

## Chapter 3

### **Making the Most of Regional Development Policy Through Multi-level Governance**

*The window of opportunity of EU funding has to be exploited as much as possible, not only for territorial development, but in the perspective of broader public governance and management changes. The impact of European cohesion policy on the Polish multi-level governance system goes well beyond financing. The design and implementation of EU operational programmes – not only regional ones – has led to enhanced decentralisation and collaboration with private actors and civil society. Regional and local actors are engaged in a strong learning process. To further improve the effectiveness of regional development policies, three broad governance challenges are critical to address: i) enhancing co-operation across levels of government and with private actors; ii) strengthening capacities of sub-national governments, to design, implement and monitor development programmes; iii) supporting accountability, at all levels of government and monitoring the performance of regional as well as sectoral policies. Poland also needs to think about longer-term options for better matching competencies and resources in some areas after 2013, when Polish regions may no longer benefit from the same level of external funding, and for further increasing the strategic role of regions. This chapter explores these different cross-cutting governance challenges, and proposes policy recommendations.*

## Introduction

The window of opportunity of EU funding has to be exploited as much as possible, not only in the perspective of regional development, but in the perspective of broader public governance and management changes. Governance arrangements are the key levers to improve the effectiveness of regional development policy. As explained in Chapter 2, one of the major challenges for regional policy is to move to a more integrated territorial approach, with appropriate scale of planning and stronger social capital, *i.e.* co-operation among public and private actors at the local level. The challenge for governance is a twofold one: i) to enhance central and local capacity to implement place-based policies instead of one size fits all; and ii) to build long-term arrangements that go beyond the focus on the absorption of EU funding. Changes in the Polish multi-level governance system has to be forward looking since beyond 2013, most Polish regions may not benefit from the same level of financial support from the EU.

Governance challenges for Polish regional development policy can be summarised under three broad items: co-operation, capacity and accountability:

- **Enhancing co-operation**, both across levels of government, local governments and public and private actors. This might imply new institutional tools to foster collaboration across municipalities, in particular in metropolitan areas; improved co-ordination at the central level, and enhanced involvement of private actors in planning and monitoring regional programmes. Building social capital is an important pre-requisite to improve the implementation of regional development strategies, as the historical inheritance of Poland has resulted in low level of social trust.
- **Improving capacities of sub-national governments**. Poland has developed in the late 1990s a multi-level governance framework in which regions play a strategic role for the implementation of regional development policies. There is still a need for both more effective regional leadership and clear allocation of responsibilities and budgets among sub-national authorities. Flexibility into the implementation of regional development policy would gain from a better match between responsibilities and resources. This requires also enhancing local competencies.
- **Supporting accountability as regards regional development policy**, at all levels of government. The current system has become increasingly complex –

especially with the management of EU funding – and the distribution of competencies across the different actors, at both central and local levels, is sometimes unclear. Monitoring the performance/impact of regional policy is a key tool for sharing information across levels of government, for helping local actors to reveal their knowledge, and for building trust. Poland has made significant progress since 2004 in developing infrastructure for performance monitoring, but the impact of such systems will largely depend on the improved data collection at both regional and central levels and the use of such information in policy-making.

This chapter explores these different cross-cutting challenges. i) The first section focuses on promoting sustainable relations across levels of government, keeping in mind that EU funding will be available for a limited timeframe. ii) The second section analyses the need for greater collaboration across municipalities, in metropolitan areas in particular. iii) The third section highlights the needs for improved co-ordination at central government level and enhanced place-based dimension of both the regional development strategy and the rural one. iv) The fourth section explores the needs to improve programming and managing capacities of regions by reinforcing public-private collaboration and strengthening local public capacity. v) Finally, the fifth section analyses the ways to enhance accountability for results and performance.

## 1. Poland towards multi-level governance for regional development

Regional policy in Poland is implemented in a multi-level governance framework developed in the 1990s. Municipalities (*gminas*) have significant responsibilities and large budgets, while regions (*voivodships*),<sup>1</sup> created in 1999, increasingly play the role of strategic partners with the central and local governments to decide the needs and priorities for local development, and the use of EU funds. Overall, after almost a decade of existence, this decentralised policy framework is perceived as a success, even if challenges remain for enhancing the efficient implementation of regional development policies. While many challenges are linked to the need for more collaboration across local governments, with private actors and local capacity building (focus of Sections 3.2 and 3.3), this section focuses on the challenges linked to the repartition of competencies across levels of government and the fiscal capacity to conduct regional/territorial development policies. Poland has introduced an extended decentralisation process, especially compared to the other countries in Central and Eastern Europe. However, it is important for Poland to think about longer term options to better match competencies and resources in some areas; and to further increase the strategic role of regions.

### 1.1. Extended decentralisation process in Poland

In the 1990s, Poland undertook reforms with a view to decentralisation, and it is probably the country of Central and Eastern Europe that has gone the furthest in this direction. It started with municipal autonomy in 1990, seen as consubstantial with democracy after four decades of centralisation under communism. The communes were to play an essential role in shaping a democratic Poland (Stoker 1991). Municipalities (*gminas*) have the largest responsibilities in terms of spatial planning, infrastructure development, housing, social services and education (see Annex 3.A1).<sup>2</sup> Mayors are directly elected, which gives them high political visibility. Municipalities are of three types: urban, rural and urban-rural.<sup>3</sup>

The creation of the 16 Polish regions in 1999 was an important step in the establishment of multi-level governance. The regions (*voivodships*) have an elected regional assembly and are responsible for regional economic development, higher education, hospitals and facilities beyond municipal boundaries, the labour market and job creation. The borders of regions generally correspond to historical units: they result from an endogenous process of institutional change (Hughes *et al.*, 2003; Swianiewicz, 2004). A decade after their emergence as part of the Polish administrative framework, their existence, as regions, is widely recognised. Although they play a relatively limited role in providing public services (mainly higher education and transport); their strategic role is important and increasing, owing to the elaboration of regional development strategies and the management of increased inflows of EU funding.

#### Box 3.1. Newly created Polish regions in 1999

Poland now has a three-tier governmental system: 2 478 municipalities (*gminas*), including 65 with the status of district (*powiat*); 314 *powiats*; and 16 voivodships. There had been 49 rather small regions (voivodships) under the communist regime and a reduction in their number was considered necessary. The main difficulty was the loss of status of the previous capitals of the voivodships. The design of new regions was therefore rather delicate and has resulted in a few trade-offs (for instance the small *Opole* voivodship with only 1 million of inhabitants, which was justified owing to the small German minority). The number of regions – 12, 16 or 22 – was strongly debated. The main criteria adopted for the design of regions were historical boundaries and functional linkages.

314 *powiats* were also created in 1999 (they had been abolished in 1975). Compared to regions and municipalities, they have a more limited role and influence, as they are essentially funded by the central government. Their main responsibilities include secondary schools, public health services, social

welfare, economic activity and job creation (employment offices). At the head of the powiat, the *Starosta* is elected by the powiat council, itself directly elected for a four-year term. The largest municipalities (above 100 000 inhabitants) also have the status of powiats and combine the responsibilities of both. This was mainly seen as compensation for the former regional capitals that lost their capital status in the 1999 administrative reform. Overall, the role of the powiats is increasingly questioned, as many of their functions could be moved either to the voivodship or the municipality level. This could improve the efficiency of the decentralised framework.

The reform of the Polish administrative system was inspired in part by the French system. As a consequence, institutional trends in France's decentralised system are particularly relevant for Poland, and this chapter will focus particularly on the French benchmark. The *marshal* is the head of regional local government, whereas the *voivod* represents the interests of the state (the equivalent of the French "prefect"). The voivod is responsible for security and defence in the voivodship, in particular for public order in crisis situations, and, as the representative of the state treasury, for the region's use of funds. The different levels of government do not represent a hierarchy: regions, powiats and municipalities are on the same hierarchical level. The state plays an important role at local government level through state grants and regional contracts. A notable difference between Poland and France is the number of local governments (36 000 municipalities in France but only about 2 500 gminas in Poland). Despite the many changes in Poland over the past century, the number of municipalities has remained relatively constant, so that Poland has avoided the jurisdictional fragmentation that has complicated decentralisation processes in many OECD countries.

Table 3.1. **Territorial organisation in Poland**

State territorial administration	Sub-national governments
16 voivod offices (prefectures)	16 regions (voivodships)
	314 counties (powiats)
	2 478 municipalities (gminas)

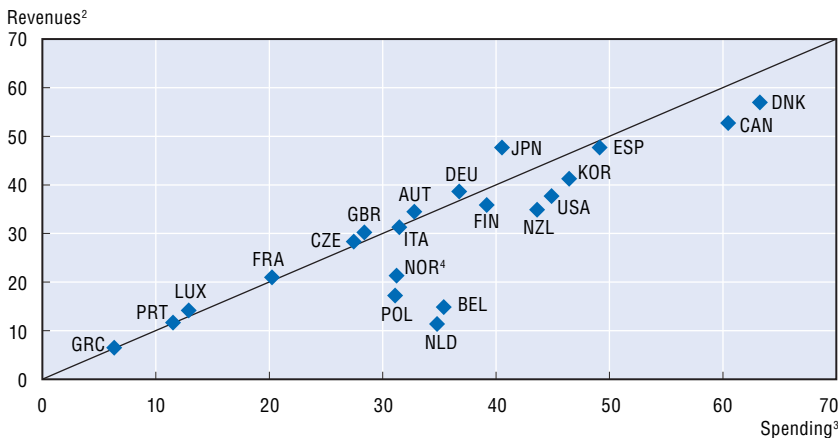
### ***Fiscal decentralisation: limited revenues for regions and powiats***

The 1999 reform was accompanied by a significant devolution of expenditure responsibilities from the central to sub-national governments in the areas of education, roads and healthcare. Municipal expenditure is by far the most important component of sub-national expenditure (79%), followed by county (13%) and regional expenditure (7%) (Dexia, 2008). Sub-national expenditure has increased twice as fast as total public expenditure over the past ten years. This is largely due to the fact that education and health are the

responsibility of local governments. The share of sub-national level in total public spending is slightly above 30%, i.e. at the same level as Italy or the United Kingdom (see Figure 3.1). When considering the entire sub-national sector,<sup>4</sup> expenditure reached EUR 32 billion in 2005 and represented 13.2% of GDP. However, the share of sub-national governments in general revenues is slightly below 20% (OECD, National Accounts).<sup>5</sup>

Figure 3.1. **Share of sub-national governments in general government revenue and expenditures (2006)**

Share in general government revenues and expenditure, 2006<sup>1</sup>



1. Or latest year available: 2005 for Korea, New Zealand and Poland.

2. Excluding transfers received from other levels of government.

3. Excluding transfers paid to other levels of government.

4. The share of subnational revenues is expressed in per cent of total government mainland revenues.

Note: Decentralisation is measured by the changes in the share of sub-national governments in total public revenues and spending.

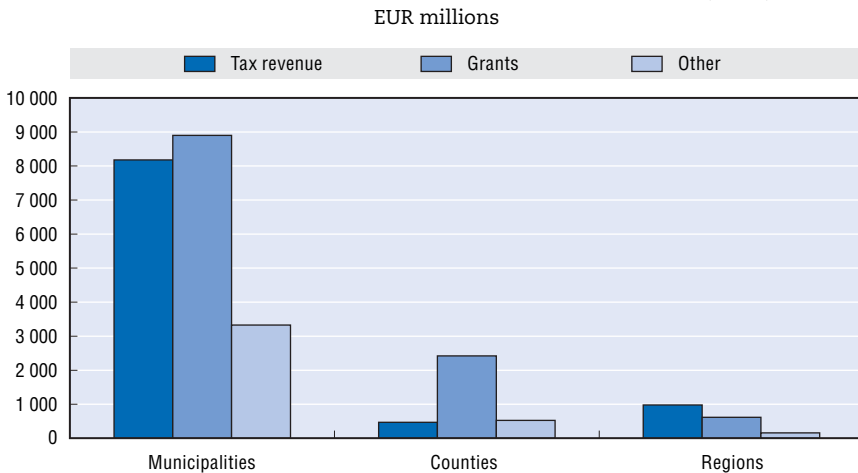
Source: OECD National Accounts database; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis.

Revenues and fiscal autonomy of newly created *powiats* and regions have remained limited. Regions and *powiats* rely mostly on grants distributed by the central government. Municipalities also rely heavily on the grants system, but they have higher tax autonomy, as they perceive ten times more tax revenues than regions for example (Figure 3.2).

- **Grants:** Nearly half of local government revenues (47%) come from grants (mostly from general grants, 32% of which are earmarked),<sup>6</sup> while tax revenue represents around 38% of sub-national revenue (see Annex 3.A2). The general grant was EUR 8.1 billion in 2005. Municipalities received 75%, counties 21% and regions 4%. It constitutes the main grant for sub-national governments. *Earmarked grants* amounted to EUR 3.9 billion in 2005 (32% of all state grants), of which municipalities received 73%, counties 20% and regions 7% (see Annex 3.A4).

- Taxes:** Polish local governments received 11.5% of total tax revenues in 2004, slightly below the average of 13.5% for OECD unitary countries (OECD, 2008a).<sup>7</sup> Municipalities' main sources of revenue are property taxes and the proceeds of various excise taxes.<sup>8</sup> *Shared tax revenue* brought in EUR 5.7 billion for sub-national governments, with the lion's share going to municipalities (74.4% of all shared revenue). It represented 51.5% of municipal tax revenue, as well as the totality of county and region tax revenue (see Annex 3.A2).

Figure 3.2. **Structure of sub-national revenue by type (2005)**



Source: DEXIA, 2008.

Although fiscal autonomy has increased in Poland since 2004, following the reform of local finances (and increase of shared tax revenues going to powiats and regions), it remains very limited at the powiat and regional levels. The tax system of Poland is hampered by the fact that social security contributions for both employers and employees are very high. Poland has one of the highest tax wedges in the OECD, despite relatively low personal income tax rates.<sup>9</sup> The system also relies heavily on consumption taxes, whereas relatively little revenue is collected from such bases as environment externalities, inheritances and, in particular, property. The taxation system as a whole is one of the least redistributive among OECD countries (OECD, 2008a).

### **Limited focus on redistribution**

Like many OECD countries, Poland has an equalisation system, i.e. a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or/and public service cost (OECD, 2007c).

The focus on redistribution in the allocation of grants remains however relatively limited in Poland; compared to countries like Denmark, Finland or Japan.<sup>10</sup> Polish equalisation system is mixed: although it is essentially based on tax capacity, it also takes into account some expenditures needs. The equalisation grant amounted 1.2 billion euro in 2005, i.e. 4.6% of sub-national revenue. The formula for each level of sub-national government was modified by the 2004 Act. It is mainly based on criteria linked to tax revenues, population and unemployment rates.<sup>11</sup> Although Polish equalisation system is first and foremost for equalisation of revenues, there are some attempts to take expenditures needs into account, through the population criteria (the assumption is that large cities provide more services and therefore their expenditure needs are higher). In addition, the system takes into consideration that the smallest local governments (less than 5 000 population) may have higher unit costs for many services (Swianiewicz, 2004).

### Box 3.2. Equalisation in OECD countries

Its principal objective is to allow sub-central governments to provide their citizens with similar sets of public services at a similar tax burden. Fiscal equalisation can be seen as the natural companion to fiscal decentralisation as it aims at correcting potential imbalances resulting from sub-central autonomy. Many OECD countries have an equalisation system in which both fiscal capacity and cost differences are equalised. The consequences of this system depend on several factors, but in many cases the contributions of metropolitan areas outweigh the benefits they receive on the basis of cost differences.

In OECD countries, fiscal equalisation makes up around 2.3 per cent of GDP. Across countries, the size of equalisation transfers varies between 0.5 and 3.8 per cent of GDP, between 1.2 and 7.2 per cent of government expenditures.

Fiscal equalisation serves several potential roles. Its primary policy objective is horizontal equity among the residents of different jurisdictions, i.e. ensuring that, subject to local decisions, all persons or firms in a country can obtain comparable public services at comparable tax rates. Fiscal equalisation may also correct for inefficiencies that might arise if households choose their location based on fiscal rather than productivity considerations, although equalisation itself may reduce labour mobility and hence adjustments between regions. Finally, fiscal equalisation may help support macroeconomic stabilization, insuring regions against asymmetric shocks they may not be able to cope with if left alone. Equalisation is a passive, corrective fiscal policy with no growth and development strategy behind it, and there is a case for concomitant policies aiming at productivity increases, such as transport, research and education. Fiscal equalisation aims at equalising regional public revenue, not GDP or individual household revenue. Like any other redistributive programme, fiscal equalisation policy can result in potentially adverse fiscal and economic incentives for sub-central governments.

Source: OECD (2007c), *Fiscal Equalisation in OECD Countries*.



The focus on redistribution has been slightly enhanced by regional contracts, which financing takes into account the GDP per capita criteria and also with the way EU funding has been distributed since 2004. About one fourth of the EU funding has been distributed since 2004 on the basis of territorial criteria (23% between 2004-06 and 25% between 2007-13, as well as 3% on the programme for eastern Poland development). Cohesion criteria are prominent in the territorial distribution of funds. All regions participate in the distribution of 80% of total funds according to their population. The remaining 20% of funds is distributed only among those regions whose GDP per capita is less than 80% of the national average and in which the cross-powiat unemployment rate is higher than 150% of the national average.

Although EU funds clearly play an equalisation role, it is not clear whether in the end richer regions will not benefit more from EU funding than lagging regions through sectoral programmes. This is because the majority of EU funds have been allocated through sectoral programmes (75% of funds), independently from territorial criteria. It is the case in 2007-13, and it was also the case in 2004-06, when a substantial portion of structural funds and the entire the Cohesion Fund were implemented via national programmes. A complete evaluation for the first financial period will be possible only at the end of 2008, but analysis so far shows that Eastern regions received the smallest amounts (in terms of value per capita) of the EU funds in 2004-06, as they have not managed to “attract” larger amounts of the EU funds from sectoral programmes.

## **1.2. Increasing strategic role of regions**

Although regions have a much more limited fiscal capacity than municipalities, they have played an increasingly strategic role for regional development, as they are the main partners of the central government in negotiating regional contracts and they play an increasing role in the allocation and management of EU funding.

### **Regional contracts**

Regional contracts were introduced in Poland in 2001, partly inspired by the French state-regions contracts. They consist in an agreement between the government and self-government authorities, through which regions receive from the state budget a specific budget for capital investments, among others, in the area of road infrastructure, health-care system, educational facilities, sports infrastructure, and tourist and leisure or cultural facilities. Regional contracts represented in 2005 more than EUR 165 million in terms of total investment. Regional contracts are co-financed by the central budget and local government budgets (Box 3.3). The marshal decides the allocation of funds, while the voivod controls the spending of the funds.

### Box 3.3. Regional contracts in Poland

The first contracts were in 2001-03. The initial assumption was that their main role would be to prepare the public administration to manage the absorption of structural funds. Self-governments had to become acquainted with procedures for obtaining and allocating funds from external programmes.

In 2004, contracts were treated by self-governments as complements of initiatives undertaken under IROP, in particular in areas in which community assistance was more complicated. Under the activities covered by the contracts, small projects prevailed. Another set of contracts was prepared for 2005-06.

In 2005, the government financed 62% of regional contracts and local governments 38%. The contract stipulates the method for implementing investments proposed by the regions and financed from the state budget. Under the 2005 contracts, 786 projects were implemented, including 32 multi-year investments of local self-government units.

*Source: Background Report, 2007.*

Within the overall envelope, regions determine which projects will be funded in priority under the regional contract; they do not negotiate the amount of funding with the central government. The breakdown of the funds by voivodships is determined by a pre-established algorithm<sup>12</sup> that favours cohesion criteria, as it takes into account criteria such as GDP per capita and the unemployment rate. By preparing the regional contracts, the marshal plays a strategic role within the region, as most projects are defined (and in certain cases co-financed) by municipalities and powiats. Hence, the marshals influence the territorial development of gminas/powiats through the priority they give to local projects in contracts, as this is the formal basis for project selection and prioritisation. In 2004, contracts for all voivodships contained approximately 1 500 tasks, including 39 long-term investments of territorial government units.

Regional contracts constituted the main operational dimension of regional development strategies until 2007, when Regional Operational Programmes co-financed by EU funds were developed. On the positive side, it is clear that regional contracts helped regions to prepare for the management of EU funds and enhanced their role as partners of local governments (gminas, powiats), the national government and the European Commission. Regional contracts have been the main tool for enhancing the accountability of voivodships and a learning tool for local governments. There is, however, a gap between the broad long-term objectives of regional strategies and regional contracts, which have a much more short term (one year) and practical dimension. Overall, the focus in contracts has been on investments for major public service needs, essentially

health and education, rather than support for economic development (support to enterprises represented less than 10% of the budget of regional contracts for 2005). Contracts mainly address small projects (often not exceeding the value of several hundred thousand zlotys). This tendency was particularly visible in the area of education, where the amount awarded often did not exceed PLN 10 000 (EUR 2 600). Economic development efforts mainly took the form of regional and local loan funds.

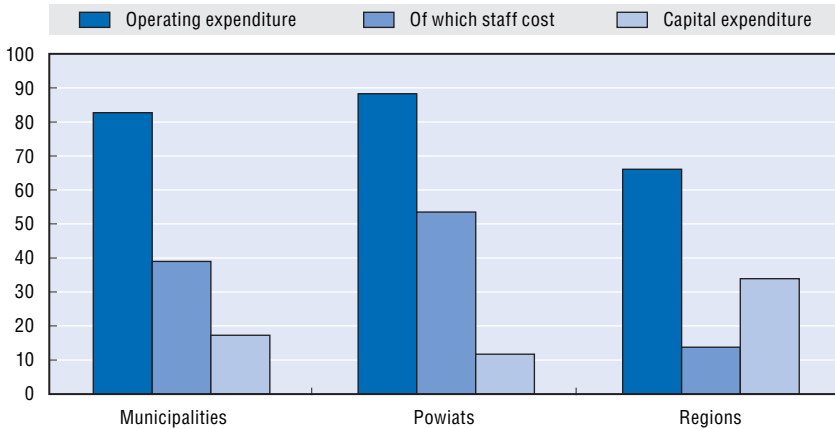
### ***Regions and EU funding***

The most important change related to the role of regions is linked to EU funds. As explained, one-quarter of EU funds has been decentralised since 2004, and the programme Human Capital is also partially regionalised. If regions had little say in the allocation of the funds during 2004-06, as there was one integrated regional operational programme at the national scale, the situation is different for 2007-13, as regional/local governments are in charge of the preparation and implementation of regional operational programmes. 16.5 billion euro are allocated to finance ROP, which is six times more than the amount of regional contracts on a yearly basis.

For 2004-06, although priorities were set by the Ministry of Regional Development, regions had an important role in the selection of projects and management of the funds (see Section 3.4). The 16 regions received EUR 4 billion under the IROP (Integrated Regional Operational Programme); and regions (marshals) have played an important role as they help to prioritise and select projects. Regions have been very actively engaged in the implementation of regional development policy in the first financial period. Local governments have been the major recipient of EU funds, in particular municipalities, which have received 44% of EU funds for 2004-06. More than two-thirds of municipalities co-financed projects benefiting from EU funding.

EU funding has played an important role in the increase of capital investments by local governments. Although local public investment rose at a slower pace than total public expenditures in the early 2000s, the inflow of EU funding after 2004 has reversed the trend. In Poland, only 4% of national government expenditures are spent on investment but 13% of local government expenditures are for capital improvements, and local governments carry out more than 58% of total public investments (DEXIA, 2008).<sup>13</sup> About 14% of sub-national investments made in 2005 were co-financed by EU funds. Transport and communication are the main areas of sub-national capital expenditure: they represent 25% of municipalities' investment expenditure, 47% of those of counties and 50% of those of regions (DEXIA, 2008). Sub-national capital expenditure is likely to increase faster in 2007-13.

Figure 3.3. **Structure of sub-national expenditure, by type (2005)**  
(In percentage of total expenditures)



Source: Ministry of Finance (in DEXIA, 2008).

### ***Cohesion policy and broader impact on public governance***

The impact of the European cohesion policy on Polish multi-level governance system goes well beyond the financial dimension. European cohesion policy has not only brought additional funds to be delivered, but a longer term impact on Polish multi-level governance system. The design and implementation of EU operational programmes – not only regional ones – has led to a new dynamic process of decentralisation and enhanced collaboration with private actors and civil society, where regional and local actors are becoming empowered and engaged in a strong learning process. Cohesion policy thus strongly influences the decentralisation process. In the long-term, the main impact of cohesion policy may well be the in-depth changes in governance and public management, on top of the support to growth and reduction in territorial disparities.

### ***1.3. Promoting sustainable decentralisation for improved regional development***

#### ***Long-term challenges for Polish multi-level governance***

The question is not so much to go further in decentralisation, but rather to clarify the current framework and make it more efficient and functional. Decentralisation is a learning process and is not set once for all. Permanent adjustments are necessary: relationships between levels of government exist and have to evolve beside constitutional arrangements (with EU funds and regional contracts for example). Drawing an optimal matrix that would define to which scale competencies and resources for each public good should be

decentralised (or centralised) might be ideal but highly complex (OECD, 2008b). Besides, challenges for regional policy are also not to necessarily adopt the same solutions or institutional tools for the entire territory. Although it is acknowledged that Poland has done reasonably well in assigning service responsibilities to the appropriate levels of government (Kopańska and Levitas in Swianiewicz, 2004); the division of responsibilities across levels of government is not always clear, or may lead to overlaps and additional costs.

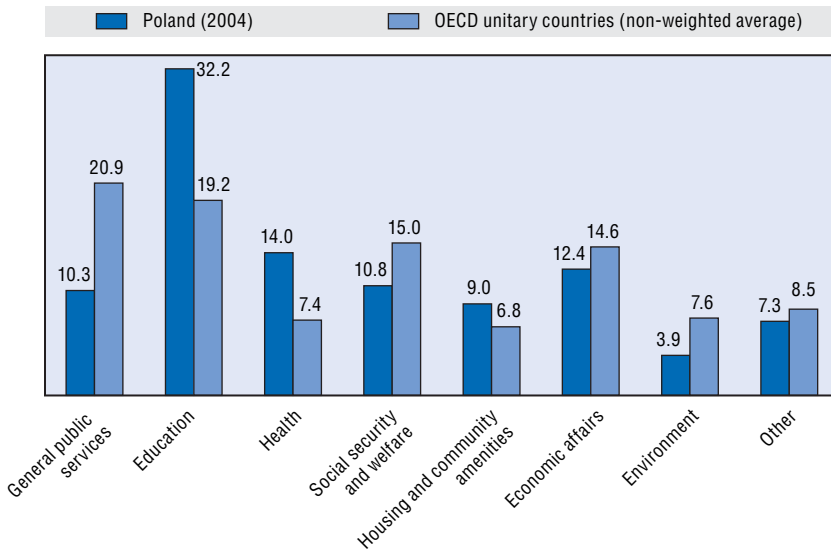
For example, there are overlaps both across local governments and with state agencies/voivod offices in particular for rural development, transport, health and employment policy. i) For rural development, regional local governments retain some responsibilities while rural agencies, not dependent on the regional government, are in charge of implementing EU funding linked to rural development: this constitutes a dual framework at the regional level for rural development issues. ii) This is also the case for roads,<sup>14</sup> as road maintenance formally is the responsibility of local governments and various tiers of the state administration at the regional office and voivodship levels. Given the large investments in road infrastructure that are currently planned in Poland and the high operating costs that will result from them; clarification of the different responsibilities is needed. iii) Besides, there is an artificial division in social care/health between municipal level, powiat and regional level. iv) Finally, accountability remains unclear concerning employment policy. Although 16 regional labour offices have been created, regions (marshal offices) have also taken some responsibilities in the fields of scholarships and life-long training. In addition, powiats retain some responsibilities in labour market policy, through the powiat labour offices. This results in a lack of coherence across the various responsibilities on labour market policy at the local level, which may affect its efficiency. For example, there is a critical lack of data on labour mobility at the local level, as no agency is officially in charge of collecting these data.

### **Fiscal gaps**

Although EU funding will provide significant additional resources in the next few years for local governments, they do not constitute a long-term answer to the fiscal gaps at the local level in Poland. Post-2013 solutions need to be found well in advance to improve the functioning of decentralisation. Local government expenditures have grown faster than public revenues. Sub-national expenditures are heavily constrained and there appears to be a mismatch between the spending responsibilities of local governments and their ability to effectively allocate resources to meet the needs of their population. The major fiscal gaps are related to local governments' capacity to finance health services (in particular regional hospitals)<sup>15</sup> and education. Education represents by far the largest item of sub-national expenditure,

much higher than the OECD average for unitary countries, owing to large sub-national responsibilities in this area,<sup>16</sup> especially the payment of teachers' salaries (paid out of a non-earmarked grant received from central government). Wages in the education sector and debt service costs account for 65% of sub-national expenditure. Another 10% is linked to the maintenance of basic state institutions (armed forces, police, the judiciary, public administration). The structure of local expenditures limits the margin of manoeuvre for local development-related actions.

Figure 3.4. **Sub-national government expenditures by main category, as a percentage of total (2005)**



Source: OECD National Accounts, 2008.

The fiscal gaps appear more challenging for the regional and municipal levels. Although the region is supposed to address regional economic development, spatial planning and public transport at the regional scale, the resources for the voivodship to fulfil these competencies are limited, when EU funds are not taken into consideration. This is also due to the fact that regions have responsibilities in health care. Sub-national expenditures on health are much higher in Poland than the OECD average. Health care services are financed from centralised National Health Fund. However, regions own hospitals and policlinics, which are currently highly indebted and operational costs cannot be financed. According to some experts, health care is the biggest problem of public services in Poland today. The room for manoeuvre for

broader development policies is limited. A disproportion exists between the scale of prerogatives to conduct regional policy and the level of financing at the disposal of voivodship self-governments (Szchlaeta, 2004).

Municipalities are also confronted to important fiscal capacity challenges, in particular related to education, housing and public transport:

- For education, the challenges concern both urban and rural gminas. The “algorithm” used for allocating central government funds for education does not take into account the needs for pre-school education (OECD, 2006), thus many rural gminas lack sufficient resources to develop pre-school, contributing to further problems in educational attainment in rural areas (Chapter 2). In urban areas, there is a risk in some places to under-finance certain schools, as the number of pupils in schools is not taken into account when allocating the education grant, even though there are three times more pupils in urban schools (*Gdansk Institute of Market Economy*, 2008).
- For housing, municipalities lack sufficient budgetary resources to realise necessary investment in housing construction, in particular in industrial and medium size cities. Housing expenses are especially high in cities with developed industrial sectors, where nearly all housing belonged to large state enterprises until recently but was transferred to municipalities in the early 1990s. Since many of these buildings are in poor condition, their repair and operation are very costly (Kowalczyk, 2003, World Bank). The fiscal gap for housing investments has contributed to enhance the housing shortage in Poland (see Chapter 2), estimated to a million units in 2002, and contributing to limit labour mobility.
- Local governments are in charge of urban public transport; but municipalities have tended to reduce urban public transport subsidies, leading to the degradation of the public transport system in many cities, and increasing use of cars.

**Rural gminas** have a specific challenge of fiscal capacity, linked to the fact that the agricultural sector is taxed at a markedly lower rate than other sectors of economy, and as farmers do not pay income tax. The own revenue of rural gminas comes from the very small agricultural tax (decreasing) and some income tax from civil servants (employees of the commune and teachers). Hence there are large differences at the local level between gminas which can benefit from professional taxes and rural gminas. Public revenue per capita in Mazowieckie (region of Warsaw) is nearly five times that of Świętokrzyskie (Eastern region), and the differential has increased since 1999 (Background report, 2007). Rural gminas have problems financing basic public services, and in the medium term (2010), experts estimate that they may have problems for co-financing projects under regional operational programmes.

### **Promoting a sustainable repartition of competencies for improved regional development**

To improve effectiveness of regional development policies and promote an improved functioning of the multi-level governance framework, the following challenges may be tackled:

- **Further clarifying the repartition of competencies between regions, poviats and gminas** is needed, in particular on education, health and labour market policies;
- **Securing additional revenues for gminas and regions:** i) *Regions:* To enhance fiscal capacities of regions, it could be envisaged to increase the shared taxes that go to regions; ii) *Gminas:* To enhance revenues of gminas, the property tax could be gradually expanded. Two options could be envisaged to enhance fiscal capacity of rural gminas: a) revise the taxation system for farmers – this would provide the advantage as well to enhance labour mobility outside of agriculture; b) revise the criteria for allocating grants, with a different funding for rural, urban and mixed municipalities. However, care must be taken not to reduce tax and development effort from poorer gminas.
- **Exploiting the strategic role of regions: Enhance political legitimacy and capacity of regions to arbitrate.** The strategic (and arbiter) role of voivodships for regional development is complex to play, as they lack sufficient own resources, flexibility in budget management, political visibility and enforcement power on spatial planning (see Chapter 2). There are frequent tensions between voivodship (marshal offices) and large municipalities, which have a much larger budget than the region. Regions do not have any capacity to influence intra-regional spending through transfers across different levels of local governments. Each transfer decision has to be agreed by the ministry of finance. Given that the highest disparities are intra-regional and not inter-regional (as explained in Chapter 1), the fiscal system should provide more flexibility to adjust to intra-regional needs. Besides, the executive power of the marshal is not strong, as he is not directly elected by the population – contrary to the mayor. The marshal's visibility and legitimacy could be enhanced if he/she were elected directly.
- **Better exploiting the role of contracts for regional economic development:** Although regional contracts have played a positive learning process, their use could be optimised in a longer term perspective (post-2013). Their timeframe could be longer, in order to help partners overcome the drawbacks of the annual budgetary principle. Contracts should include an important focus on proactive development/competitiveness approaches, negotiated in inter-ministerial collaboration.
- **Facilitating local public investment.** Local public investments are currently hampered by strict rules on borrowing. Two prudential rules apply to sub-national government borrowing: credit cannot be contracted either if it



results in local indebtedness exceeding 60% of total annual revenues, or if the future debt service would be higher than 15% of total annual revenues. However, borrowing related to EU grants is not included in these prudential rules according to the new Act on Public Finance adopted in 2005. Sub-national debt amounts to 2.1% of GDP, much lower than the EU average (5.8%). The borrowing regulations applicable to sub-national governments may soon be modified. A bill presented in April 2007 proposes to abolish the two general prudential rules: the limit of borrowing would be related to the individual financial situation of each sub-national government. Moreover, the legal regulations on co-financing and long-term liabilities have not allowed for flexible financing of long-term investments so far.

## 2. Improving co-operation at local and metropolitan levels

Improving co-operation at local and metropolitan levels is a key priority to implement effective territorial development strategies. As explained in Chapter 2, the current lack of co-operation across municipalities (*gminas*) makes it difficult to reap economies of scale and to implement appropriate place-based competitiveness policies. Experience in OECD countries indicates that several options can help enhance horizontal co-ordination. An important criterion is the extent to which one option is politically more feasible than another in a limited timeframe, as co-ordination across local governments is always a sensitive issue. This section shows that co-operation across *gminas* and particularly at the metropolitan level needs to be promoted through specific incentives and an integrated approach to spatial planning, not only to improve public service delivery but to implement long-term competitiveness strategies.

### 2.1. Encouraging co-operation across *gminas*

The implementation of regional policy in Poland suffers from a lack of co-ordination across local governments, particularly in terms of spatial planning. In the Polish institutional system, one single municipality has the power to block projects related to infrastructure development for example. Individualistic behaviour prevails among *gminas*, reflecting a kind of extreme conception of decentralisation in Poland. The political culture of Polish local leaders is characterised by a reluctance to co-operate and the lack of a strategic long-term vision of development able to transcend the borders of a *gmina* (Dabrowski, 2007). Weak collaboration across *gminas* and the quasi-absence of spatial planning result in an under-optimal allocation of collective goods and services, which undermines competitiveness at an aggregate regional or national level. The challenge of horizontal collaboration is shared by all OECD countries and many countries have recently introduced institutional changes to improve co-ordination mechanisms at the local scale. Although Poland has acknowledged this need, specific reforms targeting horizontal co-ordination across local governments have yet to be implemented.

The existing upper level – *powiats* – could have played a more important role to facilitate co-ordination, but it has not been the case so far. *Powiats* have relatively limited competencies and no specific authority in terms of spatial planning. Some of the *powiats* combine both municipal and county responsibilities with a single budget, as a result of the Counties Act (1999) which converted into *powiats* those cities with more than 100 000 inhabitants and the former regional capitals that lost their capital statute in the administrative reform.<sup>17</sup> However, the current allocation of responsibilities does not allow *powiats* to tackle the challenges linked to urban transport and housing at the functional scale. The overall efficiency of *powiats* is currently under debate, especially regarding counties located close to municipalities having county status (Dexia, 2008).

Although the Polish legislation introduced voluntary mechanisms for inter-municipal collaboration, no specific financial incentives are available at present. Sub-national governments can work together in three ways: by setting up a syndicate; by signing an agreement; and by setting up an association (Box 3.4). For example, syndicates mainly focus on joint service delivery, such as public transportation (as in the Upper Silesia industrial region) and water supply or waste removal (common in rural areas); associations collaborate on the construction of utility infrastructure (*e.g.* water and sewage systems). Although 60% of *gminas* are engaged in some kind of inter-municipal collaboration scheme, voluntary co-operation between local self-governments in Poland does not have a long tradition and remains relatively limited (Furmankiewicz, 2002).

The context of large inflows of EU Structural Funds calls for effective ways of co-operation between neighboring communes. *Gminas* are the largest recipients of EU funding (they received 44% of total European funding in 2004-06). During the 2007-13 period, they will need to learn how to co-operate efficiently in order to perform an even wider variety of tasks (ranging from the construction of roads and the refurbishment of historical monuments to the management of professional training programmes and the setting up of technological clusters). So far, it still happens sometimes that part of a road renovated thanks to the Structural Funds stops right at the border between the *gminas* it crosses (Dabrowski, 2007). Changing individualistic mindsets is certainly a long-term effort but it is fundamental for an effective delivery of regional policy (Grosse, 2004).

### ***Which type of intervention to promote economies of scale?***

Economies of scale and horizontal collaboration need to be promoted through increased incentives or a more coercive approach in order to facilitate the absorption of EU funds, and more broadly for the efficient implementation of regional policy in Poland. International experience indicates that

#### Box 3.4. Co-operation of local governments in Poland

The 1997 Constitution authorises sub-national governments to join forces to carry out their missions. Specific regulations are set out in the different Local Government Acts. Sub-national governments can work together in one of three ways:

- i) By setting up a syndicate (*związek*). Syndicates are the most frequently used form of co-operation. They are established to fulfill sub-national governments' tasks such as water provision and treatment, public transport, gas distribution, telecommunications and environmental protection. A syndicate must adopt a statute, established by the participating sub-national government councils, and be registered by the Ministry of Interior and Public Administration. It is a legal entity with its own right. Syndicates are financed by fees or grants from its members, and by revenues from its activity. In 2006, there were 280 municipal syndicates and 1 county syndicate.
- ii) By signing an agreement (*porozumienie*). Municipalities decide to give one of them the right to fulfill a particular task.
- iii) By creating an association (*stowarzyszenie*). The association operates under the Act on Association adopted in 1989 and it is mainly financed from members' fees. The 1990 Municipal Act allows sub-national governments to co-operate and create an association (*stowarzyszenia*) "to provide backing for a local government project or protect and promote common interests". There must be at least three participating sub-national authorities.

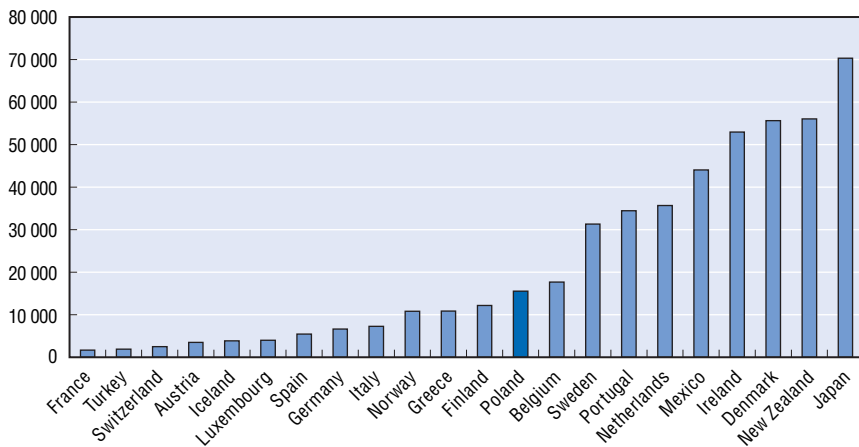
Source: Dexia, 2007.

co-ordination rarely results from a bottom-up dynamics; the central government has a key role to play. Two broad approaches have commonly been developed to promote economies of scale in OECD countries: amalgamation of municipalities and co-operative arrangements. Amalgamation reduces duplication of tasks and improves accountability, but it tends to be politically more sensitive and therefore more difficult to achieve.<sup>18</sup> Co-ordination mechanisms between municipalities tend to blur accountability, but they are more flexible and easier to tailor to different types of functional areas.

In Poland, amalgamation of municipalities is clearly not the best option. The number of municipalities in Poland has remained relatively stable over the last twenty years (2 452 units in 1993, compared to 2 375 units in 1975). The average size of municipalities (around 15 500 inhabitants) is not that small compared to other OECD countries (Figure 3.6). Very small municipalities are relatively few compared to France or the Czech Republic for

example. Besides, municipal autonomy is guaranteed by the Polish Constitution. Mergers would require time-consuming constitutional reforms, when the absorption requirements related to EU Funds call for urgent solutions to co-ordination dilemmas. Finally, municipal amalgamation offers no guarantee of economies of scale since functional areas may differ from one public service to another (*e.g.* water supply and education).

Figure 3.5. **Average size of municipalities in selected OECD countries (thousands of inhabitants)**



Source: OECD, 2006.

Enhanced co-operation is unlikely to occur without the involvement of the central government. While various forms of co-operative arrangements exist in OECD countries (Box 3.5), financial support to inter-municipal co-operation has been provided by the central government in countries like France or Norway.<sup>19</sup> The French experience in inter-municipal co-operation is probably one of the most advanced in the OECD area, as 88% of municipalities have been integrated under some kind of inter-municipal structure (also due to the very small size of French municipalities). Inter-municipal co-operation in France can bring important experiences and help Poland to adapt the system to its own needs.

Although inter-municipal co-operation is not a specifically rural or a specifically urban phenomenon, it is important to make the distinction. Challenges are particularly significant in large Polish cities, which are driving national growth (see Chapter 1). Different institutional solutions may be necessary in order to take into account the specificity of different places. What is considered appropriate for urban areas may not help much in dispersed rural communities, where the delivery of public services is an important tool

### Box 3.5. Various forms of co-operative arrangements in the OECD

Co-operative arrangements can cover very different situations according to the context in which they are introduced and the goals pursued. One possible form is the single-purpose or sectoral authority devoted to one specific public service, aimed at increasing co-ordination and economies of scale. This framework is common in countries where local autonomy is strong (OECD, 2006).

A second form of inter-municipal joint collaboration is the multiple purpose body, which performs a wide range of functions such as planning and co-ordination, and sometimes delivery of public services. Multiple purpose bodies can be created by an upper level of governments (e.g. Montreal Community of Montreal) or through voluntary co-operation (e.g. Greater Vancouver Regional District), sometimes with incentives from upper levels of governments (e.g. French Urban and Agglomeration Communities). Some receive grants from upper-level government, and/or fees from members local governments, and can even levy their own taxes. An advantage of multi-purpose agencies is that they preserve local autonomy, diversity, and the distinct identity of its member municipalities. However, popular legitimacy can become an issue when the institution takes on increasing responsibilities and fiscal revenues. In addition, problems may arise for policy implementation when the municipalities are not bound to respect the decisions (OECD, 2006a).

for regional development objectives (e.g. Norway). The case of the Canadian Province of Quebec also illustrates the importance of developing differentiated policies for urban and rural areas.<sup>20</sup>

Horizontal co-ordination in Poland should be considered as an instrument to develop a shared strategic vision for the area through integrated approaches of spatial planning (“project territories”) rather than to improve only the efficiency of public service delivery. Institutional mechanisms for horizontal co-ordination therefore need to be complemented by a specific focus on the spatial planning dimension in Poland.

### *Spatial plans in urban and rural areas*

Given that horizontal collaboration *per se* does not necessarily foster place-based integrated approaches to spatial planning, a further challenge consists in creating new processes through which competitiveness strategies are elaborated. In this regard, the example of French spatial planning could be relevant. In France, the central government has instructed sub-national government to build up a special scheme called SCOT (*Schéma de cohérence*

*territoriale*: Territorial Coherence Scheme) (Box 3.6). The SCOT aims at ensuring a balance between urban renewal and the rural periphery, preserve the diversity of urban functions and social mixity, and achieve competitive and sustainable development. It is also expected to ensure coherence between the various sectoral policies (housing, facilities, mobility, etc.) at a larger scale than that of the municipality.

**Box 3.6. The example of SCOT (*Schéma de cohérence territoriale: Territorial Coherence Scheme*) in France**

The SCOT are elaborated by local governments within a functional area, and in particular within urban areas (i.e. covering city centres and their periphery). City plans (*plan local d'urbanisme*), local urban transport plans and housing plans must be compatible with the SCOT in order to be valid and enforced. The SCOT sets the main orientations of the organisation of a group of adjacent communities (*intercommunalité*) for a 10-year period.

The elaboration of a SCOT is decided under the initiative of the municipality or a coalition of municipalities. The decision is made by the resolution of each municipal assembly in the area, with a two-third majority in the area. The coalition of municipalities is the main actor and the national government, the Region, the Prefecture etc., can participate in the elaboration. In addition, opinions are heard from the Prefect (*Préfet*), the Chairperson of the Regional Assembly (*Président du conseil régional*), the Chairperson of the Departmental Assembly (*Président du conseil départemental*), and the mayors (*Maires*) of municipalities. After taking necessary steps in the Public Hearing System, the SCOT is approved by the the coalition of municipalities. The SCOT consists of: i) Diagnostic part and orientation report; ii) PADD (Project of development and sustainable development).

Poland could also introduce a flexible approach to spatial planning in rural areas, based on territorial strategies transcending administrative boundaries. Rural gminas need closer co-operation at the local scale to reach a more efficient size for the delivery of public services and to play a more effective role in local economic development by exchanging information, sharing responsibility for certain investments and programmes and dealing with territorial externalities (OECD, 2006i).

Pooling resources and achieving economies of scale require an adequate spatial organisation that gives reality to the small functional region, usually organised around one, maybe two, small to medium sized towns. Many OECD countries have developed such groupings of rural municipalities, with large variations across the different systems. In linking rural municipalities together,

the main town often acts as a public and private service centre for the whole area (social services, sometimes a hospital, banks) while representing a sizeable portion of employment. In optimal situations, this hub is adequately linked to the domestic transportation network. The examples of Ireland, France or Mexico could inspire possible changes in Poland. The Irish Spatial Strategy retains these rural hubs as major elements in efforts to foster the development of rural areas and links these, in terms of infrastructure development to “Gateway” cities at the regional level, to which the former need to be properly connected (OECD, 2006h). In France, the delimitation of a “Pays” follows a certain number of guidelines to ensure that the small territory responds to a degree of economic logic linked in particular to employment.<sup>21</sup> In Mexico, rural Micro-regions are defined through a top-down approach based on socio-economic indicators, combined with other spatial indicators through the use of Geographic Information Systems (GIS).

## **2.2. Toward metropolitan governance in Poland**

Co-operation in large urban/metropolitan areas (defined in Poland as above 500 000 inhabitants)<sup>22</sup> needs to be promoted through more proactive measures. Although the contribution of large urban areas to national growth is widely acknowledged in the Polish NSRF, a specific policy has not yet been developed for them (see Chapter 2). Bottom-up initiatives for co-operation exist but the central government has a key role to play. Whether in the case of merging municipalities, creating sectoral or multi-sectoral co-ordinating bodies or even metropolitan governments, rarely have the reforms of metropolitan governance emanated from purely local initiatives in the OECD countries. The national government has played a leadership role either by imposing or by encouraging reform, in the conviction that the emergence of metropolitan authorities is necessary to promote the growth of cities and thus national growth (OECD, 2006a).

A metropolitan planning Act endowed with fiscal incentives could give large urban areas flexible institutional tools to co-operate at a functional scale. Several discussions on this topic have been conducted in Poland since the 1990s, but incentives to enhance co-operation are yet to be adopted. This also reveals strong resistance from gminas, especially those located close to urban powiats, which fear a certain loss of autonomy. More recently, there have been discussions about the creation of “metropolitan powiats”. Along with national zoning planning, some work has recently been done on urban/metropolitan planning, but with no legislative change so far. A new spatial development strategy is expected to be prepared by mid-2008. The availability of EU Funds could also be made conditional to enhanced collaboration, especially with regard to transportation and environment issues.

Many OECD countries have developed specific incentives to enhance metropolitan co-operation, suggesting that there is no best practice or a “one size fit all” solution (Box 3.7). Centrally instituted metropolitan governance reforms are typically implemented through a national law, which gives legitimacy to the process. However, in the absence of any form of incentive and leadership, the laws rarely lead to any concrete reform in practice (OECD, 2006a). The French experiment has worked better than the Italian proposal because the related laws involved fiscal incentives for inter-municipal collaboration. While in Italy the creation of metropolitan cities (*Città Metropolitana*) was optional

### Box 3.7. Broad types of metropolitan governance in OECD countries

Many cities have placed greater emphasis on voluntary instruments for co-ordination and co-operation. Even the few examples of strong metropolitan governance through metropolitan governments and amalgamated cities coexist with other forms of network arrangements. In terms of efficiency, it may be second-best to rely on a co-operative mechanism rather than a self-financed and directly elected administrative organ, but it has its own merits of fostering communication and possibly limiting the tendency to bureaucratic mission creep.

New modes of metropolitan governance, involving reform of traditional institutional and financial structures of major urban centres, are an arduous task. They pose a multitude of problems relative to the roles and responsibilities of different levels of government operating in metropolitan regions, intergovernmental co-ordination, and new relationships with the private sector and civil society. In this context, there is a strong interest in developing an adequate formula that will respond to metropolitan challenges now visible everywhere. The discussion of how to manage metropolitan regions better revolves principally around a spectrum of models that range from relatively “heavy” to relatively “light” in terms of the scope of the reform they imply.

- i) At the relatively heavy end are functional models whereby governance structures are re-shaped to fit or to approximate to the functional economic area of the metropolitan region. Examples include the creation of a metropolitan government and the amalgamation of municipalities.
- ii) At mid-position are a wide range of co-operative arrangements through inter-municipal joint authorities, most often on a voluntary basis, such as sectoral or multi-sectoral agencies whose main functions generally include transport, urban planning or economic development (sometimes on *ad hoc* basis).
- iii) At the light end are informal co-ordination bodies such as platforms, associations or strategic planning partnerships, often relying on existing networks of relevant actors, without necessarily following the logic of territorial boundaries. Also to be included here are purely fiscal arrangements such as equalisation mechanisms and tax-base sharing whose main purpose is to deal with fiscal disparities and territorial spillover within the area as well as public-private partnerships and contract services.

Source: OECD, 2006a.



and was not implemented in practice, in France certain powers (mandatory and optional) were transferred to supra-municipal authorities, urban communities or agglomeration communities. The French central government offered an incentive grant to the participating municipalities in addition to their existing block grants entitlements. One of the conditions, however, is that the municipalities accept to adopt a unique business tax system within the area (the business tax is the main local tax in France) (OECD, 2006a).

Poland could draw particular inspiration from French *communautés d'agglomération*, which offer the advantages of both enhancing horizontal collaboration across municipalities and improving vertical collaboration with the central government (Box 3.8). Although some problems remain (such as unclear accountability mechanisms *vis-à-vis* the citizens and conflicts on the political leadership of the *communauté*), the *communautés d'agglomération* have constituted valuable tools to promote territorial development strategies and to implement strategic spatial planning.

### ***The case of Warsaw***

Although it is not the purpose of this report to enter into the detail of the many co-operation projects needed at the metropolitan scale in Poland, the case of Warsaw deserves specific attention. Although Warsaw is the first pole of growth in Poland (see Chapter 1), it seems that the potential of the metropolitan area has not been fully exploited. Warsaw enjoys a specific institutional organisation: in 2002, a single entity was created unifying the municipality, gminas and the powiat. The mayor of Warsaw is now directly elected. While these reforms go in the right direction, the Warsaw functional area could be further promoted. It is estimated that the Warsaw functional area (which consists of around a hundred municipalities) could in practice be larger than its current 2.2 million people. Housing density is quite low compared to other OECD capitals, and it is decreasing. The right side of the Vistula, in particular, seems to have under-used potential for housing development, which suggests potential room for further collaboration among neighbouring gminas. The metropolitan policy also facilitates environmental policies, for example to make necessary investments on water treatments.

In addition, co-operation between Warsaw and Lodz (which together gather 4 million inhabitants) is important for the long-term competitiveness of both cities. Co-operation between these two cities (the two largest in Poland) and the two voivodships has remained very limited so far. The construction of an express train is expected to reduce the commuting time between the two cities from 2 hours today to only 40 minutes by year 2011. The A2 motorway will also link Warsaw to Poznan (and Berlin) through Lodz. It is thus essential to think about the long-term development of this large urban pole, which could become a strong economic centre in Central and

### Box 3.8. The French *contrats d'agglomération*

France has been one of the OECD countries most consistent in pursuing the creation of specific institutional arrangements for metropolitan areas. This process has accelerated since 1999 when the central government established metropolitan authorities in the 150 largest urban areas. In addition to creating the *communautés urbaines* and the *communautés d'agglomération*, central government drafted specific model agreements that urban areas must adopt and projects that urban areas must undertake if they want to receive government grants. These have been specified in two Acts on National Territorial Planning and Inter-municipal Co-operation in 1999.

Following these two acts, councils for *communautés urbaines* and *communautés d'agglomération* must approve a so-called territorial project. This territorial project is a five to 10-year plan which concerns infrastructure, economic development, social housing, culture, environment, etc at the metropolitan level. But it is more than a plan since it specifies the amount of funding and all the operations to be performed in order to achieve the plan's objectives. Once approved by the *communauté* council, the project is then discussed with the central government. When it is approved by the central government, an agreement is signed between it and the *communauté*, called a *contrat d'agglomération*.

This agreement guarantees that the central government will finance some of the actions decided in the territorial project (there are therefore negotiations between the central government and the *communauté* regarding government funding). In addition, the law states that the *contrat d'agglomération* must also be signed by the regional council. This means that the actions envisaged in the *contrat d'agglomération* will also be financed by the region, and as such, will be part of the *contrat de Plan*, a larger five-year agreement signed by the central government and the region. Moreover, this means that EU Structural Funds will feed the general budget of the territorial project.

For instance, the Bordeaux *contrat d'agglomération* amounts to EUR 1.2 billion over a seven-year period. It has been signed by the *communauté urbaine* of Bordeaux (CUB), the provincial (*département*) council of Gironde, the City of Bordeaux, the regional council of Aquitaine and the central government's representative (the regional prefect). The central government contributes 17% of the total funding while the CUB contributes 36% and the regional council, 15%. Other contributors are the EU, the Department of Gironde, municipalities and national public agencies such as the National Railways (SNCF) or the National Centre for Aerospace (CNES).

Eastern Europe with complementary specialisations and functions. More effective co-ordination could also allow for a better use of natural and cultural assets located between Lodz and Warsaw (Lowicz, Arkadia, Nieborow, Zelazowa Wola) (Markowski, 2008). Co-operation needs to aim at yielding benefits for both cities and not only for Warsaw to reap additional housing possibilities in Lodz. It should not be simply considered as a local government issue; exploiting the major pole of growth in the country is a national concern and raises a key priority in terms of strategic planning over the next few years.

Table 3.2. **Main purposes of a selection of metropolitan co-operative arrangements**

	Tax-base sharing and redistributive grants	Informal co-operation networks (association/platform/metropolitan conferences)	Metropolitan authority/agency		Metropolitan government	Amalgamation
			Single-purpose	Multi-purpose		
Examples	Minneapolis Saint-Paul Stockholm County Some municipalities within Paris Ile-de-France Busan/Seoul	Regio Randstad (Plateform) Lyon Urban Region, Council of Stockholm, Mälars Region, Bilbao 30 – Metropolitana, Torino Internazionale (Associations), Regional conference (Rhin-Rhur)	Many US cities Mexico City (large number of sectoral agencies) Athens transport agency	Montreal Metropolitan Community Greater Vancouver District Communauté d'agglomération in France	Greater London Authority Stuttgart Verband Association Portland Comunidad de Madrid Région Ile-de-France (Paris)	Montreal, Toronto Busan/Seoul in the 1950s Madrid in the 1960s Melbourne in the 1990s
Administrative boundaries	No change	No change	Possible creation of a new layer		Building on a regional tier or creation of a new regional tier with elected body	Disappearance of municipalities. Possible creation of sub-local units
Economies of scale (cost saving)	No	No	For one public service only	For certain public services only	For certain public service only Expected	Expected
Sharing of public services	In a limited way	No	Yes, for one public service only	Yes, for certain public services only	Yes, for certain public services only	Common
Specific advantage	Reduce fiscal disparities Still allow some variety	Great flexibility. Might provide impetus to further co-operation Weak implementation capacity	Cost saving for a particular service Better management of a metropolitan function	<i>Idem</i> to single-purpose + Integration and co-ordination of sectoral policies	Integration and co-ordination of certain sectoral policies Better equalisation of costs Stronger political power	No fiscal disparities One decision centre
Specific disadvantage	Separate the costs and benefits of local public services	Does not tackle issues such as territorial spillover/negative externalities/equity	Emergence of sectoral constituencies	Emergence of the funding and legitimacy issues	Democratic cost?	Lack of creative diversity Democratic cost?
Long term strategic vision	No	Yes, in many cases	Yes, in many cases for economic development Risk of avoiding the multi-sectoral aspects or urban development	In some cases only	Yes, will depend on the administrative boundaries of the new structure	Yes, will depend on the administrative boundaries of the new structure

Note: This table provides a typology of metropolitan governance arrangements previously discussed according to the different objectives that calls for horizontal co-operation. This typology is not exhaustive. The selections of different options that it includes are not mutually exclusive, as some metropolitan regions combine several options (e.g. Montreal experienced an amalgamation of 27 municipalities whilst a multi-sectoral agency was created at the wider metropolitan level).

Source: OECD (2006a), *Competitive Cities in the Global Economy*.

### 3. Towards an integrated territorial policy approach at the central level

In addition to better co-ordination among local governments to achieve an optimal scale of territorial development, it is important for *central policies* on regional development to have a territorial dimension. There are five key conditions for promoting integrated territorial approaches to regional policy at the central government level: i) high visibility/priority on the political agenda and long-term commitment; ii) efficient mechanisms for inter-ministerial co-ordination; iii) appropriate co-ordination of regional and rural development strategies (which are separate under the cohesion policy and CAP); iv) promotion of place-based rather than one-size-fits-all policies at the central level; v) involvement of local actors in the design of central strategy. Although Poland has made good progress on the first two of these conditions, the three others still present challenges, in particular co-ordination of rural and regional development strategies and the need to enhance the place-based dimension of central policy. The Ministry of Regional Development increasingly needs to encourage differentiated territorial place-based approaches, with appropriate incentives, rather than one-size-fits-all policy. This section analyses these challenges and describes how certain OECD countries, confronted with the same challenges, have responded.

#### 3.1. High priority on the political agenda and long-term commitment

High visibility and priority on the political agenda and long-term political and budgetary commitment are needed to implement regional development policy. Without strong political leadership, regional policy is likely to suffer from inadequate co-ordination from spending ministries, such as agriculture or transport; and from low priority in terms of budget allocation by the Ministry of Finance. Regional policy design and implementation also requires an arbiter at the highest level of the executive to arbitrate among different policy objectives and priorities, within what is by nature cross-sectoral policy.

Poland benefits from a strong political commitment to regional development, owing in part to the large inflow of EU funds for cohesion and rural policies. Regional development is a major policy objective of the current Polish government. In institutional terms, regional policy gained recognition with the creation in 2005 of the Ministry of Regional Development (MRD). Poland is one of the few OECD countries with such a ministry (see Box 3.10). Although the ministry's first objective is to ensure co-ordination of the management of European structural funds,<sup>23</sup> it helps to enhance inter-ministerial co-ordination of regional development issues and to move towards more multi-sectoral approaches. It highlights regional development as a key priority on the political agenda and ensures that regional policy is recognised as a structural policy in

### Box 3.9. Co-ordination of regional policy in OECD countries: various models

In OECD countries there are several different models for improving the co-ordination of territorial policies at national level. The spectrum of instruments ranges from bodies charged with co-ordinating the activities of sectoral ministries to full-fledged ministries with broad responsibilities and powers that encompass traditionally separate sectors. The simplest and most common instrument is co-ordination through inter-ministerial committees and commissions. Some co-ordinating structures are relatively informal, others are more structured. Austria, for example, has developed an informal approach that emphasises consensus building among ministries, while Switzerland uses a more formal approach in which ministries dealing with territorial development issues have to convene regularly in an inter-ministerial body.

Several countries augment cross-sectoral co-ordination mechanisms through special units or agencies that provide planning and advisory support to help ensure policy coherence across sectors. In Norway, the Regional Development Unit of the Ministry of Local Government and Regional Development has responsibility for co-ordinating the regional dimension of policies of other government departments, principally through inter-ministerial groups. In the United Kingdom, the Regional Co-ordination Unit – currently in the Office of the Deputy Prime Minister – was set up to implement cross-cutting initiatives and advise departments. In Japan, the National and Regional Planning Bureau in the Ministry of Land Infrastructure and Transport has developed a new view of territorial/regional policy and provided a network for local authorities as well as other local actors. In France, the DIACT (*Délégation interministérielle à l'aménagement et la compétitivité des territoires*) is an inter-ministerial body directly linked to the office of the Prime Minister (which co-ordinates national territorial policy and handles planning contracts and the European structural funds) and receives information from the different ministries regarding their regional priorities and the strategic objectives identified by the regional prefects.

While co-ordinating bodies represent an important tool, decision-making power remains principally in the hands of the individual sectoral ministries that implement policies. As such, while the planning stage is more or less well integrated, implementation is potentially compartmentalised. To overcome problems relating to sectoral implementation and in line with the increasing importance accorded to regional development policies, inter-ministerial co-ordination bodies have sometimes been given some responsibility for implementation. The DIACT in France is an example of an inter-ministerial body that is charged with ensuring co-ordination but also has a formal role in territorial development planning, decision making and policy implementation. The Office of the Deputy Prime Minister in the United Kingdom has also evolved towards a broader and more active role than its original policy co-ordination remit. In Italy the Department for Development and Cohesion Policies in the Treasury Ministry has broad competence for programming and co-ordinating investments with particular reference to the Mezzogiorno region.

In addition, these co-ordination bodies also function as the interface with regional government in the area of economic development – allocating funding, setting the guidelines for drawing up regional strategies, advising on and authorising the strategies, and ensuring value for money.

Source: OECD (2005), *Building Competitive Regions*.

### Box 3.10. Mechanisms proposed in the Polish NSRF for inter-ministerial co-ordination

In order to ensure effective co-ordination of the implementation of the NSRF, it is planned in the Polish NSRF that the Prime Minister will appoint an inter-ministerial committee chaired by the minister in charge of regional development. It would be composed of representatives of all managing and intermediary authorities and ministers in charge of particular areas covered by operational programmes, the minister in charge of public finances, the head of the Office for Competition and Consumer Protection, the head of the Central Statistical Office and the head of Public Procurement Office. The committee will be assisted by a permanent secretariat created within the Ministry of Regional Development.

Source: Polish NSRF, 2007.

itself, not simply a complement to sectoral policies. Other former EU accession countries, such as Hungary and the Czech Republic, have also introduced regional development ministries, with broad responsibilities for different aspects of regional policy design and implementation, and management of EU regional aid. However, the existence of a dedicated ministry cannot guarantee knowledge sharing among central, local and private actors.

Poland also benefits from long-term political commitment to regional policy, in part under the influence of EU policy with a target date of 2013. All EU countries have been requested by the Commission to develop National Strategic Reference Frameworks (NSRF) covering the 2007-13 period, as well as long-term objectives for regional development. In Poland, the centralisation of regional policy management in the MRD has helped achieve greater co-ordination and coherence in policy objectives. This long-term commitment gives a sense of vision to all levels of government. Poland has also developed a long-term development strategy that goes beyond cohesion policy to include all areas of policy development, the national development strategy (NDS) for the period 2007-15.<sup>24</sup> This helps to improve policy coherence as it is meant as the umbrella under which all policies are developed. It influences regional development programmes and strategies, as they must take into account the times frame specified for the NDS. A major goal is to achieve the greatest possible coherence in the programmes and sectoral strategies implemented under the NDS.<sup>25</sup> However, the NDS remains a strategic document, the implementation of which may depend on the government in place – political cycles are of course shorter than the 2007-15 time frame of the NDS.

Long-term commitments under regional policy may require greater coherence. At EU and national levels, the timelines of the different strategies are quite varied. For example, the cohesion policy has a seven-year timeline

(2007-13), whereas the NDS has a nine-year timeline (2007-15), owing to the N+2 rule. The Lisbon strategy (the basis of cohesion policy) targets 2010 as its main objective. Other tools of regional policy in Poland – the regional contracts – have a one-year timeline. Moreover, Poland's budget process is still largely an annual one, apart from some exceptions involving co-financed EU projects, which have a three-year timeline. Poland's provisions for multi-annual budgeting are limited and the authorities need to move increasingly towards a multi-year budgeting framework (see Section 3.5).

### **3.2. Inter-ministerial co-ordination and arbitration**

Although the institutional framework for regional development was improved with the creation of the ministry, the policy framework has become increasingly complex since 2004-05, owing in part to the EU funds to be managed and to the multi-sectoral dimension of the policy, as well as the number of sectoral agencies and levels of governments involved in implementing regional policy. The will to increase co-ordinating bodies relies on a real concern for the workload involved in an ambitious regional development policy; however there is a risk of creating parallel administrative structures that might complicate rather than facilitate the interaction of the different actors in planning and implementing regional development policies. While co-ordination is a critical component of coherent regional policy, the mere presence of co-ordinating mechanisms does not guarantee coherence (OECD, 2007h). In fact, too many overlapping co-ordinating mechanisms can cause inefficiencies through duplication of effort, particularly if information is not shared in a way that enhances synergies. The effectiveness of different co-ordinating mechanisms must be assessed regularly.

For 2007-13, co-ordination is a challenge for all programmes as they are thematic and do not correspond to particular ministries: their wider scope requires inter-ministerial co-operation. Although the Ministry of Regional Development is the managing authority for all programmes for 2007-13, with the exception of the rural development programme, numerous intermediary institutions are involved in their implementation; in principle, they must follow ministry guidelines for implementing each operational programme. There are 45 intermediary institutions (public agencies) in charge of implementing the different operational programmes. In addition, there are about a hundred intermediary institutions of second rank, also involved in the implementation (see Table 3.3). In all, about 150 public institutions – including local governments are involved in implementing regional policy.<sup>26</sup> This myriad of authorities means that information flows are not easy, accountability mechanisms are not clear, and decision-making processes are complex and time-consuming. Besides, investment resources may be fragmented into many small projects with less impact on overall

Table 3.3. **Poland: managing authorities of regional policy**

Operational Programmes (OP)	Managing authority	Number of intermediary institutions (I1)	Intermediary institutions of second rank (I12)
OP Infrastructure and Environment	Ministry of Regional Development	6 Minister in charge of transport Minister in charge of environment Minister in charge of economy Minister in charge of health Minister in charge of culture and national heritage	28 I
OP Competitive Economy	Ministry of Regional Development	3 Minister in charge of economy Minister in charge of science Minister in charge of IT	10 I
OP Human Capital	Ministry of Regional Development	21 Minister in charge of social security Minister in charge of labour Minister in charge of education and upbringing Minister in charge of higher education Minister in charge of public administration Minister in charge of health Self-government of voivodships	33
OP Eastern Poland	Ministry of Regional Development	1	
Regional Operational Programmes (16)	16 voivodships (Marshal Office)	13 institutions	
OP Technical Assistance	Ministry of Regional Development		
Operational Programmes European Territorial Co-operation	Ministry of Regional Development		Minister in charge of regional development and with participation of relevant ministers self governments of voivodships

Source: Polish NSRF, 2007.

competitiveness. In a long-term perspective, it is important for the Ministry of Regional Development to maintain a central position and ensure leadership in managing regional policy.

In practice, it is difficult for the Ministry of Regional Development to act as arbiter. Although it is the managing authority for all programmes (except one: rural development), all ministers have equal status in the council of ministers, so line ministries often resist decisions taken by the MRD and put forward their own agenda. The challenge is greater from ministries with large budget allocations (such as the Ministry of Infrastructure) or from the Ministry of Agriculture which is the managing authority for the rural development



programme. The problem also comes from the fact that rural and cohesion policies are separated under the new framework for 2007-13; resulting in duality of strategies, which can raise obstacles for the effective implementation of rural development policy. Challenges also come from within cohesion policy itself, since for 2007-13 there are now two separate implementation systems for ERDF and ESF (mono-fund systems). This creates challenges in terms both of the design of strategies and operational co-ordination, as operational programs cannot be funded simultaneously from the European Regional Development Fund and from the European Social Fund.

There is also a need for greater coherence between the transport plan and regional development policy. There is a low co-ordination between the transport plan and the regional development strategy, which reflects to some extent the difficulty of co-ordinating the Community's transport and cohesion policies. Better prioritising investment plans for transport at the central level is important (see Chapter 2); this implies better co-ordination of the transport plan with the NSRF, the spatial planning strategy and the environment ministry. It is important to complement the inter-regional dimension with a strong intra-regional focus, in particular to make transport systems coincide with the functional scale of urban areas. It is crucial for Poland's balanced development and for enhancing sustainable long-term competitiveness.

An arbiter is needed at the central level which is able to facilitate and foster the decision-making process on regional development at the Cabinet level. Such an authority existed previously: for example, until 2006, a commission headed by the Deputy Prime Minister was in charge of arbitrating potential conflicts regarding the use of EU funding and taking final strategic decisions. So far, no new arbitrating authority has been put in place. However, it is envisaged to create an inter-ministerial committee chaired by the minister in charge of regional development to co-ordinate the implementation of NSRF (Box 3.10) and a co-ordinating committee<sup>27</sup> that would oversee the coherence of sectoral strategies with the National Development Strategy for 2007-15.

Co-ordination and arbitration on regional development policy at the central level is a challenge throughout OECD countries, but some options have emerged. The task of managing co-ordination across ministries – i.e. chairing co-ordination bodies – is often a responsibility of the head of state, prime minister or cabinet. In France, the CIADT (*Comité interministériel à l'aménagement et au développement du territoire*) prepares the decisions of the Council of Ministers in the field of spatial planning. It brings together experts in the field from relevant ministries: Planning and Building, Environment, etc. In the United States, the President's Cabinet is responsible for cross-sectoral co-ordination, in Mexico, the Presidency, in Ireland, the Office of the Taoiseach, in the United Kingdom, the Office of the Deputy Prime Minister, in

Austria, the Federal Chancellery. The participation of finance/ treasury ministries and the link between the outcomes of co-ordination processes and budget allocation procedures is another important aspect (OECD, 2005).

### ***Enhance inter-ministerial dimension of regional contracts***

It is also important to enhance inter-ministerial collaboration on the design and monitoring of regional contracts and regional operational programmes (ROPs) for 2007-13.

- In the case of regional contracts, the minister competent for regional development enters into an agreement with the voivodship's managing authorities; however, there does not seem to be extensive involvement of other ministries. Cross-sectoral co-ordination may be lacking in the implementation of regional contracts.
- In the case of the ROPS it is not clear to what extent ministries (other than the Ministry of Regional Development) have been involved in their preparation. In France, it was decided to involve ministries (Ministry of Industry and the Ministry of Research) as well as representatives of the business sector and universities more closely in the monitoring of the regional operational programmes dealing with innovation and competitiveness.

### ***3.3. Enhancing co-ordination between regional and rural development strategies***

The co-ordination of regional development policy with rural policy is particularly crucial, given the importance of the latter in Poland, as explained in detail in Chapters 1 and 2. The rising urban/metropolitan-rural gap is one of the most important challenges facing Poland, and supporting the development of rural areas is crucial both for social/cohesion reasons but also to enhance their competitiveness and make better use of their untapped potential. When agriculture is not a common denominator, rural areas become a heterogeneous array of regions where one-size-fits-all policies no longer apply. Appropriate governance mechanisms for rural development are thus needed to ensure the best policy outcomes. Moreover, the migration of the last decade from urban areas to rural ones (close to cities) makes clear the need for interaction between urban policy and planning and rural policy. In this context, rural policy would strongly benefit from being framed not as an extension of agricultural policy but as a dimension of regional policy, together with a (yet to be elaborated) urban policy.

The governance framework for rural development in Poland is closely linked to the separate EC policies on cohesion and agriculture (and the related financial instruments – ERDF and EAFRD). The Polish Ministry of Agriculture is in charge of the design and implementation of the rural development strategy. Experience in OECD countries indicates that a body chaired by a single sector (in the rural area,

agriculture) may have difficulty pursuing multi-sectoral objectives and may hinder full involvement by other ministries in a national rural strategy. So far, co-ordination with the Ministry of Regional Development seems to have remained largely institutional, rather than an attempt to reach common objectives. Logically, the two ministries hold different views, as the Ministry of Agriculture still has a predominantly agricultural focus even if progress has been made in incorporating broader objectives, whereas the Ministry of Regional Development sees rural development in a broader perspective. In fact, both ministries have responsibilities for framing rural development strategie(s) for Poland. Under the 2004-06 framework, rural issues were part of the cohesion policy; and in the new financial period 2007-13, rural development is included in some of the regional operational programmes. In addition, the policy approach is different, as the Ministry of Agriculture has developed a single operational programme for rural development with very little place-based dimension, whereas 16 regional operational programmes have been developed under the cohesion policy. This results in a complex policy framework for regions, and a kind of duality in policy implementation: regions manage part of the funds for rural development within their ROPs (managed by the Ministry of Regional Development), but the funds for agricultural and rural development are managed by regional agencies (ARMiR) and not by voivodships, and their focus is different from the regional priorities. Duality may lead to both overlaps and contradictions across policy objectives.

There is a need to enhance the territorial/place-based dimension of the rural development strategy and its co-ordination with the regional development strategy, at both central and local levels. So far, there is no inter-ministerial structure for rural development, despite its importance for the future of Poland. A number of OECD countries have developed a new integrated governance approach to rural policy that might serve as inspiration for Poland. The Finnish Rural Policy Committee has been a key actor and force for change in Finland (Box 3.11). In Canada, the “rural lens” approach aims to ensure that rural priorities are taken into account in the various sectoral policies of the federal government (Box 3.12). Many other OECD countries have developed new governance approaches to rural development at central/federal levels. The micro-region policy developed in Mexico (mentioned in Chapter 2) is another possibility. It is important for central ministries to establish criteria and shared strategies in order to synchronise the decentralisation of programmes and resources to local governments with a view to the complementarities that can be generated at the local level.

### Box 3.11. Governance of rural policy in Finland

The Finnish situation shows the need to look not only at the position that rural policy occupies within the government but also at the legitimacy that rural policy has earned among the different actors involved in rural affairs, including politicians, government officials at all levels, academia, and the rural population and its organised civil society. The place that rural policy has earned in Finland is largely due to the Rural Policy Committee (RPC), established as the Rural Advisory Committee in 1992, but not recognised by law until 2000. This 29-member committee representing nine ministries and 18 other organisations has not merely been a device for policy integration and bringing together diverse actors but has also been a prominent actor and a force for change. The place that rural policy occupies within the government, however, is still (as in many countries) secondary. Originally, rural policy was framed within regional policy to highlight its cross-sectoral dimension and mark a clear distinction with agricultural policy, and the institutional advances of broad rural policy have been leveraged by regional policy. However, EU rural policy influenced the decision to place the Rural Policy Committee and the Rural Development Programmes under the Ministry of Agriculture and Forestry. As in other countries, this has created competing agricultural and rural policy priorities and constituencies, as witnessed by the relatively low priority that rural development measures obtained as compared to agri-environmental support in the preparation of the EU Rural Development Programme.

The RPC has among other functions the role of assisting the government in drawing up and implementing the Rural Policy Programme under which different government bodies take specific decisions as part of what is called “Broad Rural Policy”. The Rural Policy Programme has been reasonably successful in achieving coherence among sectoral policies oriented to rural areas.

Key strengths of the process are; i) the involvement of civil society and academia as providers of local and technical knowledge, thereby reducing the knowledge gap that many central governments suffer for targeting the priorities of rural policy; ii) the ownership of the programme by the different government and non-government actors, resulting from a long process of multi-arena negotiation and aligning the actions of all key stakeholders; and iii) the clarity in allocating roles and responsibilities within the government and the biannual monitoring and evaluation of proposals/decisions.

Source: OECD, 2007j.

### Box 3.12. **Integrated governance approaches to rural development in OECD countries**

Canada's "rural lens" aims to ensure that rural priorities are taken into consideration in the development of government policy and that there is policy coherence over rural objectives across ministries. The Community Futures Programme promotes bottom-up economic development in rural areas.

Finland's multi-year Rural Policy Programme also seeks to draw attention to the specific needs of rural areas. "Broad" policies proactively integrate these needs into central government decision making in different sectors. "Narrow" policies specifically target rural areas.

Germany developed the "REGIONEN AKTIV" programme to address inadequacies in existing agricultural and other sectoral policy approaches. A number of small model areas (*Regionen*) were selected and local partnerships established to improve the focus of public policy for the region.

In the United Kingdom, DEFRA (Department for Environment, Food, and Rural Affairs) was created in June 2001 to broaden the focus of rural policy and to eliminate policy "silos" by gathering under one department several rural functions. The Rural Strategy, published in 2004, reinforced the change to a more broadly based and locally focused rural policy. Several recent initiatives, including Rural Pathfinders and Local Strategic Partnerships (LSPs), are piloting some of these changes.

The Mexican micro-regions strategy adopts an overall approach to rural development by co-ordinating policy initiatives for 263 rural micro-regions characterised by a high level of marginalisation. Every micro-region contains a Strategic Community Centre around which actions are focused based on priorities established through a highly participatory process including all sectors of the local communities.

The Netherlands' "Agenda for a Vital Countryside" published in 2004, introduced important changes in the Dutch approach to rural development. While this document details the national policy targets and budgets for the countryside, regional and local authorities translate these policies into action and integrate them into local and regional development plans.

Source: OECD, 2006h.

### **3.4. Enhancing the territorial dimension of regional development policy**

Poland has made progress in enhancing the multi-sectoral dimension of the regional development strategy (which relies on various pillars such as human capital, innovation and infrastructure, see Section 2.1). However, progress has yet to be made to enhance the territorial dimension of the strategy. Apart from the programme on the development of eastern Poland (3% of total funding); central programmes lack a strong territorial orientation. No

distinction is made, for example, among the needs of metropolitan areas, medium-sized cities, mountainous areas, coastal areas, and so on. The fact that 25% of the funding has been decentralised may help to tailor the policy mix to each region's needs, but this is not in itself a guarantee, as it depends on various regional capacities to implement appropriate place-based policies. In any case, the regional policy mix should be complemented by place-based approaches at the central level, with appropriate incentives for local actors. There is a need to further enhance the place-based dimension of the different pillars of the regional development strategy, to link urban and rural considerations and provide a "call to action" for actors at other levels of government. It also implies involving more local actors in the design of national strategies, as so far their involvement seems to have been limited, even in the specific territorial programme on the development of eastern Poland.

To gain more visibility in the central institutional structure and promote regional policy as a key structural policy, essential for the competitiveness and cohesion of the country, the Ministry of Regional Development should promote differentiated place-based approaches in its national strategy. The various needs and objectives among places could be distinguished, along with incentives for local actors to reveal their knowledge. In Sweden, for example, a typology of regions has been set up to help the central government apply different types of regional policies according to the type of region. Some regions still enjoy traditional support from the central government with respect to equity in terms of access to essential public services, while other regions benefit from specific support addressing competitiveness targets. In Japan, differentiation is based more on infrastructure policies and goals to mitigate income disparities: rural areas benefit from central government investment, while metropolitan areas, which are not subject to the same market failures, are able to use private investment to finance their infrastructure. In France, the DIACT has adopted different policy approaches for metropolitan areas (metropolitan contracts), urban areas (urban and agglomeration contracts); rural areas ('pays' and rural poles of excellence), but also coastal and mountainous areas.

The Ministry of Regional Development should increasingly focus on its strategic functions and play the role of negotiator and facilitator with local actors, providing incentives for regions/places to develop proactive regional development strategies. The relationship with local actors should increasingly be a partnership. Poland has already moved in this direction through discussions across levels of government on the elaboration of regional operational programmes (see Section 3.4); but more needs to be done to enhance the ministry's strategic role. For example, it could provide more guidance on the development of regional innovation strategies. It is important to increasingly target a bottom-up approach, in which local actors can influence national policies

for regional development. The MRD should move in the direction of incentives and calls for tender for place-based development approaches, and the process should not be entirely delegated to sectoral agencies. In addition to specific incentives to support territorial projects (agglomeration projects, rural projects, see Section 3.2.); the ministry could play a leading role in launching competitive selection processes to foster cluster development or innovative projects. As explained in Chapter 2, most programmes targeting clusters with an innovation focus in OECD countries use a competitive selection process, initiated by the central government. The advantage of competition and calls for tenders is that these allow information to emerge from the bottom up. The intervention of the central government to help reveal local assets would help regions/places to better understand that it is a win-win game; that the process is flexible enough for each region to make its own choice. At the same time it allows the national level to be better informed about local initiatives and make decisions on initiatives that can also be developed elsewhere (Box 3.13).

### Box 3.13. **Targets and incentives in regional innovation programmes in OECD countries**

While a competitive selection process can contribute to the importance of a “label”, the number of projects selected must be limited. Programmes seeking to support leading regions or industries often impose a stricter selection process and fund fewer projects. The Norwegian Centres of Expertise specifically seeks to limit the number of selected clusters so that the label effect will be important enough to attract international attention. The Swedish VINNVÄXT programme in its first round selected only 3 full recipients and 7 partial recipients out of 150 initial applicants and selected 5 out of 23 in the second round. While France chose a very large number of poles, they developed a four-tier labelling system to distinguish between them: 6 were “international”, 9 were “internationally oriented”, 15 were “inter-regional” and 37 were “regional”.

The capability and credibility of the bodies that make selections play a role in public perception and hence in the effectiveness of the label. The involvement of private actors appears to be an important source of credibility. The Georgia Research Alliance in the United States, for example, serves as an expert body for selecting the most relevant research projects to support the state’s growth. While state legislators allocate the funding to the Georgia Research Alliance, its Board members are representatives from universities (many are private entities) and industry. Most countries have selection committees comprised of both public and private actors. In cases where the selection process is performed entirely by civil servants, the process is more subject to debate. In France, for example, the lack of private-sector involvement in the selection committee has been noted by the policy’s critics. However, France does have a committee to ensure the integrity of the pole label. In Sweden, the fact that the programme designation was national, and not simply regional, was considered in evaluations to play an important role in cluster legitimacy.

### Box 3.13. **Targets and incentives in regional innovation programmes in OECD countries** (cont.)

One additional benefit of competitive selection procedures is that sometimes, even for candidates that are not selected, the process results in network building and action plans. Sweden's VINNVÄXT programme accepted only a small fraction of the applications received. When Sweden's subsequent Visanu programme was introduced, many groups that had already worked together on a VINNVÄXT application applied to Visanu and were selected. Some networks have also worked together to reapply for subsequent VINNVÄXT funding rounds. In Germany as well, unsuccessful applicants to the BioRegio and InnoRegio programmes have gone on to develop their projects on the basis of other funding mechanisms. The momentum generated by the BioRegio competition led to the expansion of support to biotechnology via the BioProfile programme to a larger number of regions, many of which had been unsuccessful applicants for BioRegio.

Source: OECD (2008b).

The Ministry of Regional Development may have to engage in experimentation, undertake pilot projects, and try different institutional tools for various regions. In Poland, some industrial regions with developed social capital (such as Silesian regions) do not necessarily need the same institutional tools as rural regions, with their less developed public-private co-operation. Governance is not a science but a continuous learning process, and different answers are needed in different types of regions and institutional settings (OECD, 2005). The ministry should increasingly play the role of initiator and launch pilot projects in different places. For example, Finland has tested greater autonomy at the regional level and reinforcement of inter-municipal co-operation in certain areas. These various institutional experiments are tools for progress in governance (OECD, 2005).

## 4. Building stronger capacities at sub-national government level

Efforts to tailor central government policies to different local needs cannot be separated from related initiatives at the sub-national level. Building stronger capacities at the sub-national level is particularly important in the Polish context, both in the short term and in the long term:

- *In the short term*, the kick-off of the EU 2007-13 programming period has opened the way to an unprecedented budget and an exceptional variety of programmes devoted to regional development that must be managed over the next few years (16.5 billion EUR for the Regional Operational Programmes). While much attention has been devoted so far to the sub-national level's capacity to fulfill the immediate requirement to absorb EU funding in a given period of time, the magnitude of the tasks to be carried out during the current programming period calls for a broader impulse to upgrade regional capabilities beyond the simple absorption capacity.



- *In the long term*, the massive injection of EU funds constitutes a decisive but not everlasting factor for governance reforms in Poland. The large scale and scope of Poland's allocation of Structural Funds in 2007-13 do not mean that a comparable amount of external funding will be available permanently. Regions were created relatively recently in 1999, but their first experience in the design and management of EU programmes between 2000 and 2006, combined with the overall process of institutional modernization currently underway in Poland, already suggests valuable paths for durable improvement of policy-making practices. Present efforts to enhance regional capacities are therefore likely to influence an important part of Poland's future development, and the 2007-13 momentum needs to be fully exploited in view of an in-depth transformation.

#### **4.1. Programming and managing capacities of regions**

Regional capacities will mainly be tested via the forthcoming implementation of Regional Operational Programmes (ROPs) in the 2007-13 period. Compared with the previous 2004-06 period, the elaboration of ROPs already represented a major turning point in building regional capacities. While regions had little say in the elaboration of the Integrated Regional Operational Programme<sup>28</sup> (one single programme covering all regions) and focused on the management of funds,<sup>29</sup> they played a proactive role in the preparation of the ROPs. First, the ROPs were largely based on the preexisting "regional development strategies", i.e. broad-ranging documents in which each region set its own long-term vision for development up to a 2015 or 2020 time horizon. Second, although the Ministry of regional development issued strategic guidelines for the ROPs (*e.g.*, no more than 40% of total funding should be allocated to transport infrastructure projects), regions were given extensive flexibility and autonomy to prepare their ROPs.

The ROPs resulting from this new distribution of labour across levels of government suggest that further progress could be achieved to enhance the effectiveness of regional policy. Most regions have carefully followed the central government's guidelines and their ROPs are obviously keen on targeting Lisbon-related objectives (competitiveness and employment creation). Overall, 24% of total ROP funding was allocated to innovation and entrepreneurship projects; which means just a little less than the 25% allocated to transport infrastructure projects (see Annex 3.A5). Some regions – such as Dolnoslaskie (Box 3.14), Wielkopolskie, and Malopolskie – have developed promising ROPs focusing on metropolitan development, transport connections, innovation and SME networks, and social infrastructure. Yet it seems that most ROPs could have been better differentiated according to specific regional needs, based on a deeper analysis of regional comparative advantages. For example, it is unclear to what extent the strong financial support currently devoted by the Eastern regions' ROPs

### Box 3.14. ROP of Dolnoslaskie

The ROP of Dolnoslaskie was negotiated with the Ministry of regional development in early 2007, then negotiated with the European Commission starting from June 2007, and validated in August 2007. It represents of total of about 1.2 billion EUR and a first audit is scheduled to be completed by the end of April 2008. The ROP focuses on the following ten priorities:

1. Development of local enterprises (25.54%).
2. Development of information society (8%).
3. Development of transports (18%).
4. Dimprovement of natural environment (anti-flood protection) (10%).
5. Development of energy infrastructure (3%).
6. Tourism and cultural potential (8.94%).
7. Education infrastructure (8.16%).
8. Health infrastructure (4.35%).
9. Degraded urban areas (8%) – this priority was included in the ROP as a result from public consultation.
10. Technical assistance.

The ROP was elaborated after an extensive one-year consultation process, which involved *gminas* and *powiats* as well as private stakeholders through the regional steering committee and sub-regional working groups. In the implementation phase, *gminas* and *powiats* account for 30% of the monitoring committee (whose main task is to approve the criteria to select projects and to supervise the implementation of the selected projects).

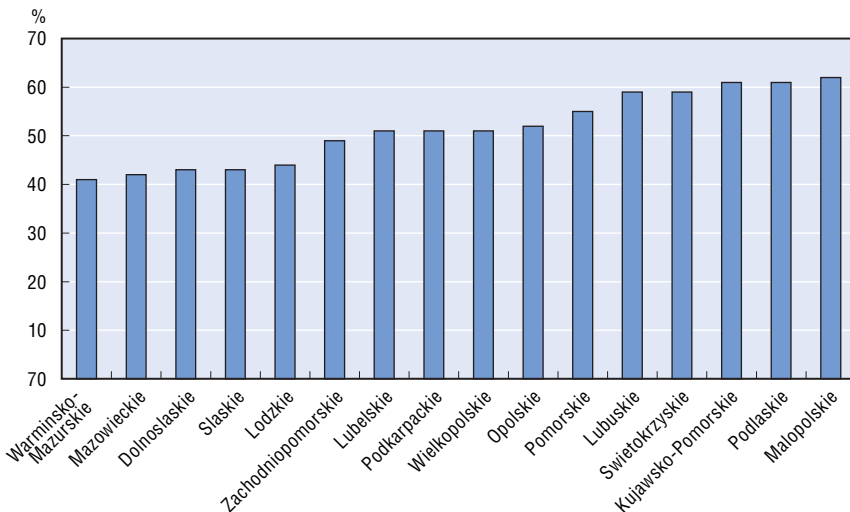
to innovation transfers can be expected to foster development in these regions where networks of SMEs are quite weak, and the scientific and technical base is insufficient. In some places basic education needs could be more targeted.

Both the general concentration of the ROPs on Lisbon-related objectives and their uneven relevance in light of different regional realities reflect the level and variety of institutional capacities across Polish regions. While regional public officials tend to share an overall lack of experience due to the short history of decentralisation in Poland, some regions (such as Slaskie) have traditionally enjoyed a relatively higher degree of institutional autonomy, whereas other regions (especially those in the East) have long remained locked in a passive attitude *vis-à-vis* the central government. Given that institutional capacities resulting from historical legacies cannot be changed easily at this stage, there are at least two ways to ensure that the implementation of regional policy is more closely tailored to regional needs in the future: by reinforcing public-private collaboration, and by strengthening local public employment itself.

## 4.2. Enhancing public-private collaboration

A key factor to increase the effectiveness of regional policy lies in improving collaboration between policymakers and the private sector. Lessons from EU countries show that EU funds are most effective when they are implemented in a bottom-up approach with active involvement of local and private actors (see comparative research in *The Economist*, 2006). In the case of Poland, it seems that the lack of collaboration between public and private actors has been an obstacle to the absorption of EU funding. Although absorption can fluctuate rapidly over time<sup>30</sup> and does not reflect the long-term impact of projects on regional competitiveness, it offers an informative indicator on implementation of EU projects. Absorption rates (defined as the share of payments to final beneficiaries) vary significantly across Polish regions (ranging from 40% in Warminsko-Mazurskie to 60% in Malopolskie) (Figure 3.7). Due to the high complexity of administrative procedures (see Section 3.5), there are clear advantages for firms and municipalities to collaborate on a smaller number of large joint projects rather than present a higher number of small individual projects. Yet, the surprisingly lower absorption rates in large urban areas (such as Mazowiekie,<sup>31</sup> Dolnoslaskie, Slaskie) suggest that co-operation between actors has been difficult to achieve, especially in infrastructure, human capital and entrepreneurship projects for which administrative procedures are already more complicated than for rural development projects for example.

Figure 3.6. **Payments made as percentage of the 2004-06 IROP allocation**  
Total: 4.1 billion EUR



Source: Ministry of Regional Development, 2007.

Going beyond the need to increase absorption rates, the mismatch between utterly competitiveness-oriented ROPs and existing regional assets in practice is often due to the lack of information sharing between the local public officials in charge of drafting the programmes, the firms driving the local economy, the universities generating local human capital, and the civil society as well as all stakeholders who contribute to shaping the local social environment. In this respect, Poland needs to overcome several specific obstacles to public-private collaboration:

First, it is not easy to change a long-established tradition of mutual mistrust between public administration and the private sector. On the one hand, Polish public administration has long cultivated a climate of suspicion *vis-à-vis* the private sector and thereby reinforced a risk-averse attitude. In Poland as in many post-socialist countries, any kind of co-operation with the business sector is easily interpreted by citizens as corruption or clientelism (Swianiewicz 2001). On the other hand, the business sector and NGOs have shown little interest in being more closely involved in local development policies, which indicates a lack of trust in collective local government actions.<sup>32</sup> Weak public-private co-operation in Poland is partly explained by the dominance of individual entrepreneurship, strong patterns of individualisation, and refusal of collective obligations. Although the collapse of the communist regime in 1989 was largely driven by the civil society (especially unions such as *Solidarnosc*),<sup>33</sup> social stakeholders were paradoxically unable to play a strong role in the institutional system's transformation since then. This has resulted in an unexpected fragmentation of the private sector (*e.g.*, weak chambers of commerce, weak unions) and the absence of a powerful intermediary able to speak a single voice on behalf of the private sector and to take the leadership in public-private dialogue.

Second, earlier attempts to improve public-private collaboration have not been conclusive so far. For example, Regional Development Agencies (RDAs)<sup>34</sup> were created in order to promote economic growth by facilitating public-private collaboration; yet it has been a tricky assignment to make them strong enough to effectively promote horizontal and vertical co-ordination without falling prey to particular interests, but not so strong as to “capture” the issue of regional policy and thereby disempower voivodships or municipalities. Their influence varies in fact across regions, in some regions they play a key role to support regional economic development and attractiveness (in Dolnoslaskie for example), while in others they play a much less proactive role for development. Evaluations on the use of funds in 2007-06 also indicate that there were deficiencies in the co-operation among public and private actors under the IROP management system (Grosse, 2007). Regional Steering Committees<sup>35</sup> were established to associate non-public actors to the selection of projects under the IROP, but their impact on the outcome of the debates and the final choice of projects seems to have remained marginal (Dabrowski, 2007).<sup>36</sup> In 2006, a broad

assessment (conducted by the Silesian economic agency) on the selection of regional development projects in the 16 Polish regions led to the following three main conclusions: i) criteria to select projects are often unclear; ii) experts involved in the selection process are sometimes not qualified enough; and iii) civil society representatives are not invited to participate in the different steps of the selection process.

Building mutual trust between public and private actors in Poland is crucial for the absorption of 2007-13 EU funds, but also in a much broader perspective for regional development. Bringing civil society and private sector closer to policymaking yields both democratic and economic advantages by reducing information asymmetries in increasingly complex and inter-dependent policy areas such as regional development. This is the reason why the European Commission has promoted partnerships with private actors and civil society since the early stages of EU cohesion policy, and even enhanced this focus in the 2007-13 framework. The current reinforcement of regional powers and especially of the marshal's responsibilities<sup>37</sup> offers an opportunity to bolster public-private collaboration. Two ways could be highlighted: increasing public-private collaboration in planning processes, and enhancing public-private partnerships.

*Public-private collaboration in planning processes* remains very formal and legalistic in Poland. Even though some municipalities organise public consultations and discussions, public participation is very often recognised as a simple optional procedure. The case of Warsaw is particularly interesting as both the Warsaw city authorities and existing NGOs are reluctant to co-operate. Several OECD countries tried to involve private actors more closely in planning processes (Box 3.15). Poland could draw inspiration from such experiences and combine it with promising efforts in some of its own regions, which used the new EU community initiative JESSICA to associate public and private actors in sustainable urban development measures for example.<sup>38</sup>

*Public-private partnerships (PPPs)* are not common in Poland, for different reasons: i) Poland introduced legislation on PPPs in 2005<sup>39</sup> but the legislative framework resulted in complex procedures, which are not appealing for private actors; ii) there is little knowledge about PPPs, especially in the public sector, and little attention is given to their potential benefits; iii) there is a lack of PPP co-ordination at the central government level. Very few PPP projects were developed so far (e.g., A1 Motorway Gdańsk-Nowe Marzy (90 km), A2 Motorway Konin-Nowy Tomysł (103 km), water management system in Gdansk). The government attempted to simplify the PPP procedure at the end of 2006 and adopted a project of a new act on PPP in July 2007, but political tensions interrupted the Parliament's work on this issue. The implementation of hybrid PPPs (i.e., using EU funds) is currently under discussion with regard

### Box 3.15. Examples of public participation in planning processes in OECD countries

Public participation varies from one country to another but it is usually recognised for bringing legitimacy to the final plan.

The **US** has a long tradition of civic leadership on spatial planning. In some areas including the Silicon Valley, civic coalitions have successfully promoted the adoption of urban growth boundaries. In other areas, different groups have adopted or prepared comprehensive regional plans.

In **Denmark**, the planning process starts with a public consultation, which then leads to a proposal to be re-discussed in public fora. However, citizens have progressively lost interest in this process. Officials in charge of the production of the plan are mainly civil engineers, architects or chartered surveyors who tend to focus more on land use tradition rather than on development and growth perspectives. Proposals remain bureaucratic and need to be simplified.

In **Japan**, advisory boards (Shinji-Kai) play a key role. They are composed of representatives from various institutions (chambers of commerce, resident associations, NGOs, academics, officials from upper levels of government). Since most of these stakeholders are appointed by the mayor, the composition of advisory boards may vary. However, given the relatively centralised nature of government in Japan and the dominant culture of consensus, debates do not have much impact on the society and controversial issues are mostly dealt with by the different levels of government involved in the planning.

In **France**, an important innovation of the 1999 National Planning and Sustainable Development Act was the mandatory creation of ‘development councils’ “conseils de développement”. These councils are consultative bodies, bringing together major social and economic actors within a “communauté urbaine” or a communauté d’agglomération”. Their main activities consist in approving the ‘agglomeration project’ and following up on the “agglomeration agreement” They were introduced as a tool to promote the involvement of civil society (economic actors, unions, non-profit associations) in policy making and the elaboration of strategies at the area-wide level.

Based on the principle of participatory planning, Territorial Pacts in **Italy** bring together public and private actors to undertake ventures to promote local development at the sub-regional level. Territorial Pacts involve a large number of sectors, including industry, agriculture, services and tourism. Partners include local authorities and local development actors, although regions, provinces and financial institutions can be signatories. Territorial Pacts have fostered a learning process among stakeholders concerning common problems across all areas, and improved mutual understanding and dialogue between employers and trade unions, as well as communication with civil society.

Source: OECD, 2007b.

to the priorities of Operational Programmes co-financed with the Structural Funds and the Cohesion Fund.<sup>40</sup>

Poland has a particular need to enhance the use of PPPs. Not only can PPPs enhance the effectiveness of spending and achieve economies of scale that are important for regional development (Box 3.16), but they could also help fasten the implementation of the OP Infrastructure. Moreover, PPPs will help pool the additional resources that Polish public authorities will need in order to pursue infrastructure investment despite growing maintenance costs. Finally, PPPs will help finance the significant number of projects that still need to be implemented beyond the 2007-13 EU budgetary period (whose execution phase can be extended up to 2015) (OECD, 2008a). At the same time, PPPs entail a series of potential adverse effects to be taken into account. For example, experience in OECD countries suggests that governments tend to retain the majority of the risks, overprotecting private investors that participate in the projects, which undermines the PPP concept itself. A rigorous cost-benefit

### Box 3.16. PPPs and regional development

The main financial advantage of PPPs is that they split the costs and risks of projects between the public and private sectors, tapping into the expertise and economies of scale available in the private sector that are rarely exploited for public policy. The principal risks of PPPs are linked to asymmetries of information and of commitment between the different parties of the agreements. These considerations have now to take into account more [inclusive] PPPs, to which the various local stakeholders of the development projects, profit and non-profit, may contribute. From the perspective of public policy, some outstanding issues include:

- Local public authorities need guidance and, as far as is practicable, standardised processes for selecting and operating PPPs. This help does not only concern respect of competition regulations but also the steps to be followed to identify the best partner, evaluate the effectiveness of the PPP option, and diffuse information to other local jurisdictions, among other things.
- Local firms should be involved in PPPs devoted to local development. As users of collective services, they have views on their needs in terms of infrastructure, training, etc. As suppliers of services, they will often be more attuned to improving outcomes than other actors that are less directly involved. Without infringing rules of competition, it would be worthwhile to provide them with the support and incentives necessary for them to participate in this way. This is particularly important with respect to SMEs. A similar logic should be applied with respect to citizen groups and other non-profit organisations.

Source: OECD (2005), *Building Competitive Regions*.

comparison of PPPs *versus* traditional procurement needs to be conducted, and PPPs should be subjected to at least the same scrutiny as traditional expenditures in the budget process.

### **4.3. Strengthening local public employment**

The effective implementation of regional development policy requires a cadre of professionals and qualified support staff. This holds particularly true as regional development policy demands a strong capacity to manage complex and interdependent policy tools, in view of results that often occur only in the medium to long term. In Poland, challenges lie not only in the size of local public employment to cope with increased needs in terms of EU fund management, but mainly in reinforcing more systematically the capacities of local public officials by building a more standardised civil service system.

Poland has a relatively modest share of public employment. The OECD survey on Comparison of Employment in the Public Domain (CEPD) indicates that 13.3% of the total labour force in Poland is employed in government (OECD 2007n).<sup>41</sup> This is a similar proportion as Portugal, The Netherlands or Spain. This is well below France and Finland, which have more than 20% of their labour force employed in government, and Sweden and Norway, with almost 30% of their labour force employed in government. In Poland, 200 000 people were employed by the sub-national sector in 2005, which represents 55% of total public sector employees. Although total public employment increased significantly since 1999 (due to the creation of new layers of government and to EU accession),<sup>42</sup> the numerous additional tasks linked with EU fund management (*e.g.*, verification of applications for co-financing and payment claims, conclusion of agreements, control of expenditure, accounting, etc.) may require more manpower, in certain regions. Considering the significant wage gap between the public and the private sectors,<sup>43</sup> the current civil service system needs to offer more effective incentives in order to curb the exodus of public officials towards the private sector, to limit the loss of institutional memory and continuity in the public sector, and to attract qualified staff.

For this purpose, recruitment and promotion mechanisms need to be improved within a consistent and transparent civil service system. The lack of a standardized civil service system has generated risks of politicization of civil service, which seemed to be held down prior to EU accession but has returned two years afterwards, especially in the local public sector and at the senior management level (World Bank, 2006). Multiple attempts to rationalise public employment have translated into the successive adoption and abolition of legislation related to civil service, notably trying to introduce competition in the recruitment of senior civil service positions. However, such attempts were interrupted and the recent creation in 2005 of an alternative “reserve” of senior executives is unlikely to solve the need for enhanced professionalism and



efficiency. The Polish government has recently stated as a key priority the need to introduce new regulations to build a more standardised civil service, at both central and local levels. Working on a less fragmented public employment framework, with clearer recruitment processes, career paths, promotion and mobility prospects, is an essential condition for an improved implementation of regional policy, at all levels of government.

Further improvement in local capacities could come from:

- *focusing training programmes on practical skills* (to facilitate day-to-day work on the planning and operational implementation of development strategies);
- *introducing performance management systems to better monitor individual and team performances*. At this stage, it is not recommended to introduce individual performance-related pay elements, but rather team bonuses or promotion incentives, to avoid risks of conflicts of interest;
- *enhancing staff mobility* (both nationally between central and local governments, and internationally between Poland and other EU countries);
- *exploiting ICTs and e-government tools to raise the efficiency of public service delivery* (the 47% increase in the number of e-public services between 2004 and 2007 is a promising start; plans to create fully integrated electronic platforms should be pursued).

The three priorities set up by the central government for employees in charge of EU funding management are already going in the right direction: i) secure enough positions inside public administration; ii) increase wages for employees working on EU Structural Funds (wage increases started in 2006, and the EU budget for technical assistance rather than national funds will be used to finance them); iii) provide appropriate training for these employees (Box 3.17).

#### **Box 3.17. Training policy related to the management of EU funding**

Under the 2004-2006 Community Support Framework, the integrated strategy for promotion and training activities aimed at developing and co-ordinating training activities related to the management of EU Structural Funds. The training process was composed of two main axes: i) training for central and regional administration involved in the process of management, implementation, monitoring and evaluation of Structural Funds; ii) training for beneficiaries of particular operational programmes.

Training activities for the administration involved in the process of funds implementation were carried out mainly through twinning agreements, but also technical assistance components in Operational Programmes, and the *Technical Assistance Operational Programme*. Management authorities are in charge of preparing, implementing and monitoring the different training plans.

**Box 3.17. Training policy related to the management of EU funding (cont.)**

Using the opportunity to collaborate with experts from Germany, France and the United Kingdom under twinning agreements, the Community Support Framework managing authority carried out a training series covering issues such as project assessment and preparation, cost eligibility, information and promotion, and public aid. By the end of 2004, approximately two thousand employees had been trained. At the same time, employees were offered a further possibility to follow up with foreign experts. In November 2004, a series of training sessions (both general and specialist) was validated for employees of the CSF managing authority, *Technical Assistance* OP managing authority, monitoring and control unit, and other institutions listed in the *Technical Assistance* OP.

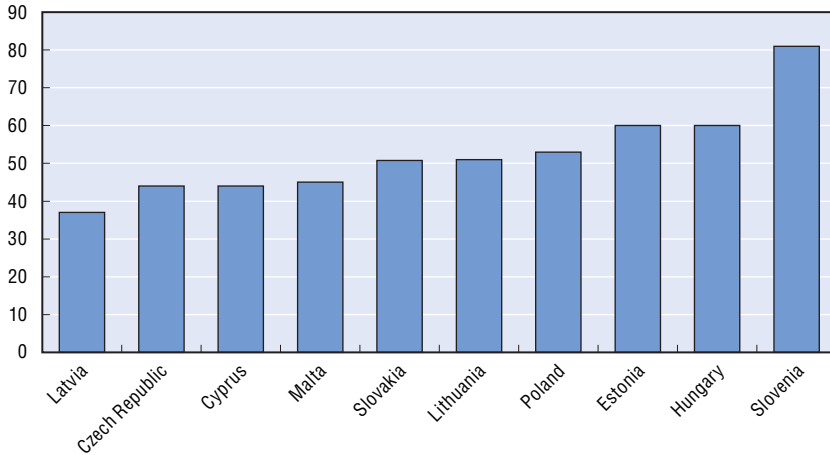
## 5. Enhancing efficiency and monitoring performance for regional development

Poland faces the twofold challenge of absorbing large inflows of regional development funding in a relatively short time, optimising the use of the money and improving the monitoring of performance to ensure the most effective accountability. EU funds provide both a major window of opportunity for institutional change (better co-ordination at the central level and across levels of government) and an opportunity to enhance the effectiveness of public spending and public administration. This section addresses the question of accountability as a tool for improving the effectiveness of regional development policy. First, the possibilities for simplifying the administrative and regulatory framework are explored. Second, the opportunities for better monitoring performance and reforming budget procedures are analysed.

### 5.1. Simplifying the administrative and regulatory frameworks

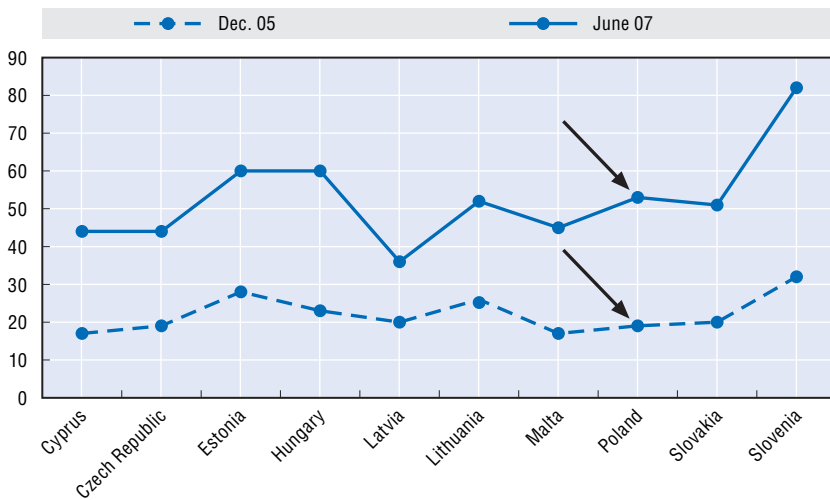
Poland's absorption of EU funds in early 2008 presents a rather positive picture. In May 2008, 85.6% of total structural funds allocated to Poland for the 2004-06 financial period had been absorbed (i.e. paid to final beneficiaries). After a slow start in 2004, the absorption rate has improved regularly since 2006, with faster progress in 2007 and 2008. The first phase of absorption was slow, as for example at the end of 2006 the transport programme had only spent 15.8% of the allocated budget. Some programmes – such as the one for rural development – had a more successful start. In mid-2007, Poland had absorbed half of the structural funds allocated for 2004-06, more than the Czech Republic and Hungary, but less than smaller countries such as Estonia, Lithuania and Latvia (Figure 3.8). Although absorption of structural funds made good progress, the situation was more challenging for the absorption of Cohesion Fund, with only 27% absorbed in June 2007. Anyway, significant

Figure 3.7. **Absorption of EU funds by new member states (June 2007)**  
(Percentage of funds used)



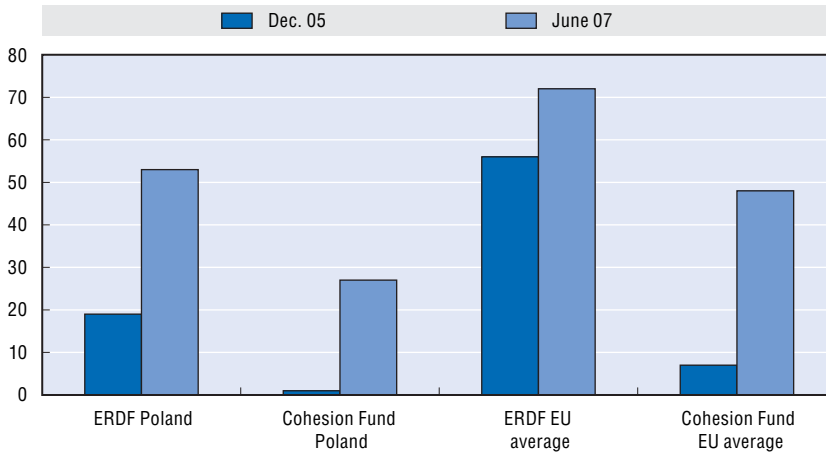
Source: Ministry of Regional Development, 2007.

Figure 3.8. **New member states' ERDF absorption 2004-06**  
(% of funds used)



Source: "The structural funds' implementation in Poland – Challenges for 2007-13", Presentation to the European Parliament committee on budgeting control, 12 September 2007.

progresses were made in one year for the absorption of the Cohesion Fund, as the proportion of the fund absorbed reached 42.7% in May 2008 (Ministry of Regional Development, 2008).

Figure 3.9. **ERDF and Cohesion Fund absorption (% of funds used)**

Source: "The structural funds' implementation in Poland – Challenges for 2007-13", Presentation to the European Parliament committee on budgeting control, 12 September 2007.

Although Poland has made significant progress for the absorption of EU funds, some major challenges remain, considering the size of the allocation for 2007-13 (much higher than for 2004-06) and the short delays for absorption. There are three main types of obstacles to using funds effectively: the availability of co-financing, the supply of eligible projects and administrative capacity.<sup>44</sup> A fourth type is linked to services, workforce, capacity and skills shortages in key sectors (construction):

- **Availability of co-financing.** So far, this has not proven to be a problem in Poland. However, some experts have warned that rural *gminas* in eastern Poland may face difficulties for co-financing after 2010, owing to their limited fiscal autonomy.
- **Supply of eligible projects.** Poland is doing well in terms of preparing the programmes that the EU agrees to finance, with a high and rising rate of project submissions from local governments and private companies. In Poland, applications from municipalities for local infrastructure projects have been extremely numerous, and only 40% of eligible projects were able to receive financing. The number of applications was twice the number of signed contracts in 2004-06, and is likely to increase in 2007-13.
- **Administrative capacity.** Implementation of projects and payment to final beneficiaries are much slower, even if improvements were noticeable through 2006. Following the creation of the Ministry of Regional Development, the pace of absorption increased; 9% of the global envelope for 2004-06 had been paid at the end of February 2006. The main implementation problems are linked to insufficient capacities at the local level to manage large number of

projects (insufficient staff, inappropriate training) and complex bureaucratic procedures and inflexibility in the use of funds which have slowed the process. In addition, the rules relating to the funds vary, and some are more rigid than others. For example, as the European Social Fund is more complex to manage, and there absorption of funds under this scheme is low.

- **Skills shortages in key industries and restricted availability of supporting services.** Limited services capacity and skills shortages (planners, architects, engineers, environment experts, legal personnel, accountants) as well as the availability of construction firms also slow the absorption of funds, mainly for infrastructure development.

### *Lengthy administrative procedures*

Lengthy administrative procedures have constituted major obstacles to the implementation of co-financed EU projects. The main problems appear to be an uncertain and constantly changing legal framework, difficulties for access to finance and slow public procurement. Public procurement procedures are too lengthy and over-regulated, despite improvements in the past few years. The 2004 law on public procurement aims at ensuring EU companies equal access to the Polish public procurement market. It simplified procedures for public procurement for orders below EUR 60 000 (no appeals and claims). An amendment voted in 2006 further simplified procedures by increasing from EUR 6 000 to EUR 14 000 the threshold above which the act applies. Public procurement legislation should be further reformed, notably to limit the abuse of appeal procedures and to simplify the delivery of building permits and environmental impact assessments (OECD, 2008a).

Reducing the administrative burden relating to public-private collaboration in Poland is a priority, as little deregulation has taken place since EU accession. Administrative barriers remain high in comparison to other countries of Central and Eastern Europe. Similarly, it takes much longer than elsewhere in the region to obtain licences, register property or enforce a contract (Economic Forum CEEC, 2007). According to the World Bank's 2006 *Doing Business* report, the minimum capital requirement for starting a business in Poland is almost four times higher (relative to per capita income) than in the rest of the region. The quality of regulation at local level can also be improved. In addition to reducing regulatory burdens, in particular for small businesses, strengthening accountability and transparency mechanisms will reduce the risks of corruption.

Bureaucratic procedures have considerably lengthened the process of absorbing EU funds. To apply for funding implies submitting an exorbitant number of attachments. For instance, an NGO applying for funding for a training programme must submit about ten attachments and if the project is conceived in a partnership, all partners must submit the same number of attachments (Dabrowski, 2007). Therefore, preparing documentation for an

application is a real challenge, especially for small SMEs and NGOs. In addition, the process is frequently blocked as a result of a rule according to which an objection can result in a trial which can take several months (Dabrowski, 2007).

Finally, the system of management and control of the structural funds has contributed to delays in the delivery of funds. Although Poland meets the requirements set by the European Commission, the system was criticised in 2004-06 for its complexity: the procedures for management and financial control adopted for operational programmes were heavy and introduced duties that were not required by Community law (NKU, 2006). This, in practice, resulted in delays in the use of structural funds by the final beneficiaries.<sup>45</sup>

### **State aid**

Lengthy decision-making processes for the preparation of the state aid plan, which determines the amount of regional aid, have also been criticised. As mentioned in Chapter 2, Poland, the largest of the new member states, also spends the most on state aid as defined by EC competition policy, although it is decreasing.<sup>46</sup> State aid is one of the most complicated components of Polish public expenditure. The intensity of state aid varies across regions from 40 to 50% (for the Mazowieckie region, the maximum will be reduced to 30% after 1 January 2011). However, both for the first financial period (2004-06) and for the current one (2007-13) there have been delays in the preparation of state aids plans. For 2004-06, activities that contain elements of state aid were identified relatively late. The need to prepare aid programmes<sup>47</sup> to regulate the granting of state aid, their notification to the European Commission, and finally lengthy procedures of acceptance of aid programmes by the European Commission, all delayed the initiation of activities, and therefore the implementation of projects involving state aid. For 2007-13, the state aids plan is not yet available. As a consequence, it is impossible for firms and private investors to plan investments, and call for tenders are delayed. This results in lengthy delays in investments, with strong repercussions on the local economy. Some local authorities have mentioned this problem as the main obstacle to the implementation of co-financed EU projects. Another important problem is linked to the administrative crowding that will occur when the state aid legal framework is ready and tenders are launched.

### **5.2. Enhancing accountability for results and performance**

Removing administrative obstacles is important, but needs to be accompanied by trust building, a key element in public-private co-operation. Because of the complex nature of regional policy and the many relationships required to achieve its goals, accountability can be challenging (OECD, 2007e). To enhance accountability, OECD countries have increasingly moved towards systems of *ex ante* and *ex post* monitoring and evaluation of regional policy.

Monitoring the performance/impact of regional policy is a key tool for sharing information across levels of government, for helping local actors to reveal their knowledge, and for building trust. Although many countries have developed increasingly sophisticated performance monitoring systems – for regional policy and other policy areas – it is important to keep in mind that there is no single model of performance monitoring, and that some flexibility is needed in implementation. Expectations from such systems have to be managed, and it is important to remember that “the journey is as important as the destination” (OECD, 2008d).

### ***From monitoring and control to focus on performance and impact***

Poland has made significant progress since 2004 in developing infrastructure for performance monitoring, for both sectoral and regional programmes.<sup>48</sup> The monitoring and evaluation system for regional development policy is based on the elements required and recommended by the European Commission (EC) for monitoring and evaluating structural and cohesion funds. With the overwhelming majority of funds for regional development coming from the European Union, it makes sense for the structure and functioning of the monitoring and evaluation system to provide information that can be used to ensure accountability at the EU level. All evaluations under the NSRF and the operational programmes are conducted by independent external evaluators. The EC’s key priority is the ability to measure on an annual basis progress towards targets: it is not to provide sanctions or rewards if targets are not met.

The EC evaluation system for 2007-13 has evolved towards a slightly more flexible system compared to 2000-06. Significant modifications have been introduced for evaluations carried out by member states during programme implementation. A shift from a concept of mid-term evaluation towards more demand-driven (on-going) evaluation – flexible in terms of thematic scope, methodological design and timing – reflects these changes. The aim is to better integrate evaluation results into decision-making. The main purpose of ongoing evaluation is to follow, on a continuous basis, the implementation and delivery of a programme and changes in the external environment, in order to better understand and analyse outputs and results achieved and progress towards longer-term objectives, as well as to recommend, if necessary, remedial actions. An evaluation carried out when there is a significant departure from the goals initially set may come too late to inform decision making. Therefore, the EC recommends establishing an evaluation plan and evaluating programmes on a regular basis.

As the largest recipient of EU structural and cohesion funds for 2007-13, Poland appears to recognise its obligation to demonstrate performance. It is moving to strengthen its monitoring and evaluation system, and is one of the most advanced EU member states in organising and planning evaluation

for 2007-13, e.g. in terms of establishing evaluation units and drafting evaluation plans. Technical assistance funds have been used to train regions and beneficiaries of project funds to enhance their understanding and capacity in this area. Poland has also received assistance from the Public Investment Evaluation Unit (UVAL) of Italy's Ministry of Economic Development.

The monitoring and evaluation system for regional development in Poland has two major elements:

- Programme monitoring focuses on attaining strategic and interim objectives specified in the programme (monitoring of delivery) and full absorption of EU allocated funds (financial monitoring). Progress and effectiveness of implementation are measured by means of physical and financial indicators specified in the different programmes. Emphasis is placed on output and results indicators. Monitoring of programmes co-financed by the structural and cohesion funds is performed by the managing authorities and monitoring committees appointed for each programme. The SIMIK IT system (Informational System for Monitoring and Controlling Structural and Cohesion Funds) is supposed to be used to monitor the financial and physical progress of programme implementation.
- Evaluation of regional development co-financed by EU structural and cohesion funds takes place at two levels: the National Strategic Reference Framework (NSRF) for 2007-13 and the operational programmes. Evaluation of the NSRF is the responsibility of the National Evaluation Unit, while the evaluation of the different operational programmes is performed by the evaluation units of the respective managing authorities. In the current programming period (2007-13), as a result of decentralisation of the implementation system for structural funds in Poland, the competencies related to evaluation have been delegated to the regional level<sup>49</sup> (16 managing authorities for the regional operational programmes).

Poland's monitoring and evaluation system has both top-down and bottom-up elements. The national government has taken the lead in selecting indicators and targets for the NSRF and co-ordinating data collection from national and regional operational programmes. The regional level generates data, selects indicators and establishes targets for the ROPs. In some regions, monitoring processes are undertaken in collaboration with managing authorities to enhance the quality and relevance of data and targets. In other regions, programme managers have been less involved.

The introduction of a performance reserve may provide incentives for better performance, but clear criteria are required to define the conditions under which it will be allocated to successful programmes. There are plans to implement a 3% performance reserve in Poland linked to programme evaluations to be carried out in 2011. Best performers would be identified. However, it is not yet entirely clear whether specific evaluations will be carried



out, and no *ex ante* criteria for distribution of the reserve have been established, so the conditions of allocation are unclear. Actors need to know in advance the rules of the game, otherwise the incentive dimension of the reserve is likely to be limited. Poland should clarify the criteria for good performance. Experience in the EU with the performance reserve introduced between 2000 and 2006 also indicates that, although it may help increase transparency and comparisons among different projects, it may also add further bureaucratic requirements with the result that the costs may outweigh the benefits (Box 3.18).

### **Box 3.18. EU experience: The Community Performance Reserve (2000-06)**

Introduced for the first time in the 2000-06 programming period, the Community Performance Reserve scheme aimed at better programme management and effective expenditure of funds. Performance was gauged according to three sets of criteria reflecting different aspects of the implementation of a programme: effectiveness, good management, and financial implementation.

The mechanism consisted in retaining a proportion (4%) of the total budgetary resources at the disposal of a programme (those both of the Community and the national co-financing) and using this to reward the most successful programmes, assessed on the basis of physical and financial performance indicators reflecting the above criteria.

Four stages characterised the implementation of the scheme: the selection and quantification of performance indicators, annual monitoring, identification of successful programmes, and allocation of the performance reserve.

While assessment was the responsibility of member states working in close co-operation with the Commission, the actual allocation, as of 31 March 2004, was placed under the responsibility of the European Commission, and was carried out with the help of member states.

General assessments of the scheme are difficult, as it was received and managed quite differently across member states. However, it apparently succeeded in acting as an incentive for capacity building in good management practices, albeit in a rather fragmented and uncertain way. It induced regions to ensure that money was spent, that evaluations were carried out (on time), and that monitoring and financial control systems were established. Also, it also helped make the process of project selection increasingly transparent. Another positive achievement was the contribution of the scheme to strengthening the partnership between the Commission and member states (regions were not directly involved). The European Commission welcomed the positive attitude of member states towards the linking of financial allocation to performance (CEC, 2004b).

Positive assessments by some managing authorities (*e.g.* Sachsen Anhalt, United Kingdom) approved the contribution of the scheme to stronger performance through increased transparency and comparisons between different interventions. By contrast, the underlying philosophy of the scheme was discussed in Austria (*Niederosterreich*) where it was considered that promoting competition among programmes did not quite fit Austria's traditional consensus-based approach to policy making.

### Box 3.18. EU experience: The Community Performance Reserve (2000-06) (cont.)

Regarding practical conditions of implementation of the scheme, some objections were voiced by the regions about the selection of indicators and targets. Regions often encountered difficulty in defining clear and measurable indicators. Financial indicators, in particular, were seen as duplicating the objective of the De-commitment Rule. As to management indicators, they were deemed unsophisticated and too easy to achieve. Finally, effectiveness indicators, although useful in principle, were sometimes too difficult to assess because the process occurred too early in the programming process. Various examples illustrate the importance of securing agreement on selected indicators and targets in advance.

In general, the scheme's lack of flexibility was often criticised. According to some observers, it was an innovative instrument but also created uncertainty. For example, the fact that the scheme resulted in many different versions, with different indicators and targets depending on programmes and priorities, might have challenged the objective of transparency promoted by the European Commission. Complexity might have been the single most important drawback of the scheme, again a factor potentially undermining transparency.

Source: CEC (2004) in OECD (2008e).

Looking ahead, Poland faces a variety of challenges for establishing and using an effective monitoring and evaluation system.

- *Target-setting* – Like many countries, Poland has had some difficulty in establishing realistic targets for regional policy. Target setting is likely to improve with time, as more and better data become available and as managers and planners gain experience with programming.
- *Lack of capacity* – At the outset of the last programming period (2004-06), little infrastructure existed for monitoring and evaluation of regional development policy. The system that exists today is thus relatively new. Data production, collection, utilisation and evaluation capabilities are still developing at both the national and regional levels.
- *Co-ordination between levels of government* – While monitoring and evaluation responsibilities are assigned at different levels of government, the top-down and bottom-up strategies are not always co-ordinated. NSRF targets, for example, are not necessarily connected to regional targets.
- *Data availability* – Regional offices face challenges for getting data from the national statistics office as some data, such as an economic census, do not exist. This makes tracking the performance of certain investments difficult (e.g. tourism as a percentage of the regional economy).

- *Data utilisation* – Data produced for the monitoring of regional policy are used as the basis of discussions, but otherwise seem to have little feedback effect on decision making, and are not included in the budgetary process as informative elements (check with local team).

A major problem in the monitoring system is linked to the difficulties Poland has experienced in launching the IT system SIMIK for the monitoring of funds by the Ministry of Finance. The introduction of SIMIK started in 2002 but the system was not yet functioning in 2005, although EU funds had already been allocated. This resulted in an additional cost for the institutions involved in the implementation of the operational programmes. For example, the Polish Agency for Enterprise Development (PARP) developed a substitute system in order to monitor co-financing applications submitted by beneficiaries, which cost PLN 394 000. Further delays in implementing SIMIK may have an impact on the funds allocated to Poland for 2007-13, because to pay out funds, the European Commission requires a positive evaluation of the operation of the management and control systems of the different operational programmes, to which the IT system contributes.

The cohesion policy has acted as a major incentive for the introduction of evaluation and monitoring systems. While these systems remain concentrated on public policies linked to the EC cohesion policy, they should be gradually expanded to all individual public policies in Poland, not only the spheres financed within the framework of the European cohesion policy.

### **5.3. Effectiveness of spending and multi-year budgeting**

In addition to monitoring performance linked to EU funds, Poland should increase its focus on outcomes and the quality of services provided by local governments, in particular in health and education. This would enable local governments to develop more cost-effective managerial approaches. In the education sector, for instance, school performances could be better monitored and results could be included as information in the budget process, and achievements in terms of quality could be rewarded. In instances where national standards are deemed important, performance grants could be instituted conditional on reaching certain levels of service or improvements in performance. Among various tools used by OECD countries, indicator systems for measuring and monitoring sub-central service delivery have gained prominence. The choice of the objectives that the indicator system will serve (e.g. benchmarking performances, promoting best practices, improving the quality of services, promoting accountability, etc.) determines the type of indicators used (OECD, 2008e).

In addition, the impact of financial transfers from the EU depends not only on a country's capacity to absorb the funds efficiently, but also on how effectively they are spent. EU funds should be subject to the same discipline as

other government resources, by clearly defining objectives and prioritising needs (OECD, 2006b). Since there is no multi-year budget in Poland, the use of EU funds has been decided separately from that of government resources in the NSRF with the co-operation of the European Commission. As a result, some expenditure that has been decided may have relatively low priority, given the overall budget constraint (OECD, 2006b). Funds subject to “additionality” should be used to finance high-priority new expenditure. The fact that expenditure is financed by EU funds and that some funds cannot be used to finance existing expenditure should not be a reason to undertake spending that is not of high priority or that has unclear goals (OECD, 2006b).

The Polish authorities need increasingly to move towards a multi-year budgeting framework. There is no multi-year budget in Poland, apart from limited provisions of multi-annual budgeting for EU funds introduced in 2006 (three-year perspective). These multi-year budgeting provisions are not translated at the regional level, so the question of how best to combine the central budgeting system and local governments’ budgets remains. Co-ordination of the budget planning process among different levels of government needs to be improved.<sup>50</sup> Not only will multi-year budgeting reduce uncertainty in the planning process, it can help to ensure continuity over the medium and long term, particularly for municipalities with short election cycles. It can also enhance the likelihood that projects whose outcomes will accrue in the future can be adequately monitored and evaluated, thereby enhancing the role of evidence-based planning and investments. Compared to the huge challenges linked to EU funds inflows, the change in the system of public finance in Poland appears to be too slow.

Finally, enhancing the effectiveness of the implementation of regional policy implies improved public-private co-operation, simplification of the administrative and regulatory framework, in particular public procurement and public-private partnerships. The focus should not be concentrated only on the rapid absorption of funds but also to a higher degree on monitoring performance and the impact of regional policy. Poland has made good progress in that direction, as it has developed for 2007-13 a sophisticated infrastructure for performance monitoring. However, its impact will largely depend on the appropriate setting of targets and co-ordination across levels of government, as well as on improved data collection. The impact of performance indicators will also depend on the way they are used in the decision-making process, which so far appears limited. In addition, although the introduction of a performance reserve may appear as a positive element, its impact depends greatly on making criteria for its use transparent. Finally, there is a need to move to multi-annual budgeting for regional policy, as provisions are too limited in the current context, and to better co-ordinate central budget process and local ones.

## Notes

1. In this chapter (and throughout the review), the terms voivodship and region, and municipalities and gminas, are used as synonyms. Unless mentioned explicitly, the term voivodship refers to regional government, and not to the voivod (prefect) office.
2. These include education up to college, social welfare, local public utilities and networks, basic public health care and housing.
3. There are 307 urban gminas (gminy miejskie), 580 urban-rural gminas (gminy miejsko-wiejskie) and 1 591 rural gminas (gminy wiejskie). The autonomy of gminas is established in the Polish constitution.
4. Budgetary entities, appropriated funds, cultural institutions and independent sub-national health-care facilities.
5. 31.8% according to DEXIA if fees and sales are taken into account.
6. Earmarked grants represent 15% of sub-national revenue.
7. The biggest differential with OECD countries in terms of taxes is linked to social security spending, much higher in Poland than in the rest of the OECD.
8. There are eight local taxes on real estate, agriculture, forests, means of transport, dogs, inheritance and gifts, personal income lump-sum and civil law contracts. All income from these local taxes goes to communal budgets. The remaining two sources of taxes, personal income tax and corporate income tax, are state taxes which are shared between the state and all local governments. As of 1 January 2004, the shares going to local government budgets have risen significantly.
9. This, combined with a relatively high minimum wage and generous early-retirement and disability benefit programmes, contributes to low employment rates, in particular among low-skilled workers. The system also relies heavily on consumption taxes, whereas relatively little revenue is collected from such bases as environment externalities, inheritances and, in particular, property (OECD, 2008).
10. In Denmark, Finland or Japan, the size of equalisation is above 3% of the GDP.
11. Municipalities have access to equalisation grants when their tax revenue is lower than 90% of the average (instead of 85% in the previous system); those with revenue higher than 150% of the average must contribute to the financing of the grant. An additional part is paid to municipalities with low population density. Counties and regions have access to the equalisation grant when their tax revenue per capita is lower than the average, and they contribute to the fund when it is higher than 110%. An additional part is paid to counties having an unemployment rate higher than average and to regions having less than 3 million inhabitants (DEXIA, 2007).
12. According to the algorithm, 80% of funds are allocated proportionally to population of the voivodships, 10% to the voivodships with average GDP per capita of less than 80% of Poland's average GDP per capita and 10% to powiats with an average unemployment rate in 1999-2001 higher than 150% of the national average. The same algorithm was used for the regional allocation of EU funding.
13. This is a general trend in the EU. In 2005, 64% of public investments in the EU were conducted by local governments.

14. On the basis of article 3 of the Law of 16th December 2005 on land transport infrastructure financing (JoL No 267, pos. 2251), task concerning financing of construction, modernisation, repair, maintenance, protection and management of roads are financed by: the minister responsible for transport through General Director of National Roads and Motorways as the national roads are concerned, voivodship local government as voivodship roads are concerned, powiat (county) local government as county roads are concerned. Tasks concerning the communal roads are financed by communities. Cities with the rights of counties (urban counties) are responsible for all roads on their territory with the exception of motorways and expressways.
15. Public health services and facilities beyond the municipality territorial boundaries (specialised regional hospitals, organisation of public health transport services and supervision of regional public health funds).
16. Decentralised responsibility for provision of compulsory school education has passed to two levels. Gminas, with a mean population of around 7 300, are responsible for primary and lower secondary (gimnazjum) education, while powiaty (mean population about 75 000) look after upper secondary, post-secondary non-tertiary education and public special schools.
17. Warsaw has a special statute since the adoption of the Act on Organisation of the Capital City Warsaw adopted in March 2002. Up until then, the city was organised into 11 municipalities. It is now one city divided into 11 city districts. With this Act, the city also took on the statute of county (Dexia, 2007).
18. Amalgamation reforms were mainly conducted in Korea, Japan, Canada and Denmark; while countries such as France, the Netherlands, Switzerland, Spain and the United States have not adopted policies towards mergers.
19. Financial support for municipal co-operation is also provided in Norway, which promotes co-operation by providing economic support for new approaches to co-operation, by spreading examples of successful strategies through conferences and a database, and through laws and regulations.
20. In the course of its municipal reform, from 1999 to 2002, the provincial government of Quebec was aware of the fact that heavily urbanised areas, rural areas and mixed urban/rural areas each required their own special strategy. The government's preference went to consolidating municipalities in urban and metropolitan areas, strengthening the intermediate regional structure in rural areas, and stepping up inter-municipal co-operation in mixed rural/urban areas. This differentiating strategy takes into account the fact that these three types of municipal environments have different skills and utilise these skills in different ways (OECD, 2006a).
21. The "pays" are as "project territories" which purpose is to transcend administrative boundaries so that territorial strategies can be formulated. The underlying logic of the "pays" is to base territorial action on synergies between willing local players and at the same time to match the boundaries for these unifying projects to functional areas. When co-operation and local dynamics work well, these "pays" can offer a genuine means of unblocking the system's complexities through local action, especially when facilitated by the competences of local actors. They do however appear to suffer from structural difficulties in terms of resources at their disposal.
22. The question is whether one or several medium-sized cities of eastern Poland should be included in the metropolitan policy, even if they fall below the threshold of 500 000 inhabitants. The definition of metropolitan development could

- comprise functional criteria, and not only quantitative threshold in terms of population, in order to allow Eastern cities to benefit from new institutional arrangements for metropolitan areas.
23. The minister in charge of regional development is responsible for the co-ordinating the implementation of the cohesion policy. The minister is responsible for the organisation and proper functioning of the management, implementation, monitoring, reporting, control and evaluation of operational programmes (NSRF, p.112).
  24. One of the six NDS priorities is: "Regional development and enhancing territorial cohesion", which determines the horizontal dimension of the policy, its goals and main areas of operation as well as selected implementation indicators.
  25. Under the Act on the principles of regional development policy making, assessments have been carried out since 2007 on compliance of the sectoral strategies with the National Development Strategy for 2007-15.
  26. Their competences often overlap, such as in the case of evaluation of projects applying for funding as part of IROP which is organised in 4 stages taking place in 3 different institutions (Dabrowski, 2007).
  27. The main goal of the Committee would be to monitor the co-ordination of the activities implemented under the Cohesion Policy, Common Agricultural Policy, Common Fisheries Policy, the Lisbon Strategy as well as the EEA Financial Mechanism, the Norwegian Financial Mechanism and the Swiss Financial Mechanism and other financial instruments (in the case of undertakings covered by the Cohesion policy), by monitoring the implementation of particular operational programmes.
  28. During the 2007-062004-2006 period, the Integrated Regional Operational Programme (IROP) represented a total amount (including private funds) of EUR 4.08 billion, among which EUR 2.53 million came from the European Regional Development Fund and EUR 438.5 million from the European Social Fund. Three priorities were planned: i) development and modernisation of infrastructure enhancing regions' competitiveness; ii) enhancement of development of human resources in regions; iii) local development.
  29. Under the IROP, management competencies were divided between the Voivod (prefect) (in charge of controlling the spending) and the Marshall (head of the region), which sometimes resulted in a confusing institutional equilibrium, as some of their competences concerning the selection of projects were overlapping (Dabrowski, 2007).
  30. Absorption of funds has changed significantly between the beginning of the period and the year 2007. In a region like Dolnoslaskie for example, significant progress was made in the second half of 2006.
  31. The relatively low absorption of funds in the capital region Mazowieckie also highlights the problem of achieving co-operation at the metropolitan scale, due to the difficulties to reach agreements among municipalities (see Section 3.2).
  32. For example, only 9% of Polish NGOs have applied for EU funding during the 2007-062004-2006 period (MRD, 2007). Financial institutions are little involved in local development strategies (in particular for rural development) and micro-credit initiatives remain rare. However, regional variations exist in terms of social capital. For instance, private actors seem to be more involved in regional strategies in Southern regions (Silesia) than in Northern-Eastern ones.

33. The transition was democratically led in Poland, and the Round Table organised between April and June 1989 has become recognised worldwide as a model for peaceful negotiations.
34. Regional Development Agencies (RDAs) aim at supporting the development of small and medium-sized enterprises at the voivodship level. They provide subsidies or loans for business development as well as advisory services, and they organise training courses. An important part of their mandate consists in promoting information sharing. RDAs work in collaboration with central and sub-national government authorities, as well as with national and international institutions of a similar profile of activity. In a number of cases the RDAs also perform the role of regional financing institutions and act as agencies transferring EU funds to entrepreneurs.
35. Regional Steering Committees were composed of representatives from regional and local authorities, social stakeholders, business associations, universities and NGOs (Dabrowski, 2007).
36. Besides, some conflicts of interest were noticed in the selection of members of the Regional Steering Committees, as the Marshall could choose the members based on his own selection criteria (Dabrowski, 2007).
37. In 2006, the Polish central government had proposed to give a much stronger role and notably the veto power to its own representatives in the regions (the voivod), but the European Commission opposed. Now the voivod has no management functions but only regulatory and supervisory functions, while the marshal gained new responsibilities. Regional Steering Committees were abolished and replaced in 2007 with monitoring committees, which are placed under the chairmanship of the marshal and are composed of various stakeholders (including 30% of central government representatives, but also local government representatives and socioeconomic representatives).
38. Joint European Support for Sustainable Investment in City Areas (JESSICA) is an initiative of the European Commission in co-operation with the European Investment Bank and the Council of Europe Development Bank, in order to promote sustainable investment, growth and jobs in Europe's urban areas [http://ec.europa.eu/regional\\_policy/funds/2007/jjj/jessica\\_en.htm](http://ec.europa.eu/regional_policy/funds/2007/jjj/jessica_en.htm)). The region of Wielkopolskie (Poznan) is working towards the establishment of a single urban development fund (UDF) under this community initiative, and other regions are also thinking about implementing the JESSICA initiative.
39. Public-private partnerships in Poland are regulated by the law of 28 July 2005 supplemented by three Decrees issued in June 2006. The main fields of a possible application of PPP formula include: road and rail infrastructure, public transport, waste and water management systems, health, education, housing, sports and leisure, revitalization activities.
40. For example, the managing authority recommended the use of hybrid PPPs in the OP Infrastructure and Environment, as well as on the level of ROPs. In July 2007, the Ministry of Transport disclosed a new ambitious plan for the 2007-2015 period, according to which it 443 km out of 1213 km of new motorways are expected to be built via PPPs.
41. "Government" refers to the "General Government" sector in the System of national Accounts. General Government includes core ministries, departments and agencies, non market publicly owned hospitals, public schools, social security organisations etc. It includes units at all levels of governments including regions, provinces and municipalities.



42. The number of civil servants involved in the management of EU funds increased by 41% at the central level and 80% at the local level between 2003 and 2004. It must be noted, however, that the initial number was already quite low (3384 employees in total in 2005).
43. Compared to the rapid rise in wages in the private sector in Poland (12% increase in 2006), average public sector wages have remained at a much lower level and general government expenditure on wages (compensation of employees relative to GDP) has declined, especially in 2003-2005. Despite a few exceptions, wages are even lower at the sub-national level (in 2004, the average monthly gross salary in the sub-national public sector was PLN 2 553, compared with PLN 3 296 in the central government). This may accelerate the loss of qualified employees in rural regions which have little financial capacity.
44. See *The Economist*, 2006.
45. [www.nku.cz/seminars/eurosai-prague-2006/documents/SZPAKOWSKI\\_Summary\\_Internal\\_ControlOfTheStructuralFunds.pdf](http://www.nku.cz/seminars/eurosai-prague-2006/documents/SZPAKOWSKI_Summary_Internal_ControlOfTheStructuralFunds.pdf) (Supreme Audit Office, Czech Republic).
46. For Poland, the negotiations on state aid ended with some transitional arrangements, especially as regards fiscal aid schemes to attract foreign investment and measures to restructure the ailing steel industry. Although vertical state aid (especially to coal mining and shipbuilding) has been reduced substantially, state aid remains an important source of attraction for foreign investments. A regional aid map was developed to define the areas of the country where the granting of regional aid is acceptable and the maximum levels of the aid intensity for such areas. The decree of the Council of Ministers of 1 September 2004 on the establishment of a map of regional aid was published in the Journal of Laws No. 200, item 2050.
47. Aid programmes regulating the granting of state aid were prepared for the SOP Human Resources Development, SOP Increased Competitiveness of Enterprises, Integrated Operational Regional Development Programme and SOP Transport.
48. For the regional programme, every beneficiary has been obliged to present a report on the implementation of the operation every six months and after winding up the operation, together with the application for final payment.
49. For more information, see: [http://ec.europa.eu/regional\\_policy/sources/docoffic/working/sf2000\\_en.htm](http://ec.europa.eu/regional_policy/sources/docoffic/working/sf2000_en.htm).
50. Not all countries include sub-national governments under the Medium Term Economic Framework. However a number of OECD countries found that the MTEF on a general government basis improves fiscal planning and control. For example, Austria, where a substantial amount of transfers are provided to sub-national governments, uses the MTEF to improve overall spending control. In Germany where fiscal decentralisation is substantial, the MTEF is used as an instrument to reach agreement on the distribution of deficit targets between the different levels of government (OECD, *Managing public expenditures in Poland*, 2003) <http://unpan1.un.org/intradoc/groups/public/documents/UNTC/UNPAN012395.pdf>.

## ANNEX 3.A1

## Allocation of Functions Among Tiers of Local Governments in Poland

	Municipality ( <i>gminas</i> )	County ( <i>powiats</i> )	Region ( <i>voivodships</i> )
Strategic and physical planning	<ul style="list-style-type: none"> <li>✓ Plans for local development</li> <li>✓ Local physical master plans</li> <li>✓ Granting building permits</li> </ul>	<ul style="list-style-type: none"> <li>✓ Plans for county's development</li> <li>✓ Building inspection</li> </ul>	<ul style="list-style-type: none"> <li>✓ Strategic regional planning (including International economic relations and regional promotion)</li> <li>✓ Regional development</li> <li>✓ Contracts with central government</li> <li>✓ Water supply and sewerage</li> <li>✓ Waste collection and disposal</li> </ul>
Roads and communal infrastructure	<ul style="list-style-type: none"> <li>✓ Street cleaning</li> <li>✓ Street lighting</li> <li>✓ Parks and green areas</li> <li>✓ Conservation</li> <li>✓ Central heating</li> <li>✓ Local roads</li> <li>✓ City public</li> <li>✓ Transportation</li> </ul>	<ul style="list-style-type: none"> <li>✓ County road network</li> </ul>	<ul style="list-style-type: none"> <li>✓ regional work network</li> <li>✓ Water management (flood protection)</li> </ul>
Public order and safety	<ul style="list-style-type: none"> <li>✓ City guards</li> <li>✓ Voluntary fire brigades</li> </ul>	<ul style="list-style-type: none"> <li>✓ Public order and security (police)</li> <li>✓ Civil defence</li> </ul>	
Education	<ul style="list-style-type: none"> <li>✓ Kindergartens and primary schools</li> </ul>	<ul style="list-style-type: none"> <li>✓ Secondary school education</li> </ul>	<ul style="list-style-type: none"> <li>✓ Some higher education facilities</li> </ul>
Health		<ul style="list-style-type: none"> <li>✓ Public health and sanitary services</li> </ul>	<ul style="list-style-type: none"> <li>✓ Regional hospitals</li> </ul>
Welfare	<ul style="list-style-type: none"> <li>✓ Social services, such as housing benefits, services for elderly, social welfare benefits</li> </ul>	<ul style="list-style-type: none"> <li>✓ Unemployment measures and fighting,</li> <li>✓ Care for homeless people</li> </ul>	
Housing	<ul style="list-style-type: none"> <li>✓ Construction of social housing</li> <li>✓ Management of municipal housing</li> </ul>		
Culture, sport and leisure	<ul style="list-style-type: none"> <li>✓ Local libraries,</li> <li>✓ Theatres, cultural</li> <li>✓ Institutions</li> </ul>		<ul style="list-style-type: none"> <li>✓ Regional cultural facilities</li> </ul>
Misc.	<ul style="list-style-type: none"> <li>✓ Civil act registration</li> </ul>	<ul style="list-style-type: none"> <li>✓ Land registry and surveying</li> </ul>	<ul style="list-style-type: none"> <li>✓ Protection of the environment</li> </ul>

Source: Swianiewicz, 2002.

## ANNEX 3.A2

## Structure of Sub-national Revenue by Type in 2005

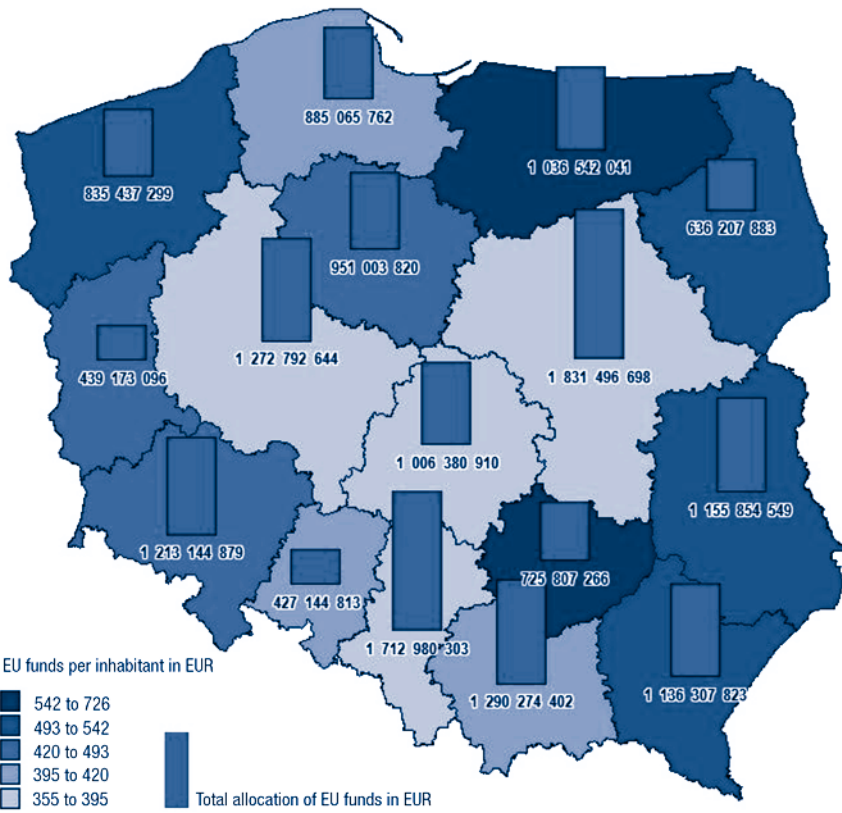
	Total sub-national government		Municipalities <sup>1</sup>		Counties		Regions	
	Million EUR	%	Million EUR	%	Million EUR	%	Million EUR	%
<b>Tax revenue</b>	<b>9 627.5</b>	<b>37.6</b>	<b>8 177.9</b>	<b>40.1</b>	<b>471.2</b>	<b>13.8</b>	<b>978.5</b>	<b>55.7</b>
<i>Own local tax revenue</i>	3 962.8	15.5	3 962.8	19.4	–	–	–	–
<i>Shared tax revenue</i>	5 664.7	22.1	4 215.0	20.7	471.2	13.8	978.5	55.7
<b>Grants</b>	<b>11 937.1</b>	<b>46.7</b>	<b>8 898.5</b>	<b>43.6</b>	<b>2 422.3</b>	<b>70.8</b>	<b>616.3</b>	<b>35.1</b>
<i>General grants</i>	8 067.6	31.5	6 066.6	29.7	1 665.3	48.7	335.7	19.1
<i>Earmarked grants</i>	3 869.5	15.1	2 831.9	13.9	757.0	22.1	280.6	16.0
<b>Other, among which</b>	<b>4 016.3</b>	<b>15.7</b>	<b>3 327.1</b>	<b>16.3</b>	<b>527.5</b>	<b>15.4</b>	<b>161.7</b>	<b>9.2</b>
<i>Asset sales</i>	1 077.4	4.2	1 009.2	4.9	52.3	1.5	15.9	0.9
<i>Fees</i>	520.0	2.0	520.0	2.5	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>

1. Including towns with county status

Source: Ministry of Finance and Statistical Yearbook. Data are not consolidated, in Dexia 2008.

ANNEX 3.A3

*Allocation of EU Funds for Polish Regions 2007-13: Regional Operational Programmes (ROP)*



Source: Ministry of Regional Development, 2007.

## ANNEX 3.A4

*Grants and Taxes for Polish Local Governments***Grants**

The *general grant* was EUR 8.1 billion in 2005. Municipalities received 75%, counties 21% and regions 4%. It constitutes the main grant for sub-national governments (68% of all grants received by municipalities, 69% of those received by counties and 55% of those allocated to regions).

The general grant was significantly modified by the 2004 Act. Several parts of the grant (the part received by regions and counties for roads and the compensatory payments received by municipalities) were removed. Two new parts were created: i) a balancing part, aimed at covering social expenditures by municipalities and counties (EUR 226 million in 2005); ii) a regional part (EUR 78 million in 2005), which is calculated for each region on the basis of the unemployment rate, GDP per capita, area of public roads per capita, and regional railways expenditure.

Two other parts of the grant were maintained under the new Act. Unlike the balancing and regional parts, they concern the three tiers of sub-national government. They are: i) the education part for covering educational expenses, which is by far the main grant to sub-national governments (EUR 6.5 billion, or 25.4% of total sub-national revenue in 2005); and ii) the equalisation part (EUR 1.2 billion or 4.6% of sub-national revenue in 2005).

*Earmarked grants* amounted to EUR 3.9 billion in 2005 (32% of all state grants), of which municipalities received 73%, counties 20% and regions 7%. Earmarked grants, which represent 15% of sub-national revenue, are divided into four types: grants earmarked to carry out state-delegated responsibilities: EUR 2.4 billion in 2005; grants earmarked to exercise specific responsibilities: EUR 957 million in 2005; grants earmarked to carry out responsibilities in conjunction with state organisations: EUR 57 million in 2005; grants from special funds: EUR 156 million in 2005.

### Taxes

*Own local tax revenue.* In 2005, municipalities' own tax revenue generated almost EUR 4 billion, representing 48.5% of municipal tax revenue and 19.4% of all municipal revenue. The primary source of tax revenue for municipalities is the property tax. Introduced in 1991, it generated EUR 2.9 billion in 2005, representing 35.5% of municipal tax revenue and 14.2% of all municipal revenue. Municipalities can levy other taxes (dog tax, tourism tax, market tax, etc.), but all together they only generated around EUR 660 million in 2005.

*Other own local taxes:* One is the agriculture tax, with a rate set by law which depends on the size of the farm and the average purchasing price of wheat. It generated EUR 240 million in 2005 and represented 2.9% of municipal tax revenue and 1.1% of total municipal revenue. Municipal councils have the right to lower the rates of this tax. The other is the tax on vehicles, with rates set by the municipal council within the limits fixed by law and updated every year by the Ministry of Finance. It represented 2% of municipal tax revenue and 0.8% of total municipal revenue.

*Shared tax revenue* comes from retrocession of a share of receipts from two national taxes: the personal income tax and the corporate tax (increased in 2004 to compensate for the decrease in grants). In 2005, shared tax revenue brought in EUR 5.7 billion for sub-national governments, with the lion's share going to municipalities (74.4% of all shared revenue) and more specifically to towns with county status (44.9% of all shared tax revenue). It represented 51.5% of municipal tax revenue and 20.7% of all municipal revenue, as well as the totality of county and region tax revenue.

Source: DEXIA, 2008.

## ANNEX 3.A5

# *Allocation of Expenditures of Regional Operational Programmes (2007-13)*

Voivodship	As a % of total allocation									
	R&D, entrepreneurship	Information society	Transport	Energy	Environmental protection	Culture and tourism	Human resources development	Social infrastructure	Territorial development	Institutional and administrative potential
European Union	16.89	3.75	24.50	2.50	15.00	3.10	23.00	5.50	2.50	1.70
Poland	17.07	5.77	35.53	3.46	13.44	3.27	13.00	4.24	2.58	1.66
ŚWIĘTOKRZYSKIE	14.05	3.91	42.98	1.03	13.39	4.18	10.97	5.74	2.02	1.74
WARMIŃSKO-MAZURSKIE	14.50	4.73	41.72	6.91	7.22	4.47	10.74	5.02	2.51	2.18
PODKARPACKIE	14.77	4.83	46.61	2.90	9.44	1.57	10.49	5.31	2.66	1.42
PODLASKIE	16.80	5.69	39.04	5.30	6.66	3.99	10.86	6.87	2.55	2.24
LUBELSKIE	14.02	4.54	43.27	3.28	7.09	4.86	13.29	6.28	1.74	1.65
MAZOWIECKIE	15.92	11.63	36.15	1.77	14.73	3.12	12.25	2.88	0.68	0.87
ZACHODNIOPOMORSKIE	15.25	4.12	37.35	10.48	9.42	4.23	11.16	3.11	2.80	2.08
LUBUSKIE	16.11	4.92	34.06	1.41	14.80	2.50	13.18	3.98	6.24	2.80
DOLNOŚLĄSKIE	22.17	4.90	27.56	3.37	15.73	4.09	12.32	4.42	3.71	1.72
POMORSKIE	15.46	5.26	32.78	5.85	14.56	4.25	14.43	2.70	2.98	1.72
ŁÓDZKIE	17.62	4.78	37.77	2.24	11.73	2.66	15.37	3.69	2.45	1.70
WIELKOPOLSKIE	17.86	4.14	38.59	2.32	14.38	1.81	14.46	3.69	1.23	1.52
KUJAWSKO-POMORSKIE	19.95	4.13	34.77	2.65	10.25	2.90	15.66	4.57	3.02	2.10
MAŁOPOLSKIE	20.75	3.67	30.24	1.41	15.49	3.77	15.16	4.91	2.65	1.94
OPOLSKIE	21.32	4.88	23.33	4.53	19.20	2.46	14.19	3.12	3.73	3.24
ŚLĄSKIE	18.17	5.71	22.30	4.23	23.42	2.25	14.03	3.64	5.01	1.23

Legend:  Maximum.  
 Minimum.

Source: Ministry of Regional Development, May 2008.



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