

The micro-finance and self-employment environment for the socially excluded

Country report Poland

Introduction



GDP growth 2004	6.9%
Size of informal sector as % of GDP	27.6%
% of self-employed/active population	27.3%
Unemployment rate 2003	19.2%
LT unemployed as % of unemployment rate 2003	55.7%
Risk of poverty, % of total population	15.0%
Risk of poverty as % of unemployed	37.0%
Risk of poverty as % of self-employed	19.0%
National proportion of Nascent Entrepreneurs	3.67%

Key data Poland. Source: Eurostat and gem

Poland is a republic with approximately 38 million inhabitants. It consists of 16 provinces (województwa).

Who are the socially excluded?

Poverty is a serious problem in Poland. In 2002, 17 per cent of the Polish people lived under the poverty line, higher than the EU average (15 per cent). This means that 6.5 million people had an income lower than 60 per cent of the average national income at their disposal. Since the threat of poverty increases with family size, **children and youth** are most affected by poverty, about 23 per cent of children (aged below 15) and 21 per cent of youth (aged 16–24 years) lived in poverty in 2002. Among the employed, **the self-employed** were in the most difficult situation with 20 per cent (including individual farmers) living below the poverty line. The highest number of poor people can be found among **the unemployed** (37 per cent in 2002).

At present the employment rate of Poland is the lowest in all EU-Member States. In 2003 the employment rate in the age group 15–64 was 51.2 per cent (EU-average: 63 per cent). The unemployment rate amounted to 19.2 per cent with a slightly higher rate for women (20.5 per cent) than men (18.5 per cent). There are indicators that unemployment in Poland is mostly of structural character, i.e. a strong correlation exists between unemployment and the level of education. Younger and older persons are particularly affected by unemployment. The **regional differentiation** of the unemployment rates in Poland is high and persistent. In 2002 the differences in total unemployment between *voivodships* amounted up to 10 percentage points.

The amount of **immigration** is very low compared to other European countries, although it has increased during recent years. In 2001 over 4,500 people applied for refugee status in Poland; in 2003 the number rose to 6,909. **The Roma** forms a strongly economically differentiated group. Due to low educational levels, passivity in job seeking and a general reluctance of employers to hire them, they have massive problems entering the labour market. Currently there are about 20,000 people of Roma minority living in Poland.

Entrepreneurial context

Rate: 2.5

Fifteen years after the end of the planned economy the Polish economy has transformed into a competitive economy with a dominant private sector and high rates of growth measured in GDP dynamics. Between 1995 and 2003 the average annual increase of GDP for all EU countries was 2.2 per cent while for Poland it was almost twice as high (4.3 per cent). The stock number of enterprises registered in the national REGON register has increased steadily in recent years. Of the total number of enterprises in Poland, the small and medium-sized enterprises prevail, accounting for 98 per cent of all enterprises in 2000, providing 67.1 per cent of total employment. The share of self-employment is relatively high in Poland (in 2002, 24 per cent of the workforce was self-employed, the recent European average is around 15 per cent) and the general attitude of the Poles towards self-employment seems to be very positive.

The high number of self-employed masks some important qualitative aspects that weaken the impression of Poland's high entrepreneurial spirit. In the face of structural unemployment, self-employment is mostly chosen out of necessity. And under the veneer of high statistical numbers in self-employment lurks a feature of the Polish economy that is normally considered as one of its most serious threats: the high percentage of people working as individual farmers in the low-productive agricultural sector on their own agricultural holdings. The rate of self-employment in the non-agricultural sectors is much lower, around 12 per cent for 2002. In general, the economic situation of self-employed people in Poland is often precarious; almost 20 per cent of them live at risk of poverty.

The informal sector is rather big, with an estimated volume of 27.6 per cent of the formal GDP, and an estimated two to three million people working in the grey economy. In the interviews it was stated that the cultural values in the Polish society don't sufficiently encourage personal initiative, creativity and entrepreneurial spirit. This was blamed mainly on deficits in the educational system. While the status quo of school-based programmes on fostering entrepreneurship is still weak, the developments in the process of the EU-Accession are more promising. In 2002 a national educational framework for entrepreneurship was established and entrepreneurship is explicitly included as a separate school subject in the national curriculum of second level education. Overall the entrepreneurial culture in Poland is evolving but at the moment it is only average compared to other countries.

Policy for micro-enterprises

Rate: 2.0

The access to the EU and the ongoing debate on micro-finance has triggered the discussion about micro-finance as a tool for poverty alleviation and social inclusion. The fostering of self-employment and the support of micro-enterprises with micro-finance instruments became an issue recently on the agenda of the Polish Government, but only in the broader perspective of general SME support. A coherent national strategy for the improvement of the financial support for micro-enterprises and the fostering of self-employment is still lacking. Local development initiatives to support the creation and survival of micro-enterprises and self-employment are widespread in Poland, but with strong regional differences and no deep interconnections. A very popular form of local micro-enterprise support is the establishing of loan funds by public authorities (a 2003 report counted 76 of them).

The number of loan funds per *voivodship* differs a lot (between two and nine), as does the loan activity. In 2002 a national government programme to build an integrated system of regional and local financial institutions for SMEs, was launched (Capital for Entrepreneurs). But experts doubt that the design is appropriate for reaching micro-enterprises effectively. Other programmes like the 'First Job' programme that aims at enhancing the employability of school-leavers and encouraging graduates to establish their own business sound more promising, but its outreach is low so far (since 2002 around 600 start-up loans were granted). There is no national programme focusing on fostering self-employment in special groups of socially excluded people. Efforts have been made to shorten the registration procedures necessary for setting up a business. At the moment the average duration is 31–60 days, which is acceptable, compared to the other countries in this study. But according to interviewed experts, the costs are still very high. Overall the policy for micro-enterprises is not very supportive and below average.

Welfare bridge

Rate: 2.0

The Polish social transfer system is characterised by high expenditures and has created severe inactivity traps for big parts of the Polish population, especially for older and agricultural workers. In 2002, about one in five Poles of working age received some form of social transfer. The most important ones in terms of expenditures and beneficiaries are the disability pension system (13 per cent of the working-age population received disability benefits in 2002) and the special farmers' social insurance programme (KRUS). The former is often used as a form of early retirement scheme; the latter can be seen as a potential incentive for individuals to stay in the low-productive farming sector. The social assistance and unemployment insurance programmes are less generous in means of access and benefit level.

Long-term unemployment is widespread in Poland. In 2003, nearly 56 per cent of all unemployed people were job searching for more than a year. The promotion of self-employment as a way to exit unemployment is not emphasised by the public employment services in Poland. They seem to be aware of self-employment as an option to overcome unemployment, but the structures to realise the full potential of this have not been developed so far. There is no co-operation between the social, employment and tax systems to improve the (re-)entry of unemployed people into the labour market or to promote self-employment. The low numbers trying to leave unemployment through self-employment illustrate this, merely 4 per cent of the total number of unemployed. In the second quarter of 2004, 129,000 of the registered unemployed made efforts to leave unemployment, through self-employment. Overall the Polish welfare system is weak in producing incentives to exit unemployment and below average in fostering self-employment as a way out of unemployment.

Legal framework for micro-finance providers

Rate: 5.0

There is no special legal regulation for micro-finance providers in Poland. The banking legislation offers enough freedom: Bank status in Poland is focused on deposit banking. In terms of lending, the Banking Law differentiates between credits and loans. While credit and saving operations can only be conducted by legally accredited banks, the general banking legislation regarding loans is very liberal. Almost anybody can give loans to almost everybody. The levels of interest rates can be chosen freely as there is no usury law in place so far. For the Polish MFIs, this means they can charge enough interest to make their business financially sustainable but it makes Poland also attractive for predatory lenders like the UK-based Provident Financial and consumer protection becomes an issue. According to experts a draft usury regulation is under discussion.

Overall the legal framework for micro-finance providers is very liberal and allows the allocation of loans without restrictions regarding interest rates and the legal status of the loan provider.

Financial bridge for the socially excluded

Rate: 3.0

The commercial banking sector in Poland is highly concentrated and not very SME/micro-enterprise-minded. Although the commercial banks are starting to be interested in SME lending and are starting to implement SME lending centres, so far micro-enterprises and socially excluded people are not a target group. Nevertheless a local banking culture exists, but the density of branches is low, around 0.75 branches per 10,000 people in 2002, and especially low in rural areas. There is a very strong credit union movement with a focus on private clients, but without a specific SME or micro-enterprise product policy. In general the access thresholds to credit and loans are high in Poland; the ratio of formal bank loans to GDP is four times lower than the average for Euro-Area countries. So for micro-enterprises and solo-entrepreneurs, the access to start-up loans or structured business lending is a big problem. As a result, Polish micro-entrepreneurs very often use consumption credits to finance their businesses. A number of loan funds exist on the local level that are mostly organised by local alliances of governmental agencies and NGOs.

Within twelve years these funds granted 77,400 loans with a total value of 952.5 Mio PLN. These subsidised loan funds are aimed to support high-risk groups but reliable measures of effectiveness and outreach to the socially excluded have so far not been implemented. The strong NGO MFI-sector delivers the majority of financial services to micro-entrepreneurs. It consists of five MFIs of which *Fundusz Mikro* is the largest organisation with a stock of 7,500 borrowers, 56,239 loans granted, and a loan portfolio of €12.2 million (end of 2002). The MFIs' outreach to the socially excluded is weakly

developed, due to a strategic orientation towards businesses beyond starting phase with positive cash flow.

Overall the financial bridge for the socially excluded is weak with regard to the banking sector and above average with regard to the MFI sector.

Funding for micro-credit providers

Rate: 3.0

The sources of support for micro-credit programmes and self-employment schemes in Poland have changed over the last decade. While the local loan funds are supported mainly by governmental agencies, the MFI-sector was supported for a long time by foreign private donor organisations that have been very active in the transition period of the 1990s. This form of support granted the local MFI sector a lot of freedom in developing their structures and strategies and can be seen as a central key to the success story of the largest Polish micro-lender Fundusz Mikro. Since the private donor organisations have retreated from Poland, some support for MFIs is delivered through governmental agencies.

EU-funds have not been accessible for Polish MFIs so far – this will be a challenge for both sides due to their target group approaches. But thanks to the absence of a usury law and with an average interest rate of 7 per cent over base rate, the MFIs are able to develop sustainable operations.

The co-operation of commercial banks with micro-finance providers is weak and selective. The only lobby organisation for MFIs is the quite influential Microfinance Centre (MFC). But while the organisation is located in Warsaw it is oriented towards the whole of Eastern Europe and the New Independent States and not as influential in Poland. So for the Polish MFIs there is a lack of lobbying. According to practitioners, under the charity law it is appropriate to use funds for lending but the tax law causes some problems.

Overall the funding environment for micro-credit providers in Poland is not as supportive as it could be. The lack of engagement of banks and inappropriate EU-programmes are responsible for this.

Final scoring

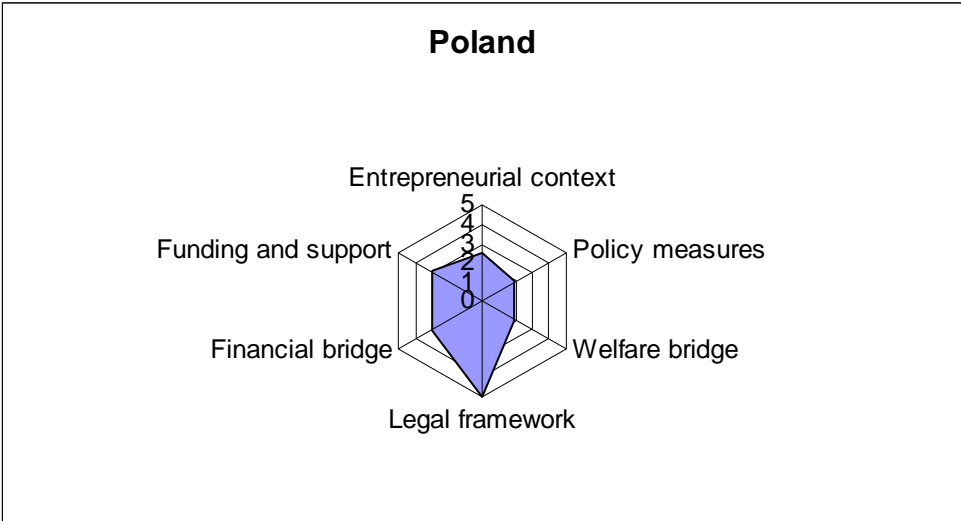


Figure 25: Final scoring of Poland

Lessons learned

Here, we make the distinction between:

- The tools, practical examples and dimensions that Poland can bring in as an example for the other European countries.
- The tools, practical examples and dimensions from other European countries that might be useful for Poland.

The lessons learned from Poland are:

- A liberal regulation on loan allocation and interest helps to build a market for private micro-finance institutions and allows them to be financially sustainable.
- The performance-oriented funding of the MFI *Fundusz Mikro* by an international donor was the key for the development of a strong market-driven actor on the national level with products and back office services, leading the way for Europe's MFIs in the 1990s.
- The lesson from comparing loan funds run by public authorities with NGO-run MFIs is: the latter deliver better value for money, but need clear target-group definitions to ensure social output if taxpayers' money should be involved.
- The entrepreneurship development programmes in schools and universities and training of trainers in enterprise creation is an interesting example to promote the entrepreneurial context.

The lessons for Poland to be learned from other European countries are in the field of:

- Poland has its lowest scores in the two dimensions that are mostly the responsibility of the national government (policy for micro-enterprises and welfare bridge). The Polish Government is just beginning to realise the possibilities of self-employment and micro-enterprises as a means to fight unemployment and social exclusion and only recently began to act accordingly. A national strategy that links micro-enterprise-friendly policies with the establishing of a welfare bridge is missing. France and the UK could be inspiring examples of national policies and programmes.
- The co-operation of banks and micro-finance institutions is important to broaden the outreach of micro-finance products and to build an inclusive chain of financial institutions (good example: Spain).
- The German usury regulation supports MFIs and takes care of consumer protection issues at the same time.
- Developing a bridge from unemployment into self-employment through a self-employment stimulating entrepreneur policy in employment agencies (example: UK) and through financial incentives to overcome the income trap (example: Ireland, and France, Germany and the UK to some extent).

Sources

List of interviewees

Mr. Wiktor Kamiński	Vice-president National Association of Co-operative Savings and Credit Unions
Ms. Anna Winiewska	Microfinance Centre for Central and Eastern Europe and the New Independent States (MFC)
Mr. Palac	Economist, World Bank
Mr. Tomasz Sypula	Polish Agency for Enterprise Development
Mr. Boguslaw Soczewica	Bank Gospodarstwa Krayowego (BGK)
Mr. Krzysztof Jaczewski	Fundosz Mikro
Ms. Isabela Norek	Inicjatywa Mikrom
Mr. Mikolaj Tomasz Steppa	Fundacja Wspomagania Wsi (Rural Development Foundation)
Ms. Katarzyna Sabaranska	Foundation for the Development of Polish Agriculture

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