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## THE RATE AND THE SCALE OF PRIVATISATION IN POLAND

In 1990 the transformation of the socio-economic system was initiated in Poland, equivalent to a departure from the command economy towards the market economy. The key factor in formation of the new economic conditions were ownership transformations, and especially privatisation<sup>1</sup>. A change of proportions in the economy to the advantage of the private sector has been taking place through transformation of the assets public to date (state- and municipally-owned) into private property, as well as establishment of private enterprises (domestic and with a share of foreign capital).

In the years 1988–1998 the contribution of the private sector in formation of the GDP in Poland increased from 15.9% to 65%. This change was largely influenced by the privatisation of the state enterprises, the foreign

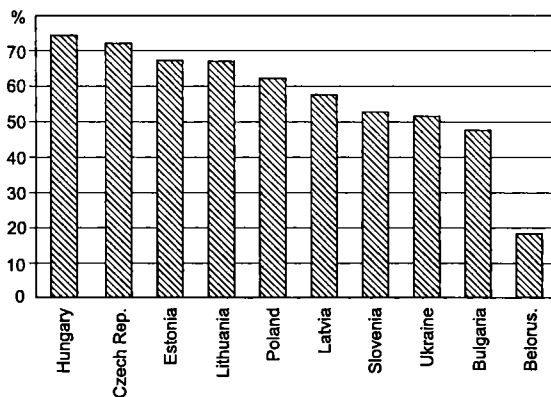


Fig. 1. The share of the private sector in formation of the GDP in Poland in 1998 against the background of selected countries of Central and Eastern Europe (own elaboration on the basis of GUS — Central Statistical Office — data).

<sup>1</sup> Ownership transformations encompass — side by side with privatisation — also re-privatisation (turning the property over to their former owners), as well as commercialisation, consisting in making the conditions and manners of functioning of the public sector enterprises similar to those valid for the agents of the private sector. The authors of the present paper are interested solely in privatisation.

direct investments (FDIs), and the private entrepreneurship. Privatisation of state enterprises takes place through the following three methods<sup>2</sup>:

— direct privatisation encompassing: enterprise sale, contribution of the enterprise to a company, or renting out of the enterprise (most often in the form of employee leasing)<sup>3</sup>;

— liquidation of the enterprise, called bankruptcy liquidation or liquidation for economic reasons, applied with respect to enterprises featuring persistent loss of profitability, which practically rules out their further functioning; a difficult economic situation of an enterprise may, in particular, show through losses reported over a longer time period, lack of solvency with respect to creditors, or impossibility of securing the claims of creditors; in this case privatisation consists in the sale to the external investors or contribution to a company of the consolidated parts of the enterprise assets;

— indirect privatisation, called capital privatisation, consisting in transformation of the state enterprise into a single-person company of the State Treasury ("commercialisation"), followed by the sale of shares through a public offer<sup>4</sup> (Suszyński, 1999).

Of the total of 8453 state enterprises, which existed in 1990, until the middle of 1999 privatisation was applied to 4810 of them, with the breakdown into 36.7% subject to direct privatisation, 33.5% — to liquidation for economic reasons, and 29.5% — to commercialisation.

This, however, is not equivalent to stating that all of these enterprises were privatised. Until the middle of 1999 direct privatisation was terminated in 1618 enterprises, i.e. in 91.6% of all those subject to this method of privatisation. A vast majority of these were the small and medium sized enterprises carrying out manufacturing and construction activity. Of the enterprises privatised through liquidation 792, i.e. 49.1%, were effectively privatised. Here, again, a large proportion was constituted by the small enterprises conducting manufacturing and construction activity, accompanied, though, by the state enterprises of agricultural economy. Among the 1420 enterprises commercialised until the middle of 1999 there were 254 — i.e. 18% — that have been effectively privatised. They were mainly medium and large enterprises active in manufacturing. The last of these forms of privatisation is considered the most economically effective — primarily

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<sup>2</sup> A specific feature of privatisation of the state enterprises in Poland is the variety of methods applied, making it possible to select the privatisation procedures matching the situations of the concrete enterprises.

<sup>3</sup> Direct privatisation is the most common pathway of ownership transformations. This results primarily from the high effectiveness of this path and a significant differentiation of capacities as well as the range of restructuring of the enterprises privatised.

<sup>4</sup> Capital privatisation is considered quite a particular, and even an elitist form of restructuring of the enterprises. This is primarily due to limitation of this form to the large enterprises occupying a prominent position on the market.

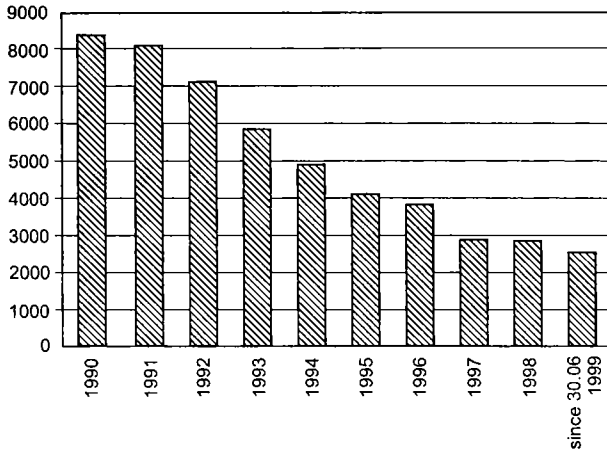


Fig. 2. The number of state-owned enterprises in the years 1990–1999 (own elaboration on the basis of GUS data).

due to participation of strategic investors. Side by side with the price paid for the shares an important aspect of the transactions of enterprise sale was constituted by the obligations of the investors concerning, in particular, modernisation of production, wage increases, and maintenance of employment over a certain period.

In the middle of 1999 there were in Poland 2703 state enterprises<sup>5</sup>. The highest numbers of these enterprises were noted in Masovian (410) and Silesian (362) provinces, accounting for almost 32% of all the economic agents conducting activity in the country. Almost 95% of the state enterprises are small firms, functioning primarily on the local markets, frequently featuring a persistent loss of profitability.

Lack of own capital, constituting an important barrier to privatisation in Poland causes that its success depends often on the presence of FDIs.

The beginnings of FDIs in Poland date back to 1976 and are connected with emergence of the companies of the Polish emigrants. Yet, the then political and economic situation effectively frightened away the potential investors. It was only the systemic changes initiated in 1989 that gave rise to a bigger interest of foreign investors in Poland and opened up a real chance for the inflow of foreign capital. The value of FDIs increased in the

<sup>5</sup> In the years 1990–1999 the change of the number of state enterprises was also due to the mergers of the enterprises.

period 1990–1998 from 105 million USD to 30,651 million USD<sup>6</sup>. Among 714 foreign investors<sup>7</sup>, the largest undertakings were carried out by the enterprises functioning in car industry, in food product industry (including tobacco products and beer), as well as in paper industry, along with those providing banking and construction service. Their share in total value of the FDIs in Poland amounts to 58%. The largest investors include FIAT and Daewoo (car production), RAO Gazprom (construction of gas pipeline from Russia to Western Europe), Bayerische Hypo- und Vereinsbank AG and the European Bank for Reconstruction and Development (EBRD) in banking.

The most attractive — from the point of view of location of foreign investment — is the Masovian province, where 449 investment undertakings were located, of which majority in Warsaw and its suburban zone<sup>8</sup>. The largest investor in this area is Daewoo corporation from South Korea, who purchased for more than 1 billion USD the car factory in Warsaw (presently Daewoo FSO Motor) and constructed in Pruszków by Warsaw a factory of electronic equipment (TV set production) and of home appliances (automatic washing machines) — Daewoo Electronics Manufacturing Poland.

An increase in the interest expressed by the foreign capital with respect to Poland is also motivated by the exemptions in income tax<sup>9</sup>, offered investors in the 17 special economic zones<sup>10</sup>, established during the 1990s.

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<sup>6</sup> In 1997 Poland for the first time got ahead of the leader to date in attracting foreign investment, i.e. Hungary. More detailed analyses indicate that the intensity of inflow of the FDIs is closely connected with the advances of privatisation. A particularly spectacular example of the connection between the rate of privatisation and the inflow of foreign capital is the enormous interest expressed by foreign capital with respect to Czech Republic and Hungary in 1995, when in both these countries the telecommunication sector was being privatised (Dziemianowicz, Swianiewicz, 1999).

<sup>7</sup> This number accounts only for the investors listed by PAIZ (State Agency for Foreign Investments), i.e. those that invested more than 1 million dollars each.

<sup>8</sup> It is beyond doubt that foreign investors are most interested in large towns, and especially in the areas of agglomerations. The main factors conditioning the interest of foreign capital include: supply of skilled labour force, supply of office, storage and production space, transport accessibility, market capacity, as well as business environment infrastructure, etc.

<sup>9</sup> Income tax exemptions (either partial or total) are the basic instrument for motivating the entrepreneurs conducting economic activity within the special economic zones to invest. Besides this it is possible to acquire rights to treat investment outlays not related to the purchase of fixed assets as costs of revenue and to apply accelerated amortisation. Economic agents may enjoy also exemptions from local fees and taxes. The managers of the zones offer the enterprises the supply of the necessary technical infrastructure, as well as a shortened procedure of issuing construction permits. Foreigners can count on a significant shortening of the period of waiting for the license to purchase estate.

<sup>10</sup> The existence of the special economic zones has been a controversial subject since their very inception. An especial discontent with establishment of the zones is expressed by the European Union, seeing in them a case for unequal competition conditions, and proclaiming that the principles of functioning of the Polish special economic zones are one of the fundamental barriers for accepting Poland in the European structures.

Until the end of 1998 foreign capital invested in these zones 914.2 million USD, out of which as much as 633 million USD in the Katowice special economic zone, primarily owing to the construction by General Motors — Opel of a car factory in Gliwice, and by Isuzu — of a factory of compression-ignition car engines.

The model of command economy, functioning in Poland after the World War II, which put preference on the sector of large state-owned enterprises, eliminated the notion of private entrepreneurship. An important role therein was played by the tax system, characterised with respect to

the private sector by the domination of the fiscal function over the stimulating one. Consequently, the goal of functioning of the majority of small private enterprises, mainly dealing with crafts and trade, was to maximize the family income (family consumption pattern).

The transformation of the socio-economic system, initiated in 1990, removed a number of administrative and legal barriers, constraining private enterprise. Consequently, the number of very small enterprises rapidly increased<sup>11</sup>. These are primarily family firms, in which the identity of ownership and management, and thus also of the risk connected with the conduct of economic activity, is observed. After simple reserves have been exhausted, the expansion phase turned into the phase of market self-regulation, in which competition decides of the number of enterprises.

In the years 1990–1998 the total number of very small enterprises increased from 633 thousand to 2,306 thousand, while the indicator of private entrepreneurship, i.e. the number of very small enterprises per 1000 persons, increased from 16.6 to 42.3. Among these firms trade enterprises dominate with 40% of share (12.2% in 1990), since their establishment did not require larger input of capital nor advanced technology.

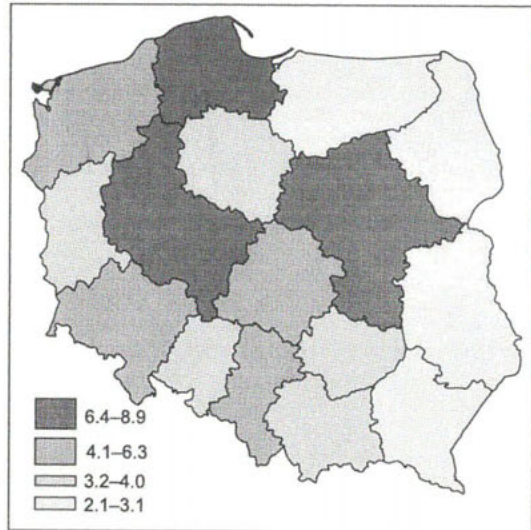


Fig. 3. The number of firms with a share of foreign capital per 100,000 persons (as of 31 XII 1998).

Source: own elaboration on the basis of data from PAIZ.

<sup>11</sup> This group of enterprises, in accordance with the formal statistical criterion, comprises the enterprises employing up to 5 persons.

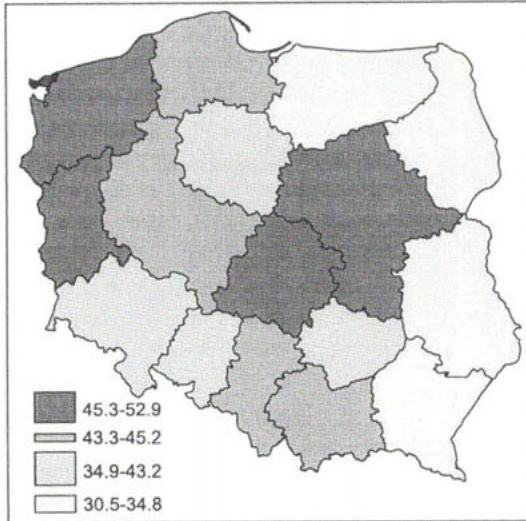


Fig. 4. The number of very small enterprises per 1000 persons (as of 31 December 1998).

Source: own elaboration on the basis of GUS data.

The highest indicator of private entrepreneurship is observed in the Masovian province, where 53 very small firms exist per 1000 persons. This is primarily the consequence of the strongly developed non-productive functions and the traditions of private enterprise in Warsaw agglomeration. Thus, there are more than 170 thousand very small enterprises in Warsaw and its suburban zone, that is — only slightly less than altogether in the four provinces of the so called Eastern Wall (Warmian-Masurian, Podlasie, Lublin and Subcarpathian), featuring the lowest indicator values of

private enterprise.

The spatial differentiation of the indicator of private enterprise reflects to a large extent the susceptibility of particular regions to the processes of their adaptation to market economy.

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