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**HOW TO STRENGTHEN THE POLISH  
VENTURE CAPITAL MARKET? AN ANALYSIS  
OF THE SOLUTIONS IN SELECTED COUNTRIES**

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**JAK WZMOCNIĆ POLSKI RYNEK  
VENTURE CAPITAL? ANALIZA PRZYJĘTYCH  
ROZWIĄZAŃ W WYBRANYCH KRAJACH**

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**Summary:** The history of venture capital funds has shown that they are crucial for the promotion of innovation and competitiveness of the economy. By funding projects that are considered by others as too risky, they contribute to the increase in the number of modern enterprises as well as create jobs and constitute a significant participant in the capital market. This article aims to identify the factors having an impact on the condition of the Polish market of venture capital investments. An analysis of the system solutions adopted by the US and European leaders in the venture capital market indicates that of greatest importance are the legal regulations on the organisational forms of funds and their fiscal transparency as well as those on the system of tax reliefs and exemptions and pension funds' participation possibilities. Such aspects as the corporate income tax rate and the capital gains tax rate proved to be of secondary importance for the operation of venture capital funds.

**Keywords:** investments, venture capital, innovation, entrepreneurship.

**Streszczenie:** Historia funduszy *venture capital* pokazuje, iż są one bardzo ważnym czynnikiem wspierania innowacyjności i konkurencyjności gospodarki. Przez finansowanie przedsięwzięć, uważanych za zbyt ryzykowne dla innych, przyczyniają się do wzrostu liczby nowoczesnych przedsiębiorstw, tworzą wiele miejsc pracy, są ważnym uczestnikiem rynku kapitałowego. Celem artykułu jest wskazanie czynników mających wpływ na stan polskiego rynku inwestycji *venture capital*. Analiza rozwiązań systemowych przyjętych przez amerykańskich i europejskich liderów rynku *venture capital* wskazuje, że najważniejszą rolę odgrywają uregulowania prawne dotyczące form organizacyjnych funduszy i ich przejrzystości podatkowej, systemu ulg i zwolnień podatkowych oraz możliwości udziału funduszy emerytalnych. Drugorzędne znaczenie dla funkcjonowania funduszy *venture capital* ma wysokość podatku CIT i podatku od zysków kapitałowych.

**Słowa kluczowe:** przedsiębiorczość, inwestycje, *venture capital*, innowacje.

## 1. Introduction

Venture capital (VC) are investments in the private equity market aimed at achieving profit through capital gain. Capital of this type is directed primarily to early-stage companies, often ones that have just started operating, but being of an innovative nature. Driven by the maximisation of profit, funds invest in industries with the highest growth potential. However, the directions of investments made by them are largely affected by the legal solutions adopted in a given country. Such solutions have a great impact on the organisational form of the funds (whether they are domestic or foreign entities), on the sources and origin of the capital they have (whether it comes from domestic or foreign entities), as well as on the funds' investment strategies or even on how the profit is realised. If, therefore, it is in the interest of a given country to strengthen or bring about the development of a selected industry (e.g. high-tech) or to direct funds to small and medium-sized enterprises, one way to do so is by creating a proper legal framework (including assistance programmes) for the operation of VC funds. As shown by the statistics and research conducted by the author, this leads to an increase in the competitiveness of domestic businesses. The information obtained by the author in a survey and through direct interviews clearly shows that companies with VC backing pay particular attention to the level of expenditure on research and development, marketing, the product, improving productivity, the quality of employees and their training. Without a fund's contribution, the investments made by the companies would have certainly been much smaller. They would not have been able to afford to engage in research and development or to increase employment. The level of exports would also have been lower, as indicated by almost half of the respondents.

This article aims to identify the factors having an impact on the condition of the Polish market of VC investment and to present international experiences that might contribute to the adoption of similar solutions in Poland.

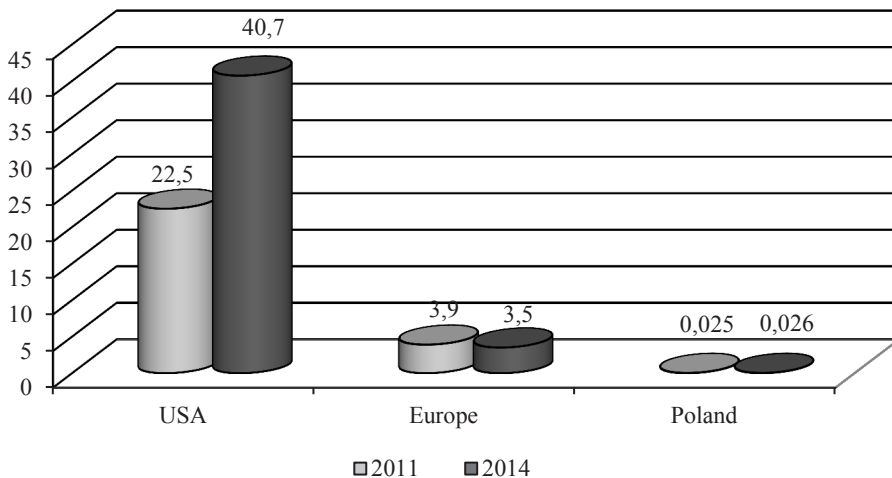
The source of empirical data consisted mainly in research literature. The study covered the years from 2000 to 2015.

Several research methods were used in the study: the descriptive method, the comparative analysis method, the critical analysis method and the synthesis of conclusions method. Moreover, analysis of the results obtained within the study and the statistical data analysis were conducted.

## 2. The importance of venture capital investment

*"We need more venture capital in Europe. By helping companies become more innovative and competitive, venture capital will create Europe's companies of the future. In order to support the most promising start-ups, venture capital funds must become bigger and more diversified in their investments"*. These words were spoken

in November 2011 by Michel Barnier, the European Commissioner for the Internal Market [European Commission press release of 7 December 2011]. But let us have a look at the Figure 1, showing the level of VC investment in: the United States in 2011 and 2014 – respectively – 22.5 and 40 billion euros, in Europe – a little under 4 billion euros, and Poland – only 25 and 26 million euros.



**Figure 1.** The value of VC investment in the United States, Europe and Poland in 2011 and 2014 (in billion EUR)

Source: author's own work based on information published by EVCA and NVCA.

As can be seen, the undisputed leader is the US where for several decades particular attention has been paid to developing entrepreneurship and supporting business start-ups or small and young but highly innovative companies. Through appropriate measures, most American venture capital goes to the IT industry (mostly software), biotechnology, the power industry (especially renewable energy sources) or to companies involved in the production of medical tools and equipment.

## 2.1. A few historical facts...

What have Americans done? The answer is simple. As early as the 1940s, when more and more signs of slump and stagnation were becoming visible, it was noticed that the main reason for this was the lack of new, thriving businesses, which were prevented from growing dynamically due to, above all, having no possibility to acquire financing for their operations from investment funds [Bygrave, Timmons 1992]. The answer to that came in 1946, when the American Research and Development (ARD) fund was established. Its founders, Doriot and Flanders, were convinced that with the emergence of small private businesses, financing scientific

research may be possible without the use of public funds – research that would lead to rapid technological developments in the US economy and an increase in its dynamism. The ARD was joined by well-known lawyers and financiers, which resulted in the creation of a strong lobby able to influence the opinions of the business environment representatives. Discussions on organisational changes in companies dealing with VC investment led to the creation of a new VC business structure, i.e. partnership, which continues to function successfully even today. Following the views and opinions of Flanders and Doriot, who indicated a lack of liberalisation in the regulations concerning the stock exchange and no changes in the tax system as the main barriers to market development, in the 1980s five new breakthrough acts were prepared under which, inter alia, the tax rate on capital gains was reduced (originally from 49.5% to 28%, and in 1981 to 20%) and, most importantly, pension funds were allowed to invest in VC projects (initially 1% of their assets). The effects of these regulations were soon apparent. Within a few years, the value of venture capital increased several-fold, US entrepreneurship experienced a massive upward shift, numerous new companies were started, while those already existing became stronger, the number of mergers and acquisitions increased, and the public offerings market was stimulated. The latest statistical data show that the American VC investments constitute as much as 70% of the global market [*Adapting and evolving...*]. The United States are characterised by a unique blend of law, citizens' entrepreneurship and experience in science and research. This gives them a huge advantage over other economies in terms of conditions for enterprise development. The activity of American companies in the field of research and development is also the largest in the world (about 30% of all global expenditure on R&D).<sup>1</sup> The basic units conducting research include research institutes and centres sponsored by government agencies. New ideas are transferred to small businesses, which, in turn, attract venture capital funds with capital allowing for the quick entry of new products onto the global market.

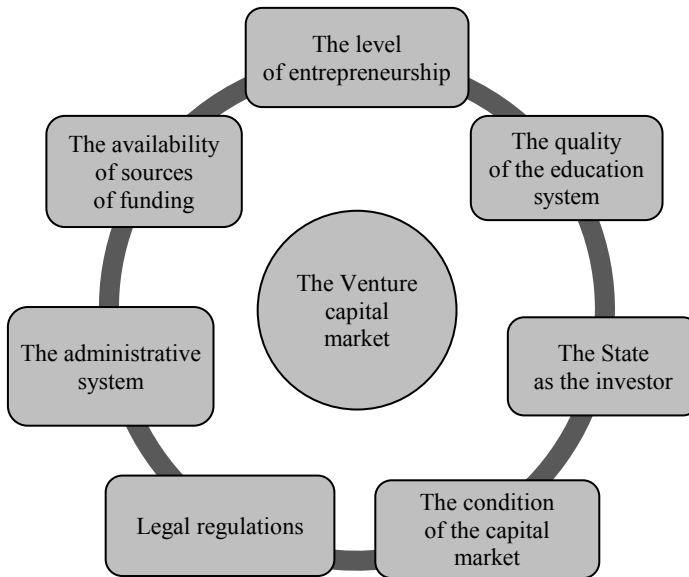
When looking at the development of the **European VC market**, which was not as spectacular as that of the US, it is evident that Europe has only recently recognised the importance of this type of investment for economic competitiveness. The first initiatives had not been attempted until the late 1990s (e.g. the White Paper of 1995 and 2001, the Action Plan and the Lisbon Strategy).

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<sup>1</sup> The runner-up in 2013 was China (20%), and before that Japan. The expenditure of all European businesses on R&D constitutes 22% of the world's level (on the basis of [*Science and Engineering Indicators 2016*]. In 2013, Poland was in the fourth top ten of the OECD ranking, with the spending on research and development at the level of about 0.8% in relation to GDP ["OECD Science, Technology and Industry Outlook 2014," p. 57].

### 3. Factors that have an impact on the VC investment market

Like other sectors of the economy, the VC market is dependent on the macro and microeconomic environment, the most significant components of which are presented in the Figure 2.



**Figure 2.** The most significant factors having an impact on the VC market

Source: author's own work.

**The level of entrepreneurship** is linked to the innovativeness and competitiveness of a given economy, and thus determines the number and quality of potential investment projects for VC funds. **The availability of funding sources** translates easily into the sources and volume of the supply of the agents forming the VC market. **Legal regulations** are related to both the level of entrepreneurship (e.g. the regulations on the formation of business entities and their operations) and availability of capital – tax solutions (CIT, VAT, capital gains tax), the functioning of financial markets, or pension funds as a potential VC fund investor (in this case, history shows that this is one of the most important factors). Also state policy can significantly affect the supply of capital for VC funds. In developed VC markets, **the State** can act as either an **active** investor (direct capital commitment) or a **passive** one (indirect capital commitment). In the first case, all sorts of government programmes for co-financing certain sectors of the economy are launched (for example, innovative companies, invention and research centres) or various institutions aimed at supporting

the development of innovation are founded (establishment of technology parks, provision of innovation advice). Capital providers may be different government agencies, regional institutions, local municipal authorities, research centres or supranational bodies. This allows to strengthen selected (strategic) sectors of the economy, create new jobs and stimulate the regional economy. In the second case, the State – as a passive investor – can create a number of regulatory incentives that will funnel the capital of VC funds to given sectors of the economy or into small and medium-sized enterprises or will support the early stages of the corporate life-cycle. To give an example of an active involvement, the EU ETF Start-up programme (European Technology Facility – ETF), coordinated by the European Investment Bank and the European Investment Fund (EIF), enables investing resources received from the EU budget in small or newly established specialised VC funds. Investments are directed mainly at regional or sectoral funds, or possibly those financing the use of research and development activities, and supporting small and medium-sized enterprises that were started in technology parks. In the years 1998-2000, 190 million euros were provided for this purpose. By 2008, the programme had been joined by seven venture capital funds from Finland, France, Germany, Sweden and Great Britain [[www.cordis.europa.eu/finance/src/etfstart.htm](http://www.cordis.europa.eu/finance/src/etfstart.htm)].

### 3.1. System solutions in selected European countries

All the countries in the top three of the ranking have fiscally transparent legal forms of funds available for running VC activity. In Ireland its Limited Partnership, and in France and Great Britain special legal forms have been created for this: the French *les Fonds Communs de Placement à Risques (FCPR)* and *les Fonds Communs de Placement dans L'innovation*, or *les Sociétés de Capital Risque*, and the British Venture Capital Trust (VCT). Venture Capital Trusts are closed-end investment funds listed on the London Stock Exchange, and they invest the raised capital in small

**Table 1.** States with legal and tax regulations most favourable for VC investment (1 = very favourable, 3 = least favourable)

Position in the ranking	Country	Number of points
1	Ireland	1.27
2	France	1.36
3	Great Britain	1.46
21	Poland	2.16
The average for the countries included in the study		1.84

Source: author's own work based on [*Benchmarking European Tax...*].

private companies or ones quoted on the AIM.<sup>2</sup> All of them have also introduced tax solutions favourable for VC investment. VCTs and their individual investors are exempt from income tax on capital gains and from tax on received dividends. An additional incentive to invest in VCTs is a 30% tax relief on the maximum amount of GBP 200,000 of the annual investment in VCTs, provided that it is maintained for five years.<sup>3</sup> Irish law offers many tax incentives and breaks connected with expenditure on research and development and transfer of the latest technologies. The French tax law offers also a system of tax breaks for making VC investments and a set of tax reliefs for companies recognised as innovative and involved in research and development activities.

**Table 2.** A list of the most significant factors having an impact on the operations of venture capital funds in selected European countries

Country	CIT	Capital gains tax	Participation of pension funds in VC investments	A system of tax reliefs for VC investments
Ireland	12.5%	33%	yes	yes
France	33.33%	30%	yes	yes
Great Britain	20%	no, but only in the case of VCTs	yes	yes
Poland	19%	19%	no	no

Source: author's own work based on [[www.revenue.ie/en/tax/ct/index.html](http://www.revenue.ie/en/tax/ct/index.html); [www.idaireland.com/why-ireland/tax/](http://www.idaireland.com/why-ireland/tax/); [www.hmrc.gov.uk/manuals/vcmmanual](http://www.hmrc.gov.uk/manuals/vcmmanual); [www.fairinvestment.co.uk/taper\\_relief.aspx](http://www.fairinvestment.co.uk/taper_relief.aspx); [www.worldwide-tax.com/france/french-tax.asp](http://www.worldwide-tax.com/france/french-tax.asp); [www.expatax.nl/incometaxexpatax.htm](http://www.expatax.nl/incometaxexpatax.htm) (as at 10 Feb. 2016)].

As shown in Table 2, the amount of CIT or that of the capital gains tax has no direct relation to the size of the VC market. In the case of the two European leaders, Great Britain and France, the rates of both these taxes are in fact high.<sup>4</sup> More and more frequently, there is talk of raising the rates [[www.unquote.com](http://www.unquote.com)]. It would seem therefore, that what is more important for the development of the market is a system of tax reliefs and exemptions and the fact that pension funds are fully allowed to make investments of this type. For instance, the greatest advantage of the British economy consists in individual programmes created especially for the purposes of VC activity that are very favourable to VC investments, such as: the Reinvestment

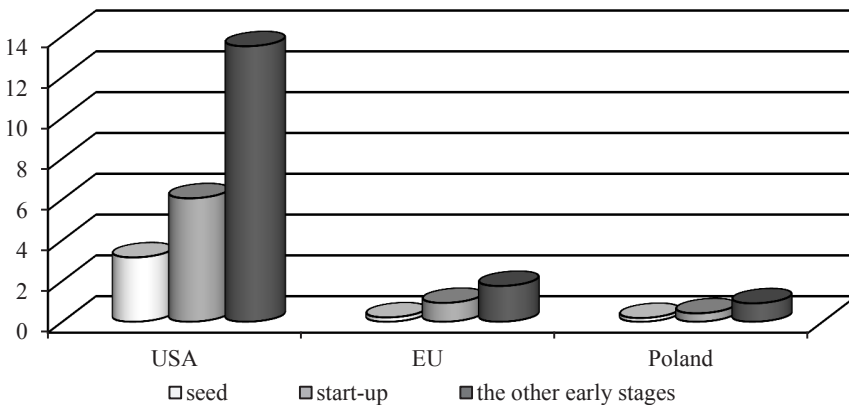
<sup>2</sup> The AIM – the Alternative Market, the British equivalent of the Polish New Connect, i.e. a market for small but strongly growing companies.

<sup>3</sup> In order to be entitled to this preferential tax treatment, a VCT has to invest 70% of its funds in non-public companies belonging to the group of small and medium-sized enterprises (whose assets do not exceed GBP 15 million). A given one-year investment of the fund cannot be more than one million pounds.

<sup>4</sup> The average rate among the EU Member States is 25.7%.

Relief programme, through which capital gains invested in unlisted businesses are exempt from tax (with no limit to their value); the Enterprise Investment Scheme that provides individual investors with an additional tax break of 20% of the funds invested in unlisted companies (the annual investment cannot be greater than 500,000 pounds and has to last at least three years; this relief can also be claimed on investments in companies listed on the AIM); the Venture Capital Scheme, under which individual investors can deduct losses incurred on investments in unlisted businesses from their income tax in the given year or in the following one (with no value limit) [www.hmrc.gov.uk/manuals/vcmmanual/vcm10030.htm]. Another scheme – the Business Assets Taper Relief programme – gave VC investors that invest in unlisted companies yet another tax advantage – depending on the duration of the investment they can make reductions to the base subject to capital gains tax (e.g. the effective tax rate for investments lasting two or more years is 10%) [www.fairinvestment.co.uk/taper\_relief.aspx].

The reasons behind the weaker pace of development of European VC are the lack of uniformity in the legal and tax solutions in particular European countries and a great diversity of investment cultures and traditions present in European countries (which significantly affects the ways of financing investment projects). The solution may lie in the strategy adopted in November 2011 by the European Commission, which provides SMEs with better access to funds. It offers, inter alia, more financial support from the EU budget and the European Investment Bank and includes a proposal for a regulation establishing uniform rules for introducing venture capital funds into the market. The new regulation is intended to facilitate VC investors in raising funds across Europe for the benefit of start-ups. After fulfilling several requirements, all qualifying fund managers would have the possibility to raise capital



**Figure 3.** The average value of a single investment of VC funds by the stage of company life-cycle in the United States, Europe and Poland in 2014 (in million EUR)

Source: author’s own work based on information published by EVCA and NVCA.



across the EU under the European Venture Capital Fund Regulation. They would not have to meet complex requirements which so far have been different in individual Member States. By introducing a set of uniform rules, venture capital funds are to become more attractive to investors, leading to more capital being committed to them and enabling them to be bigger [European Commission press release, 2...]. Currently, the values of both European funds and investments in the early stages are in fact low. To put that in perspective, in 2014 the average value of a US venture capital fund was 107 million euros, while that of the European one was 71 million – numbers that translate directly into investment opportunities measured by the average value of an individual transaction (Figure 3).

It is clear that there is a huge abyss between the markets: the average value of an investment in the seed phase in the United States amounts to 3.15 million euros, in Europe – 209 000, and in Poland – merely 180 000 euros!

#### 4. The Polish venture capital compared to the developed markets

As shown in Table 1, **Poland** is only ranked 21st. The legal and tax regulations in force in Poland are still not favourable to VC investment. Under Polish legislation, there are no special legal forms for this type of business, which means that Polish VC funds have the same rights and obligations as all other companies. The most appropriate form for a VC fund is a special kind of specialised closed-end investment fund – *fundusz aktywów niepublicznych* (non-public assets fund). Non-public assets funds have two fundamental legal shortcomings: the obligation to value assets at a frequency consistent with that specified in the statutes (but not less frequently than every three months) and the disclosure obligation relating to the preparation and submission of financial statements [The Act of 27 May 2004...]. These may constitute too big an expense for the entire project to be profitable, and for potential investors of a VC equity fund they may be a signal that the confidentiality of their investment could become compromised. Undoubtedly an advantageous feature of running a business in the form of an investment fund is that it is legally exempt from corporate income tax [The Act of 15 February 1992...]. The fact that fees for managing a private equity fund by a managing company are subject to value added tax is a problem [the Act of 11 March 2004]. For the purpose of running a VC activity, especially by funds originating from KFK, two other types of partnerships are used – *spółka komandytowa* (limited partnership) and *spółka komandytowo-akcyjna* (limited partnership with shares), which ensure fiscal transparency. The tax rate on received dividends (19%) in force in Poland is slightly lower than the average rate in the ‘old’ fifteen EU Member States (23.9%) (on the basis of [Taxation trends...]).

#### 4.1. Pension funds as a source of VC in Poland

In countries with developed financial markets, domestic institutional investors are the primary source of financing for VC operations. In each of these countries, native pension funds, banks and insurance companies provide more than half of the capitals that go into this market, thus financing the development of small and medium-sized enterprises. In the Polish market there is, sadly, little interest of Polish companies in VC investment. In 2011, 7.8% of all the capital of funds operating in Poland came from domestic entities, and in 2012 – 4% (author's own work based on [Yearbook 2015]). This is still not a good result, although it is improving as, for example, in 2008 the share of domestic sources of financing investment amounted to 0%.<sup>5</sup> The biggest obstacle is the lack of interest in this type of investment from open pension funds (OFE for Polish *Otwarte Fundusze Emerytalne*). The number of investment restrictions that Polish pension funds are subject to makes it practically impossible to invest in shares of companies not listed on the stock exchange. The most crucial of them is that pension funds are required to make semi-annual reports on the achieved 36-month rate of return on investments.<sup>6</sup> This is too short a time horizon for a potential investment in VC to bring a profit suitable for an OFE. Polish pension funds are therefore forced to invest their funds in instruments that guarantee a steady profit within a short time. Therefore in order to encourage OFEs to invest in VC, what would have to be done is, firstly, taking inspiration from EU regulations, to increase investment limits, and, secondly – and more importantly – discontinue the short-term assessment of their results. It is also noteworthy that capitals managed by Polish open pension funds are growing very fast (despite a statutory reduction in the size of contribution transfers), as the amount of the capital that OFEs had in 2005 exceeded PLN 80 billion, and in 2010 was nearly PLN 221.5 billion. The sum of contributions transferred in 2010 by the Social Insurance Company (ZUS for Polish: *Zakład Ubezpieczeń Społecznych*) reached almost PLN 27 billion. After introducing in February 2014 some legislative changes, the value of assets declined, and in November 2015 amounted to PLN 143 million – in the same month ZUS transferred to pension funds premiums worth PLN 237 million.<sup>7</sup>

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<sup>5</sup> The share of Polish capital in the level of acquisition of private equity funds in Poland in 2014 was not shown on purpose. In that period, the whole of the raised amount came from Poland, and was only 10.63 million euros. In comparison, the amount raised in the previous year was over 260 million euros, and in 2007 – nearly 824 million euros.

<sup>6</sup> Every six months the minimum rate of return achieved by all OFEs is calculated. Any fund that achieves a lower rate is required to pay the difference from its equity capital (Chapter 17 of the Act on the Organisation and Operation of Pension Funds of 28 August 1997 [The Act on the Organisation...]).

<sup>7</sup> Under the Act of 6 December 2013, on 3 February 2014 open pension funds (OFEs) discontinued 51.5% of the accounting units held in the account of each OFE member as at 31 January 2014, and on the same day transferred to ZUS OFE assets corresponding to 51.5% of the value of accounting units held in the account of each OFE member as at 31 January 2014. The value of assets held in an OFE member's account and then transferred to ZUS will be stored in the member's individual sub-account operated by ZUS.

There has, however, emerged a solution that can provide Polish OFEs with direct access to the VC market. This solution is the fund-of-funds, which is an entity that invests in selected funds in Poland and other countries in the region. The investment policy of the fund-of-funds could include regional, sub-regional, national, industry and other funds, by which it would obtain an adequate diversification of its portfolio and gain a relatively low level of risk. An investment in a fund-of-funds would grant an OFE access to the fastest growing sectors of the economy to companies that are not listed on the public market – this might also cause a significant increase in the rate of return on the OFE’s assets. The liquidity of such an investment would be ensured by the admission of investment certificates of the fund-of-funds to public trading. Additionally, the long-term nature of investments in the fund-of-funds enables matching the maturity of investments with the maturity of future liabilities of investors. Sadly, data for the year 2015 show little interest of Polish OFEs in investment certificates of investment funds (0.15% of OFE portfolio). Adding up all of OFEs’ investments in instruments whose issuers are companies directly involved in VC investment, their share in the structure of their portfolio turns out to be less than 1% (author’s own work, [[www.knf.gov.pl/opracowania/rynek\\_emerytalny/dane\\_o\\_ryнку/rynek\\_ofe/Dane\\_miesieczne/dane\\_miesieczne\\_ofe.html](http://www.knf.gov.pl/opracowania/rynek_emerytalny/dane_o_ryнку/rynek_ofe/Dane_miesieczne/dane_miesieczne_ofe.html)]).

## 4.2. Polish attempts to activate VC investment

Poland does have a few solutions that were introduced in order to energise the VC market and, just as importantly, the national capital. Under different assistance programmes, especially the Sectoral Operational Programme “Improvement of the Competitiveness of Enterprises, years 2004-2006”, the Polish Agency for Enterprise Development granted its support to six seed capital funds in the total amount of PLN 65 million (BIB Seed Capital, Business Angel Seedfund, IIF Seed Fund, MCI BioVentures, SATUS and Silesia Fund). Their funds are intended mainly for innovative enterprises with high growth potential and engaged in research and development activities. The maximum amount that a young company can expect is 1 million euros.

In March 2008, the AIP Seed Capital – a seed fund – was established at *Akademickie Inkubatory Przedsiębiorczości* (Academic Incubators of Entrepreneurship). The fund invests relatively small amounts (from PLN 50,000 to 400,000; at present, PLN 100,000 per project) in start-up companies operating i.a. in the IT, internet, media or telecommunications sectors.

On the initiative of the government, *Krajowy Fundusz Kapitałowy* (KFK) – the National Capital Fund – was established, a financial institution whose main objective is to increase access to capital for innovative Polish companies by supporting the development of the VC market.<sup>8</sup> It operates as a fund-of-funds, i.e. it invests in

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<sup>8</sup> Krajowy Fundusz Kapitałowy S.A. (a public limited company) was established in July 2005, and its 100-percent shareholder was Bank Gospodarstwa Krajowego (the National Economy Bank). The KFK programme is in line with the European Commission guidelines on venture capital, which were developed on the basis of experiences and best practices of other European countries that had implemented schemes similar to KFK [[www.kfk.org.pl](http://www.kfk.org.pl)].

selected VC funds, which in turn contribute capital to enterprises. KFK's share in each given fund cannot be more than 50%, which means that at least the other half of the funds is to come from private investors. In order to obtain KFK as an investor, several conditions have to be fulfilled: funds initiated by KFK may invest in micro, small and medium-sized enterprises based in Polish territory only. The value of projects that such funds invest in cannot exceed EUR 1.5 million. Funds should favour innovation or research and development companies as well as those in their early stages of development. So the programme of KFK encourages the creation of funds investing in early-stage enterprises, i.e. mainly in the smallest and the most risky projects, by offering incentives to private investors. KFK's offer promotes giving preference to private investors – they take priority in the return of the invested capital, only followed by profits through which their investment risk is reduced. Additionally, KFK covers, in the form of non-repayable benefits, a portion of the cost related to managing the fund. The source of KFK's funds consists largely in resources from the EU structural funds (180 million euros allocated to KFK under the OP IE 2007-13), and the Swiss government (53 million Swiss francs), supplemented with budgetary funds. KFK has so far invested in 17 VC funds which have 124 companies in their portfolios.<sup>9</sup>

### 4.3. Administrative system and state policy

An efficient system of state administration may also prove to have a beneficial effect on the size of the VC market. It is often pointed out that most of the difficulties in the activity of VC funds in Poland are due to the defective functioning of the state administration, local governments and the judiciary. Lengthy administrative procedures – starting from registering a capital company or obtaining permits associated with foreign investment, through to local permits – can effectively discourage investors from committing their funds. This situation is aggravated by the indolence of Polish courts as it affects the enforceability of law – the enforcement of property titles or debts in particular. Polish tax law does not contain provisions that could stimulate the growth of VC investment. Investments of this type are still treated as ordinary portfolio investments, and, unlike in many countries (even European ones), Polish legislation does not provide for an exemption from income tax (or even tax breaks) for entities engaged in VC activity or those making long-term investments. To make matters worse, under the amendment to the Income Tax Act of 1st January 2014, limited partnerships with shares (*spółka komandytowo-akcyjna*) became subject to this tax to the same extent as limited partnerships (*spółka komandytowa*), which means that they have been deprived of a very important feature – transparency.

Not without significance is also the reasoning of politicians. For many years now in the media and in the programmes of political parties, as well as in the national and local government organisations and the State budget, great importance has been

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<sup>9</sup> As at 10 Dec. 2015 [[www.kfk.org.pl/fundusze](http://www.kfk.org.pl/fundusze)].

attached to “attracting foreign investors” (mainly under the banner of fighting unemployment), to “stimulus packages” – often amounting to millions of PLN – for investors (typically, large and wealthy corporations) (Table 3).

**Table 3.** A list of investors that received support for the creation of jobs coming from the state budget in 2012-2014

Beneficiary	The amount of support in 2012-2014 (in thousand PLN)	Total jobs created	Support per one job created (in PLN)
MC KINSEY	804	191	4,209.42
NORDEA BANK	1,382	250	5,528.00
FUNAI	3,564	330	10,800.00
IBM	31,500	2,145	14,685.31
CITIBANK	1,426	350	4,074.29
ATOS ORIGIN	2,619	250	10,476.00
GOODRICH	12,570	250	50,280.00
FIAT	14,704	400	36,760.00
MTU	12,485	418	29,868.42
HP	9,975	1,100	9,068.18
LG	67,000	1,976	33,906.88
LG	11,161	600	18,601.67
FRANKLIN TEMPLETON INVESTMENTS	4,963	440	11,279.55
INDESIT	9,581	1103	8,686.31
NIDEC MOTORS	1,463	250	5,852.00
SAMSUNG	3,740	250	14,960.00
CARLSBERG	983	280	3,510.71
DELL	148,721	3,000	49,573.67
CADBURY	14,180	621	22,834.14
ORION ELECTRIC	26,527	500	53,054.00
Total	379,348	The average amount of support per one job created	19,900.43

Source: [The Budget Act for 2012, Attachment 11 „Zestawienie Programów Wieloletnich w Układzie Zadaniowym”, the „Wieloletnie Wsparcie Finansowe Inwestycji” programme, Task 6.1 „Wzrost konkurencyjności gospodarki”, Subtask 6.1.4 „System wsparcia inwestorów”].

Thus the created jobs are very expensive (investors receive public financial support of tens of thousands PLN per job), not usually innovative and poorly paid. The recent experience of Spain and Portugal related to the outflow of investors prove

also the fragile nature of these investments. For the time being the creation and development of entities that support domestic entrepreneurship and innovativeness (and reinvest thus produced gains) still does not attract much interest of politicians or the media.

## 5. Conclusions

The operations of the earlier-mentioned ARD proved that the essence of VC lies in providing active assistance to newly established companies, which in turn, through their innovativeness, contribute to the dynamic growth of the economy. Yet Poland is still wondering how to boost the innovativeness of its businesses entities, failing to see that the capital necessary to do so and an almost ready-made solution are at its doorstep. The commitment of a mere 1% of – now heavily trimmed – OFE assets in VC investments is more than PLN 2 million per month!!! This is a huge amount of funds to support Polish enterprises, research centres, which, through their educational and research functions, would strengthen young entrepreneurship. It is therefore, worthwhile to create in Poland good systemic conditions that would enable the VC market to grow, ones that would lead to the greater availability of capital as well as preventing the returns achieved by funds from being transferred abroad and having them reinvested in the country.

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