



# **European Employment Observatory**

## **EEO Review: Self-employment, 2010**

### **Poland**

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## 1. Introduction

As presented in Table 1, the number of self-employed at the end of the third quarter 2009 amounted to 2 906 000 persons, of which 631 000 were 'employers'<sup>1</sup>. This constitutes 18.3 % and 4.0 % respectively of total employment.

**Table 1. Self-employed in total employment by gender (Fourth Quarter of 2009)**

Age	Total employ ment	Self-employed				Contributing family workers	
		Total		of which employers			
		In thousands	as % of total employment	In thousands	as % of total employment	In thousands	as % of total employment
Total	15 885	2 906	18.3	631	4.0	617	3.9
Males	8 701	1 914	22.0	440	5.0	213	2.4
Females	7 184	992	13.8	190	2.6	403	5.6

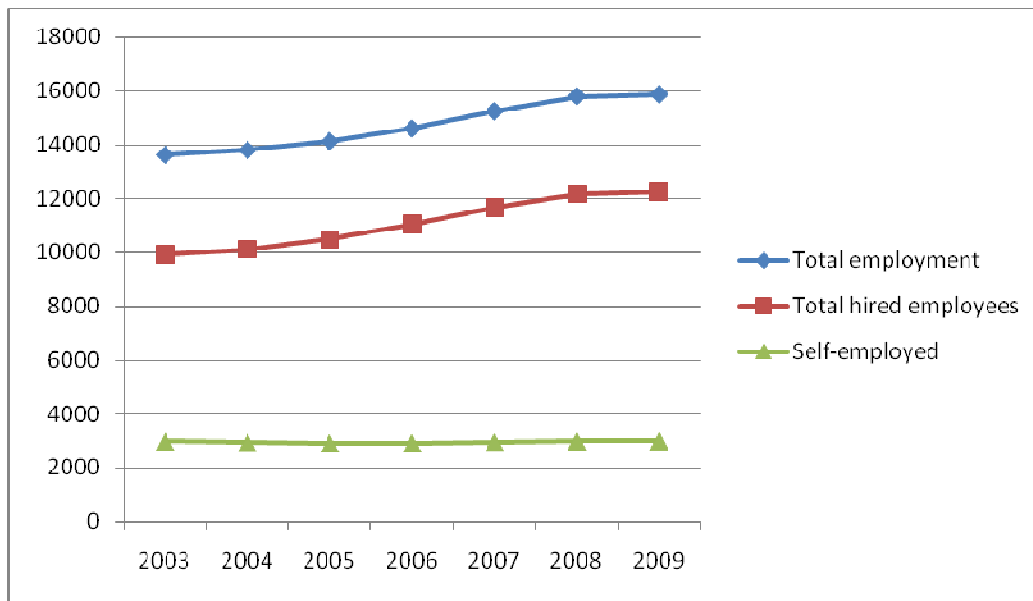
Source: Aktywność ekonomiczna ludności Polski. IV kwartał 2009 (Labour Force Survey in Poland. IV Quarter 2009); Central Statistical Office, Warsaw 2010, pp.143.

Analysing the diversification of self-employment according to gender, a clear predominance of men is visible, both in absolute numbers and percentage share in employment in total. Even more visible is the growing discrepancy in percentage share of the self-employed in the total number of the employed according to gender. Comparing the fourth quarter of 2009 to the fourth quarter of 2007 the number of self-employed men did not change, but their share of total employment decreased slightly (from 22.5 % to 22.0 %). In the case of women, the share decreased from 14.5 % in 2007 to 13.8 % in 2009, and the number of self-employed women decreased by about 50 000. The greatest share of total employment, in absolute values both among men and women, is constituted by the age groups 35-44 and 45-54. Almost 1.3 million (44.6 %) self-employed work in *agriculture, forestry and fishing*, followed by *trade and repair* (16.9 %), *construction* (9.1 %), *manufacturing* (5.6 %), *transportation and storage* (4.9 %), *health care and social welfare* (2.4 %) and *education* (0.8 %).

As the structure of hired employment in Poland remains relatively stable, the decrease of the share of the self-employed in comparison to hired employment is clearly visible over the past few years (see Graph 1).

<sup>1</sup> According to the definition of the Central Statistical Office (GUS), under the heading of self-employed persons there are:

- Own-account workers – defined as persons who operate their own economic enterprise or engage independently in a profession or trade, and hire no employees,
- Employers – defined as persons who operate their own economic enterprise or engage independently in a profession or trade, and hire one or more employees.

**Graph 1. Average annual employment by employment status (2003-2009), in thousands**

Source: Aktywność ekonomiczna ludności Polski. IV kwartał 2009 (Labour Force Survey in Poland. IV Quarter 2009); Central Statistical Office, Warsaw 2010, p.59.

The analysis of statistical data leads to the general conclusion that the enterprises based on self-employment in Poland constitute an important part of the economy, contribute strongly to economic growth and job creation<sup>2</sup>. On the other hand, it seems that opportunities for the development of self-employment have not been adequately used and hold potential employment growth. Thus the incentives should be aimed at limiting or eliminating the barriers to self-employment that impede such potential.

## 2. Assessment of national LM policies and recovery measures

Simultaneous recognition of the significance of self-employment in the economy, and the awareness of the existence of numerous barriers to self-employment, leads to support for self-employment. The Ministry of the Economy is responsible for the support of enterprises and entrepreneurship. Measures of the Ministry of the Economy currently focus, mainly, on the simplification of administrative procedures, on an increase in the availability of external sources of financing, on stimulating the entry of companies in new markets, the promotion of exports and the improvement of the financial potential of enterprises.

Significant legislative changes are introduced within the framework of the government's *Package for Entrepreneurship*. The package aims at the simplification and facilitation of economic activity and support for entrepreneurship. In the first stage of changes, which have begun in 2008, the most significant project was the introduction of a 'one-stop-shop', which would allow for easier registration of economic activity. In 2008, within the framework of the package, the following changes, significant from the point of view of self-employed persons, were also introduced:

<sup>2</sup> Żołnierski A., *Raport o stanie sektora małych i średnich przedsiębiorstw w Polsce w latach 2007-2008* (Report on the state of the small and medium enterprises sector in Poland in the years 2007-2008), Polska Agencja Rozwoju Przedsiębiorczości 2009.

- Introduction of the possibility to suspend economic activity (from one month up to two years),
- Lowering the level of obligatory share capital in the case of limited liability companies (from PLN 50 to PLN 5 000, i.e. up to EUR 1 210) and in case of joint stock company (from PLN 500 to PLN 100 000 i.e. up to EUR 24 181),
- Increasing the threshold of full accountancy in small companies from, previously, EUR 800 000 to EUR 1.2 million.

New provisions have been introduced into tax law, which foresee that employers receive advance notice if a tax audit is about to take place on their premises. The law has also now lifted the burden of proof from employers. Thus, employers are now considered innocent until proven guilty, contrary to the previous law whereby the burden of proof was falling on employers to prove that they were innocent. This simplifies the position of entrepreneurs and facilitates their day-to-day interaction with the tax authorities.

In the current, second stage of the implementation of the package, the key aim is to limit administrative barriers for citizens and entrepreneurs through the change of the system of the law for constituting enterprises.

Moreover, significant changes from the point of view of the support of self-employment based companies are also in the range of anti-crisis measures. The *Stability and Development Plan*, which has been implemented since November 2008 includes the following:

- **A system of guarantees for SMEs** has been strengthened, which facilitates the increase in accessibility of micro entrepreneurs, and small and medium enterprises to external financing through the strengthening of the system of guarantees and the creation of additional, safe credit measures (in force since 15 May 2009<sup>3</sup>);
- **A higher investment allowance** (from EUR 50 to 100 000) through the possibility of including investment expenditure in the form of one time depreciation deduction (like purchase of machinery, equipment etc.) from the tax costs of companies, which started functioning in 2008-2010 (in force since 22 May 2009<sup>4</sup>);
- **Eliminating limitations in gaining advances** for companies that apply for EU funding, which is to facilitate the realisation of projects for investors by, among others, increasing their credit rating for banks (in force since 12 February 2009);
- **The possibility of including research and development expenditure in tax costs** at the moment of their occurrence or through depreciation deductions during investment. Previously, it was possible to deduct such expenditures only after the completion of research and development activities (in force since 22 May 2009<sup>5</sup>).
- **Increasing loan capital for small and medium enterprises** through measures aiming at the development of loan and guarantee funds, especially within the framework of

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<sup>3</sup> Act of 2 April 2009 on the *Change of the act on guarantees by the State Treasury and some other legal persons, act of Bank Gospodarstwa Krajowego and some other acts*

<sup>4</sup> Act of 5 March 2009 on the *Change of the act on personal income tax and act on corporate income tax*

<sup>5</sup> Act of 5 March 2009 on the *Change of the act on personal income tax and act on corporate income tax*

the improvement of the accessibility of micro and small enterprises to finance (since 3 February 2009<sup>6</sup>).

New regulations also encourage unemployed persons to commence economic activity. The amount of the one-time allowance granted to unemployed persons for starting economic activity was increased from five to six times the amount of average pay.

Business incubators are another significant form of support for self-employment. The investments aim to support persons with vocational qualifications, ideas and initiative but without sufficient knowledge of management and without adequate capital. Business incubators offer office space and guidance and support, especially within the framework of accounting and marketing. A competition for co-financing Academic Business Incubators supported by universities finished in April 2010, and allowed the co-financing of the business ideas of the most resourceful students.

Encouraging small companies to cooperate with R&D units is the main goal of the *Innovation Token (Bon na innowacje)* pilot programme for 2008-2010 by the Polish Agency for the Development of Entrepreneurship. Tokens, which are a kind of pay-check, will be given to entrepreneurs who plan simple research while developing or improving innovative products, technologies or services. Also services concerning the implementation or development of new solutions provided by scientific institutions, like guidance support, can be realised within the framework of the programme.

Nevertheless, the barriers to self-employment in Poland are of a complex nature, thus the general support and labour market measures cannot be simplistically aimed at financial support. The analysis of available studies on self-employment indicates that the key barriers include:

- A deficit of capital and limited use of bank credit,
- Registration procedure being a time consuming process,
- High level of market regulation in forms of licences and permissions,
- Excessive fiscal burden,
- Excessive bureaucracy.

Because of the increased risk involved in such lending, securing credit is especially hard for the new self-employed. The credit costs are relatively high and the amount borrowed has to be guaranteed under collateral by the borrower or by third parties. Thus the main source of financing for most self-employed, especially start-ups, are entrepreneurs' own funds. Therefore self-employment can be supported by various financial resources like preferential or tax credits, credit guarantees, faster depreciation and donations. Up to 2013 the development of small and medium enterprises will be supported with approx. PLN 1.2 billion (EUR 290 million), and the creation of new jobs will be supported with PLN 1.5 billion (EUR 360 million)<sup>7</sup>. In 2007-2013 enterprises, including SMEs, will be greatly supported by the Structural Funds, under the Operational Programmes "Innovative Economy", "Human

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<sup>6</sup> Governmental programme *Directions for Development of Guarantee and Loan Funds for Small and Medium Enterprises in 2009-2013*.

<sup>7</sup> *Kierunki udzielania pomocy publicznej w latach 2007-2013* (Directions of Granting Public Support 2007-2013), The Ministry of Economy.

Capital” and within the framework of Regional Operational Programmes. The framework and forms of support in that range are significant from the point of view of influence on the creation of financial incentives to start self-employment and to maintain it.

Furthermore, changes concerning the elimination of remaining barriers to self-employment, are heading in a positive direction, especially those concerning administrative simplifications related to setting up businesses and to the operation of such businesses. However, both the representatives of science and employers (e.g. in *Black List of Barriers for the Development of Entrepreneurship* published in April 2010) indicate a number of areas, where further changes are necessary, such as: highly regulated economy, complicated tax regulations (especially from the point of view of self-employed persons, who must depend on their own knowledge and skills), high non-wage labour costs. Only the introduction of further changes in this direction could allow significant growth of this form of employment as an alternative to hired employment, and thus to the creation of new jobs in the economy.

### 3. Quality of self-employment jobs

Based on practices in the Polish labour market, we can distinguish two specific cases of decisions concerning starting self-employment. The first is work as a freelancer for various companies with the freedom to independently organise work. The second case are employees, who because of expected economic advantages or because they are forced by their employer, start or continue their current career in the company, while formally functioning within the framework of their own economic activity. Such entrepreneurs are at greater risk of losing their job in the case of deteriorating market conditions, because they are not protected by employment legislation. On the other hand, they are attractive to employ due to their lower costs.

As various research studies indicate, the decision to become self-employed is often taken on the basis of positive expectations. As qualitative and quantitative analyses indicate, usually a number of factors affect the decision to start self-employment. Research carried out on a sample of 500 self-employed persons in Poland<sup>8</sup> indicates that the most significant factors were: higher income, the chance of doing what one likes, flexible working time and the absence of a supervisor. Apart from the obvious motivations, such as the wish to gain higher earnings, the motives connected to greater freedom of individual entrepreneurs dominate. Self-employment forced by the employer was marginal – only 0.8 % of cases in the analysed group.

In the opinion of Poles, self-employment is an attractive career path. However, on the other hand, the research undertaken regularly by the Institute of Philosophy and Sociology of the Polish Academy of Science indicates that entrepreneurs in Poland do not enjoy high social status and respect.

Nevertheless, for some, the decision concerning the start of the economic activity is connected with the necessity to work, which is not possible through finding hired employment. This also means that all the aforementioned barriers to self-employment in

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<sup>8</sup> Bednarski M. (ed.), *Praca na własny rachunek. Szanse i bariery rozwoju samozatrudnienia. Studium przypadku województwa mazowieckiego* (Self-employment. Chances and Barriers in the Development of Self-employment. Case Study of the Mazovian Province), Research report, IPiSS-ORGMAZ, Warsaw, 2007.

Poland are significant for the unemployed future “entrepreneurs by necessity”, as they often lack positive motivations, qualifications, capital and thus need special support. What needs to be noted is the special role of the promotion of self-employment, when the push factors are very strong.

The high bankruptcy rate of newly created enterprises can also be discouraging. Generally speaking, the survival ratio of enterprises is low in Poland. Out of the 186 700 enterprises registered in 2004, only 58 600 were still functioning in 2009, so the survival ratio amounted to 31.4 %<sup>9</sup>. Legal persons seem to be far more stable, of whom 58.6 % remained active whereas the survival rate of companies by natural persons amounted only to 29.7 %. The survival rate indicates a significant relationship to the size of enterprise. Only 23.9 % of the enterprises which employed only their owners and their family members in the first year, survived till 2009. From the enterprises which employed hired employees since they were created, 53.7 % remained active. Thus, self-employment based companies are characterised by high vulnerability, and thus these jobs are characterised by relatively lower stability. The awareness of the high risk involved (especially during the first year of activity, where the death rate of enterprises is the highest) can influence the decisions of starting self-employment and maintaining it, especially if there is the alternative of hired employment.

According to a study by the Central Statistical Office<sup>10</sup>, the gross disposable income of households of the self-employed and hired employees is comparable, but the average monthly gross retirement payments and pensions are significantly lower (by roughly 20 % on average)<sup>11</sup>. On the other hand, there is a large number of self-employed in Poland having more than one job. In the fourth quarter of 2009 there were 556 000 self-employed (19.1 % of all self-employed) having more than one job, which constituted 49.2 % of all multiple job holders. The majority of them worked in services and industry, with a marginal number working in agriculture. This can indicate a relative weakness of self-employment as a fundamental source of income. In many of the above listed cases such activity is not an alternative for employment in a company but only a method for earning additional income. For example, some doctors start a private practice in addition to being employed in a hospital or clinic.

The social protection of self-employed people is comparable to the social protection available to employees, but social security costs are not evenly distributed. According to the regulations, self-employed persons are part of the general social security system. Generally, participation in the pension scheme (pension and disability) and in the accidents at work and occupational diseases scheme is mandatory, while sickness insurance is voluntary. Self-employed persons have the right to the same benefits and in the same amount as employees. Differences mainly concern detailed solutions and cost allocation. Self-employed persons finance all social security contributions by themselves, in comparison to hired employment where the costs of contributions are shared between the employer and the insured person. In

<sup>9</sup> *Creation and operation conditions, development prospects of Polish enterprises established in the years 2004-2008*, Central Statistical Office, Warsaw 2010.

<sup>10</sup> *Dochody i warunki życia ludności Polski. Raport z badania EU-SILC 2007-2008 (Incomes and living conditions of the population in Poland. Report from the EU-SILC survey 2007-2008)*, Central Statistical Office, Warsaw 2009.

<sup>11</sup> *Zatrudnienie i wynagrodzenia w gospodarce narodowej (Employment, wages and salaries in the national economy)*, Central Statistical Office, Warsaw 2010.

the case of the self-employed, there is no formally regulated maternity leave, within the framework of social security, but a financial benefit in the form of maternity benefit. Generally, the same rules apply in the case of pensions for employees and for the self-employed, but the latter generally do not have the right to early retirement. In the case of unemployment, the right to unemployment benefit is vested in the self-employed person, provided they have paid social security contributions and are registered in the public employment services office.

Judging from the existing analysis of barriers to self-employment in Poland we can assume that higher contributions are perceived by entrepreneurs as a cost-adding factor to the price of labour and have a negative impact on employment and increase incentives for undeclared work. Obligatory social security payments are another form of taxation, calculated as a surcharge on remuneration. Sometimes, higher labour costs force entrepreneurs to move to the “shadow economy” in order to cut costs. Secondly, high labour costs are the reason that the entrepreneurs force their employees to become “fake” self-employed, to avoid paying social security contributions for them. That process is disadvantageous for both the employer and the employee, although it helps to cut labour costs.

#### 4. Conclusions

Self-employment reflects a situation where a natural person starts an economic activity on his or her own account and at his or her own risk.

The analysis of self-employment in Poland shows that a lot of people, who find self-employment attractive, have experience as employees. The majority of people who turned to self-employment were not satisfied with their working conditions and pay or wanted to become independent and resigned from paid employment. As research studies indicate, in the case of young people, the motivation for self-employment is not based on the negation of paid employment but rather, on an appreciation of working on their own<sup>12</sup>.

While the direct financial support measures are significant, the majority of support measures in Poland should be aimed at eliminating the barriers to self-employment that hinder the freedom and effectiveness of this type of economic activity.

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<sup>12</sup> Bednarski M. (ed.), *Praca na własny rachunek. Szanse i bariery rozwoju samozatrudnienia. Studium przypadku województwa mazowieckiego* (Self-employment. Chances and Barriers in the Development of Self-employment. Case Study of the Mazovian Province), Research report, IPiSS-ORGMASZ, Warsaw, 2007.

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