

POLAND

1. Introduction

Small and medium-sized enterprises (SMEs) in Poland export a high volume of their goods and services to other EU countries. While operating costs are important in Poland, financing for entrepreneurs remains more readily available than in the EU on average. The country still lags behind other EU Member States on skills and innovation and integration of digital technologies by businesses.




In 2020, SME value added and employment remained sluggish with 0.0% and 0.2% growth respectively¹. Until the second quarter of 2020, SMEs in Poland coped with the COVID-19 crisis better than in other EU countries, with only 16% of Polish SMEs having reduced their workforce in response to the pandemic (against 22% for the average of EU countries surveyed)². In the last quarter of 2020, the situation seemed to deteriorate for SMEs. In December 2020, only 37% of SMEs deemed their financial situation satisfactory, down from 49.3% in September. A total of 62.3% expected their revenues to decrease over the next 3 months, up from 43.1% at the end of Q3-2020. As many as 80% of companies had no investment plans for the next 3 months³. On the other hand, large companies reported increased liquidity, and there was an improvement in the investment sentiment. However, it was still below pre-COVID levels and stems more from the limitations of previous investments' reduction plans rather than new plans⁴.

Some sectors were badly affected by the COVID-19 pandemic in 2020. The *accommodation and food services* sector in particular experienced a sharp contraction, with SME value added dropping by 36.9% and employment dropping by 1.0%. The *professional, scientific and technical activities* sector, in contrast, performed exceptionally well, generating 11.2% growth in SME value added and 8.4% growth in SME employment.

In 2021, growth is expected to continue, with increases in SME value added and SME employment of 6.2% and 0.7% respectively.

In Poland's 'non-financial business economy', SMEs accounted for slightly more than half of overall value added in 2020. This represents 52.8%, which is consistent with the EU average of 53.0%. SMEs also generated 67.7% of total employment, slightly above the EU average of 65.2%. SME productivity, defined as value added per person employed, was around EUR 20 700, less than half the EU average of EUR 40 000. Polish SMEs employed approximately 3.4 people against the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2020

	 Number of enterprises			 Number of persons employed			 Value added		
	Poland		EU-27	Poland		EU-27	Poland		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	1 881 620	95.1%	93.3%	3 450 168	35.2%	29.6%	50.9	19.5%	18.7%
Small	80 076	4.0%	5.7%	1 632 983	16.7%	19.7%	40.6	15.6%	17%
Medium-sized	14 501	0.7%	0.9%	1 552 713	15.8%	15.8%	46	17.7%	17.3%
SMEs	1 976 197	99.8%	99.8%	6 635 864	67.7%	65.2%	137.4	52.8%	53%
Large	3 110	0.2%	0.2%	3 164 727	32.3%	34.8%	123.1	47.2%	47%
Total	1 979 307	100%	100%	9 800 591	100%	100%	260.5	100%	100%

Source: These are estimates for 2020 produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

SME exports

In 2019, 1 in 3 Polish SMEs exported their goods and services to other EU countries, performing better than the EU average, where less than 1 in 4 SMEs export to other EU countries (23%) on average⁵.

Globally, slightly more Polish companies export to other European but non-EU countries (e.g. Russia) compared to companies in other Member States on average (10% versus 9%). Between 2-3% exported to other regions of the world (compared to 3-4% in the EU on average). On average, 4.9%, 14.5% and 19.2% of the income of micro, small and medium-sized enterprises respectively was derived from exports in 2018⁶.

Trade integration of Polish companies in the single market for goods is significantly above the EU average. The intra-EU trade integration in goods measured as a % of GDP amounted to 33.6% in 2018 (an increase of 1.8% compared to 2017), and intra-EU imports accounted for 31.6% of GDP (an increase of 1.7% compared to 2017). Between 2019 and 2020, the value of Polish exports to other EU Member States grew by 10.2% a year on average, ranking the country 5th among the EU-27⁷.

Trade integration for services (7.1% of GDP) in turn remains slightly below the EU average of 7.4%, but is rising faster than in the other EU countries on average (by 5.6% compared to 2.8%). Intra-EU imports of services accounted for 5.7% of Polish GDP in 2018, according to the Single Market Scoreboard.

Access to finance

Financing for entrepreneurs in Poland remains more readily available than in the EU on average, even though some indicators reveal a deterioration in performance⁸.

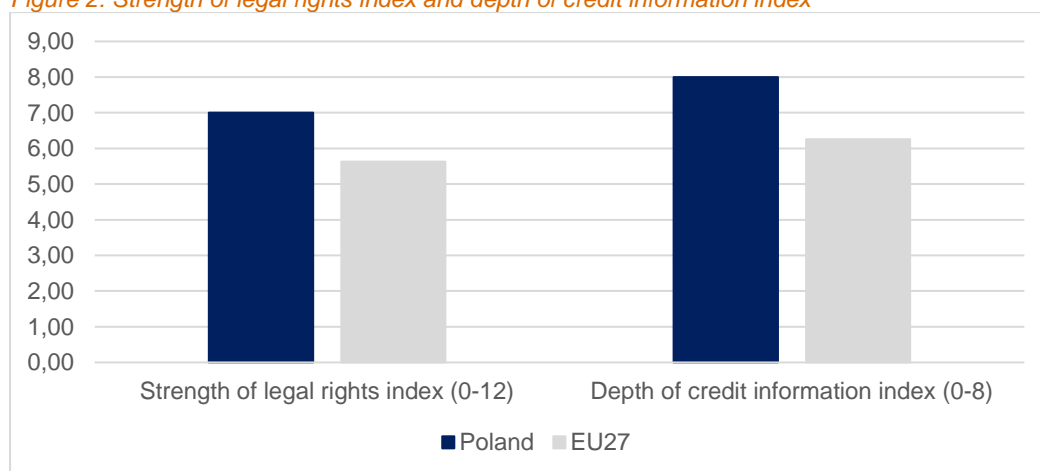
The value of government guaranteed loans and loan guarantees continued to increase, amounting to PLN 18.17 billion (EUR 4.09 billion) and PLN 10.17 bn (EUR 2.29 bn) respectively⁹. As for non-bank finance, the year-over-year growth rate of venture and growth capital climbed to 78.23% after a slump in 2015-2017. The value of leasing and hire purchases as well as factoring and invoice discounting also went up in 2017-2018 by PLN 8.25 bn (EUR 1.86 bn) and PLN 47.14 bn (EUR 10.62 bn) respectively.

The value of non-performing loans among SMEs declined from 10% in 2017 to 8.8% in 2018 – unlike all business loans, which went up during the same period. While the value of outstanding SME business loans increased by PLN 1.91 bn (EUR 430.30 million), the share of outstanding SME loans among all business loans fell from 56.44% to 53.7%.

However, Poland's overall score for 2019 in the Global Entrepreneurship Monitor 2019-2020 in terms of availability of equity and debt for SMEs fell to 3.00 (maximum 5.00) compared to 3.20 in 2018. Interest rates for SMEs went up by 0.48 percentage points (p.p.) between 2017 and 2018, compared to 0.16 p.p. for large firms¹⁰, widening the interest rate spread to 0.51 p.p. On the other hand, the vast majority of SME loans were long-term loans, and the share of SME non-performing loans decreased in 2018.

These changes are reflected in the perceptions of entrepreneurs themselves. The share of Polish SMEs that evaluated access to finance as good or excellent fell from 41% in 2017 to 29% in 2019¹¹. At the same time, this number is broadly in line with findings from other countries (30%), placing Poland just below the average. Similarly, access to finance is the biggest concern for 6% of Polish SMEs compared to the EU average of 7%¹², and decreased by 2 p.p. compared to 2018.

Figure 2: Strength of legal rights index and depth of credit information index



Source: World Bank Doing Business, 2020¹³.

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index ranges from 0 to 12, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

The depth of credit information index measures rules and practices affecting the coverage, scope and accessibility of credit information available through either a public registry or a private credit bureau. The new index ranges from 0 to 8, with higher values indicating the availability of more credit information, from either a credit bureau or a credit registry, to facilitate lending decisions.

3. Key challenges

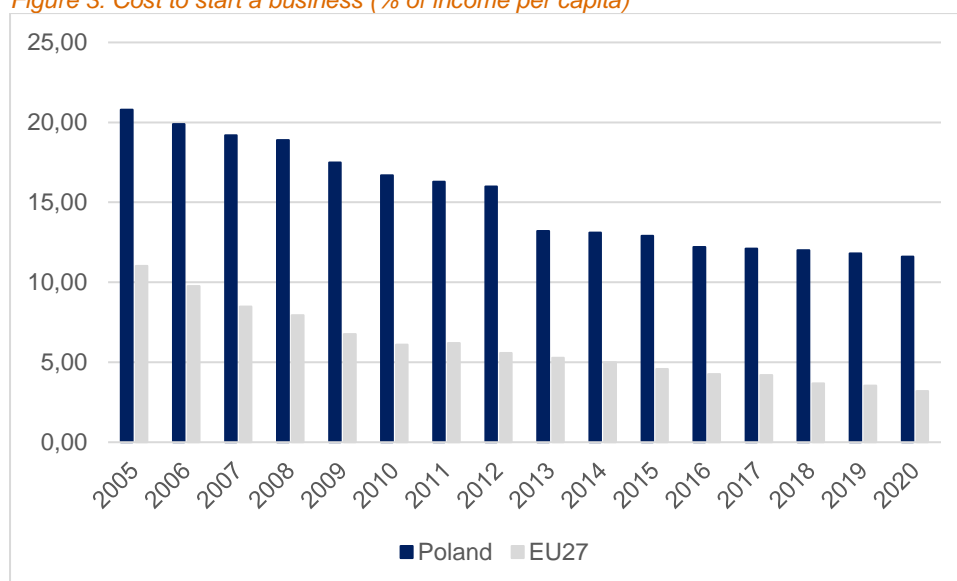
High operating costs (financial and otherwise)

High operating costs are perceived as a major risk factor by 50% of Polish micro-entrepreneurs¹⁴. The fact that the already high operating costs were on the rise was seen as the biggest challenge by 68% of Polish SME owners prior to the outbreak of the COVID-19 pandemic (compared to 42% on average in Europe, North America and Asia)¹⁵.

The high tax burden is identified as the main obstacle to growth and development by three-quarters of start-ups and newly founded companies¹⁶. This confirms the findings of the World Bank, where Poland ranked 77th out of 190 economies in the 'Paying taxes' sub-ranking (down from 51st in 2018 and 69th in 2019)¹⁷.

Moreover, Poland ranks 128th out of 190 economies on ease of starting a business with a score of 82.9 (out of 100; its score has been slowly but steadily improving in the last 10 years; in 2010 it was 78.5). Indeed, costs associated with excessive bureaucracy and constraints resulting from the labour law are among the key obstacles identified by start-ups and young companies' owners¹⁸. When looking at the time to register property, it takes on average 135 days in Poland compared to an average of 27.4 days in the EU¹⁹.

Figure 3: Cost to start a business (% of income per capita)



Source: World Bank Doing Business, 2020²⁰

On average, entrepreneurs spend 334 hours dealing with tax issues alone (up from 269 in 2015 and compared to 159 for the OECD on average²¹). Despite improvements undertaken by the Polish government in recent years, frequent changes of law, including multiple amendments to the same legal acts over a short period of time as well as short *vacatio legis* periods (between the announcement of the legal act and its entry into force), do not allow entrepreneurs to prepare themselves for the changes²².

Skills and innovation

Despite some progress (e.g. innovation-friendly environment), Poland remains 24th out of 27 EU Member States in 2020 in terms of skills and innovation²³.

The most problematic areas for the country are linkages between innovators and attractive research systems. Poland scored badly compared to other EU countries on foreign doctorate students (26th), new doctorate graduates (25th), SMEs innovating in-house (26th – just 12.1% of Polish SMEs innovate in-house against the EU average of 29.1%), as well as SMEs with marketing or organisational innovations (26th – 11.1% against the EU average of 33.2%). The percentage of Polish SMEs introducing new products or process innovation was 14.8% against the EU average of 33.1%²⁴. On skills, only 21.7% of firms in Poland offer formal training to their staff, even though companies have difficulties finding employees with the skills they need²⁵.

R&D spending has been persistently low. At 1.32% of GDP (as of 2019), it is not only below the EU average of 2.0% (data for EU-28), but also below the government's target of spending 1.7% of GDP by 2020. However, it did increase significantly from 0.6% in 2008 and 1% in 2017²⁶. More and more employees are engaged in R&D, and R&D spending increased by 18.1% from 2018 to 2019²⁷.

For micro-entrepreneurs, high costs are the biggest obstacle to innovation, followed by lack of support from the government for innovation²⁸.

There is also a lack of sufficient communication between the private sector and universities and research institutions. The Global Innovation Index 2020 highlighted this as one of the major weaknesses of Poland, ranking the country 87th out of 131 economies (up from 92nd in 2019). On the question of whether new technology, science and other knowledge were efficiently transferred from universities and public research centres to new and growing firms, Poland performed below the EU average in 2019 (on a scale of 1-5, 1 being the worst and 5 the best, Poland scored 2.19, below the EU average of 2.5)²⁹.

However, the overall situation in the country in terms of innovation performance has improved in recent years. According to the European Innovation Scoreboard, progress has been made mainly due to advancements in broadband penetration and opportunity-driven entrepreneurship (both above the EU average).

Digitalisation

Despite improvements, Poland lags behind other EU Member States when it comes to integration of digital technologies by businesses. In the Digital Economy and Society Index 2020 report, it ranked 23rd out of 27 EU Member States and 25th in terms of integration of digital technologies by businesses³⁰. While it performed better, so did the EU on average. A total of 13% of Polish SMEs sell their products and services online against the EU average of 18% (an increase of 4% compared to 2018), and 5% of them sell to clients in other EU countries³¹. On the share of businesses that have a website or that buy cloud computing services, Poland performs below the EU average, scoring 69% and 10% respectively against the EU average of 75.4% and 27.8%^{32,33}. However, newer data suggest a strong increase in cloud computing services in Poland (17.5% in 2019)³⁴.

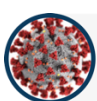
Generally speaking, Polish entrepreneurs lack digital skills. The country has one of the least developed digital entrepreneurial ecosystems among the EU Member States³⁵, which has proved to be one of the main reasons for low digitalisation levels in the Polish economy in the past³⁶.

Alongside cybersecurity issues and internal resistance to change, the lack of employees with sufficient digital skills is one of the key challenges for SMEs in their digitalisation processes³⁷.

Despite this, just 11.6% of Polish firms provided training on ICT skills³⁸ in 2019, below the EU average of 21.6%.

On a positive note, awareness of the importance of digitalisation among Polish entrepreneurs is on the rise³⁹. Indeed, 1 in 3 Polish SMEs declare digitalisation to be a high or very high priority for them. Moreover, the ongoing COVID-19 crisis has underlined the need for digitalisation and compelled SMEs to use social media more. A total of 31% of Polish SMEs (32% of micro firms, 35% of small firms, and 37% of medium-sized firms) used online platforms to mitigate the adverse effects of the COVID-19 pandemic⁴⁰. Moreover, micro (17%), small and medium-sized (19% each) firms undertook investments in new digital solutions, hardware or software.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

Liquidity is one of the key issues for SMEs facing the COVID-19 crisis, with 44% of Polish entrepreneurs having noted decreases in their liquidity by the end of June 2020⁴¹. SMEs adapted gradually to pandemic restrictions, but the impact on business remained widespread. In October 2020, 52% reported a decline in sales, against 69% in June⁴².

The government introduced measures to address this issue (loans, credit guarantees, subsidies) under the auspices of the 'Anti-crisis shield' package. In 2020, this support was estimated at 7% of GDP⁴³.



SCALE-UP ENVIRONMENT

In 2018, the share of high-growth enterprises in Poland was 12.5%, 9th best in the EU that year⁴⁴.



GREEN TRANSITION OF SMES

According to the Flash Eurobarometer 486, almost half (49%) of Polish SMEs recycle or reuse materials against 61% in the EU on average, 49% reduce their consumption of or impact on natural resources (vs 52% in the EU on average), and 48% save energy or switch to sustainable energy resources (vs 52% in the EU on average). However, 95% of Polish SMEs do not use any form of renewable energy in their business activities.⁴⁵

In 2019, Poland ranked 23rd out of 27 EU countries in the European Eco-Innovation Scoreboard⁴⁶. This score puts Poland among the countries catching up in eco innovation. 28% of Polish SMEs report actively developing sustainable products or services, against the EU average of 30%⁴⁷. Initiatives in this field include the Polish Product of the Future⁴⁸ or the partnership for the implementation of sustainable development goals⁴⁹.



SOCIAL ASPECTS OF SUSTAINABILITY

While fewer Polish SMEs (25% against the EU average of 33%) have implemented or are currently implementing a sustainability plan (on the impact of their actions on both the environment and society), over half (54% against the EU average of 40%) declared they may consider it in the future⁵⁰.

65% of Polish SMEs (vs 66% in the EU on average) are actively improving the working conditions of their employees, while 39% (vs 52% in the EU on average) promote diversity and equality in the workplace⁵¹.

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- ¹ The data for 2020 are estimates produced by DIW Econ, based on 2008-2018 figures from the Structural Business Statistics Database as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat).
- ² Facebook Data for Good (last accessed 08.02.21), *Global State of Small Business*, available at: <https://dataforgood.fb.com/global-state-of-smb>
- ³ Krajowy Rejestr Długów/KRD Economic Information Bureau (last accessed 08.02.21), *Korona Bilans MŚP – kosztowne skutki pandemii*, available at: <https://krd.pl/Centrum-prasowe/Raporty/2020/KoronaBilans-MSP---kosztowne-skutki-pandemii>
- ⁴ Szybki Monitoring NBP, *Analiza sytuacji sektora przedsiębiorstw, styczeń 2021* (last accessed 01.03.21), available at: https://www.nbp.pl/publikacje/koniunktura/raport_1_kw_2021.pdf
- ⁵ European Commission (2020), *Flash Eurobarometer 486. SMEs, start-ups, scale-ups and entrepreneurship. February-April 2020*, available at: https://data.europa.eu/euodp/en/data/dataset/S2244_486_ENG
- ⁶ Polish Agency for Enterprise Development, *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce*, available at: https://www.parp.gov.pl/storage/publications/pdf/ROSS-2020_30_06.pdf
- ⁷ Eurostat (April 2020), *Intra-EU trade in goods – main features*, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Intra-EU_trade_in_goods_-_main_features&oldid=452727
- ⁸ Bosma, N. et al. (2020), *Global Entrepreneurship Monitor 2019-2020, Global Report*.
- ⁹ OECD (2020), *Financing SMEs and Entrepreneurs 2020: An OECD Scoreboard*, available at: <https://www.oecd.org/cfe/smes/financing-smes-and-entrepreneurs-23065265.htm>
- ¹⁰ Ibid.
- ¹¹ Euler Hermes (26 November 2020), *Pesymistyczne nastroje wśród właścicieli małych i średnich przedsiębiorstw. Informacja Prasowa* (Pessimistic moods among SME owners. Press release), available at: https://www.eulerhermes.com/pl_PL/o-nas/dzial-prasowy/wiadomosci/2019-11-26-pesymistyczne-nastroje-wsrod-wlascieli-malych-i-srednich-przedsiębiorstw.html
- ¹² European Commission (2019), *Survey on the Access to Finance of Enterprises 2019* and previous editions, available at: <https://ec.europa.eu/growth/access-to-finance/data-surveys>
- ¹³ World Bank (2020), *World Bank Doing Business*, available at: <http://www.doingbusiness.org/>
- ¹⁴ Elavon (2019), *MSP Indeks 2019. Kondycja, Wyzwania, Płatności, Ecommerce* (SME Index 2019. State of art. Challenges, Payments, Ecommerce).
- ¹⁵ See Note 11.
- ¹⁶ Polish Agency for Enterprise Development, (2019), *Startupy w Polsce* (Startups in Poland).
- ¹⁷ See Note 13; Taxes and contributions measured include the profit or corporate income tax, social contributions and labour taxes paid by the employer, property taxes, property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees.
- ¹⁸ See Note 16.
- ¹⁹ See Note 13.
- ²⁰ See Note 13.
- ²¹ See Note 13.
- ²² SME Ombudsman (2020), *Systemowe zmiany dla przedsiębiorców* (Systemic changes for entrepreneurs).
- ²³ European Commission (2020), *European Innovation Scoreboard 2020*, available at: https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1150
- ²⁴ Eurostat (2016), *Community innovation survey*, available at: http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_en
- ²⁵ Global Entrepreneurship Monitor (2020), *GEM 2019 / 2020 Global Report*, available at: <https://www.gemconsortium.org/report/gem-2019-2020-global-report>
- ²⁶ GUS (Statistics Poland) (2020), *Działalność badawcza i rozwojowa w Polsce w 2019*, available at: <https://stat.gov.pl/obszary-tematyczne/nauka-i-technika-społeczeństwo-informacyjne/nauka-i-technika/działalność-badawcza-i-rozwojowa-w-polsce-w-2019-roku,8,9.html> ; OECD, (2019). *Gross Domestic spending on R&D*, available at: <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>
- ²⁷ Platforma Przemysłu Przyszłości (3 November 2020), available at: <https://przemyslprzyszlosci.gov.pl/ponad-30-mld-zl-zasililo-w-ciagu-roku-prace-badawczo-rozwojowe/>
- ²⁸ Polish Economic Institute (April 2020), *Mikrofirmy pod lupą w 2019*.
- ²⁹ Global Entrepreneurship Monitor (2019), *National Expert Survey of the Global Entrepreneurship Monitor*, available at: <http://www.gemconsortium.org/wiki/1144>
- ³⁰ European Commission (2020), *The Digital Economy and Society Index (DESI)*, available at <https://ec.europa.eu/digital-single-market/en/scoreboard/poland>
- ³¹ Ibid.
- ³² Eurostat (2019), *Websites and functionalities*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ciweb&lang=en
- ³³ Eurostat (2019), *Cloud computing services*, available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_cicce_use
- ³⁴ See Note 6.
- ³⁵ CASE – Center for Social and Economic Research, Institut de Haute Formation aux Politiques Communautaires, Internet Web Solutions, Mindshift Talent Advisory, Law and Internet Foundation, IDP SAS Di Giancarlo Constantino, CTS

Customized Training Solutions (2020), *Digital Entrepreneurship for Employability Paths Project Ref: 2019-1-PL01-KA202-065880 Intellectual Output 2: Digital Entrepreneurship dynamics*.

³⁶ Śledziewska, R. and Włoch, R. (2015), *Digital Transformation of Small and Medium-sized Enterprises in Central and Eastern European Countries*.

³⁷ British Business Investments (2019), *GOING DIGITAL: The Challenges Facing European SMEs – European SME Survey 2019*.

³⁸ See Note 23.

³⁹ MPiT (Ministerstwo Przedsiębiorczości i Technologii) & Siemens. (May 2019), *Smart Industry Polska 4.0*.

⁴⁰ World Bank & Polish Agency for Enterprise Development (2020), *Pomiar pulsu przedsiębiorstw Badanie COVID-19 Business Pulse Survey (COV-BPS) – Polska*, available at: <https://www.parp.gov.pl/publications/publication/covid-19-business-pulse-survey-polska>

⁴¹ Ibid.

⁴² World Bank & Polish Agency for Enterprise Development (2020), *Pomiar pulsu przedsiębiorstw–druga edycja. Badanie COVID-19 Business Pulse Survey (COV-BPS) –Polska*, available at: <https://en.parp.gov.pl/publications/publication/covid-19-business-pulse-survey-poland-second-edition-executive-summary>

⁴³ Niedużak: *Pomoc dla firm w pandemii bezprecedensowa - ok. 7 proc. PKB*, available at: <https://www.bankier.pl/wiadomosc/Nieduzak-Pomoc-dla-firm-w-pandemii-bezprecedensowa-ok-7-proc-PKB-8041572.html>

⁴⁴ Eurostat (2020), *High growth enterprises (growth by 10% or more) and related employment by NACE Rev. 2*, available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bd_9pm_r2&lang=en

⁴⁵ EFL Credit Agricole Group (2020), *Zielona Energia w MŚP pod lupą. Europejski Programme Modernizacji Polskich Firm*, available at: <https://media.efl.pl/releases/557774>

⁴⁶ European Commission (2020), *Eco-innovation at the heart of European policies*, available at: https://ec.europa.eu/environment/ecoap/indicators/index_en

⁴⁷ European Commission (2020), *Flash Eurobarometer 486. SMEs, start-ups, scale-ups and entrepreneurship. February-April 2020*, available at: https://data.europa.eu/euodp/en/data/dataset/S2244_486_ENG

⁴⁸ Laureaci Konkursu Polski Produkt Przyszłości XXII Edycja, available at: <https://www.parp.gov.pl/component/site/site/laureaci-xxii-edycji-konkursu>

⁴⁹ Partnerstwo na rzecz realizacji celów zrównoważonego rozwoju w Polsce, available at: <https://www.gov.pl/web/rozwoj-praca-technologia/partnerstwo-na-rzecz-realizacji-celow-zrownowazonego-rozwoju-w-polsce>

⁵⁰ See Note 47.

⁵¹ Ibid.