Public Investment across Levels of Government: The Case of Wielkopolska, Poland

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Key messages

- The sustained commitment to decentralisation reforms coupled with the significant support of and adjustment to EU structural funding, has built substantial regional development capacity in the region of Wielkopolska. To ensure the long-term sustainability of decentralised structures, sub-national financial capacities need to be strengthened.

- Poland has put a number of central level institutions in place, such as the Committee for Co-ordination of the NDS and the National Strategic Reference Framework (NSRF), led by the Ministry of Regional Development, who is in charge of ensuring the co-ordination between levels of government and between sectors at the sub-national level for regional development. These institutions can play a key role in the future in enhancing the effectiveness of the much-needed co-ordination mechanisms, not only vertically, but horizontally as well.

- The existing challenges of co-ordination across levels of government is apparent are Wielkoposkia’s spatial planning, a task shared with higher and lower levels of government. The asymmetries in information that currently exist need to be addressed, otherwise significant risks and planning conflicts may arise, impeding the region’s future development.
1. Regional overview

1.1. Political and historical background

Wielkopolska is located in Western Poland, which historically has been the more prosperous part of the country. It is characterised by a strong regional identity as well as entrepreneurial spirit and traditions of civic involvement dating back to the 18th century. Traditionally, the region has had strong commercial and economic links with Germany. In the past two decades, Wielkopolska has attracted substantial volumes of foreign direct investment (FDI) from Germany, and it benefits from good transport links with Berlin, in particular. Indeed, Berlin is easier to reach from Poznań than Warsaw is.

1.2. Institutional background

Like those of other Central and Eastern European countries, the Polish administrative system has been shaped by strong centralisation. In the run-up to its accession to the EU, Poland embarked on far-reaching decentralisation and regionalisation reforms, which resulted in the establishment of the most decentralised territorial system among the “new” EU member countries (see Box 1). The Wielkopolska region (also called Voivodship) was established in 1999 as part of the decentralisation reform. The regional government is presided by the Marshal, who is the president of the region, elected by the regional assembly. In Wielkopolska, there are 35 Powiats (district governments) and 226 Gminas (local commune governments), out of a total of 379 Powiats and 16 Voivodships in Poland. Alongside the elected regional authorities, there are also deconcentrated bodies representing the central government in the regions – the Voivods, assisted in their tasks by the Voivod Offices. The role of the Voivod is to oversee the actions of the Marshal, who heads the executive board of the region’s elected assembly from the legal point of view and in relation to the tasks delegated to the region by the central government. The Voivod is also responsible for matters of defence and safety.

The elected regional assembly (Sejmik) designates the regional executive body, the Board of the Voivodship, chaired by the Marshal and assisted in its tasks by the Marshal Office (MO). The regional government (i.e. the Board) has the responsibility for regional development policy, among other tasks, including spatial planning, higher education, health care, transport and the protection of the region’s heritage. In recent years, the competences of the regional authorities have been extended to regional rail transport, waste and water management, and environmental protection. While the regional authorities have wide-ranging competences, regionalisation has not been followed by fiscal decentralisation on a comparable scale (Gorzelak and Kozak, 2008). This results in the regions being dependant on central government subsidies allocated as part of the regional contracts.

A further reform of the system of territorial administration and, in particular, of the relationships between the regions and the central government is in preparation. One major item that will be subject to reform is the system of regional contracts, which is to be replaced by a different kind of contractual agreements, the territorial contracts (see Ministry of Regional Development, 2010). The details of the reform, however, have yet to be defined.

1.3. Socio-economic background

Wielkopolska is one of the fastest growing regions in the OECD. It is the second-largest Polish region in terms of area and population (roughly 3.4 million inhabitants). It ranks third in Poland in terms of GDP per capita and in the volume of FDI. Since 2004, the region has enjoyed rapid GDP growth, mirroring the economic boom across the country. GDP per capita grew from USD 12 500 in 2000 to USD 17 700 in 2009 (constant PPP 2005, OECD Regional Database). Over the period 1995-2007, productivity growth in Wielkopolska was twice as high as the national average. The regional economy is diversified and
benefits from easy access to western markets. The registered unemployment rate in the region in December 2010 was 9.2%, which was below the national average. The regional economy is export-oriented and has proven resilient to external shocks, such as the recent financial and economic crisis. EU funds have somewhat acted as a budget stabiliser during recent years.

That said, the regional economy of Wielkopolska is traditionally structured, as illustrated by the prominent role the farming sector plays. The region is an important exporter of food products. Moreover, according to the Regional Innovation Scoreboard from 2009, Wielkopolska is a low-innovation region (Hollanders et al., 2009), reflecting the overall poor innovation performance of the Polish economy compared to the EU average. Like most Polish regions, Wielkopolska has experienced profound structural change since 1990, with the transition to an open-market economy and accession to the EU. The region has been quite successful during the transition in modernising its agricultural sector and experiencing the greatest productivity gains in industry among Polish regions.

Future challenges include fostering innovative activity tailored to the specificities of the sub-regional economies as well as wider reforms such as adjusting the education system to ensure that the supply of skills matches the demands of firms or modernisation of the public administration to promote a culture of co-operation. While the regional authorities clearly demonstrate commitment to creating a sound regional innovation system through an integrated and place-based approach, the results of these activities will only be visible once concrete measures, outlined in the Regional Innovation Strategy 2010-2020, are implemented.

1.4. Main strengths and challenges for Wielkopolskie

The regional authorities are committed to strategic development planning and innovation, as evidenced by initiatives such as the foresight exercise establishing the scenarios for the region’s future development (IBC, 2012), the strategy for the development of the Voivodship involving all regional authorities, or the Regional Innovation Strategy for 2010-2020. The region benefits from the administration’s proactive approach and a relatively low turnover of high-level officials within the Marshal Office, allowing an accumulation of experience. In addition, the region is characterised by a relatively high degree of public trust in government institutions as measured by election turnout, which tends to be higher than in other Polish regions (Matusiak, 2011). The key institutional weakness hampering effective public investment in the region is the limited financial capacity of sub-national governments, which makes it harder for them to carry out their assigned tasks effectively. Another challenge is the lack of co-ordination mechanisms between the levels of sub-national government. Addressing these two problems requires wider changes in the territorial administration system in Poland.

2. Public investment in the region

2.1. Evolution of the financial capacity of Wielkopolska

The current budget of the Wielkopolska regional government has exhibited a strong anti-cyclical character during the last few years, especially the year of the crisis (2009). This was expressed in a sharp increase in the operating balance despite declining tax revenue. This results from the central government’s policies to protect lower tiers of government against adverse fiscal shocks, but also from deliberate actions by the government of Wielkopolska to cope with the crisis, for instance the postponement of maintenance expenditures and of the purchase of new equipment. Figure 1 shows the development of the current budget (current revenue minus current spending), the capital budget (capital revenue minus capital spending) and the total budget. The current budget increased during the first phase of the financial and economic crisis, but tended to fall thereafter. This tendency is also reflected in the total budget. However,
the capital balance, after an initial decline in 2008, was unaffected by the crisis and remained more or less constant.

**Figure 1. Development of the budget balance, current balance and capital balance of Wielkopolska before and after the crisis**

![Graph showing budget balance, current balance, and capital balance](image)


**Revenues**

The revenue side of Wielkopolska’s budget consists of shares of the personal and corporate income taxes collected in the region, current transfers and other current revenue, including EU funds. In addition, there are capital grants and income from investments as well as from the sale of public assets. The regional government has no power over tax legislation, which is determined by the national Parliament, including the fixing of tax rates, bases and shares. The crisis has particularly affected personal income tax revenue; the level of corporate tax receipts was more or less maintained. Fortunately personal income tax only represents a small portion of the region’s budget. Moreover, the region’s tax revenue recovered quickly after its decline in 2008-2009. In 2010, both personal income tax and corporate income taxes exceeded their pre-crisis levels, by 3.4% and 2.3% respectively, although this was partly attributable to increased tax shares.

The impact of the crisis on local government finances came less from the local economy than from a reduction in personal income taxes, whose local share is about one quarter of collections and hence considerably larger than for the province. But the revenue loss of local governments was cushioned by ongoing EU projects, whose funding is channeled through the regional government. These had a stabilising role on local finances. Local governments, in particular the cities, do not appear to have capacity constraints in running EU-funded projects, but acknowledge difficulties with excessive conditioning and reporting, with often unclear specifications of the objectives of EU-funded programmes.

Apart from taxes, Wielkopolska benefits from central government transfers and grants. These are either specific (education, regional policy) for general purpose, including the equalisation grant. Special budget support was granted from the central budget in 2009 to cushion the impact of tax losses on the region’s budget. Given Wielkopolska’s relative economic performance, the equalisation grant is of minor importance for its budget, amounting to only 0.5% of the region’s current revenue.
Conditionalities with national grants

The specific grants are given with conditionalities set by national authorities. These grants are usually earmarked, limited to a spending period and provided with matching requirements. The regional authorities are involved in negotiating such grants to some extent, and the conditions imposed are said to be relevant and useful for implementation. They appear to have had a positive impact on programme effectiveness and the sustainability of project financing. During the crisis, however, the transfers could not outweigh the loss in own revenue, so current revenues declined. The fact that the operating surplus increased is thus explained by spending decisions.

Borrowing capacity

Wielkopolska has made prudent use of its borrowing capacity from the outset of Poland’s decentralisation in 1999. Wielkopolska is among the least-indebted regions in Poland, despite its comparatively large budget. Debt finance has mainly been used for transport and communications: the government issued bonds for road construction in 2001. Following a period of significant increases in tax revenue, the government did not depend on further borrowing. On the contrary, from 2005 until the crisis, the Wielkopolska government continuously reduced its debt and did not supply new bonds. This changed in 2010, when the government decided to issue new bonds (for the purchase of new trains and buses, the modernisation of the rail network and the rollout of broadband Internet access). For 2012, the government concluded a new framework agreement with local banks on bond issues for a total of PLN 185.5 million – PLN 65 million in 2010, PLN 100 million in 2011, PLN 20 million in 2012 – of which only PLN 60 million have been disbursed to date. Disbursement is rapid, based on the presentation of authorised invoices, and there are no payment arrears. A revision of the planned payment schedule in May of a fiscal year requires any unused funds to be used for debt repayments. A second revision of the framework agreement in October 2012 decided to issue another PLN 146 million in bonds. Of course, these provisions are provided with exceptions to render the payment schedule more flexible. Overall, Fitch Ratings (2011) expects “the region’s debt service and debt coverage ratios to remain healthy, despite the projected debt growth”.

Expenditures

The expenditure structure of Wielkopolska’s budget reflects its main policy responsibilities. In 2011, by far the largest spending block (37.6% of operating expenses) was assigned to transport and roads, not only for maintenance and repairs but also for the operation of the region’s rail and bus services for 28 million passengers per year. The next most important budget categories are culture (14.3%), public administration (13.7%), education (8%) and social care (8.3%) (Figure 2).

The crisis affected all spending categories except education and public administration. Expenditures for public administration continued their expansionary path, increasing by 25.3% in 2009 while total current expenditures took a hit of -18.4% during that year. The main adjustment came from expenditures for transport, where postponing maintenance can act as a buffer, and also from social care. However, current spending quickly recovered, increasing on average by 16.7% p.a. during 2010-2011.
2.2. Key priorities for public investment in the region

Since the establishment of the region in 1999, the budget of the Wielkopolska’s Marshal Office has grown substantially. In 2000, it amounted to about PLN 274.2 million, while in 2012 it reached PLN 1.2 billion. This is complemented by the unprecedented volume of external investment funding offered as part of the EU structural funds. Thanks to the taxes collected from the relatively high number of SMEs and multinational companies operating in Wielkopolska, the budgetary situation of the region is particularly good, despite the difficult global economic context. In 2010, 49.5% of the budget corresponded to the regional authority’s own revenue (compared to 40.4% on average in Polish Vovoidships), 41.2% to various allocations and 9.3% to the general subsidy from the state budget (compared to 20.9% on average in Polish Vovoidships). Combined these developments allowed for a considerable increase in public investment in Wielkopolska.

Investment projects co-funded with EU funds

For spending activities that attract EU funding, the regional government engages in contracts with the central government, which implies accepting not only EU standards, but conditions imposed by the government also. Regional officials regard the latter as more constraining than the former, particularly national regulations governing public tenders, spatial planning and construction. In the short run, central transfers and EU funds were able to cushion adverse shocks on local budgets. But over time, local governments in Wielkopolska exhibited remarkable creativity in accommodating with the crisis by revising their spending priorities and reducing costs through inter-municipal co-operation.

The Regional Operation Programme (ROP) for Wielkopolska 2007-2013, funded chiefly from the European Regional Development Fund (ERDF), has an overall budget of EUR 1.76 billion, which includes both EU and national contributions. The ERDF resources allocated to the programme amount to EUR 1.33 billion, which corresponds to approximately 1.8% of the total EU money to be spent in Poland under Cohesion Policy in 2007-2013. The national contribution to the programme amounts to EUR 433 million, while the estimated amount of private funds as match-funding is EUR 184 million. The majority of the funds made available as part of the ROP have been allocated to Priorities 1 and 2, illustrating the region’s commitment to investment in innovation and transport infrastructure. Finally, it should be added that Wielkopolska also implements the regional component of the Operational Program for Human Resources (OP HM) with EUR 606 million to be spent on educational and social projects (Fitch Ratings, 2011).
Furthermore, at the level of self-government, a regional component of the Rural Development Programme is implemented.

**Innovation**

The Wielkopolska regional authority considers investment in the innovation capacity of local SMEs as critical for the region’s development. The Board of the Voivodship is fully aware that in order to remain competitive, the region needs to stop relying on its relatively cheap labour as a comparative advantage and factor for attracting FDI. The emphasis is put on “smart specialisation” to exploit the local assets in the sub-regions (e.g. investment in the energy sector in Koniński sub-region, the motor industry in Kaliski), establishing a regional innovation system based on close co-operation between enterprises, knowledge providers and the territorial administration to nurture innovation, and on supporting the creative sector, seen as an important driver of regional competitiveness (Box 1). The main investment tool used for this purpose is funding as part of the ROP’s Priority 1, made available for projects focusing on strengthening SMEs’ potential for innovation, nurturing links between businesses and research institutions to support the commercialisation of new technologies and enhancement of the business environment institutions (e.g. start-up incubators). Similar goals are also pursued via the JEREMIE initiative, which has been pioneered in Wielkopolska.

### Box 1. Fostering innovation in Wielkopolska: Exploiting regional assets

One example of “good practice” in exploiting local assets is the establishment of the Wielkopolska Centre for Design in Poznań (“Concordia Design”), funded as part of the ROP, which taps into the potential of the thriving design industry. Concordia Design will offer incubation for innovative start-ups in this sector. The total value of the project is PLN 32.63 million, out of which PLN 15.84 million has been co-funded from the ERDF. Another example is the construction of the technology park “Centre for Advanced Technology” in Poznań, which exploits the regional strengths in research in biotech, medicine and informatics by supporting innovative SMEs operating in these sectors and supporting their co-operation with the relevant research institutions. The project is co-financed as part of the ROP. The funding offered amounts to PLN 23.99 million, while the total value of the project is PLN 50.39 million.

Long-term strategic objectives for investment in innovation and competitiveness have been defined in the Regional Innovation Strategy 2010-2020. The strategy was formulated in close co-operation with all of the actors involved in innovative activities – higher education and research institutions, enterprises and business environment institutions – and presents an ambitious vision based on an integrated and place-based approach. The document reflects the MO’s integrated approach to regional development by focusing on a range of cross-cutting policy sectors and proposing wide-ranging reforms. The emphasis is on the need to establish an “enabling” institutional environment as an important factor for the region’s competitiveness. Thus, the Regional Innovation Strategy encourages close co-operation between the public sector, regional knowledge providers and SMEs. It also highlights the need to improve administrative capacity, stimulate pro-innovation attitudes among regional and local officials and to favour co-operation between the sectoral departments within the MO (see Section 4).

**Transport infrastructure**

Transport infrastructure is one of the region’s investment priorities. Expenditures for transport increased by 33.3% in 2011, which reflects the government’s ambitious plans for organising and modernising regional railways and bus transport. Even though the density and condition of the transport infrastructure in Wielkopolska is relatively good compared to that of other Polish regions, it requires major investment after decades of neglect. By EU standards, the quality of roads, railways, air transport, communication and IT infrastructure in Wielkopolska remains low. Road infrastructure is the key investment area. The regional authorities are in charge of about 2,700 kilometres of regional roads, complementing the national road grid. The region’s budget for modernisation and extension of its network
of roads grew from PLN 60 million per annum in 1999 to nearly PLN 300 million\textsuperscript{13} at present, resulting in a “boom” in road construction.

After the transfer of the responsibility for regional railways to the marshals in 2008, investment in railway infrastructure has become a major item for Wielkopolska’s budget. This has been partly compensated by the increase of the share in the corporate tax that was allocated to the regions. In 2011, the region invested in 22 new trains for its regional railway service. This project was realised as part of the ROP 2007-2013 and co-funded (50\%) from the ERDF and state budget. The external funding amounted to PLN 198.1 million, 85\% of which was covered by an ERDF grant and 15\% by a state subsidy. The region provided PLN 198.1 million in matching funds, which was a major strain on its budget. In 2012, the MO planned to spend PLN 120 million for further modernisation and extension of the railway network.

\textbf{Box 2. The “Orlik” Programme}

The “Orlik” Programme was initiated by the Polish government in 2008 and is being implemented by the Minister of Sport and Tourism in co-operation with regional marshals and governors of the Voivodships. It involves the construction of public free-of-charge sports fields with changing rooms and sanitary facilities for every community across the country. The aim of the programme is to provide children and young people with a modern infrastructure for active sports. To finance Orlik the central government has created a budget title from which local governments may obtain matching grants to fund their local projects. In addition, the central government supports logistics through architectural templates and a standard schedule for implementing construction works. The central budget allocations were PLN 200 million for 2008 and PLN 250 million each for 2009 and 2010, for a total of PLN 700 million for the period 2008-2010. Costs are shared equally among the central, regional and local governments. This leveraged total investment amounted to PLN 2.1 billion for 2008-2010. Thanks to Orlik about 1 800 sporting facilities had been completed by the end of 2010. Each facility that is built becomes the property of the community. Related to Poland and Ukraine hosting EURO 2012 and the promotion of international events in the society, the Polish government has decided to intensify its efforts in fostering sports. This programme now continues under the name “My Sports Field: Orlik 2012” and represents a strategic vehicle for developing Poland’s sports infrastructure until 2015. It also eases the sharing arrangements for municipalities that cannot afford to match one third of the investment costs for building such infrastructure.

3. Co-ordination for public investment across levels of government

Since the 1999 reform of the territorial administration, MOs are the actors in charge of public investment policy at the regional level. In the Wielkopolska MO, the Department of Regional Policy plays a co-ordinating role for public investment, be responsible for strategic planning of the development of the Voivodship and management of the ROP. The ROP is an instrument for implementing the Voivodship development strategy.

The various public investment tasks are spread across different sectoral departments within the MO, which include, for example, the Department of Infrastructure, the Department of Economy, the Department of Culture, the Department of Transport, the Department of Sport and Tourism, and the Department of Development and Support for Rural Areas. The strategic goals for public investment policy in Wielkopolska are set by the Regional Development Strategy\textsuperscript{15} which is implemented mainly via the ROP.

The ROP’s priorities have to match the strategic objectives defined at regional, national and EU level, while considering specific regional challenges and opportunities. This calls for vertical and horizontal co-ordination to ensure consistency and access to the local knowledge necessary for tailoring the interventions to the local needs. The programme has been designed by the MO in close collaboration with other regional stakeholders in consultations and in the Monitoring Committee that participates in setting the eligibility criteria for projects.
3.1. Vertical co-ordination between the region and other levels of government

The transfer of competences to the regions for the management of structural funds required new arrangements for co-ordination between the 16 ROPs and the national (former sectoral) operational programmes managed by the central government.

This task was entrusted to the Department for Co-ordination and Implementation of Regional Programmes within the Ministry of Regional Development (MRD), acting as the co-ordination authority. The department is responsible for the co-ordination of the formulation and implementation processes of regional programmes as well as of horizontal issues essential for the implementation of programmes, and is thus required to co-operate closely with the MOs. In addition, the MOs co-operate with the Voivod Offices, which are responsible for certifying expenses as part of the ROPs, a task delegated by the certification authority. The latter is the Department of Certification of the MRD, which certifies the expenses as part of EU-funded programmes on behalf of the European Commission. Finally, the MOs have to liaise with the regional fiscal control offices that verify compliance of the ROP management systems with national and community law on behalf of the Ministry of Finance (audit authority).

Co-ordination between the priorities and measures of the ROPs and the operational programmes is managed by the central government. Complying with the European Commission’s guidelines and national strategic documents has been described by the interviewees from the Wielkopolska MO as a challenge. Challenges arise in terms of the complementarity of the programmes, priorities, activities and projects, as well as the issue of competences. This seems to be due to the fact that this is a new process and the institutionalisation of the multi-level system for strategic management is still in progress.

Since 2007, a forum for vertical co-ordination of strategic programming, named the Committee for Co-ordination of the National Development Strategy (NDS), has been planned. The Committee for Co-ordination of the National Strategic Reference Framework (NSRF) is headed by the MRD and includes representatives of various ministries, sub-national authorities and economic and social partners. Its mission is to monitor the implementation of the NDS and NSRF and ensure complementarity between the operational programmes and sectoral policies. In addition, a so-called “demarcation line” has been used as a somewhat “soft” mechanism for co-ordination, demarcating the tasks of each level of government and the fields of intervention for each of the operational programmes in order to avoid duplication. In practice, Wielkopskie MO designed the ROP bearing centrally managed programmes in mind and in case of doubt issues are clarified on an informal basis with the MRD.

The monitoring committees (MCs), partnership bodies bringing together representatives of the government, territorial administration and non-state stakeholders that operate both on the regional and central level, also play an important co-ordinating role. One of their key tasks is to monitor the implementation of operational programmes and notify the managing authority in case of overlaps or irregularities, so as to allow for ad hoc adjustments of the implementation procedures.
Box 3. Towards regionalisation of the management of EU structural funds in Poland

In the initial period after Poland’s accession to the EU (2004-2006), the management of the structural funds remained centralised. Regional authorities were consulted in the formulation process of the Integrated Operational Programme for Regional Development and played an important role in project appraisal. However, the priorities for intervention were set centrally and it was the central government that was responsible for the programme’s implementation. This situation has changed with the partial regionalisation of the management of the structural funds for 2007-2013 and the introduction of 16 ROPs for each of the Voivodships. The regional authorities took over the role of managing authorities for the programmes, which was supposed to enable interventions to be more tailored to regional needs and ensure a better fit with the strategic development plans of each Voivodship. They are responsible for the development and implementation of ROPs, including the evaluation and selection of projects to be co-financed by the programme, making payments for beneficiaries, project control and programme execution monitoring.

Responses to the questionnaire revealed several challenges regarding the collaboration between central and regional governments. Primary among them was the incorporation of the private sector in financing and managing public investments. Other, less pronounced challenges included the lack of incentives to engage in such co-ordination, the central and regional governments’ limited understanding of each other’s priorities, and the difficulty in adhering to co-financing requirements. Overall, despite some deficiencies in the flow of information between the levels of government and certain differences in priorities for investment, the cross-level co-ordination of public investment was positively assessed by the regional counterparts within the MO.

Box 4. Vertical co-ordination in the field of transport infrastructure

Management of the national roads system requires close co-operation across levels of government in order to ensure complementarity between the national, regional and local road networks and avoid misguided investment. Nevertheless, in Poland such co-ordination is challenging due to the strict division of tasks. The central government implements investment projects focused on national roads, airports and country-wide railway connections to achieve the goals defined in the National Transport Strategy. Under Polish law, regional authorities cannot participate in these projects; however, they attempt to co-ordinate their investment in regional transport infrastructure through them. Thus, the regional authorities need to consider the government’s plans for extension of the national motorway network in their plans for regional transport infrastructure, as the regional road network has to serve and connect with the national roads. The co-ordination of investment activities in this field is done through consultation between the Main Directorate for National Roads and Motorways (GDDiKA), the marshal offices and local authorities. A further forum for co-ordination is the Joint Commission of the Government and Territorial Self-government, which brings together associations of the regional and local authorities (Association of Regions, Association of the Polish Cities, Association of Rural Communes) and the relevant ministries, where the strategic and planning documents put forward by the Transport Ministry are consulted.

Spatial planning

Co-ordinating public investment requires taking into consideration spatial planning frameworks at different levels of government. Co-ordination of spatial planning in the Polish context presents a number of challenges, creating obstacles for the implementation of public investment projects. According to the logic of the planning system in Poland, national spatial plans should be executed at the sub-national level. Spatial planning at the regional level should thus be in line with the planning priorities determined at the national level. The vertical co-ordination required to ensure this alignment, however, is hampered by two obstacles.

First, the flow of information on planning decisions between the government and the regional authorities remains deficient. Information on the government’s decisions on investment in various sectors
is dispersed across the sectoral ministries, which requires additional efforts from the regional actors to search for and collect the information necessary for co-ordination with the national plans. The regional authorities also need to liaise with each of the sectoral ministries when designing their spatial development plans. This situation is expected to improve as the tasks related to spatial planning were moved from the Ministry of Infrastructure to the MRD, which should enhance cross-sectoral co-ordination within the central government. This reform should also facilitate co-ordination across levels of government as the regional plans no longer have to be consulted with each of the sectoral ministries, but only need to be approved by the MRD.

Secondly, the tasks of the regional planners are complicated by the proliferation of so-called special conditions (specustawy), which are increasingly used to remove legal bottlenecks and facilitate investment in priority areas, such as motorways or high speed railways. As a result, some investment projects are taken out of the planning system and can be executed regardless of the planning priorities. This may accelerate the execution of some projects; however, it creates a major problem as there is no cross-level co-ordination mechanism for such special investment. Regional authorities are not always well informed about government decisions in such cases or receive only scant information about the projects in question, while they have to update the regional plan to accommodate them and co-ordinate the related adjustments in local plans.

The Wielkopolska MO delegated the responsibility for spatial planning and land use to the Wielkopolska Bureau of Spatial Planning in Poznań (WBPP), supervised by the MO’s Department of Infrastructure. WBPP is in charge of preparing and updating the key planning document for the region – the Spatial Development Plan for Wielkopolska Voivodship. The plan has been prepared in consultation with all of the communes in the region at a variety of workshops and working group meetings. This presented a major challenge for the WBPP, which needed to reconcile conflicting local interests (by taking into account neighbouring self-governments’ view on zoning plans) while putting forward the regional level spatial priorities. Subsequently, the Department of Infrastructure of the MO assesses and approves the local spatial development plans submitted by the local authorities for their compliance with the priorities outlined in the Spatial Development Plan for the region. It also co-ordinates decision making concerning construction plans and locations for investment in facilities for the provision of public services, in line with the Polish legislation that requires regionally important investment projects realised by the local authorities to be approved by the MO.

There are no institutionalised, non-judicial mechanisms for solving conflicts concerning spatial planning decisions. Local authorities may initiate legal action to appeal decisions taken by the MO concerning their investment. Likewise, if local plans or investment projects do not comply with the regional spatial planning goals, the MO can bring the case to court. In practice, conflicts are avoided through informal co-ordination mechanisms (organising meetings and debates on arising problems and conflicts in addition to the consultation process of neighbouring jurisdictions above), while at the same time the provisions of the region’s Spatial Development Plan are kept sufficiently general to grant local authorities some flexibility.

Ex ante conditionalities

In the Polish context “conditionalities” are used mainly as part of the EU-funded programmes (as highlighted in Section 2). There are, for instance, procedural conditionalities, such as approval of the management and implementation systems by the European Commission, assessing compliance with EU regulations, the partnership principle or the “n+2 rule”, according to which the contracted funds have to be spent within two years after the grant contract is signed. Conditionalities also concern strategic issues. For example, EU funding may be granted for the local authorities’ investment projects under the condition that it is part of the implementation of a multi-annual development strategy. In some cases, conditionalities are
set by domestic managing authorities and can include positive incentives. For example, the project assessment criteria of Wielkopolska’s ROP are designed so as to encourage joint inter-municipal investment projects.

Even though some adjustment and learning were necessary, the EU requirements have not generally been perceived as more stringent than the domestic ones. Beneficiaries of EU funding in Wielkopolska have not, for the most part, encountered major difficulties in complying with the conditionalities imposed as part of the EU Cohesion Policy framework, as many of the EU requirements correspond to domestic rules and legislation. For instance, local authorities are obliged by law to prepare local development strategies in consultation with local stakeholders. As some of the sub-national officials interviewed attested, the EU conditionalities are generally not perceived as an obstacle but rather as a positive stimulus to enhance the projects. Nonetheless, the questionnaire conducted as part of this case study reveals a more nuanced picture. Sub-national actors see the requirements (especially those imposed on top of EU requirements) as an administrative burden imposed by the central government. Some respondents also indicated that such requirements could limit regions’ autonomy in managing their public investment policies and could slow down the implementation of investment projects.

**Contractual arrangements**

Contractual arrangements between the government and regional authorities have been used in Poland since 2000. The regional contracts, inspired by the French model of *Contrats de projets état-région*, are the primary tool for vertical co-ordination in public investment. Since 2008, regional contracts have determined the modalities for the use of state development funding offered to regions for the implementation of their ROPs. They have also included provisions on the MRD’s supervision of the use of funds by the regional government and on co-ordination between the ROPs. Despite occasional cuts in the funds because of changes in the state’s budget situation, the experience with regional contracts to date has been positive. The contracts have provided a stable and multi-annual framework for vertical co-ordination, making it possible for regional authorities to complete long-term investment plans.

Currently, a reform of these contractual arrangements is under discussion. The National Regional Development Strategy for 2010-2020 puts “territorial contracts” forward. These would aim to create synergies between all regional policy instruments having a territorial dimension. Additionally, they would be supported by co-ordinating structures, strategic monitoring and conditionalities. However, the reform process is still at an early stage and the regional actors remain cautious, particularly with respect to the increased co-ordination between sectoral ministries that is envisaged and the increased autonomy of the regions in managing the funds allocated as part of the contracts.

**3.2. Vertical co-ordination between the regions and local stakeholders**

The design of the Regional Development Strategy and of the Regional Operational Programme is the responsibility of the regional authority. The contents of both documents are, however, the subject of consultation with the lower level governments and with a plethora of other stakeholders, experts and non-state actors. Such horizontal partnership to co-ordinate investment activities is a relatively new tool in Poland. It has been introduced in the wake of the accession to the EU and adjustment to the Cohesion Policy’s partnership principle. According to representatives of both the MO and local authorities, organising consultations proved challenging due to the lack of tradition of such co-operation, mistrust between the actors and difficulties in reconciling the divergent interests of the local authorities. In fact, local leaders are under considerable media and electoral pressure to acquire as much external funding for investment as possible, which can turn discussion of the use of EU funds and the breakdown of resources across the ROP into a zero-sum game. Nevertheless compromises have evolved in the past.
A further instrument for co-ordination between regional and local governments is the Monitoring Committee (MC) for the ROP, where local authorities are represented and vertical co-ordination issues can be discussed. The MC also includes strong representation of economic and social partners (10 of 24 committee members), including representatives of business environment institutions, trade unions, NGOs and higher education institutions.

In addition, the Marshal established the “Wielkopolska Council of Thirty”, a special advisory body dealing with regional development and innovation issues. The council was put in place as part of the project “Building Regional Innovation System in Wielkopolska” co-financed by the ERDF (Operational Programme Human Capital). The council comprises the mayors of major urban municipalities of the region, representatives of higher education institutions and executives from the most prominent firms in the region. The council assesses the regional programming and strategic documents and is consulted on major projects supporting the innovation capacity of the region. It also provides a platform for exchange of good practice, generating synergies and enhancing the delivery of innovation policy. According to actors from the business environment, despite the existence of the fora for co-operation and dialogue, the flow of information between the public administration, the higher education sector and enterprises is still insufficient and there is substantial scope for enhancing co-operation between the three sectors to deliver better targeted investment for the region’s competitiveness and innovation potential.

4. Building sub-national capacities for effective public investment

4.1. Horizontal co-operation

Despite the lack of a tradition of inter-municipal co-operation and limited inter-institutional trust, Polish law provides for agreements between district and local governments for joint investment. In recent years, there has been substantial progress in developing such co-operation to provide infrastructure for basic public services. A growing number of local authorities are engaged in such investment projects through special purpose associations or associations bringing together neighbouring municipalities (see Box 5 for an example). Typically, such associations are formed to reduce costs and pool resources in order to respond to common needs, for example the construction of water treatment plants or waste management facilities. In many cases, this involves joint applications for EU funds or other external finance.

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**Box 5. Co-ordinating horizontally through local “Gmina” associations**

An example of such special purpose association is the union of 13 Gminas around the city of Kalisz that has established a joint company for waste management. Another initiative, which also includes partnership with private sector actors, is the water and sewage system in the Poznań agglomeration. It is operated by a private company in which Poznań and nine neighbouring municipalities participate, while public-private partnerships are being used to expand the necessary infrastructure (OECD, 2011). One of the factors spurring inter-municipal co-operation in this area has been the decentralisation of the partially funded responsibilities for waste management. In some cases, however, it is the increasing budgetary pressure resulting from the crisis that pushes local authorities to co-operate. For instance, Pila has consolidated its payment system with neighbouring municipalities, and all have tried to reduce overhead costs of investments through organisational changes and co-operation.

Another example of local horizontal collaboration is the National Programme for Extension of Local Roads 2008-2011. Co-ordinated by the Ministry of Internal Affairs, this programme promotes collaboration between the neighbouring local governments as part of partnership-based road investment projects. The aim of the programme is to improve traffic conditions and safety, while enhancing the connectedness of the local and Powiat roads to the national roads network and, hence, improve the accessibility of the local economic centres. The programme is widely regarded as a success and is popular among the Powiats and Gminas, which is why it has been extended for the 2012-2015 period. While the
budget for the second edition of the programme remains roughly similar, funding is now offered to cover only up to 30% of the project costs – i.e. the co-financing requirements have been increased.

Inter-municipal co-operation is also encouraged through co-funding between the national, regional and local governments. For example, it is encouraged by Wielkopolska’s MO, both through persuasion and incentives in the project assessment criteria in the ROP 2007-2013. In such partnership projects, one of the actors is typically the project leader, responsible for the management of the project and reporting to the MO. Some of these partnerships have proven problematic, particularly in terms of reporting and flow of information. A further obstacle has been the limited capacity of some of the Gminas to secure matching funds. This problem has become more acute as the municipalities have started to feel the negative consequences of austerity measures introduced by the government, resulting in a reduction of their revenues.

Box 6. Horizontal co-ordination of public transport services

While being a critical area for co-operation between the levels of sub-national government and horizontally across municipalities, co-ordination in public transport policy in Wielkopolska remains challenging. The co-ordination problems are best illustrated with the case of the Poznań agglomeration. There is a clear need for co-operation between the neighbouring municipalities to deliver effective public transport within the functional urban area, yet in practice, reaching agreement has proven difficult due to contradictory interests and lack of institutionalised mechanisms for inter-municipal co-operation. To overcome such barriers actors have to engage in ad hoc and unofficial consultations to avoid conflicts and overlaps. Thus, after negotiations, the municipalities of the Poznań agglomeration have introduced a joint ticketing scheme for transport services.

4.2. Involving private actors

The regional authority in Wielkopolska is dedicated to enhancing collaboration with private sector actors, not only as advisers on strategic matters, as happens in the aforementioned consultations and advisory bodies, but also as partners in public investment schemes and their beneficiaries. SMEs are major recipients of structural funds, particularly as part of Priority 1 of Wielkopolska’s ROP, and revolving funding via the JEREMIE initiative. They are keen to take advantage of the funding offered as part of EU programmes (as of April 2012, 1 208 projects by SMEs were funded under ROP measures). However, in the vast majority of cases they acquire funds for projects they implement themselves. Projects implemented in PPPs remain rare. In fact, PPPs have been a challenge in Poland due to the lack of an adequate legal framework and low levels of trust between the public and private sectors. This was also highlighted as a shortcoming in the questionnaire carried out for this case study.

Wielkopolska was the first EU region to launch a loan-based support scheme for urban development as part of the JESSICA initiative. In collaboration with the European Investment Bank, an Urban Development Fund (UDF) was set up with the state-owned bank BGK as the managing body. The scheme is at an early stage at the time of writing, with PLN 95 million being allocated as loans to support five projects implemented by both the public and private actors. One such example is the “Galeria Gopłana” project, which is being funded as a PPP. It involves the revitalisation of a decaying post-industrial area in the centre of Leszno with the aim of converting it into a commercial centre. The private investor will make one of the revitalised buildings available to the municipality, free of charge, for the establishment of a public multimedia library or tourist information centre. The total value of the project is PLN 178 million, while the loan amounts to PLN 50 million. Another example is the support granted for a reconversion of a post-industrial building into office space (Office Centre “Podwale” in Poznań). The private investor will offer venues for free training courses and workshops for the local community. The value of the investment amounts to PLN 30 million, while the loan offered by the Urban Development Fund amounts to PLN 22.5 million.
4.3. Organisational and management capacities

The adjustment to the Cohesion Policy norms favoured the modernisation of organisational practices and project management approaches as well as greater effectiveness both at the regional and local levels in Poland.

Strategically, in its regional development policies Wielkopolska’s MO emphasises the investment in social capital and improvement of the administrative capacity as a way to favour long-term sustainable economic development (IBC, 2012). The region fosters local administrative capacity through regular performance evaluation and the provision of regular training opportunities.

To a large extent, the study in Wielkopolska confirms these observations. The implementation of the EU funds has had an important catalytic effect on enhancing administrative capacity at the regional level, particularly in the 2007-2013 period, when the MO became the managing authority for the ROPs. Thus, the team of officials dealing with regional development policy at the MO initially included 12 people, while in 2007 it was expanded to 250 members of staff. Over time, this team has accumulated substantial experience and greatly enhanced its competency, thanks in part to the substantial EU-funding for training courses made available as part of the technical assistance programme.

At the local level, capacity building has proven more problematic. Some municipalities have improved their capacity for strategic planning and effective design and management of investment projects. This was stimulated by no small measure by the desire to acquire EU funds, which requires project management skills, knowledge of the regulatory framework and a capacity to design strategies and projects to implement them. However, the financial capacities of many local authorities are limited. Many of them, including some of the better-resourced urban municipalities, opted to outsource tasks related to the preparation of investment projects and bids for funding to consultancies. In addition, local authorities suffer from a high staff turnover and struggle to attract skilled employees due to the low salaries on offer, as indicated both by the interviewees and questionnaire respondents. A further factor preventing effective capacity building at the local level is the low quality of the training courses offered by firms and NGOs as part of projects funded from the European Social Fund. While the training offer is substantial, the courses offered seldom match the training needs of officials.

4.4. Integrity and transparency

Public procurement

Public procurement is a major challenge in the implementation of the ROPs. The first problem identified is the instability of the legal framework for procurement, which has changed repeatedly in recent years. These frequent changes forced investors to adjust their ways of doing things and generated additional costs. The second problem concerns the assessing of procurement procedures by auditors. Officials in the region argue that the auditors, who tend to be meticulous, impose serious sanctions even for minor irregularities in tenders and that irregularities may be qualified as such, or not, depending on the interpretation of the individual auditor. This perceived inconsistency creates a climate of insecurity and mistrust, which forces the investors to more closely assess minor details of projects and hinders the smooth organisation of tenders. The interviewees also stressed that the control procedures implemented by the Polish auditors are stricter than those conducted at a later stage by EU auditors. Some respondents to the questionnaire cited further obstacles to effective public procurement procedures, namely red tape, restrictive tender specifications and limited know-how on the organisation of tenders.
4.5. Performance monitoring and learning

Monitoring of the implementation of the Regional Development Strategy for Wielkopolska is based on biennial analysis of progress towards achieving the strategy’s objectives. The progress reports are then approved by the Regional Assembly, which may propose amendments and updates when deemed necessary. Assessment of progress is based on a set of indicators of outputs defined for each of the strategy’s priorities and measures. The ROP for 2007-2013, the key operational document for implementation of the regional development strategy, is monitored on an ongoing basis by the regional MC, set up in compliance with EU requirements concerning horizontal partnership.

The regional evaluation culture has been developing rapidly, mainly stimulated by compliance with the EU Cohesion Policy framework requiring programmes be evaluated and by the availability of funding for evaluation studies as part of technical assistance. The evaluation culture has also been developing as a result of the introduction of the ROP in 2007-2013. Nonetheless, there is a growing emphasis on impact evaluation, as illustrated by the case of Wielkopolska, and Polish evaluation studies are often presented as examples of “good practice” (such as an “Evaluation of the access to medical services through the implementation of Priority V projects of the ROP for Wielkopolska for 2007-2012” or an ongoing “Evaluation of the ROP for Wielkopolska for 2007-2013 on socio-economic outcomes”).

5. Lessons learnt and good practices

5.1. Good practices

• Focus on strategic planning in co-operation with different regional actors and stakeholders:
  ✓ Establishment of the Council of Thirty, which brings together the regional government, higher education and research institutions as well as the major firms operating in the region.

• Pro-activeness in promoting the involvement of private actors in the design and financing of public investment projects:
  ✓ Use of innovative tools, such as the revolving funding instruments as part of EU Cohesion Policy (JESSICA for urban development, JEREMIE for supporting SMEs).
  ✓ Enhancing co-operation through the establishment of a dedicated regional agency for co-ordinating the actors of the regional innovation system.

• Stimulating horizontal co-ordination across municipalities:
  ✓ Incentives for joint inter-municipal investment projects introduced into the ROP.
  ✓ The regional authority’s involvement in facilitating co-operation as part of the Poznań agglomeration.
  ✓ Inter-municipal co-operation to mitigate the pressure on the municipal budget through joint provision of public services and investment in infrastructure.

• Focus on administrative capacity building:
  ✓ Provision of training courses to the public officials involved in public investment activities.
  ✓ Introduction of New Public Management methods for stimulating effectiveness and monitoring performance through indicators and end-user feedback.
  ✓ Establishment of a co-ordinator for innovation-related activities across the departments of the Marshal Office.
• Establishment of multi-year budgeting and fiscal discipline.

5.2. Lessons learnt and key challenges for the region

• More can be done to address information asymmetries. The flow of information needs to be increased to improve co-operation between regional and local authorities, higher education institutions, business environment institutions and firms. The MO is well positioned to play this co-ordinating role. Better circulation of information is likewise needed to improve co-ordination in spatial planning, which should help ensure greater coherence and avoid conflicts.

• Inter-municipal co-operation on joint investment projects still faces important obstacles. Regional authorities should provide guidance in setting up partnerships and a template for partnership contracts between municipalities applying jointly for funding. This could ensure a clearer division of tasks and responsibilities and thus reduce the risks involved for the project leader. While inter-municipal co-operation appears to be increasingly popular in the fields of water and waste management or broadband and road infrastructure, it is still limited in sectors such as education and housing. Incentives should be put in place to encourage it.

• Authority is still poorly matched with financial capacity. The current system of territorial administration is balanced between decentralisation and deconcentration, preventing major co-ordination gaps that may hamper the effectiveness of public investment in a multi-level setting. However, the continuing decentralisation of public services should be accompanied by an adequate fiscal decentralisation.

2. The new Voivodship incorporates parts of the territories of several of the former smaller and non-decentralised Voivodships (Poznańskie, Konińskie, Pilskie, Leszczyńskie, Kaliskie, Zielonogórskie, Gorzowskie, Bydgoskie).

3. The region’s largest sector is services, which employs around half of the workforce (contributing 60% of GVA), followed by industry with 27% (27% of GVA), agriculture at 6% (16% of GVA) and finally construction with 6% (7% of GVA).

4. The difference between the current budget balance and the operating balance is net financial income (interest received minus interest paid), which is of minor importance in this context.

5. Personal income tax is allocated according to residence, while corporate tax is allocated according to a firm’s headquarters. No attempt is made to assign corporate tax revenue according to regional economic activities, like in Germany or the United States, for instance.

6. Wielkopolskie has made exclusive use of government bonds, which is preferred over bank loans for statutory reasons.

7. Budget authorisations are PLN 50 million higher.

8. In 2009, growth in employment was mainly due to a growth in actions related to the disbursement of the EU funds under the Regional Operation Programme (ROP) for Wielkopolska and the Operational Programme for Human Resources (OP HM). In 2007 and 2008, operational programmes were negotiated with the European Commission; no executive regulations of the Ministry of Regional Development, organisational structures or division of powers within the financial perspective of NSRF 2007-2013 were created. In fact, the actual disbursement of funds on a large scale only began in 2009, when it became necessary to employ staff for verifying applications, supervision, payments, etc. This concerned both the staff of the Marshal Office in the scope of handling projects from WROP, as well as the Voivodeship Labour Office as an intermediary institution for OP HC, whose payroll costs are included in the budget. Most resources did not come directly from the own funds of the Voivodship budget, but from the technical assistance of WROP and OP HC, with the vast majority from EU funds. The technical assistance of WROP is financed 100% from the EU funds, while OP HC is financed mainly from the state budget. Moreover, the Marshal Office increased its workforce by ten in 2009 as a result of the takeover of the “Oskard” Mining Community Center (Górniczy Dom Kultury “Oskard”). The Department of Environment also increased its workforce to ensure the smooth implementation of actions in terms of fees for using the environment by economic entities.

9. The share of spending on public administration of total current spending more than doubled from 2007 to 2011 (from 6% to 12.3% of current spending).

10. Figures are not adjusted for inflation.

11. However, there were complaints on the burden of the EU’s reporting requirements.


13. Nominal figures, not adjusted for inflation.


JEREMIE is part of the EU structural funds to provide SMEs with different financial instruments (such as guarantees, loans, etc.). See: http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm.

JESSICA is also part of the EU structural funding instruments, providing financial engineering mechanisms for urban development and reengineering.

REFERENCES


