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OECD Territorial Reviews: Poland

Assessment and Recommendations

Poland: one of the fastest growing OECD countries, with regional development high on the political agenda

Poland's average annual growth rate was above 4% between 1995 and 2005 and growth of GDP exceeded 6% in 2006 and 2007, the second-best performance among OECD countries. It had a strong drop in unemployment, from 18% in 2005 to less than 10% at the end of 2007. Poland stands out as a relatively successful example of a transition from a partially state-directed economy to a primarily privately owned market economy, with above 75% of total output now produced in the private sector. Over a short period, it has diversified towards services (in particular business services) and more labour-intensive manufacturing. It has retained its position as a world leader in manufacturing and has specialised in rapidly growing sectors such as pharmaceuticals and electronic components. Poland has also become a very attractive location for foreign direct investment (FDI) and is now among the top ten OECD countries in terms of FDI flows as a proportion of GDP. Its FDI rose from 2.9% to 4.1% of GDP between 1996 and 2006. Owing to its geographical position – at the heart of the European continent and surrounded by Belarus, Czech Republic, Germany, Lithuania, Russia, the Slovak Republic and Ukraine – Poland has the potential to play a strategic role between western and eastern Europe, with Russia and Asia and within the Baltic Sea Region.

However, the growth of GDP is not distributed evenly throughout the country. Poland has one of the OECD area's greatest territorial disparities in terms of GDP per capita at TL3 level. Moreover, the disparities have *increased* since 1995, as the growth dynamics have been concentrated in certain locations. Three sets of disparities are visible: *i)* a persistent gap between eastern and western Poland; *ii)* a gap between Warsaw and the rest of the country; *iii)* rising intra-regional disparities, among the highest in the OECD, in particular in the regions of Warsaw (Mazowieckie), Poznan (Wielkopolskie) and Cracow (Malopolskie), which are largely due to rising disparities between large urban areas and rural ones. Like many OECD countries, Poland must seek to achieve an appropriate balance between support for poles of growth and the development of lagging regions, particularly its eastern peripheral regions, which are among the poorest in the European Union.

Poland offers a practical illustration of a country that benefits from a large window of opportunity for regional development policies, owing to high political commitment at the different levels of government as well as very strong financial support from the EU in 2007-13 (EUR 67 billion for cohesion policy), complemented by a significant national co-financing effort. In recent years, attention has largely concentrated on improving the quantity and quality of the regional physical infrastructure (particularly transport). Investment in human capital, innovation and entrepreneurship has also gained in importance since 2004. The Review recommends better tailoring the policy mix to various territories' specific needs, better co-ordinating regional and rural development strategies, and developing a specific policy approach for large urban areas. It also recommends taking a forward-looking perspective to strengthening the Polish multi-level governance system, as most Polish regions will not benefit from the same level of external support after 2013.

The growing metropolitan-rural gap presents a major challenge for balanced territorial development and sustained competitiveness

In terms of growth of GDP, the gap is widening fastest between large cities and rural areas. The growth rate in Polish urban areas has been among the OECD leaders for 1998-2003, behind Ireland, Korea and Hungary. Urban areas' share of national GDP has increased constantly since 1995, while that of rural and intermediate areas has decreased. Warsaw has been one of the fastest growing of all OECD metropolitan regions over the past few years. In addition, urban areas have per capita GDP that is more than double the average in predominantly rural areas; the differential between Warsaw and the national average was 263% in 2005. The role of services in the economy of large urban areas has risen significantly since the mid-1990s; they offer employment opportunities for more diverse skills and attract knowledge workers and FDI (essentially in Warsaw, Katowice and Poznan). Urban areas are 20% more productive (both labour and multi-factor productivity) than the average Polish sub-regions. This points to the need to strengthen agglomeration economies in a sustainable way in order to enhance productivity growth and transfers of knowledge. Large urban areas also face the challenge of managing the adverse consequences of very high growth rates, particularly the urban sprawl that has resulted from the 10 to 20% annual rise in housing prices since 2003. Increased commuting flows to and from large cities call for specific attention to urban-rural linkages in terms both of transport and housing.

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Rural areas have benefited less from Poland's economic development, and many rural areas, in particular in eastern Poland, are caught into a vicious circle of low attractiveness, low infrastructure development and low educational attainment. Only 5.4% of the population living in rural areas has a higher education degree, compared to 17.5% in urban areas. Overall, employment in the agriculture sector remains high (17% of the total labour force), but labour productivity is low, as agriculture only accounts for 4.6% of GDP. Agriculture is fragmented, with mainly small and very small farms. More than 60% of Polish farms have fewer than 5 hectares, and 34% have less than 1 hectare. There is an important east-west divide, as the 20% of farms of over 15 hectares (mostly located in the west) account for more than 80% of agricultural output. The most important challenge for lagging rural areas is to enhance their links to urban areas and to diversify their economy to non-agricultural activities. This requires readier access to education, access to capital and information, and improved transport and telecommunications infrastructure. The challenges facing rural areas are national challenges, as a more diversified rural economy and improved mobility out of the agriculture sector would have a significant impact on the national output.

Other challenges for territorial development are to advance the move to the knowledge economy, to improve the transport infrastructure, and to hasten the development of eastern Poland

While some challenges are specific to urban or rural areas, the need to hasten the move to the knowledge economy and to improve the transport infrastructure is common to all regions.

- *The poor transport infrastructure is a major obstacle to economic development.* It has three major shortcomings: *i)* the development of roads at the functional scale of large cities is insufficient (lack of ring roads, bad connections with surrounding municipalities); *ii)* the connections between large cities (capital regions) are weak; *iii)* north-south connections are not well developed as east-west links had priority during the Communist era. In fact, the major infrastructure (road, railways, seaports, aviation) is either underdeveloped or in poor condition and in urgent need of repair, upgrading and extension. With only 663 km of motorways, Poland has the most limited network in Europe. There are 94.8 km of road network per 10 000 inhabitants (the EU25 average is 145 km). Besides, while Poland's rail system is the third largest in Europe, the capital stock is obsolescent.
- *All regions need to accelerate the move to the knowledge economy, focusing on human capital development and innovation.* Although attainment of tertiary education has improved considerably, the percentage of the population with tertiary

attainment was still only 15.6% in 2004 (the OECD average was 25.2%). There is a large urban-rural gap. Moreover, since the 1990s, Poland's human capital has been affected by out-migration, particularly since EU accession. Outside of Warsaw, Poznan and Wroclaw, innovation does not yet play a strong role in regional growth, as evidenced by relatively low levels of patenting, for example. The links between Higher Education Institutes (HEI) and research centres with the entrepreneurial environment are weak, resulting not only in few patents, but in relatively few improvements to productive processes or new products going into the market. In 2004, Poland spent 0.58% of GDP on R&D, well below the OECD average (2.3%). The transition to the knowledge economy is also affected by the limited development of information and communication technologies (ICTs). In 2005, Internet access was only available to 23% of Polish households (29% urban, 11% rural) compared with the EU average of 43%.

- *The knowledge and infrastructure challenges are even greater for the five eastern regions* situated along Poland's eastern and northern borders, as they have the lowest growth rates and are the smallest contributors to national GDP (less than 3% each). The east-west divide, often referred to as "Poland A" and "Poland B", has proven quite resistant over the past decades. The slow development of eastern regions is mainly linked to historical legacies, the predominance in regional economies of agricultural activities with low productivity (30.2% of the total employment of the five regions) and their peripheral situation, bordering weakly developed countries (Ukraine and Belarus). Unlike most western regions, which have significantly reduced unemployment since 2004, unemployment has risen in the eastern border regions.

Regional development is high on the Polish political agenda and benefits from one of the largest budgets among OECD countries

Partly under the influence of the European Union, regional development has become a key issue on Poland's political agenda. Before 1999, Poland's territorial policy consisted essentially of support for industrial regions that were undergoing restructuring, for example with the development of special economic zones after 1994. A more proactive regional policy has emerged in the 2000s from two closely linked institutional processes: the creation of the 16 Polish regions (*voivodships*) in 1999 with elected regional assembly; and accession to the European Union in 2004 followed by support from EU structural funds. EU regional policy (cohesion policy) has helped to provide a new context for regional policies, as regions have become the building blocks of a competitive Europe and are in charge of implementing regional development strategies and of EU funds. Since 2004, EU funds have represented the bulk of

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Poland's budget for regional policy complemented by significant national co-financing (a minimum of 15% is required). All regions have been eligible under the "objective 1" or newly defined "convergence" objective for 2007-13, although the region of Warsaw (Mazowieckie) has now passed the threshold of 75% of the average EU GDP per capita. Polish regions will therefore receive EUR 67.3 billion in cohesion funds for 2007-13; this represents 20% of total cohesion funds, making Poland the all-time leading recipient of support under the cohesion policy. These amounts add to the funds that Poland will receive under the European Agricultural Rural Development Fund (EUR 16.5). Together with EUR 22.4 billion from national sources, the national development strategy for 2007-15 foresees total funding of EUR 108 billion. The Ministry of Regional Development was created in 2005 to co-ordinate policies and EU funding, signalling also the political commitment to improve territorial development and multi-sector co-ordination.

The learning process has been rapid, although Poland has had little time to create a regional development policy framework, owing to time constraints on the absorption of EU funds (N+2 rule). Poland has benefited from the experience of other EU countries. It has adopted since 2004 a balanced policy mix for regional development co-financed with EU structural funds targeting infrastructure development, human capital, innovation, and rural development. In the 1970s and 1980s, 80% of cohesion policy funds in the EU went for investment in infrastructure, but strategies developed by Poland for 2004-06, and now for 2007-13, are more balanced. For the new period, the Polish National Strategic Reference Framework (NSRF) forecasts spending 41% of EU funds on infrastructure development, 14% on human capital, 10% on innovation, 3% on development of eastern Poland. 25% of the funds are decentralised and managed by regions directly to finance their own development strategies. The Polish NSRF largely reflects the priorities of EU regional policy, with a focus on so-called Lisbon objectives (*i.e.* growth-oriented activities: innovation, human capital, intelligent transport systems, multimodal transport, environmental protection, etc.). In fact, 64% of investments have been earmarked for Lisbon-related expenditure, among the highest rates in the ten new EU member states. The Ministry of Agriculture also has a separate rural development strategy. The balanced policy mix adopted at the central government level creates a challenge for effective multi-sectoral co-ordination of the various pillars and for tailoring the policy mix to meet different territorial needs.

Regions are increasingly empowered to implement their own regional development strategies

Although the central government has played the most important role in the design of regional development strategy and programming of use of EU funds, Polish regions play an increasing role in the process. Poland has introduced an extended decentralisation process, especially compared to the other countries in Central and Eastern Europe. Municipalities (*gminas*) have since 1990 significant responsibilities and large budgets, while regions (*voivodships*), created in 1999, increasingly play the role of strategic partners with the central and local governments, to decide the priorities for local development, and the use of EU funds. Regional contracts, partly inspired by the French state-regions contracts, were introduced in Poland in 2001 and have helped to foster dialogue between regions and the state. They are co-financed by central and local governments for investments in transport, education, tourism and health care. In 1999, 314 districts (*powiats*) were also created with a more limited role than regions and municipalities; their main responsibilities are secondary schools and public health services. After almost a decade of existence, this decentralised policy framework is perceived as a success even if important challenges remain. Poland's efforts to establish an adequate sub-national system have facilitated the absorption and allocation of EU and national resources for regional development by improving the articulation of top-down and bottom-up initiatives for regional development.

For 2007-13, one-quarter of EU cohesion funds have been decentralised and the 16 regions have been named managing authorities responsible for elaborating and implementing regional operational programmes (ROPs). This is a further step towards increased decentralisation, as in 2004-06 the allocation of EU funds was entirely decided at the central level, with an "Integrated Regional Operational Programme". In total, regions are now in charge of managing 24.6% of the cohesion funds, *i.e.* more than EUR 16 billion. In addition, the operational programme Human Capital (14% of funding) is largely regionalised. In total, around 34% of funding is decentralised in Poland for 2007-13. The Ministry of Regional Development has provided regions guidance on the elaboration of ROPs, recommending that a minimum of 40% of expenditures should be devoted to Lisbon objectives. At the end of 2007, 24% of total ROP funding was allocated to innovation and entrepreneurship projects, and 25% to transport infrastructure projects. Regions should work to develop more place-based integrated approaches and to avoid piecemeal approaches.

Major investments in transport infrastructure are planned, but attention to cost-benefit analysis, intra-regional needs and environmental challenges should be improved

The first priority of the Polish policy mix for regional development, at both central and regional levels, is the development of transport infrastructure. It is a priority, both for Poland and for the European Union, to improve labour mobility, which

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lags behind most other OECD countries, to enhance urban-rural linkages, to improve international accessibility and access to eastern markets. The Infrastructure and Environment programme, developed by Poland and co-financed with EU funds, is the largest ever funded by the European Commission (EUR 28 billion). EUR 20 billion is allocated to transport development, and other priorities include water and sewage management. Poland will also dedicate EUR 9.6 billion to the programme. Given the limited time frame for absorption of EU funds, it will be a challenge to carry out the programme. Moreover, the European soccer championship, which Poland will co-host with Ukraine in 2012, imposes an additional time constraint on many investment projects. Careful governance of infrastructure investments will be crucial to making the most of such large sums. Poland has to watch carefully to avoid the various obstacles that can hinder implementation, such as imperfect spatial planning, macroeconomic constraints or staff shortages in construction. Besides, it is critical for all levels of government to keep in mind that infrastructure does not by itself provide the conditions for long-term competitiveness. Transport investments have twofold effects on regional economies: they improve access to more distant labour and goods markets, and they increase competition in local markets. Therefore, along with building infrastructure, policies to improve local competitiveness must be adopted: education, support to small and medium-sized enterprises (SMEs), technology, provision of public goods, etc., particularly in eastern regions.

The main focus of transport policy since 2004 has been road development (expressways, motorways, national roads). The main priority has been to establish links between the major urban centres, in particular the 16 regional capitals. Although access to regional capitals is important to facilitate mobility of workers and goods and for political and equity reasons, care must be taken not to focus on inter-city linkages to the detriment of improving the underdeveloped connections between large cities and their surrounding municipalities (*gminas*). Greater investment in regional/metropolitan roads, including ring roads, which do not exist in most cities, not even Warsaw, might generate strong economic outcomes. In addition, the right balance between roads and public transport has yet to be found, especially in large urban areas. Urban public transport represents only 13.9% of the allocation at the central level; compared to 51% for roads and 4.7% for regional operational programmes, a sign of its comparatively low priority, yet Poland's originally well developed public transport systems have deteriorated over the past decade, owing to inadequate spatial planning and limited investment by local governments. In their regional programmes, central and local governments should carefully assess the economic advantages of investing in new roads as compared to other transport modes.

Overall, cost-benefit analyses of the proposed transport infrastructure investments seem insufficiently systematic. In their absence, it is difficult to prioritise the various investments and modes of transport. Long-term objectives are not stated precisely, and an overall spatial scheme for transport (after 2013) has not been developed. Besides, many road investment projects conflict with the EU's Natura 2000 programme, which covers 18% of Poland's territory, as many of the approved road investment projects fail to bypass protected areas. There may be as many as 100 potential conflict zones. There is a risk that payments for programmes and projects to be financed in 2007-13 may be blocked. Poland's tardiness in completing strategic environmental assessments for all projects has resulted in this situation. It is essential to ensure that Polish environmental legislation complies with EU legislation and to undertake environmental impact assessments for all projects.

There is also a danger that projects will be carried out at maximum cost, particularly given the rising price of materials (particularly steel and cement) and the shortage of labour in the construction sector owing to out-migration. The short time for absorption of funds is an even greater challenge given inflationary pressures. With an increase in interest rates that may negatively affect exports and private investment, Poland has to manage the risk of crowding out public investment in the short term. Additional measures should be taken to reduce these macroeconomic pressures, for example, measures to increase the labour supply in the construction sector, to further ease foreign workers' access to the labour market, and to intensify competition, not only among local construction firms but also with international firms, through better regulation and improved calls for tender in public works.

Deficiencies in spatial planning are an obstacle for infrastructure development

Insufficient spatial planning creates problems for infrastructure development, particularly for transport and housing. Although municipal spatial planning is in principle a legal requirement, many local governments do not have proper planning systems. Only 20% of the territory has spatial plans and these focus on municipalities' administrative borders rather than on functional areas and rarely involve co-operation among municipalities. Upper levels of government (region, central government) are unable to enforce the implementation of strategic decisions. As a result, planning does not enough play the role of co-ordinating and giving spatial articulation to policies. The lack of adequate functional spatial planning has adverse consequences for both urban and rural areas. In large cities, it hinders the development of integrated transport systems and contributes to a rapid increase in the use of cars to the detriment of public transport, thereby increasing congestion and pollution. It has also slowed the development of housing, and Poland now faces a shortage of some 1 million dwellings, particularly for social housing, which again reduces labour mobility and reinforces growing urban sprawl. Poor spatial planning

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also adversely affects rural areas. With the increased price of land since EU accession, rural *gminas* tend to speculate on land rather than develop a strategic long-term vision on its best use.

It is necessary to focus on endogenous resources and understand innovation in a broad sense

The second key dimension of the regional development policy mix is the focus on human capital, innovation and entrepreneurship. Although infrastructure development will improve accessibility and mobility, essential pre-conditions for regional development, enhanced competitiveness over the longer term will mainly require a focus on endogenous resources, *i.e.* development of human capital and innovation. The challenge for Poland and its regions is to understand innovation in its broader sense: even if Lisbon objectives are very broad, there is a risk of interpreting them narrowly in some cases, by focusing mainly on research and technological development for example. This may not be the most appropriate choice for all regions, with their different assets and needs. It is important to adjust programmes and strategies according to an in-depth assessment of regional and local needs and to understand Lisbon objectives as all types of policies that help to enhance knowledge transfers (whether education, support to medium-technology industries, or knowledge transfer between SMEs). The point is to establish an appropriate place-based policy mix for different types of territories so as to consolidate local or regional innovation systems. The challenge is huge, but conditions are favourable for change, owing to growing recognition in the Polish administration that innovation is important for future economic growth and that the regions will play a crucial role.

The elaboration of regional innovation strategies (RIS) by voivodships has helped them to identify their assets and challenges. However, apart from a few exceptions, RIS could be more focused, more based on regional comparative advantages, and discussed with private actors from the early stages of the process. The Ministry of Regional Development could help regions to develop their RIS with the use of specific analytical and methodological tools. France has recently developed such a toolkit to help regions elaborate their innovation strategies.

Human capital development must be a priority

Human capital development is a key explanatory variable for regional competitiveness and disparities in Poland. Lower educational levels in rural populations limit labour mobility and contribute to inadequate economic diversification. In rural areas, the priority is to improve attendance at pre-school, as only 18% of children aged 3-5 went to kindergarten in the school year 2004-05 in rural areas, compared to 55% in urban areas. The overall rural-urban gap in pre-school access in Poland has a negative impact on women's work, their participation in the labour market and the overall educational attainment of rural children, in view of the link between attendance at pre-school and overall attainments of tertiary education. The Mexican programme *Oportunidades*, which links family support and the obligation to send children to school and provide health care, could serve as a model in Poland. It is also important to facilitate rural students' access to tertiary education, as they face significant financial obstacles. Besides, to help better match labour market needs and the supply of students, local employment agencies should be more closely associated with secondary and tertiary education institutions. This will allow them to inform young people and to better match supply and demand. Finally, improving adult training beyond initial training is a key priority, especially in regions with high unemployment, which are also those with the lowest participation in adult training (such as Warminsko-Mazurskie and Swietokrzyskie). Another crucial challenge for Poland is to retain skills, given the scale of out-migration since 2004, even if there are recent indications of a slowdown. Staff shortages are particularly severe in the health and construction sectors, but they are also serious in the services sector in large cities (Poznan, Wroclaw, Cracow, etc.).

Attention should be given to the diffusion of knowledge and its use by SMEs, greater knowledge spillover from FDI, as well as better involvement of universities in marketable and industry-relevant research

As in many other OECD countries, the diffusion of knowledge and its use by SMEs is not optimal, even though SMEs play a crucial role in innovation. Polish SMEs represent more than 99% of all enterprises (45.9% of total employment), among which 95% are micro-enterprises (fewer than ten employees). The number of SMEs has increased by 330% since 1990. This level of entrepreneurship can be a valuable spur to innovation if other necessary conditions are met, such as the capability to absorb knowledge and technologies, proper links between R&D centres and universities and SMEs, as well as financial support for innovation. It seems that major challenges remain for facilitating access to information and external funding and improving advisory and consulting assistance. Although SMEs receive somewhat more information since 2004, less than 0.5% have benefited from EU funding (in 2007). SMEs have not played an important role for funds related to innovation *per se*, as demand for EU innovation funds comes essentially from large enterprises, particularly the former state-owned enterprises (SOEs).

A priority for 2007-13 is to involve SMEs more in innovation and to ensure that information gaps and market failures are minimised. This requires, for instance, the creation of agencies or "brokers" specialised in support services for industries in the local productive system. Knowledge vouchers have also been a success in a number of countries (*e.g.* the Netherlands, Italy), and Poland might consider introducing them. More marketable and industry-relevant R&D could be carried out in the tertiary education sector. The decreasing importance of industry in funding research in higher education (11.4% in 1994 and only 6.3% in 2003) is a trend that needs to be reversed. Deregulating some university activities would also facilitate co-operation with the business sector, as Poland does not allow business representatives on university boards.

Foreign direct investment can play an important role in enhancing the competitiveness of local firms and in increasing employment and exposure to overseas innovations and methods. Since the early 2000s, more greenfield foreign capital (a share of 58% in 2004, up from 37% in 2002) has been invested and has been translated into technology transfers and a rise in employment (more than 200 000 new jobs), essentially in manufacturing, mainly in the special economic zones that will operate to 2015-17. Poland is increasingly targeting FDI to technologically advanced sectors or the so-called rising sectors. Although it is too early to assess this policy, trends are encouraging; more than 30 multinational enterprises have recently set up R&D centres in Poland. Strategies to attract FDI face two main challenges: one is that they seem to underestimate the role played by quality sub-contractors in international investors' decisions to locate in specific areas; the second is that better support services at the local level are needed to attract FDI to complement approaches taken by the central government, in particular in eastern regions.

Rural development – restructuring of agriculture and diversification towards non-agricultural activities – is another essential element of the broad national development strategy

Rural development is another major priority on Polish political agenda. The strategy for 2007-13 was developed separately from the NSRF, as EU funds for rural development are dissociated from cohesion funds. Poland faces the twofold challenge of focusing on rural development beyond agriculture, given the low labour productivity in agriculture and the decrease of agriculture in the share of rural incomes (20% in 2002, compared to 72% in 1950), while modernising agriculture through a reduction in the number of small farms. The slow restructuring process is due to the ability of the majority of small farms to live on a semi-subsistence basis. Most farmers have secondary activities and receive pensions that are sufficient even for extended households (of several generations). These transfers, along with the support to small farms, constitute rents that work against efforts to transform agriculture and increase productivity as well as against labour mobility from agriculture to more productive rural or urban activities. The current large inflows of EU funds, increases in direct payments to farmers as well as the boost in farmers' incomes due to rising global prices, offer a window of opportunity to change the system of social transfers to farmers. It is important to ensure that CAP funding is better related to modernisation and productivity gains, in particular for small farms in south-eastern Poland.

Co-operation among farmers, export firms, foreign investors and public authorities has positive externalities both for agriculture and other sectors of the rural economy. Rural clusters (food and wood clusters) in the Lubelskie region are good examples of co-operation among public and private actors. Policies to enhance co-operation among local actors, such as LEADER+, should be strongly supported. Opportunities to diversify Poland's rural economy are numerous and so far seem to be under-exploited; they include tourism, forestry, rural services, energy and residential needs. Since 2000 the net outflow of population from urban to rural areas, especially near large cities, offers opportunities for employment in new services activities. The potential for tourism is underexploited partly owing to limited accessibility and weak infrastructure for tourism, but also because cities that could promote nearby natural assets (such as Bialystok, Lublin and Rzeszow) do not enough do so. Poland's eastern regions are among the best preserved in the European Union and contain 38.4% of the EU's natural reserves.

Poland's policy statements clearly show a desire to modernise agriculture and enhance rural diversification, but the main policy directions are less clear. Less than 5% of the budget for rural development for 2007-13 has been allocated to the LEADER programme whereas Spain, Portugal, the Netherlands and Ireland plan to allocate twice that share. Moreover, the rural development strategy is not well articulated with the regional development strategy and lacks a strong territorial dimension; there is one central operational programme for rural development rather than 16 regional ones. Besides, voivodeships do not play any role in the implementation of the rural development strategy, as it is the responsibility of the central agency for restructuring and modernisation of agriculture. As rural challenges vary considerably across Polish regions, the diversity of rural regions' needs has to be addressed effectively by taking an encompassing multi-sectoral place-based approach to co-ordinating the actions of multiple agencies. The fact that the rural and regional development strategies are separated raises governance challenges, at the central and regional levels.

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Overall, the challenge of implementing a place-based rather than a one-size-fits-all policy remains

The broad policy mix for regional development shows that, although inter-ministerial co-ordination has improved, a multi-sectoral strategy tailored to various territorial needs is still to be implemented. So far, there are only a limited number of tools for enhancing the territorial dimension of sectoral policies. Apart from the programme on the development of eastern Poland (3% of total funding); central programmes lack a strong place-based orientation. Although the NSRF gives large cities a driving role, no metropolitan policy has yet been developed, nor are there specific tools to enhance metropolitan co-operation and urban-rural linkages. Appropriate place-based policies require an adequate scale of planning and an appropriate time horizon, but so far planning remains restricted to the administrative boundaries of municipalities and multi-year budgeting has to be developed. The Ministry of Regional Development increasingly needs to encourage differentiated territorial place-based approaches, with appropriate incentives, rather than a one-size-fits-all policy. It should increasingly focus on its strategic functions and play the role of facilitator with local actors. There is also a need to enhance the territorial dimension of the rural development strategy and to improve co-ordination with the regional development strategy, at both central and local levels. So far, there is no inter-ministerial structure for rural development. 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 central actor and a force for change in Finland. 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.

Better differentiate regional operational programmes according to specific regional needs

The decentralisation of around 34% of EU funding in 2007-13 may help to tailor the policy mix to each region's needs, but this is not guaranteed. Given the recent creation of the regions and the disparities in their management skills, marked differences in regional implementation are to be expected. Regional leadership and local capacity building will be essential to ensure efficient management of funds. Most regions have carefully followed the central government's guidelines and their regional operational programmes clearly target Lisbon-related objectives (competitiveness and employment creation). Regions such as Dolnoslaskie, Wielkopolska and Malpolska have developed promising ROPs focused on metropolitan development, transport connections, innovation and SME networks, and social infrastructure. Yet, most ROPs could have been better adapted to specific regional competitive advantages, assets, opportunities, challenges and needs, as well as socio-demographic and geographic characteristics. For example, it is unclear to what extent the strong financial support currently devoted by the eastern regions' ROPs to innovation transfers can be expected to foster development in regions where SME networks are currently quite weak and which lack an adequate scientific and technical base. In some places a stronger focus on basic education would be warranted.

To improve effectiveness of regional development policies and enhance its territorial dimension, governance challenges will be determinant

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 decentralisation and enhanced collaboration with private actors and civil society as regional and local actors become empowered and engaged in a strong learning process. Cohesion policy thus strongly influences the decentralisation process, which is dynamic and ongoing. To further improve the effectiveness of regional development policies and enhance the territorial dimension of various policies requires careful attention to three broad challenges: *i)* enhancing co-operation across levels of government, local governments and public and private actors; *ii)* strengthening capacities of sub-national governments, as many municipalities still have little experience with promoting initiatives to increase local competitiveness with private and social participation; *iii)* supporting accountability, at all levels of government and monitoring the performance/ impact 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 will no longer benefit from the same level of external funding, and for further increasing the strategic role of regions.

Better co-operation by local and metropolitan authorities is necessary in order to implement effective territorial development strategies

To implement effective territorial development strategies, improving co-operation among local and metropolitan authorities is a key priority. The current lack of co-operation across municipalities (*gminas*) makes it difficult to reap economies of scale in terms of public service delivery and appropriate

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place-based competitiveness policies. An integrated spatial planning approach is particularly urgent for the large urban areas that drive Polish growth and face problems relating to housing, public transport and the environment (including water and waste management). In large cities, the lack of a metropolitan perspective also creates problems for absorbing EU funds, as many projects extend beyond specific administrative areas and are more complex to prepare than in small towns. Co-operation by gminas, particularly at the metropolitan level, needs to be promoted through specific incentives and an integrated approach to spatial planning to improve public service delivery and to implement long-term competitiveness strategies. Fiscal incentives could give large urban areas flexible institutional tools for co-operating at the functional scale. Metropolitan policy has been discussed in Poland since the 1990s, but incentives to enhance co-operation have yet to be adopted. Poland could draw inspiration from the French *communautés d'agglomération*, which offer the advantages of enhancing horizontal collaboration across municipalities and improving vertical collaboration with the central government. The *communautés d'agglomération* have constituted valuable tools for promoting territorial development strategies and implementing strategic spatial planning.

Enhanced co-operation among regions is important as a learning process and can help better exploit some macro-regional public goods

Greater co-operation among regions (voivodships) can also contribute to learning and help better exploit some macro-regional public goods. This is particularly true for the five eastern regions, for which the central government has developed a specific macro-regional programme for 2007-13, co-financed with EU funds and with a budget of EUR 2 billion. It targets in particular infrastructure and urban development, the information society, modernisation of the economy and tourism. It is the first "macro-regional" programme developed in the context of cohesion policy. Because the five peripheral eastern regions share the same challenges – in particular accessibility, little economic diversification, an ageing population and out-migration (173 000 inhabitants left these regions between 2000 and 2004) there is a logic to adding a macro-regional dimension to the regional programmes. Although this programme has the right targets, it does not seem to make sufficient use of the potential for co-operation among these regions. The cross-regional dimension of the programme should be enhanced, with a focus on *joint* infrastructure projects, tourism and environmental issues; cross-regional leadership of the programme could also be introduced.

A key to increasing the effectiveness of regional policy is better co-operation between policy makers and the private sector

In addition to co-ordination across public institutions, effective regional policy requires improving co-operation between policy makers and the private sector. Poland's experience from 2004 to 2006 indicates that the lack of collaboration between public and private actors was an obstacle to the effective absorption of EU funds, particularly for infrastructure programmes. Poland's absorption of EU funds in early 2008 presents a mixed picture: after a slow start in 2004, it has improved regularly since 2006, with faster progress in 2007, reflecting the experience accumulated by public servants in previous years. There are strong variations in absorption (defined as the share of budgeted resources paid to final beneficiaries) across sectors and regions. Owing to the complexity of administrative procedures, there are clear advantages for firms and municipalities to collaborate on a smaller number of large joint projects rather than present a larger number of smaller individual projects. The surprisingly low absorption rates in large urban areas (such as Mazowieckie, Dolnoslaskie, Slaskie) suggest that co-operation between actors has been difficult to achieve, especially in infrastructure, human capital and entrepreneurship projects, for which the administrative procedures are more complicated than for rural development projects for example.

Regulatory obstacles make public-private co-operation more difficult in Poland than in most OECD countries. Strategic alliances, based on reciprocal understanding and common trust, among public, social and private actors, are crucial for absorption of 2007-13 EU funds but also for regional development more broadly. It is not easy to change a tradition of arm's length relationships between the public administration and the private sector. On the one hand, the former has long cultivated a climate of suspicion *vis-à-vis* the private sector which reinforces a risk-adverse attitude. On the other hand, the latter have shown relatively little interest in closer involvement in local development policies. Three directions might be explored. One is to reduce the administrative barriers relating to public-private collaboration in Poland, as they are high, especially in comparison to other Central and Eastern European countries. The main problems appear to be a constantly changing legal framework, difficulties for access to finance and slow public procurement. Delays in the preparation of state aid plans also make it difficult for firms and private investors to plan investments, and delays in calls for tender have strong repercussions on the local economy. Second is to enhance public-private partnerships (PPPs). Not only can they improve the availability of investment resources (complementing public funds with private resources), but they may also, under certain conditions, increase the efficiency of spending. However, adequate regulation

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must be in place to ensure transparency, integrity and adequate rules for risk-sharing between the public sector and private investors. Third is to increase public-private collaboration in planning processes, as these remain very formal and legalistic in Poland.

Effective implementation of regional development policy requires lifting local capacities

While much attention has been devoted to the sub-national level's capacity 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 effort to upgrade regional capabilities beyond absorption capacity. The challenge is mainly to strengthen more systematically the capacities of local public officials by building a more effective public employment system at regional/local levels. The lack of such a 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. Attempts to rationalise public employment since the early 2000s have translated into successive adoptions and abolitions of legislation relating to the civil service. The Polish government has recently stated that new regulations to build a more standardised civil service, at both central and local levels, are a key priority. Further improvements in local capacities could come from: improving recruitment and promotion mechanisms, especially at middle and senior management levels; introducing performance management systems to better monitor individual and team performances; focusing training programmes on practical skills (to facilitate day-to-day work on the planning and operational implementation of development strategies); enhancing staff mobility (both nationally between central and local governments, and internationally between Poland and other EU countries, for instance via temporary stays to obtain new skills); 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, and plans to create fully integrated electronic platforms should be pursued).

Poland's monitoring and evaluation systems have improved significantly but their impact will depend on their use for policy making

Poland is one of the most advanced EU member states in planning evaluations for 2007-13, *e.g.* in terms of establishing evaluation units and drafting evaluation plans. As the largest recipient of EU structural funds for 2007-13, Poland appears to recognise its obligation to demonstrate performance. Although significant progress has been made since 2004 in developing systems to monitor performance, the impact of these systems will largely depend on improved data collection at both regional and central levels and the use of this information in policy making. The introduction of a performance reserve fund (3% of the funding) – to be used to provide incentives for satisfactory performance – may be a positive element even if EU experience with the performance reserve in 2000-06 has been mixed. In any case, its impact depends greatly on making criteria for its use transparent. So far, it is not yet clear whether specific evaluations will be carried out, and no *ex ante* criteria for distributing the reserve have been established. If the cohesion policy has acted as a major incentive to introduce evaluation and monitoring systems, these should be gradually expanded to cover all public policies in Poland, not only those financed under the cohesion policy.

Poland needs to take a forward-looking perspective to strengthening the multi-level governance system, as most regions will not benefit from the same level of external support after 2013

To improve the effectiveness of the multi-level governance framework and regional development policy, the following challenges need to be tackled in priority:

- *Enhancing the strategic role of regions* by increasing the political legitimacy of regions and their capacity to arbitrate. It is difficult for voivodships to play a strategic (and arbiter) role in regional development, as they lack sufficient resources, flexibility in budget management, political visibility and enforcement power for spatial planning. The marshal's (head of regional assembly) visibility and legitimacy would be enhanced if he were elected directly.
- *Better exploiting the role of contracts for regional economic development.* Although regional contracts have helped regions to prepare for managing EU funds and boosted their role as partners of the national government, there is a gap between the long-term objectives of regional strategies and the regional contracts, which are short-term (one year) and practical. The focus in contracts has been on investments for major public service needs, essentially health and education, rather than support for economic development. The time frame of contracts could be longer, as in France, to help partners overcome the drawbacks of an annual budget, and contracts should have an important focus on proactive development/competitiveness approaches, negotiated through inter-ministerial collaboration.

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- *Increasingly moving towards a multi-year budgeting framework*. There is no multi-year budget in Poland, apart from limited provisions for 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.
- *The distribution of competencies between regions, districts and municipalities requires further clarification*, in particular for education, health and labour market policies, and additional revenues for gminas and regions need to be secured. It could be envisaged to increase the shared taxes that go to regions to enhance fiscal capacity of voivodships and the property tax could be gradually expanded to increase revenues of gminas.

Summing up…

Poland has made remarkable progress toward multi-level governance in a short time and has moved quickly to orient its regional development policy towards a greater focus on competitiveness through a balanced regional development policy mix that targets human capital and innovation as well as physical infrastructure. The next steps are to enhance the place-based dimension of the national policy mix and to consider ways to strengthen the multi-level governance system, given that external funding may diminish significantly after 2013. In particular, it is important to introduce specific incentives for metropolitan/urban co-operation and to shift strategic planning from the administrative perimeters of municipalities to functional scale. Enhancing the strategic role of regions is important, as is improving local capacities. More effective regional development policy also requires significant progress in public-private co-operation, a reduction in regulatory obstacles to co-operation and better involvement of SMEs and universities in regional development strategies. The effect of cohesion policy on broader public governance and management is as important objective as its more direct impact on regional growth and disparities. Poland has the advantages of high growth and large inflows of EU funds that provide momentum for reforms. This window of opportunity should be exploited to the greatest extent possible.

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