**	**1,904.0**	**8,164.3**	**13,347.5**	**21,867.2**
A. Agriculture, Hunting and Forestry	–	–	–	–	–
B. Fisheries and Fishing	–	–	–	–	–
C. Mining and Quarrying	1,269.8	18.7	13.1	101.1	1,136.9
D. Manufacturing	18,310.3	446.6	1,421.8	4,429.7	12,012.2
E. Electricity, Gas and Water Supply	1,146.3	11.1	15.2	111.7	1,008.3
F. Construction	1,881.2	42.5	360.9	774.8	703.0
G. Wholesale and Retail Trade; Repairs	17,074.1	1,149.2	5,254.3	6,292.1	4,378.6
H. Hotels and Restaurants	68.6	1.3	11.4	14.2	41.7
I. Transportation, Storage and Communications	2,450.8	44.7	259.3	298.6	1,848.2
J. Financial Services	574.8	99.5	201.9	236.7	36.8
K. Real Estate, Renting and Business Services	2,455.1	87.7	614.8	1,073.3	679.4
M. Education	0.0	0.0	0.0	0.0	0.0
N. Health Care and Social Welfare	51.9	2.7	11.7	15.4	22.2
O. Other Community Services	–	–	–	–	–

Source: Central Statistical Office data

Table 5. Proceeds from Excise Tax from Enterprises in 1999

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**21,577.5**	**93.3**	**198.2**	**1,543.9**	**19,742.1**
A. Agriculture, Hunting and Forestry	5.5	0.0	0.3	2.2	3.0
B. Fisheries and Fishing	0.0	0.0	0.0	0.0	0.0
C. Mining and Quarrying	9.9	0.0	0.0	0.0	9.9
D. Manufacturing	21,405.9	59.5	153.9	1,470.5	19,722.1
E. Electricity, Gas and Water Supply	0.4	0.0	0.0	0.2	0.2
F. Construction	0.6	0.0	0.1	0.3	0.2
G. Wholesale and Retail Trade; Repairs	140.8	31.1	35.4	69.5	4.9
H. Hotels and Restaurants	0.1	0.0	0.0	0.1	0.0
I. Transportation, Storage and Communications	3.3	1.2	0.1	0.3	1.7
J. Financial Services	0.0	0.0	0.0	0.0	0.0
K. Real Estate, Renting and Business Services	10.3	1.5	8.2	0.4	0.1
M. Education	0.0	0.0	0.0	0.0	
N. Health Care and Social Welfare	0.0	0.0	0.0	0.0	0.0
O. Other Community Services	0.5	0.0	0.1	0.4	0.0

Source: Central Statistical Office data

Table 6. Proceeds from Customs Duties from Enterprises in 1999

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**1,698.8**	**64.1**	**385.8**	**867.0**	**381.9**
A. Agriculture, Hunting and Forestry	1.0	0.0	0.9	0.1	0.0
B. Fisheries and Fishing	0.0	0.0	0.0	0.0	0.0
C. Mining and Quarrying	0.4	0.0	0.0	0.4	0.0
D. Manufacturing	438.0	19.3	29.3	191.0	198.4
E. Electricity, Gas and Water Supply	2.1	0.0	0.0	0.0	2.0
F. Construction	3.1	0.1	0.1	0.6	2.3
G. Wholesale and Retail Trade; Repairs	1,228.3	43.2	349.0	663.9	172.3
H. Hotels and Restaurants	0.1	0.0	0.1	0.0	0.0
I. Transportation, Storage and Communications	9.5	0.7	1.1	1.9	5.8
J. Financial Services	0.2	0.1	0.0	0.1	0.0
K. Real Estate, Renting and Business Services	15.9	0.8	5.0	9.0	1.1
M. Education	0.0	0.0	0.0	0.0	–
N. Health Care and Social Welfare	0.2	0.0	0.2	0.0	0.0
O. Other Community Services	0.1	0.0	0.1	0.0	0.0

Source: Central Statistical Office data

Table 7. Proceeds from Other Taxes and Fees from Enterprises in 1999.

PLN million

Symbol and Name of Branch	Enterprises By their Employment Level				
	TOTAL	0–9	10–49	50–249	over 249
TOTAL	**10966.5**	**329.6**	**1315.6**	**2286.9**	**7034.5**
A. Agriculture, Hunting and Forestry	334.1	21.2	93.9	59.3	159.8
B. Fisheries and Fishing	6.0	0.0	1.2	1.1	3.6
C. Mining and Quarrying	1237.0	33.9	13.4	74.4	1115.3
D. Manufacturing	3755.1	100.3	228.5	823.9	2602.4
E. Electricity, Gas and Water Supply	869.9	17.7	19.7	144.4	688.1
F. Construction	609.9	15.3	176.9	190.6	227.0
G. Wholesale and Retail Trade; Repairs	1166.2	82.9	429.0	433.2	221.1
H. Hotels and Restaurants	86.3	1.8	12.5	17.6	54.4
I. Transportation, Storage and Communications	1484.3	21.5	116.8	134.4	1211.6
J. Financial Services	56.5	2.0	21.4	27.5	5.6
K. Real Estate, Renting and Business Services	676.9	29.5	177.4	296.9	173.1
M. Education	2.7	0.3	1.1	1.4	–
N. Health Care and Social Welfare	13.9	0.6	2.5	3.2	7.6
O. Other Community Services	667.8	2.6	21.5	78.9	564.9

Source: Central Statistical Office data

Table 8. Number of Taxpayers – Sole Proprietors by Forms of Taxation, 1992–2000

PLN '000

	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total	**1,630,629**	**1,783,900**	**2,028,129**	**2,211,049**	**2,270,967**	**2,332,489**	**2,434,295**	**2,457,890**	**2,495,388**
Including									
1 general principles	1,221,096	1,391,434	465,554	980,560	1,119,870	1,244,000	1,338,968	1,436,500	1,543,617
2 lump-sum on recorded revenue	–	–	1,226,312	913,857	843,759	853,668	867,129	792,514	732,666
3 tax card	409,533	392,466	336,263	316,632	307,338	234,821	228,198	229,876	219,105

Source: Ministry of Finance data

Table 9. Proceeds from Personal Income Tax by Forms of Taxation, 1992–2000

PLN '000

Proceeds	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Total	**N/A**	**2,228,476**	**3,649,603**	**5,050,205**	**6,220,921**	**7,930,000**	**9,218,307**	**8,766,391**	**8,820,836**
including									
1 general principles	N/A	1,955,799	2,453,612	3,639,415	4,632,830	6,086,414	7,215,662	7,060,933	7,273,688
2 lump-sum on recorded revenue	–	–	957,019	1,130,990	1,234,944	1,467,573	1,613,613	1,356,791	1,232,278
3 tax card	207,318	272,677	238,972	279,800	353,147	376,701	389,112	348,667	314,869

Source: Ministry of Finance data

Table 10. Value of the Average Monthly Payment from Personal Income Tax by Forms of Taxation, 1992–2000

PLN '000

Average monthly payment made by a statistical taxpayer	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Total	**N/A**	**104**	**150**	**190**	**228**	**203**	**316**	**297**	**295**
including									
1 general principles	N/A	117	439	309	345	408	449	410	393
2 lump-sum on recorded revenue	–	–	65	103	122	143	155	143	140
3 tax card	42	58	59	74	96	134	142	126	120

Source: Ministry of Finance data

Table 11. Proceeds from Lump-Sum Income Tax on Recorded Revenue, 1994–2000

PLN '000

Specification	1994	1995	1996	1997	1998	1999	2000
I. Limit of revenue entitling to lump-sum taxation in zloty	**120,000**	**160,000**	**208,000**	**250,000**	**288,700**	**400,000**	**426,400**
II. Tax rates							
1 on revenue from catering and trade	2.5%	3.0%	3.3%	3.3%	3.3%	3.0%	3.0%
2 on revenue from manufacturing and building services	5.0%	5.5%	6.0%	6.0%	6.0%	5.5%	6.5%
3 on revenue from services	7.5%	8.5%	9.5%	9.5%	9.5%	8.5%	8.5%
III. Number of establishments	**1,118,629**	**859,025**	**810,572**	**842,435**	**855,871**	**782,291**	**723,096**
IV. Number of taxpayers	**1,226,312**	**913,857**	**843,769**	**853,668**	**967,129**	**792,614**	**732,666**
V. Total gross revenue	**30,621,551**	**29,588,581**	**30,000,490**	**32,314,998**	**33,257,762**	**33,661,980**	**33,607,758**
including							
1 from catering and trade	18,181,163	16,258,835	14,934,753	14,440,297	13,791,475	13,127,887	12,106,779
2 from manufacturing and building services	8,011,734	9,315,849	10,803,965	12,474,416	13,482,756	14,298,557	14,363,988
3 from services	4,304,344	4,009,841	4,458,406	6,395,981	6,980,740	6,432,294	6,660,436
4 consequential to the reduction based on Article 8 of the Act on Tax Liabilities	124,310	785	328	559	682	1,303	1,059
5 taxed at 20.0% rate	–	3,271	3,038	3,745	2,000	1,939	2,496
Structure of revenue	100%	100%	100%	100%	100%	100%	100%
1 from catering and trade	59.37%	54.96%	49.78%	44.69%	41.47%	38.77%	36.02%
2 from manufacturing and building services	26.16%	31.48%	35.35%	38.60%	40.54%	42.22%	43.55%
3 from services	14.06%	13.55%	14.86%	16.70%	17.98%	19.00%	20.42%
4 consequential to the reduction based on Article 8 of the Act on Tax Liabilities	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
5 taxed at 20.0% rate	–	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
VI. Deductions from total revenue	**1,213,172**	**1,313,214**	**1,447,065**	**1,133,311**	**1,261,353**	**1,275,497**	**1,405,301**
including							
– losses from previous year							
a. amount	49,685	15,759	6,633	3,163	2,858	10,005	10,657
– donations							
a. amount	8,429	97,178	98,324	11,254	12,838	6,138	5,396
– social insurance contributions							
a. amount	N/A	901,269	998,604	1,082,327	1,196,003	1,213,968	1,361,317
– annuities and other permanent deductions based on a legal title and alimony							
a. amount	N/A	2,342	3,044	2,805	2,968	1,420	983
– membership fees paid to organisations the membership of which is obligatory for the taxpayer							
a. amount	N/A	2,364	2,690	3,838	6,132	4,953	1,462
– expenditure on rehabilitation							
a. amount	N/A	872	1,102	1,437	1,923	1,405	2,080

– expenditure on paid vocational upgrading of the taxpayer							
a. amount	1,993	3,865	4,326	–	–	–	–
– expenditure on children's travel to school							
a. amount	–	978	1,495	–	–	–	–
– expenditure on paid education of children							
a. amount	7,543	5,615	5,709	–	–	–	–
b. number of children	N/A	11,276	8,594				
– expenditure on purchasing shares or Treasury bonds							
a. amount	N/A	12,082	18,652	–	–	–	–
– deduction of housing expenses							
a. amount	483,256	267,322	303,128	27,144	38,232	37,155	22,832
b. number of taxpayers	N/A	70,710	61,355	5,962	5,543	4,706	2,391
c. average deduction per taxpayer in zloty	N/A	3,781	4,941	4,553	6,897	7,895	9,549
Related to refurbishment and modernisation							
a. amount	N/A	59,158	60,139	–	–	–	–
– other deductions							
a. amount	N/A	3,663	3,358	1,343	1,399	1,453	684
VII. Tax base – total revenue after deductions	**29,408,379**	**28,276,367**	**28,553,425**	**31,181,687**	**31,996,399**	**32,586,483**	**32,202,457**
including							
1 from catering and trade	N/A	15,692,603	14,391,251	14,000,977	13,343,568	12,714,446	11,600,538
2 from manufacturing and building services	N/A	8,869,774	10,048,240	12,059,960	12,996,504	13,811,974	14,024,944
3 from services	N/A	3,709,116	4,110,749	5,116,568	5,653,740	6,057,016	6,573,568
4 consequential to the reduction based on Article 8 of the Act on Tax Liabilities	N/A	762	290	668	657	1,261	1,015
5 taxed at 20.0% rate	N/A	3,112	2,895	3,624	1,930	1,823	2,,392
VIII. Total lump-sum tax before deductions	**1,129,201**	**1,274,542**	**1,469,085**	**1,672,651**	**1,757,808**	**1,669,879**	**1,678,650**
including tax on revenue							
1 from catering and trade	N/A	470,778	475,055	462,032	440,338	386,791	347,966
2 from manufacturing and building services	N/A	487,838	602,903	723,598	779,890	765,182	771,372
3 from services	N/A	315,276	390,623	486,251	537,141	517,441	558,753
4 consequential to the reduction based on Article 8 of the Act on Tax Liabilities	N/A	29	25	45	63	100	81
5 taxed at 20.0% rate	N/A	622	579	725	386	365	478
IX. Additions to the lump-sum tax							**272**
X. Total deductions from lump-sum tax	**40,868**	**51,459**	**59,516**	**117,717**	**136,421**	**451,521**	**506,227**
including:							
– general health insurance contributions							
a. amount	–	–	–	–	–	340,177	366,066
– allowances for the training of apprentices							
a. amount	N/A	29,280	36,123	48,077	52,271	39,479	29,126

– expenditure on children's travel to school							
a. amount	–	–	–	447	528	398	405
– expenditure on paid education of children							
a. amount	–	–	–	1,359	1,818	1,235	1,095
– expenditure on health services							
a. amount	–	–	–	5,728	6,529	8,394	5,158
– expenditure on vocational training and upgrading							
a. amount	–	–	–	821	1,270	906	893
– expenditure on paid education at universities							
a. amount	–	–	–	592	735	457	480
– general investment allowances	–	–	–	1,235	2,160	1,756	1,925
a. amount	17,260	20,275	20,271	2,628	270	381	181
b. number of taxpayers	N/A	9,618	9,765	2,622	156	116	62
– investment allowances in local communities threatened with especially high structural unemployment							
a. amount	–	1,904	2,749	715	367	491	239
b. number of taxpayers	–	670	861	332	92	144	124
– deductions of housing expences							
a. amount	–	–	–	56,239	76,751	65,671	105,731
b. number of taxpayers	–	–	–	59,084	66,582	70,331	69,176
c. average deduction per taxpayer in zloty	–	–	–	952	1,153	934	1,528
– related to refurbishment and modernisation							
a. amount	–	–	–	22,921	27,036	18,125	23,451
– other deductions							
a. amount	–	–	372	5,604	261	570	86
XI. Lump-sum tax due to be paid	**1,089,902**	**1,223,083**	**1,409,570**	**1,554,934**	**1,621,387**	**1,218,358**	**1,172,695**
XII. Average data per taxpayer in zloty							
– average gross income	24,970	32,378	35,556	37,864	38,354	42,727	45,871
– average deduction from revenue	989	1,437	1,715	1,328	1,456	1,609	1,918
– average net revenue	23,981	30,941	33,841	36,527	38,899	41,118	43,953
– average lump-sum tax before deductions	921	1,394	1,741	1,959	2,027	2,107	2,292
– average deduction from lump-sum tax	33	56	70	138	157	570	691
– average lump-sum tax after deductions – due to be paid	889	1,338	1,671	1,821	1,870	1,537	1,601
XIII. Deduction of lump-sum tax due from gross revenue – effective rate	**3.6%**	**4.1%**	**4.7%**	**4.8%**	**4.9%**	**3.6%**	**3.5%**
XIV. Deduction of lump-sum tax due from gross revenue – nominal rate	**3.9%**	**4.5%**	**5.2%**	**5.4%**	**5.5%**	**5.1%**	**5.2%**

Source: Ministry of Finance data

Annex 4. List of Institutions Represented on the Supervisory Board of the Polish Agency for Enterprise Development

- Ministry of the Economy
- Ministry of Labour and Social Policy
- Ministry of Regional Development and Building Industry
- Confederation of Polish Employers
- Polish Chamber of Commerce
- Central Board of Trade and Services Union
- Polish Confederation of Private Employers
- Association of Polish Crafts

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LIST OF ACRONYMS

- ARiMR — Agency for the Restructuring and Modernisation of Agriculture *(Agencja Restrukturyzacji i Modernizacji Rolnictwa)*
- ATT — Technology Agency *(Agencja Techniki i Technologii)*
- AWRSP — Agricultural Property Agency of the State Treasury *(Agencja Własności Rolnej Skarbu Państwa)*
- BC – Net — Business Cooperation Network
- BGK — Bank Gospodarstwa Krajowego
- BIN — Business Information Network
- CeTO — Over the Counter market (OTC market)
- CIG — Business Information Centre *(Centrum Informacji Gospodarczej)* of the Ministry of the Economy
- CIT — Corporate Income Tax
- CPEF — Canadian-Polish Entrepreneurship Foundation
- CZK — Czech Koruna
- DEM — Deutchmark
- DG — Directorate General of the European Commission
- EEK — Estonian Kroon
- ESP — Spanish Peseta
- EU — European Union
- EXPROM — Small and Medium-size Enterprise Export Promotion Programme
- FUS — Social Insurance Fund *(Fundusz Ubezpieczeń Społecznych)*
- GDP — Gross Domestic Product
- GUS — Central Statistical Office *(Główny Urząd Statystyczny)*
- HUF — Hungarian Forint
- IBnGR — Gdańsk Institute of Market Economics *(Instytut Badań nad Gospodarką Rynkową)*
- IRC — European Network of Innovation Relay Centres
- KBN — State Committee for Scientific Studies *(Komitet Badań Naukowych)*
- KERM — Economic Committee of the Council of Ministers *(Komitet Ekonomiczny*

Rady Ministrów)

- KPA — Administrative Proceedings Code *(Kodeks Postępowania Administracyjnego)*
- KSU — National SME Services Network *(Krajowy System Usług dla Małych i Średnich Przedsiębiorstw)*
- KUP — National Labour Office *(Krajowy Urząd Pracy)*
- ME — Ministry of the Economy
- MIT — Ministry of Industry and Trade
- MLSP — Ministry of Labour and Social Policy
- MP — Monitor Polski – Official Gazette of the Republic of Poland
- MRDBI — Ministry of Regional Development and Building Industry
- NACE — Statistical Classification of Business Activities in the European Community *(Nomenclature statistique des activités économiques dans la Communauté européenne)*
- NBP — National Bank of Poland
- NPPC — National Programme of Preparation for EU Membership *(Narodowy Program Przygotowania do Członkostwa w Unii Europejskiej)*
- NSA — Supreme Administrative Court *(Naczelny Sąd Administracyjny)*
- NSRD — National Strategy for Regional Development *(Narodowa Strategia Rozwoju Regionalnego)*
- OECD — Organisation for Economic Cooperation and Development
- OSH — Occupational Safety and Health
- PAED — Polish Agency for Enterprise Development *(Polska Agencja Rozwoju Przedsiębiorczości)*
- PEKAO S.A. — Bank Polska Kasa Opieki S.A.
- PFSMEPD — Polish Foundation for Small and Medium-size Enterprise Promotion and Development, also called the Polish SME Foundation
- PHARE — Poland, Hungary Assistance for Restructuring of the Economy
- PIT — Personal Income Tax
- PKD — Consulting-Advisory Centre *(Punkt Konsultacyjno – Doradczy)*
- PKP — Polish National Railways *(Polskie Koleje Państwowe)*

- RCSS — Government Centre for Strategic Studies *(Rządowe Centrum Studiów Strategicznych)*
- REGON — National Register of Economic Entities *(Rejestr Podmiotów Gospodarki Narodowej)*
- RFM — Regional Property Funds *(Regionalne Fundusze Majątkowe)*
- RM — Council of Ministers *(Rada Ministrów)*
- RP — Republic of Poland
- S.A. — Joint-Stock Company *(Spółka Akcyjna)*
- SAD — Single Administrative Document
- SAPARD — Special Accession Programme for Agriculture and Rural Development
- SME — Small and Medium-size enterprises
- STEP — Programme for the Support of the Development of Entrepreneurship in Poland
- TK — Constitutional Tribunal *(Trybunał Konstytucyjny)*
- TWG — Economy Support Society *(Towarzystwo Wspierania Gospodarki)*
- UOKiK — Office for Competition and Consumer Protection *(Urząd Ochrony Konkurencji i Konsumenta)*
- USD — US Dollar
- VAT — Value Added Tax
- ZBSE — Research Centre for Economic and Statistical Studies *(Zakład Badań Statystyczno – Ekonomicznych)*
- ZUS — Social Insurance Institution *(Zakład Ubezpieczeń Społecznych)*