

SUGGESTED  
RECOMMENDATIONS  
**FOR INNOVATION  
DEVELOPMENT  
STRATEGY IN POLAND**  
2024

The document contains the conclusions of a workshop organised by the Startup Poland Foundation on the development of innovation in Poland with the participation of representatives of startups operating in Poland, investors, as well as organisations and corporations cooperating with startups.

## **More than 60 people took part in the meetings, who worked in nine thematic tables**

On the basis of conversations conducted with the entities that make up the innovation ecosystem in Poland, we have elaborated on the challenges it faces and attempted to propose solutions that can help strengthen the development of startups – a key element in the development of innovation, including startups and scaleups.

The start-up market in Poland is changing and growing up. Founders are also changing and are becoming more conscious about running their businesses. Currently, founders in Poland are mostly people over 35. They are more willing to look for development opportunities abroad, struggling in their home market with administrative barriers and suffering from the lack of reliefs that are increasingly aggressively introduced in other countries. The dynamics of the closure and establishment of another small innovative companies is enormous. However, the solutions they provide are a significant support to the country's economy, often constituting its economic resilience. The market needs startups, and they need a market – which will provide the right conditions for growth.

Poland, due to its strategic location and internal conditions, is ready for a full transformation into a modern economy 4.0 based on innovative technological solutions for individual consumers, industry and business. In this respect, it can be a digital and economic leader in Europe. In order to achieve this goal, it is necessary to build investment capital in Poland and a long-term, stable development of startups and scaleups.

Here is a list of recommendations needed to stimulate innovation in Poland:

## **I Supporting the international expansion of Polish start-ups**

Expansion abroad is a key stage of scaling a business, important for investors who assess the potential of a startup's business through the prism of going to foreign markets. We already have many examples of how a startup that conquers global markets can be created in Poland. Domestic startups such as Booksy, LiveChat, Zowie, Nozbe, Codolity, Prowly, DocPlanner or Brainly have achieved international success, which is an inspiration and encouragement for the foreign expansion of other startups.

Unfortunately, as research by the Startup Poland Foundation shows, the vast majority of startups operating in Poland are considering moving to another country. Companies believe that outside Poland (or even outside the EU) it will be easier for them to launch further overseas, attract the best talents and scale up their business. They also want to escape regulatory instability, excessive bureaucracy or in search of a mature capital market.

- In order for startups operating in Poland to expand abroad and become internationally successful, rather than fleeing Poland, it is necessary:
- Promoting Poland as a reservoir of talents and educated people (especially in the IT area), and as a country with a pool of founders of new companies. Currently, the state does this incompetently or insufficiently.
- It is also recommended that a country development strategy be drawn up which outlines the differentiators for Poland, such as the above-mentioned technological personnel (Poland has very well educated engineers and it is much easier to have a technical setup here than a business one);
- Reforming the Polish Investment and Trade Agency, as it is still an administrative entity without clear objectives that are understandable to the ecosystem. PAiH should comprehensively report on its activities so that it is clear what it is doing, in which areas, countries and industries. It is necessary to expand PAiH's expertise on foreign markets that are particularly attractive for foreign expansion (currently Switzerland or Spain, and earlier, e.g. Germany and the United Kingdom), and to prepare PAiH to decide when to give real support for starting a business in another country, and when to recommend putting foreign expansion on hold and preparing better for it. PAiH can also serve as a liaison for the Polish community scattered all over the world.
- When registering companies, have an English version of the documents already generated (applies to companies registered in the s24 system as is done in the Netherlands);
- Promote individual founders involved in interesting projects.

## **II Regulatory stability**

The focus on changing regulations in operations in Poland results in startups not having the space to internationalise their operations.

## **III Creation of a stable tax system and incentive scheme for investors**

Incentives for investors and stable taxes are key elements that contribute to the development of Polish innovation and economic growth. Investments, especially in new technologies and innovative projects, are essential for building a competitive knowledge-based economy. Properly designed investment incentive programmes will help to attract capital, support the development of startups and create new jobs, which will benefit the entire Polish economy. Moreover, the lack of appropriate investment incentives and an unstable tax system may result in investment capital being channeled to other countries with more friendly conditions.

The guidelines for the incentive and tax system in Poland are as follows:

### **The need for a commitment structure for venture capital funds**

Poland lacks a fund structure that is not governed by the Commercial Companies Code (KSH), but is a commitment entity (governed by the Investment Funds Act). One consequence of the lack of a commitment structure for VC funds is the inability of the funds to attract foreign investors. This is because they must not only persuade them of the investment policy and strategy, but also convince investors of the limited joint-stock partnership structure.

The introduction of a commitment structure that is not subject to the KSH will increase the participation of foreign investors in private equity and thus increase the funding opportunities for startups operating in Poland. An example of the positive impact of a commitment structure on the investor market is France, where its introduction has resulted in the current average fundraising time for a €75 million fund being 12 months.

### **Extension of tax relief for investors to the entire market**

The current reliefs available to individual investors, which only apply to funds with financing from the PFR, push private capital out of the market. The PFR is a litmus test of the credibility of a particular fund, it is to prevent circumvention of the system and the granting of reliefs to entities that are not funds. Such verification is legitimate, but it should be done not through the presence of PFR funds. Other mechanisms for verifying the credibility of funds need to be analysed, so that private capital without grants received from the PFR (or another public investor) also has tax incentives. The following remain to be considered: verification of funds by portfolio and analysis of what they invest in, verification by investment strategy or adopting the scale of a fund's

investment as a verification criterion. The establishment of a special department within the National Tax Administration that is only responsible for financial instruments with specialised staff is also highly recommended.

## **Introducing an investment incentive scheme following the example of other countries**

Examples of countries where the recent introduction of a comprehensive, coherent, working system of incentives for investors and startups has increased per capita investments several times in a short period of time are Spain and the UK.

### **Spain**

A new system of incentives for the development of startups was introduced by a law adopted at the beginning of 2023. The law provides a specific regulatory framework that takes into account the specificity of startups, their innovative nature and the basic requirements of the sector. Its main objective is to support this business sector and use it as an engine of innovation for the Spanish economy.

In order to qualify for the preferential conditions under the law, a company must meet a number of conditions, in particular it must introduce innovations of a technological nature, which should be confirmed by a certificate issued by the state agency ENISA. The specific solutions introduced by the law are primarily in the nature of tax benefits and are based on the promotion of liquidity through:

- Taxation at a reduced rate of 15 per cent on corporate income tax and non-resident income tax in the first period in which the company shows a positive tax base and in the following three periods. In doing so, receivables for these taxes may be deferred without charging interest for delay.
- Increased annual exemption for income derived from the gratuitous (or below market price) acquisition of shares in newly established or group companies;
- Increased tax-deductible amount due to investments in recently established companies (from 30 per cent to 50 per cent, with a maximum of €100,000),
- The preferential tax system for employees seconded to Spain has been extended to those engaged in entrepreneurial activities and highly qualified professionals providing services to newly established companies.
- Preferential treatment of income derived directly or indirectly from shares, stocks or other rights in startups.
- Extension of the tax exemption to remuneration paid in the form of shares in startups.

In addition, the law provides for a number of administrative simplifications, in particular simplifying the registration of startups, liberally regulating the requirements for raising funding via crowdfunding and making it easier for entrepreneurs and startup employees to obtain visas and residence permits.

In addition to the introduction of the Startups Act, the Spanish government has doubled (to €8 billion) the budget of the state-owned Fond-ICO Next Tech Fund providing preferential funding to digital and innovative companies and is developing the 'Rising Up in Spain' initiative providing support to foreign startups aiming to start a business in Spain.

## United Kingdom

The UK's solutions for supporting the R&D sector and innovative companies are scattered across many acts of law and government programmes. Some of these were amended during work on the Budget Act 2023. The then Chancellor Jeremy Hunt, responsible for implementing these solutions, declared that the government's aim was to make the UK a 'science and technology superpower'. The most important standardisations include:

- **British Patient Capital:** Launched in June 2018, British Patient Capital has become the UK's largest national investor in innovation funding, providing funds to fast-growing UK companies including CyberSmart and Quantum Motion. The government has pledged to extend the British Patient Capital programme for a further 10 years to 2033-2034 and focus on R&D-intensive industries, providing at least £3 billion of investment.
- **R&D tax relief:** The new R&D tax relief regulations for small and medium-sized enterprises (MSP) introduced in 2023 enable MSP with high qualifying R&D expenses to make larger tax deductions and obtain preferential financing.
- **Depreciation of investment expenditure:** For more developed companies, with qualifying capital expenditure on equipment and machinery above the annual investment limit of £1 million, two new tax reliefs have been introduced. In particular, certain expenditure on assets of this type will qualify for 100% relief in the first year, providing depreciation of the expenditure.

The UK government is also continuing its extensive sectoral investment support programmes for key technologies such as AI, quantum technologies and green technologies (including nuclear technologies).

## Allowing pension funds to invest part of their capital in VC funds

It is necessary to amend the legislation on limits to investments by pension funds in VC funds and to increase these limits, as well as to eliminate the double management fee for investments through pension funds in VC funds. In Germany, for example, the wider investment of pension fund capital in VC funds has contributed to a significant increase in investments per capita (this is 10 times higher than in Poland). The Act on Employee Capital Plans theoretically allows investment in investment funds, but in practice there are many problems here, including those arising from implementing acts, as well as those related to the position of the Financial Supervision Commission. The international benchmark is the investment of 0.30.5 per cent of pension funds' assets in VC funds, which gives a huge injection of money to the funds, without much risk to pensioners.

There is a need to allow investment in buyout funds, which are less risky than VC funds and have equally attractive return rates. Globally, pension funds invest about 15-20 per cent of their assets in broadly defined private equity funds including venture funds (investments in VC funds are only 0.3-0.5 per cent, as mentioned above).

As the law currently stands, there is no incentive for pension fund managers, whether PPK or private, to invest in VC funds. We have a double management fee: for the VC fund and for the pension fund managers.

A good example of how to allow pension funds to invest part of their capital in VC funds is the Swedish model, where pension funds must have 5 per cent of assets under management to be able to invest in alternative funds.

### **Tax stability and non-retroactivity of the law are necessary**

An LP (whether from Poland or attracted to Poland) by a VC fund for 10 years must be assured that the same tax regulations will apply for several years as when the decision to invest was made (no less favourable).

### **Family foundations**

Family foundations are likely to become one of the most popular forms of VC fund investment in Poland.

Currently, there are approximately 1,400 family foundations registered in Poland. If this form is to develop and support investment, it is necessary not to increase the tax burden on family foundations. This demand is of particular importance in view of the recent announcement of an amendment to the law on family foundations by the Ministry of Finance. Its aim is to prevent the law's provisions from being used for tax optimisation inconsistent with the law's objectives. The announced changes are to include, among other things, explicitly determining that income from shares in tax-transparent entities will be subject to tax, and making it mandatory for the court to dissolve a family foundation if it carries out illegal business activities.

### **Introducing an ESOP in a limited company**

The Employee Stock Option Plan (ESOP) is a method of rewarding employees and attracting and retaining the best staff. It is particularly popular in start-ups because it increases employee engagement through their financial connection to the company's profits and valuation. In Poland, ESOP is still not a common way of tying employees to a company, unlike in other countries such as Portugal, which is due to the complicated legal procedures for implementing ESOP and unclear tax regulations in accounting for it in the legal form most commonly used by startups in Poland, i.e. a limited liability company.

Well-functioning ESOPs not only serve startups and their employees, but also contribute to the economy and the startup ecosystem, being the flywheel of the Polish economy. In most countries in Europe or the US, there is an ESOP with every investment round.

For the widespread operation of ESOPs within a limited liability company in Poland, it is necessary:

- the introduction within the limited liability company of solutions enabling the implementation of ESOPs in particular along the lines of those used in the provisions on the joint-stock company and the simple joint-stock company;
- introducing tax incentives for offering ESOPs to employees, as well as introducing relief for employers offering ESOPs (for example, in Portugal there is an 8 per cent tax on ESOPs and they invest twice as much as in Poland per capita);
- the introduction of transparent tax solutions clearly defining the tax liability until the cash inflow from the sale of the acquired ESOP shares is received (analogous to the existing provisions for a joint stock company or a simple joint stock company);
- building awareness of ESOPs and their role in the innovation ecosystem.

## **IV Strengthening startup funding and reviewing public institutions to support startup development**

Despite numerous examples of success, startups in Poland still face significant problems in raising capital. Compared to more developed startup ecosystems, such as in the United States or some Western European countries, Poland still faces a shortage of investors who are willing to take the risk of funding them. Furthermore, the Polish investment market is characterised by a relatively small number of active venture capital funds on the Polish market and a small number of business angels compared to other developed economies, which is also linked with the lack of investment incentives (point II above).

Particularly at the scaling stage, fast-growing startups need a lot of capital, which they are not yet able to generate from their own profits. Traditional bank financing, such as that used by well-established companies, is practically impossible to obtain for young companies due to their risk structure.

The lack of adequate funding at an early stage and also at the so-called B-round stage often results in many promising projects failing even before they reach market maturity or obtain funding outside of Poland and the EU.

Recommendations for strengthening startup funding point to the following needs and challenges:

- Reducing the number of funding entities and a clear message to the market that Poland as a state is not and cannot be a direct investor in startups or scaleups. The role of the state authorities or its companies may be to participate as an investor in funds where the money is managed by private entities. Exceptions could be grants for research and development or support for people starting a business, as well as the creation of incubators or business accelerators. The roles of public institutions are complementary; there is no clear division of competences. PFR has its programmes,

NCBiR has its programmes, PARP has EU programmes; the boundary between these agencies is not always clear. For example, the market practice has been that PARP has small and medium-sized companies on its agenda and NCBiR has large ones (this is not a transparent and precise division).

- First of all, in the area of financing, the private part has to be supported in order to include public support in the next step;
- Allowing foreign expansion to be financed with R&D funds. Currently, there is an over-interpretation that R&D funds cannot finance foreign expansion and sales (in France, for example, this is not the case);
- Lack of institutional continuity: changes in government result in changes in approaches, changes in personnel, changes in practice;
- Creating one central database of researchers, projects and programmes that is kept up-to-date and widely known. A single reliable source of information that everyone can rely on is essential;
- Building the competence and expertise of public officials on funding, and promoting the taking of responsibility for decisions;
- There is too much fragmentation of capital, which results in good projects having too little capital, but on the other hand, there is too much funding for weak projects at the base level;
- Changing the way accelerators are funded to one with the possibility of taking a stake in accelerated projects;
- Legal changes to the way in which grants are accounted for and regulations that facilitate flat-rate accounting rather than focusing on a very formal accounting of every penny in terms of invoices;
- Introducing solutions that record the support received by startups, so as to prevent one startup from benefiting from too many accelerators. The creation of a single, central system for recording this support is recommended here;
- Regulatory adjustment, giving banks the opportunity to invest in startups with a venture debt product.

## V Defining the role of academies (high schools and universities) in the innovation ecosystem and strengthening cooperation

Cooperation between universities and start-ups is crucial for the development of innovation and knowledge transfer from science to business. However, this potential is not used in Poland, and the reason for this is the way universities and research institutes are organised, and the differences in business culture between the academy and business. Startups want to commercialise projects quickly and are result-oriented, whereas universities take a long time because of long-term grant policies and are process-oriented. There is a need to change the 'feudal' way universities are organised so that they are commercialisation-friendly and promote innovators. This change is predominantly taking place in private universities, while much work is still needed in public universities.

The following measures are key to improving collaboration between universities and startups:

- Teaching entrepreneurship in schools from an early stage on a regular basis and emphasising practice in education. Entrepreneurship classes should be taught by practitioners who are active in business (now entrepreneurship in schools is taught by teachers for whom it is a second subject with no special education);
- State support for initiatives that deal extra-systematically with teacher training in entrepreneurship;
- 'Upstarting' scientists and giving them the tools to create their own business. Commercialisation regulations, as well as the internal regulations of universities, are problematic, but the biggest challenge is the mindset of scientists. For them, commercialisation is often a misappropriation of the ideals of science. Technology transfer centres that can help startups have been developing for years and this direction should be supported;
- More incubators in the sense of programmes and substantive support rather than space, and more exchange of practices with business;
- Reform of programmes of an academic incubation nature. These programmes gather the most ambitious students and require the implementation of systemic solutions, which are currently lacking. Incubation programmes should be a canon at universities with a focus on networking of researchers with business (technology recipients);
- Changing the way technology transfer is valued so that it is beneficial to all parties concerned: it now comes from the replacement method and stops researchers from selling the invention because they have taken a large grant for it and fear that they may face a penalty for not fully using/accounting for it;

- Change in the funding of brokers: today, a broker who leads to the successful implementation of a technology gets a few hundred zloty bonus, even if the technology is multi-million dollar. Brokers should have a percentage of the implementation. To do this, you need to change the thinking in universities about making money.

## **VI Strengthening regulatory sandboxes and making them more accessible to startups**

- Regulatory sandboxes can definitely help and accelerate the development of technology and startups in Poland, but especially in the first period of the regulatory umbrella.
- Determining what a sandbox is – whether it is test legislation or an implementation platform for Polish public companies.
- Sandboxes should be done quickly and adequate to the needs, having the support of the public sector – e.g. the blockchain sandbox started to work as the startups interested in it already fled Poland, the same could happen with the AI sandbox, which was not described in the AI systems draft law presented by the Ministry of Digitalisation. Currently, it is almost impossible for institutions supervised by the KNF to test the technology – the startup does not meet a number of data access provisions, leading to the construction of closed environments for testing.
- In terms of innovation in the financial sector, it is advocated that initiatives and activities of supervisory authorities and other entities (KNF and other entities creating regulations and laws) that support innovation should be promoted, in particular the creation of an environment conducive to testing new solutions by adjusting the requirements to the scale/importance of the process. Currently, the requirements very often do not differentiate whether the test is carried out on a small scale or whether the solution is implemented in a full-scale form. The administrative and legal burden is also very high for small projects. This has a negative impact on the willingness of financial institutions to experiment (including a long agreement process, high costs for the institution and the startup). The supervisory authorities and lawmakers should be encouraged to include dedicated light-tracks for new solutions created by startups and scaleups in their work.

## VII Defining terms for the startup and scaleup legal system

Following the example of other countries (Spain, Estonia), the most inclusive definition of the concepts of startup and scaleup should be introduced. There is a need to introduce a definition of startup and scaleup into the Polish legal order due to issues related to distinguishing startups and scaleups from small and medium-sized entrepreneurs, as well as to the application of the law, facilitating the construction of financial instruments. In addition, such a regulation would make it possible to channel the relevant grant funds directly to startups and scaleups and would lead to stability in the application of reliefs or additional entitlements to small and medium-sized entrepreneurs.

## VIII What's next for the simple joint stock company (PSA) as a legal form for startups

Most Polish start-ups operate in the form of a limited liability company, which was not changed by the introduction of a simple joint-stock company into the Commercial Companies Code.

Investors and founders prefer a well-known legal form to an entity that is still unknown and, in the startups' view, over-regulated and, despite its name, not simple. A PSA requires a shareholder register to be kept by either a notary or a brokerage, with notaries not keeping the register in practice (there is not even a system for them to do so) and the use of a brokerage is expensive. On the other hand, the PSA has many of the solutions desired by startups (such as the possibility to introduce ESOPs).

According to the latest (2024) Startup Poland Foundation survey, 67 per cent of the startups surveyed confirm that they have chosen a limited liability company as their form of business. A simple joint-stock company was indicated by only 8 per cent. We also asked what would have to happen for a founder to switch from the current form of registration to a PSA. 60 per cent of those surveyed admit that they would be persuaded by tax incentives. Slightly fewer, 59 per cent, say they would register their company as a PSA if the investor required it. Getting a grant faster would influence a positive decision for 43 per cent of those asked. 7 per cent of founders declare that nothing could convince them to set up a simple limited company.

To popularise PSA as a legal form for startups, it is necessary to:

- define for whom it is intended as a vehicle, if it is for a startup/scaleup, as at the moment it is more used by service companies;
- build awareness of the advantages of PSA (simpler to get partners, replace them, bring their work as an in-kind contribution, ESOP);

- introduce fiscal incentives for setting up and operating as a PSA; Put into practice the possibility for notaries or legal counsel's or barristers' offices to maintain the shareholder register, which should reduce the operating costs of PSA;
- When registering a PSA, have the English version of the documents immediately generated.

## **IX The role of local government, special economic zones and science and technology parks**

### **Local governments:**

- encouraging mayors or local government officers or voivodes in the biggest urban centres to create a single organisational unit in the relevant area that will be responsible for the local innovation ecosystem in this public-private formula,
- revision of the regulations regarding the possibility of supporting startups/businesses, including institutions that will promote and build an innovation ecosystem also in a public-private formula;
- greater emphasis in public procurement procedures on non-price supplier selection criteria, so that local solutions and smaller innovative companies can be supported;
- a separate pocket for conducting proof of concept of startup technologies, including urban regulatory sandboxes,
- special economic zones: review those that have been most successful in business-academy collaboration, support for start-ups, and attracting investors, and show these examples to other zones
- Science and technology parks: verify those that have been most successful in collaboration between business and the academy, support for startups, and attracting investors, and showcase these examples to other parks.

## X Supporting talent acquisition

The start-up market is currently in competition for the best employees. Its effect may determine the shape of the innovation ecosystem for years to come. Similar to large corporations, recruiting qualified employees is becoming increasingly difficult for startups. According to research by the Startup Poland Foundation, the shortage of employees with the right qualifications is one of the main challenges for startups in their business operations.

Recommendations in the area of talent acquisition support are as follows:

- Building awareness of Poland's attractiveness as a place to work. Poland has relatively low taxes (compared to other European countries), the mere fact of reaching entrepreneurs from other countries with this information may encourage them to set up companies in Poland and hire employees here;
- Review of existing employee migration and acquisition projects (e.g. talent programme), simplifying them and implementing them in practice;
- Implementation of incentives that can encourage people to stay in Poland and attract talents to Poland, such as preferential taxation (e.g. following the Portuguese model) and a special tax system for expats, including digital nomads, startup founders and investors working or involved in socially crucial businesses (their catalogue should be defined in a legal provision and include in particular education, green transformation or the area of health care);
- Availability of documentation on employee issues in English (available on gov.pl or zus.pl);
- Development of support in the public administration for foreign talents before they arrive in Poland and afterwards, in cooperation with employment agencies supporting relocation. Public administration should support relocation, finding accommodation or childcare (minimum plan is any guidance in English). Ideally, it should be one place available in several languages, collecting such knowledge and contacts, accessible to all interested parties;
- On labour law issues, the need is to lighten the burden of employment contracts (through, for example, temporary relief for employers using them) or to add to the burden of self-employment (e.g. through an entrepreneur test, following the UK, or greater burdens on B2B contracts similar to employment contracts, following Japan).

## **XI Minister for start-ups and community innovation council**

In view of the multiplicity of needs and the dispersion of competencies in the public sector related to servicing the start-up market, it is highly recommended to appoint a single institution/person at the rank of undersecretary/secretary of state to coordinate the described activities, including coordination with the Minister of Digitalisation, the Minister of Science and the Commission for Financial Supervision, the Office of Competition and Consumer Protection and the planned Commission for Artificial Intelligence. An additional argument in favour of appointing a 'Minister for Innovation' or a 'Minister for Startups' is the fact that a Commissioner has just been appointed within the European Commission, one of whose tasks is the startup ecosystem.

It is highly recommended that the activities be reviewed and that the Innovation Council working with the Minister for Startups, with an expert and advisory function made up of representatives from the third sector, startups, funds and corporations, which will in particular consult on planned legal changes in regular meetings, as well as provide the government and the market with annual information on the implementation of legal changes in the field of innovation and their impact on the ecosystem, be re-launched.

In addition, we recommend the creation of an entity in the format of a public-private partnership to deal with the development of startups in Poland. Such an entity should have an expert character and be co-financed by the state and the business community.

