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**DRAFT COUNTRY REPORT FOR POLAND**

**WARSAW, FEBRUARY 1992**

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2

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## **CONTENTS:**

- O. INTRODUCTION**
- 1. PRESENT SITUATION OF SMALL & MEDIUM-SIZED ENTERPRISES IN POLAND.**
  - 1.1. PROBLEMS OF RESTRUCTURIZATION, UNEMPLOYMENT, THE BARRIERS OF DEVELOPMENT.**
  - 1.2. REVIEW OF CONDITION OF SMALL & MEDIUM-SIZED ENTERPRISES AS OF SEPTEMBER 30, 1991.**
  - 1.3. THE DEMAND FOR BUSINESS INCUBATORS AND THE PROGRAM OF ACTIVITY IN THE SCOPE OF BUSINESS CENTERS AND BUSINESS INCUBATORS DEVELOPMENT.**
- 2. BARRIERS OF BUSINESS INCUBATORS' SETTING-UP.**
- 3. PRESENT SITUATION OF THE DEVELOPMENT OF BUSINESS INCUBATORS CENTERS.**
- 4. TORUN BUSINESS INCUBATOR**

## **INTRODUCTION**

At present political and economic situation of Poland a promotion of private enterprises must become a priority. The government activities for "small business" will provide for creating new legal rules having a bearing on development of small and medium-sized private businesses, will stimulate a development of enterprises through the endeavor after creating of "cheap" credits, bank guarantees etc., it means new economic and financial system. Very important problem is the development of consulting and information services system as well as trainings and seminars for local administrative staff and potential businessmen.

In order to realize the above mentioned aims the following departments of the Ministry of Industry and Trade have been called: the Department of Small and Medium-Sized Enterprises and the Department for the Promotion of Entrepreneurship. Both departments act within the scope of information & consulting, promotional & training and financial activities. Economy chambers and associations, local administration/regional authorities, foundations and business promotion centers join regional activities. Very important role within the above plays wide promotion of Western European economic system, training system, transfer of information, scientific-technical progress as well as the assistance in contracting of business relations. [Under the sponsorship of UNIDO the CCAN (Cooperation Contracts Agencies' Network) system is presently established].

## **1. PRESENT SITUATION OF SMALL & MEDIUM-SIZED ENTERPRISES IN POLAND**

### **1.1. Problems of restructurization, unemployment, barriers of development**

Polish economy is presently in the period of transformation and its main purpose is to develop and increase of the share of private sector. Economic recession caused among others by the barrier of demand, advances economy restructurization and the change of property system. Non-competitive enterprises, technically outdated will be restructurized, part of them will be settled out, but the majority will have to be divided into smaller and better organized economic structures. The decrease of employment will accompany this process. The flow of foreign capital as well as proper state policy are very important matters in the process of establishing of new work places and new enterprises. Undertaking of new economic enterprises and the development of strong small and medium-sized business sectors will do Polish economy more flexible through increasing its competitiveness when speaking about exploitation of machines and raw materials, implanting of new production technologies as well as establishing of new work places and reduction of unemployment. Additionally, private business does not need either big capital or time consuming investments. Newly established companies have big problems presently. As banks are not experienced enough in cooperation with such companies, they often reject their applications for credits. These problems are increased within the lack of governmental guarantees for credits for small businesses. The lack of adaptation and coordination in state administration offices' activity, especially within the scope of counselling, inspiration and economic analysis, create serious difficulties to prospective businessmen. Previous

development of small and medium-sized enterprises is strictly connected with the necessity of step over various barriers and financial and legal limitaitons. A lot of legal rules which do not stimulate economic activity and which make private business managing difficult, are still in force in our legal system.

The lack of infrastructure of business services, ie. commercial associations, training organizations, banks, consulting companies etc. sets back whole privatization process of our economy. Among others above mentioned barriers of development "psychological barrier" does exist.

This barrier means that our community is not willing enough to carry a risk, that people are not provided enough and do not believe in long term investments possibilities. A lot of these barriers should be reduced by organizational structure of business incubators, especially on the very beginning of activity of new enterprises.

## 1.2. Review of condition of small and medium-sized private businesses as of September 30, 1991.

Number of permanent employees on full position is the main criterium of division of enterprises into small and medium-sized:

- \* small enterprise - nc more than 50 employees;
- \* medium-sized enterprise - 50 to 300 employees.

A great deal of newly established businesses make up small (family) companies employed no more than 5 persons.

Together with a development of economy as well as private sector it will be possible to use the Common Market definition regarding small and medium-sized businesses.

The law of business activity dated December, 1988, activated a development of small and medium-sized private companies.

In the third quarter of 1991 (as of September 30, 1991)\* over 1,430,000 enterprises were operational; it means an increase by 20.6% in comparison to the end of 1990. These enterprises employed over 2,800,000 people. Among above mentioned enterprises there were about 1,355,000 factories, building firms, commercial companies, servicing companies hold by private persons; about 41,000 commercial law companies and 3,512 joint venture companies.

During three quarters of 1991 a position of private sector in some important economy branches increased up to 21.1%, in building industry up to 43.9% and up to 16.2% in transport. Generally it can be stated that a development of private sector is not as quick enough as supposed. This is because of some existing tax, customs and banking barriers as well as the lack of private sector's promotion, the lack of capital and properly educated businessmen. Very small enterprises with no more than 2 employees are still on the first place.

The biggest quantity of small businesses can be found in industrial regions such as: Warsaw, Katowice, Gdansk, Krakow, Lodz, Poznan, Szczecin and Wroclaw. In the east and south-east of Poland business activity is the smallest.

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\*based on materials of Main Statistics Office, the Ministry of Finance, the Central Planning Office

1.3. The demand for business incubators and the program of activity in the scope of business centers & business incubators' development.

Initiatives of establishing of business incubators started in Poland in the second half of 1980's. In 1986 in Poznan studies on possibility of transfer of Western experiences within the scope of private business and businessmen support as well as establishing of business incubators and technology centers into Poland have been started. In 1990, under the sponsorship of the UN and Polish government, a program UNDP-POL/89/TO1 "Study on technology possibilities" had been worked out. After that, organizational works took place from October, 1990 till June, 1991 in Wielkopolskie Business and Innovation Center SA in Poznan. Within the framework of this program some seminars and trainings for potential business incubators organizers as well as for representatives of administration responsible for regional development were hold. Missions of representatives and individual centers of business incubators visiting Poland and cooperating with such centers in Gdansk, Torun, Warsaw and Poznan confirmed that new forms of promotion will be further organized and carried on.

Network of support of small and medium-sized businesses and private businessmen in Poland should be adapted for local (regional) needs, ie. for existing financial and personal inventories. At present, to priority tasks belong action against unemployment and making productive existing industrial facilities, where actually unemployed people should be trained. In order to do so "simple incubators" have to be established. Together with establishing of business incubators there is a need to organize technology centers by universities and research institutes. Both organizations are to be complementary in regard of, for example, transfer of technologies to regional centers and business incubators. In order to coordinate such activities, in April 1991, the Business Incubators Council by the Ministry of Industry (presently the Ministry of Industry and Trade) was called into being. Members of the Council are representatives of such regions in which Innovation and Business Centers as well as business incubators have been organized yet and also many others who are interested in establishing of such organizations. Discussions and exchange of experiences between individual centers are the main topics during every meeting of the Council.



## **2. BARRIERS OF BUSINESS INCUBATORS' SETTING-UP**

1. Local network assisting small and medium-sized enterprises (for instance, Business Promotion Centers, Enterprises and Innovation Centers, Regional Development Agencies) is just organizing. Organizational structures are young and irregular, so an idea of incubators' promotion has its short history and various administration institutions, enterprises, research institutes and universities have to actually understand this idea.

2. Matters of ownership of buildings which could be adapted for incubators sake are very often not clear, so organizational and legal processes of incubators' establishing are long and complicated.

3. Groups of employees - especially in these production plants in which restructurization process takes place - are seriously interested in organization of incubators. These groups are very active but, as they meet many barriers (ownership of buildings, funds for adaptation, undertaking of local authorities) they often become discouraged and break down. It is absolutely necessary to do more in order to organize formal branch offices of Urząd Wojewódzki or the Enterprises Development Center in Warsaw to speed up activities regarding formal and legal aspects of incubators' organization as well as to organize trainings (also in other countries) for this group of employees. Very important matter is to prepare proper materials (handbooks) and to organize trainings for prospective management of incubators. Money problem has its importance in this matter and perhaps it will be necessary to come back to an idea of the Economic Foundation NSZZ "Solidarnosc" in Torun to eventually establish the second trainings center for southern Poland basen on the Technical Progress Center and the School for Managers in Katowice which has good conditions for this, and teh Enterprises and Innovation Center in Poznan for west and north-west of Poland.

4. Acquire of fund and aports for the organization of incubators is very difficult now. Foreign financial assistance and credits have not been properly improved by now. There is necessary to organize local resources such as: central and regional programs, seed and venture capital, financing banks, new technologies etc.

5. An important barrier is a lack of consciousness of the necessity of business incubators existence, as both local authorities and enterprises do not understand this idea. Based on existing centers in Poznan, Torun and Warsaw it is necessary to organize advertising campaign. The potential enterprises have to be explained that intuition only is not enough to start and held economic activity.

### **3. PRESENT SITUATION OF THE DEVELOPMENT OF BUSINESS INCUBATORS CENTERS.**

The level of advance of business incubators organization in Poland is very different and depends on funds, initiative groups and regional development. Strong regional centers are located in Gdansk, Poznan, Krakow, Torun, Warsaw, Lodz and Wroclaw; centers of promotion and business incubators are still organized there.

According to the terms of "Guide to Best Practices..." promotion centers (managed workshops), incubators "without walls", technology centers and business incubators are mostly developing in Poland. Technology centers are organized by universities or research institutes, which main purpose is to prepare for operation new technical, technological and organizational concepts.

The second group - business incubators based on a property of restructured enterprises together with using of their buildings, machines and equipment and in which main users are unemployed people.

Considerable number of initiative groups is consolidated in Poland by universities (in Poznan, Krakow, Warsaw, Gdansk, Wroclaw, Zielona Gora) and the works to organize technology business incubators are variably advanced.

Poznan initiatives - Wielkopolska Business and Innovation Center Inc. together with the Technical University and with the support of UNDP, built a house of 1,500 sq. m in Poznan. It is a technology business incubator in which 6 small private firms will be located (optoelectronic, thermographic, research-scientific equipment and consulting company). Further it is planned to locate 10-15 private enterprises (technology business incubator). All enterprises located in this building will use together office and administration as well as advisory and trainings services.

In order to finish and start this technology business incubator it is necessary to be financed with approx. us\$ 100,000.00 for the purchase of training equipment for seminar rooms as well as for office equipment (computers, photocopy machines, faxes etc.). The building of technology park is projected in Poznan now. Works and projects on its best location are hold.

Warsaw initiatives - the Warsaw Initiative Group is advanced in organizing of the Center for Emerging Technology Enterprises (CETE). Approx. US\$ 8-11 million has to be invested. Financial program foresees to get a credit of US\$ 4 million and the remaining amount of money to be received as grants and own incomes.

The owner of CETE will be International Foundation for Science and Technology established by representatives of Warsaw scientists (Warsaw University, Technical University). CETE will start its activity on a surface of 5,000 sq.m in Warsaw (adapted building) and in Celestynow near Warsaw on 2,500 sq.m (building in final stage). CETE began its activity on October, 1991, on a surface of 300 sq.m; on July, 1992, an adaptation of further 1,000 sq.m in Warsaw is projected and at the same time 600 sq.m in Celestynow will be finalized.

CETE plans to employ 3,000 - 5,000 employees within 10 years as well as to establish 70 modern enterprises of high capacity. Approx. 8 new companies a year would be admitted to CETE and UNIPRESS-PAN prepared for these companies a bunch of new technologies of high-pressure equipment. The CETE's financial program supposes this incubator to be profitable. Very interesting initiative of establishing of technology business incubator is MERA-PIAP project in cooperation with Finnish group. This project is on its beginning stage and the first steps in order to organize foundation will be undertaken in the middle of 1992. The Enterprise Development Center Co.Ltd. cooperates in this adventure.

Gdansk initiative - Gdansk Innovation Center Ltd. started its activity on November 20, 1990. Its founders are: Gdansk Technical University, Bank of Gdansk and Gdansk Chamber of Private Industry and Trade. This technology business incubator called into being in order to support private enterprises not only loans free surface, but also enables to use laboratories and production equipment as well as offers legal, financial and commercial advisory services. Its major task is to transfer technologies from universities to the economy. Incubator has a surface of 400 sq.m. Basic production - electricals for marine industry (vessels) and for railway industry. Incubator's management - 5 persons: manager, deputy director and expert for financing and economy, legal advisor and marketing specialist.

Krakow initiative - "Progress and Business" Foundation in Krakow together with AGH, Technical University and Economic Academy organizes technology business incubator in order to distribute technologies and informatics knowledge for newly established enterprises. Users of this incubator will be specialized in creating of computerized systems for a sake of management and staff training, development and adaptation of modern informatics technologies. For the organizational purposes "Progress and Business Plan" had been prepared and then accepted and sponsored by the Department for the Promotion of Entrepreneurship of the Ministry of

Industry and Trade. Incubator will start its activity in Krakow as non-commercial company. The management of incubator will have 3 persons - manager, technical specialist and secretary. At the first stage, ie. in the first half of 1992, incubator will be located on a surface of approx. 250 sq.m plus it will receive the next 200 sq.m in the end of 1992; 5 to 7 computer companies will be set up in this incubator.

Presently high schools, universities and research institutes in Warsaw, Lodz, Poznan, Wroclaw, Rzeszow, Zielona Gora and many other scientific centers in Poland are differently advanced in organizing of technology centers projects as one of forms of transfer of modern techniques and technologies. Many a time high schools have their own contacts with similar centers in Western Europe or in the United States and, in this way, they receive an approach to trainings, transfers, knowledge and experiences in organizing centers and technology business incubators.

Business incubators, as an effective antidote both for companies owners and employees, are organized in zones where the problem of unemployment is really a danger. Such incubators are setting up in Torun, Gdansk, Starachowice, Ostrowiec Swietokrzyski, Mielec, Swidnik, Katowice, Darlowo, Bielsko-Biala, Szczecin and many other places in Poland. Over 40 initiative groups are presently advanced in organizing of centers and business incubators. Very advanced form of activity presents Torun Business Incubator (TBI), which deals within the scope of organizational structure of the Economy Foundation NSZZ "Solidarnosc" in Torun. For this incubator's sake there was found an industrial facility having 7 buildings of total surface of 3,583.5 sq.m and situated on 3 ha. Business plan for this incubator has been prepared with the cooperation of the Regional Work Office and Mr Frank J.Kuhne (BMCL Ltd.), Bradford, United Kingdom and sponsored by the Department for the Promotion of Entrepreneurship of the Ministry of Industry and Trade. At the first stage of its activity TBI can approve 80 small production, service and commercial enterprises employed approx. 200 persons, to become its tenants. Established companies will have low capital consumption and there will be simple enterprises which do need any special professional background of their managers. It is projected that in the third year of operation this incubator will have enough money to be self-financing and that in the fifth year of operation it will become profitable.

Starachowice - Municipal Office, Bank of Social-Economy Initiatives and Foundation for Polish Science Development are the organizers of business incubator based on restructurized trucks factory. This idea started to exist in July, 1990. Incubator will be located in a building complex of 3,000 sq.m which previously belonged to upholstery and approx. 30 companies will become its tenants; it means that 100-200 new work places will be established. Incubator will have a legal form of limited company and French consultants (Creation et Gestion des Pepinieres - CGP) declared their assistance.

Ostrowiec Swietokrzyski - initiative group composed of "Ostrowiec" ironworks employees, Employees Foundation of "Ostrowiec" Ironworks and Factory Committee of NSZZ "Solidarnosc" started to organize business incubator. The first projects of business plan have been worked out and necessary steps for incubator's registration, setting-up its management and concluding of the first agreements take place.

Darlowo - there is a building previously belonged to the Agriculture Machnies Factory "Agromet" of 5,000 sq.m; location of 50 production companies is foreseen.

Swidnik and Mielec - management groups as well as free objects are ready to organize business incubator.

In all newly established business incubators it is a big demand for trainings for:

1. managers and directors of incubators;
2. incubators tenants, ie. persons who try to conduct business for the first time.

Szczecin - the activity of business incubator is advanced - a building of 980 sq.m has been adapted and 16 companies started their activity at this place in January, 1992.

Other business incubators are organized in Bielsko-Biala, Walcz, Lublin, Katowice, Jelenia Gora and Wroclaw.

Municipal and regional offices, regional agencies, foundations and banks are engaged in organizing of business incubators.

Taking into consideration the above, it is necessary to do all in order to receive foreign financial assistance (in the lack of local financial resources) to pay for trainings and incubators technical equipment (such as computers, photocopy machines, faxes etc.). It is to be pointed out that especially important matter for business incubators' promotion is organizing of trainings for these enterprises in Poland.

#### **4. TORUN BUSINESS INCUBATOR**

Torun Business Incubator is the regional incubator which regards to some important local problems such as high unemployment level and constantly decreasing economic situation of state-owned enterprises. For the incubator's sake an industrial facility having 7 buildings of total area of 3,583.5 sq.m was found and in the first period of activity 80 small production and service and/or commercial companies can be located there. As per analysis of present development level of Torun region it is a big demand both for office space and consulting and training services. This incubator will be the first one in Torun region so, taking into account cheap rental and services' prices, there will be any problems with taking of good tenants. Such stabil position of incubator was taking into consideration while preparing business plan.

Torun Business Incubator was called into being within the frame of organizational structure of the Economic Foundation NZSS "Solidarnosc" in Gdansk. Torun Regional Office. Foundation's structure ensures TBI proper possibilities of operation. It is a flexible and mobile form of activity regarding both system of management and taking into consideration economic and financial aspects (especially tax preferences).

Targets of Torun Business Incubator:

1. Inspiration and support for private business.
2. Reduction of unemployment.
3. Supporting of economy initiatives.
4. Assistance for newly established small and medium-sized enterprises.
5. Assistance in contacts and cooperation with other organizations and enterprises which should support private business.
6. Training of staff and managers.

Social and economic advantages of incubator's activity:

1. Increase of properly trained and organized small enterprises.
2. Organizing of new work places.
3. Increase of activity and stabilization of local economic market.



4. Increase of competitiveness, quality and quantity of goods and services.
5. Speed up of privatization process.

Economic prognosis shows that by the end of 1993 incubator will not become profitable; as of the beginning of 1994 incubator will start to be self-financing and even profitable (subject to solid level of interest of prospective enterprises). It is also foreseen that the very first expenses of setting-up of this incubator will be covered by previously collected remedies and dotation. Such economic analysis may be helpful in the next steps to receive other financial resources/assistance.

It is foreseen that a rotation of incubator's tenants will be no more than 25% a year (including such companies which will bankrupt in the meantime).

In 1995 non-productive companies will leave incubator and will start their own activity on a free market and, at the same time, new enterprises will start to be incubator's tenants.

### ECONOMIC ANALYSIS ASSUMPTIONS

1. Floor space necessary for Torun Business Incubator:

a) gross floor space	3,538.5 sq.m
b) space to be rented	2,621.2 sq.m
c) space for use by the management and supporting staff	76.6 sq.m
d) common areas (corridors, halls, toilets)	840.7 sq.m
e) areas described in points c and d makes 26% of gross floor space	

It is possible, during adaptation works, to reduce common areas by approx. 7%.

2. Method of rental space charging:

a) on buildings and on land taxes:  
tax amount / space rented - each sq.m is to be debited  
with this amount

b) costs of incubator's functioning:  
incubator's costs / total space rented - each sq.m is to be debited  
with this amount

c) rental charges:

If it is possible to get tax exemption regarding tax-on-land,  
rental charges can be reduced by approx. Plz 1,221.- per  
1 sq.m.

\*Rental charges in 1992 - Plz 12,000 per sq.m both for  
production and non-production companies.

\*Rental charges in 1993:

i) for production companies - the first three quarters  
Plz 16,000 per sq.m  
- the fourth quarter  
Plz 25,000 per sq.m  
ii) for non-production companies - the first two quarters  
Plz 16,000 per sq.m  
- 3rd and 4th quarter  
Plz 25,000 per sq.m

\*Rental charges in 1994:

i) for production companies - the first three quarters  
Plz 25,000 per sq.m  
- the fourth quarter  
Plz 30,000 per sq.m  
ii) for non-production companies - the first two quarters  
Plz 35,000 per sq.m  
- the third quarter  
Plz 42,000 per sq.m  
- the fourth quarter  
Plz 50,000 per sq.m

d) salaries and wages

Average salary in Poland in 6 main industry branches - Plz 1,850,000  
is a basic amount.

<u>Position</u>	<u>Qty of positions</u>	<u>Coefficient</u>	<u>Amount of salary</u>
- incubator's manager	1	1.8	3,330,000.-
- incubator's secretary	1	1.0	1,850,000.-
- accountant/economist	1	1.5	2,775,000.-
- legal advisor	1	1.7	3,145,000.-
- maintenance man	1	1.1	2,035,000.-
- guards	2.5	0.9	4,162,500.-
<u>Total</u>	<u>7.5</u>		<u>17,297,500.-</u>

Cash flow costs elements

- Cost of incubator's set-up
  - \* renovations, adaptations, territorial development
  - \* telecommunication network
  - \* alarm systems
  - \* technical projects, supervising and other costs of investment
  
- Overheads (variable)
  - \* banking services
  - \* consulting and training costs
  - \* common facilities and business trips costs
  - \* annual report costs

## CASH FLOW FOR TORUN BUSINESS INCUBATOR

(all costs given in million zloties)

Description	1991/92	1993	1994	1995	1996
<b><u>Expenses</u></b>					
<b>Start-up costs:</b>					
- incubator's set-up	2220				
- office equipment	160				
- miscellaneous	120				
Subtotal:	2500				
<b>Salaries:</b>					
- nett salaries	201,432	245,306	292,734		
- social security & tax	130,930	159,449	190,277		
<b>Building's maintenance:</b>					
- insurance	25,0	25,0	30,0		
- tax-on-land & on-building	68,0	68,07	66,0		
<b>Variable costs:</b>					
- consumption of energy, water etc.	364,22	393,8	432,4		
- telecommunication	41,0	64,0	69,0		
- office management	100,5	105,0	119,0		
<b>Miscellaneous:</b>					
- marketing	50,35	28,6	36,5		
- marketing	16,0	12,0	16,0		
<b>Total expenses:</b>	<b>997,432</b>	<b>1107,126</b>	<b>1251,111</b>	<b>1376,222</b>	<b>1400,0</b>
<b><u>Incomes</u></b>					
- space rental	518,626	1161,474	1687,838		
- services for tenants, consulting & trainings	29,100	94,0	97,0		
<b>Total incomes:</b>	<b>547,726</b>	<b>1255,482</b>	<b>1784,838</b>	<b>1928,970</b>	<b>2018,0</b>
<b>B a l a n c e:</b>	<b>-2500</b>	<b>-449,706</b>	<b>148,356</b>	<b>533,727</b>	<b>618,0</b>
<b>Cumulative balance:</b>	<b>-449,706</b>	<b>-301,35</b>	<b>232,377</b>	<b>785,125</b>	<b>1403,1</b>