



## Regional Development in Poland

**What are the main challenges for regional development?**

**What is the policy mix for regional development?**

**How are regions involved?**

**What are the main priorities for transport, human capital and innovation?**

**How to help the development of rural areas?**

**How to support poles of growth and urban development?**

**How to make regional development policies more effective?**

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### Introduction

Poland has a large window of opportunity to conduct an ambitious regional development policy. It has managed to maintain high growth levels since the mid 1990s, with the second-best performance in the OECD in 2006-07; however, territorial disparities are persistent and rising, especially between large urban areas and rural ones.

Poland has one of the greatest territorial disparities in terms of gross domestic product (GDP) per capita in the OECD, and the gap between regions has increased since the mid-1990s.

Three types of disparity are visible: a persistent gap between eastern and western Poland; a gap between Warsaw and the rest of the country; and rising disparities between large urban areas and rural ones, in particular in the regions of Warsaw (Mazowieckie), Poznan (Wielkopolskie) and Cracow (Malopolskie).

Regional development policies are currently high on the political agenda in Poland, owing to the strong support from EU funds and the increased role of the 16 regions. Poland is the largest recipient of EU structural funds in 2007-2013, being allocated EUR 67 billion under EU cohesion policy. This external support is complemented by a significant national co-financing effort.

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.

This *Policy Brief* presents the various challenges and opportunities for Polish regional development policy, and provides recommendations on the best way to implement the policy mix, looking in particular at governance challenges. ■

**What are the main challenges for regional development?**

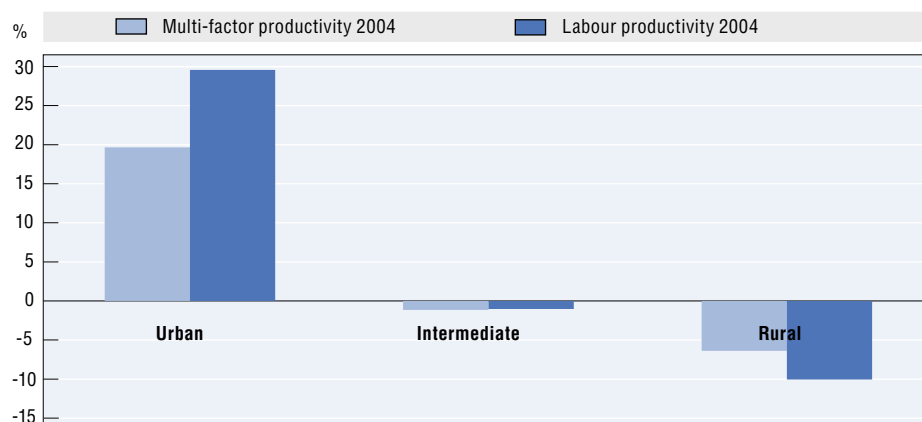
Large cities are the main drivers of Polish growth. GDP in urban areas is more than double that in rural areas; and the eight largest urban areas in Poland are 20% more productive than the average Polish sub-regions (Figure 1). In particular, Warsaw had the highest growth rate in Poland over 1995-2004 and has been one of the fastest growing of all OECD metropolitan regions over the past few years. The differential in GDP per capita between Warsaw and the national average reached 263% in 2005. Warsaw is one of the largest investment sites in central Europe and has attracted the highest share of greenfield foreign direct investment (FDI) to Poland since 1995. However, the per capita GDP gap between Warsaw and other large Polish cities, notably Poznan, Wroclaw and Cracow, appears to be closing.

Rural areas have benefited less from Poland’s economic development; and their share of national GDP has consistently decreased since 1995. Many rural areas are caught in a vicious circle of low attractiveness, low infrastructure development and low educational attainment. Only 5.4% of the rural population has a higher education degree, compared with 17.5% in urban areas. Employment in the agriculture sector remains high at 17% of the total labour force, but labour productivity is low, as agriculture accounts for only 4.6% of GDP. Farms are small – more than 60% of Polish farms have fewer than five hectares. The most important challenge for lagging rural areas is to enhance their links to urban areas and to diversify to non-agricultural activities. This requires readier access to education, capital and information, and improved transport and telecommunications infrastructure.

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 major **transport infrastructure** – road, railways, seaports, aviation – is either underdeveloped or in poor condition and in urgent need of repair, upgrading and extension. Poland has the most limited motorway network in Europe, and while its rail system is Europe’s third largest, the capital stock is obsolescent. In terms of territorial coverage, there are three major shortcomings: insufficient road development for metropolitan areas (including ring roads); weak connections

**Figure 1.**  
**LABOUR AND MULTI-FACTOR PRODUCTIVITY**  
Compared by type of region in Poland



Note: Urban areas refer to the OECD typology: Centralny Slaski, Cracow, Gdansk-Gdynia-Sopot, Lodz, Poznan, Rybnik-Jastrzebie, Warsaw and Wroclaw.

Source: Based on OECD Regional Database (2008) and CSO (2008).

between large cities; and underdeveloped north-south links because east-west links had priority during the Communist era.

- All regions need to accelerate the move to the **knowledge economy**, focusing on human capital development and innovation. Outside of Warsaw, Poznan and Wroclaw, innovation does not yet play a strong role in regional growth. Poland spends around 0.58% of GDP on research and development (R&D), well below the OECD average of 2.3%. The limited development of information and communication technologies (ICT) is also hampering the transition to the knowledge economy. Internet is available to only 23% of Polish households, compared with an EU average of 43%. Moreover, Poland's human capital has been affected by out-migration in recent years, particularly since EU accession.
- The **five eastern regions** along Poland's eastern and northern borders face even greater challenges, as they have the lowest growth rates and are the smallest contributors to national GDP. The slow development of these regions is mainly linked to historical legacies, the predominance of agricultural activities with low productivity in regional economies, and their peripheral situation, bordering less developed countries (Ukraine and Belarus). ■

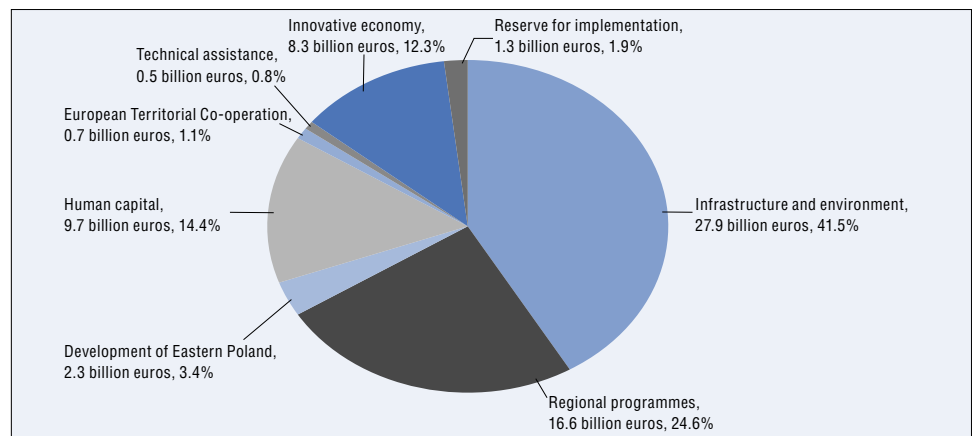
**What is the policy mix for regional development?**

Poland's territorial policy in the 1990s consisted essentially of support for industrial regions undergoing restructuring. A more proactive regional policy has emerged in the 2000s from two closely linked processes: the creation of 16 Polish regions (*voivodships*) with elected regional assemblies; and accession to the European Union in 2004.

EU funds have represented the bulk of Poland's budget for regional policy since 2004; complemented by a significant national co-financing effort. All Poland's regions were eligible for EU funds for 2007-13. The Ministry of Regional Development was created in 2005 to co-ordinate policies and EU funding, signalling a political commitment to improve territorial development and multi-sector co-ordination.

Polish regions will receive EUR 67.3 billion in cohesion funds for 2007-13, or 20% of total EU cohesion funds, making Poland the all-time leading recipient of

**Figure 2.**  
**DISTRIBUTION OF EU RESOURCES AMONG OPERATIONAL PROGRAMMES, 2007-13<sup>1</sup>**  
**As a percentage of total allocation**



1. Total represents 67.3 EUR billions.

Source: Ministry of Regional Development.

support under the cohesion policy. Together with EU funding for agriculture and rural development, and EUR 22.4 billion from national sources, Poland's national development strategy for 2007-15 foresees total funding of EUR 108 billion.

The Polish National Strategic Reference Framework (NSRF) for 2007-13 largely reflects EU regional policy priorities, with 64% of investment earmarked for the EU's "Lisbon objectives" – growth-oriented activities such as innovation, human capital, transport systems, and environmental protection. Poland has to absorb EU funds in a short period of time. This implies strong needs for prioritisation of public investment, in a context of inflationary pressures and staff shortage in certain sectors. Another key challenge is to ensure the appropriate cross-sectoral coordination among the different programmes. So far, apart from the programme on eastern Poland development, central programmes lack a strong place-based orientation. ■

### How are regions involved?

Polish regions are playing an increasing role in designing regional development strategy. Regions are in charge of managing 24.6% of the cohesion funds, for 2007-2013, more than EUR 16 billion. This contrasts with 2004-06 when all EU funds were allocated at central level.

Regional leadership and local capacity building will be essential to ensure efficient management of funds. Regions such as Dolnoslaskie, Wielkopolskie and Malpolskie have developed promising Regional Operational Programmes (ROPs) focused on metropolitan development, transport connections, innovation and small and medium enterprise (SME) networks, and social infrastructure. However, most regions could have been better adapted to specific regional conditions. For example, it is unclear to what extent the strong financial support for innovation transfers in the eastern regions' ROPs can be expected to foster development in regions where SME networks are quite weak and which lack an adequate scientific and technical base. In some places a stronger focus on basic education would be warranted. ■

### What are the main priorities for transport, human capital and innovation?

The first priority for Polish regional development policy since 2004 has been the transport infrastructure, essential to improve labour mobility, international accessibility and access to eastern markets. The Infrastructure and Environment programme for 2007-13 is the largest ever funded by the European Union (EUR 28 billion). Two-thirds is allocated to transport development, and other key priorities include water and sewage management. Poland will also dedicate EUR 9.6 billion to the programme. Given the limited time frame for absorbing EU funds, it will be a challenge to carry out the programme.

The main focus of transport policy since 2004 has been road development, and the key priority has been to establish links between the major urban centres, in particular the 16 regional capitals. Although access to regional capitals is important, Poland also needs to improve the connections between large cities and their surrounding municipalities. In addition, the right balance between roads and public transport has yet to be found. Urban public transport represents only 13.9% of the allocation at the central level; compared to 51% for roads, yet Poland's originally well developed public transport systems have deteriorated over the past decade, owing to inadequate planning and limited investment.

Cost-benefit analyses of the proposed transport infrastructure investments seem insufficiently systematic. Long-term objectives are not stated precisely, and

Poland has not developed an overall scheme for transport after 2013. Besides, there is a risk that payments for some projects may be blocked on environmental grounds because many conflict with the EU's "Natura 2000" programme, which covers 18% of Poland's territory.

The development of transport infrastructure can have significant impact on regional growth, but not in isolation. Much depends on how the infrastructure policy is combined with other policies, such as human capital development, telecommunications or innovation.

Many of the disparities across Poland can be explained by differences in **human capital development**. Improving attendance at pre-school is the priority in rural areas, as only 18% of children attend kindergarten, compared to 55% in urban areas. The Mexican programme *Oportunidades*, which links family support and an obligation to send children to school, could serve as a model. It is also important to make it easier for rural students to take up tertiary education, as they face significant financial obstacles.

The elaboration of **regional innovation strategies** (RIS) has helped to identify regional assets and challenges. However, with 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 provide analytical and methodological tools to help regions develop their RIS. France has recently developed such a toolkit.

**The diffusion of knowledge and its use by SMEs is less than optimal**, even though SMEs play a crucial role in innovation. Major challenges remain for facilitating access to information and external funding – including EU funds – and improving advisory and consulting assistance. A priority is to ensure that information gaps and market failures are minimised.

**Greater knowledge spillover from FDI is also a key priority.** Poland has become a very attractive location for FDI and is among the top ten OECD countries in terms of FDI flows as a proportion of GDP. Strategies to attract FDI face two main challenges: they seem to underestimate the role played by quality sub-contractors in international investors' decisions to locate in specific areas; and better support services are needed at the local level, especially in eastern regions. ■

### How to help the development of rural areas?

Poland faces the twofold challenge of focusing on rural development beyond agriculture, and modernising agriculture by reducing the number of small farms. The restructuring process has been slow, since most farmers manage to get by through a combination of farm support, secondary activities and pensions sufficient even for extended households of several generations. The current large inflows of EU funds, increases in direct payments to farmers and rising global prices offer a window of opportunity for change.

Co-operation among farmers, export firms, foreign investors and public authorities is beneficial both for agriculture and for other sectors of the rural economy. Policies to enhance co-operation among local actors, such as LEADER+, should be strongly supported. The net outflow of population from urban to rural areas, especially near large cities, in recent years offers opportunities for employment in new services activities. Besides, Poland's eastern regions contain many of the EU's natural reserves but the potential for tourism seems underexploited, due to limited accessibility, weak infrastructure and lack of marketing.

As rural challenges vary greatly across Polish regions, there is a need to enhance the territorial dimension of the rural development strategy and to improve co-ordination with the regional development strategy. The 16 voivodships do not play any role in implementing the rural development strategy, because it is the responsibility of a central government agency. A number of OECD countries have developed a new integrated governance approach to rural policy that might serve as inspiration for Poland, such as Canada's "rural lens" approach which aims to ensure that rural priorities are taken into account in the various sectoral policies of the federal government. ■

**How to support poles of growth and urban development?**

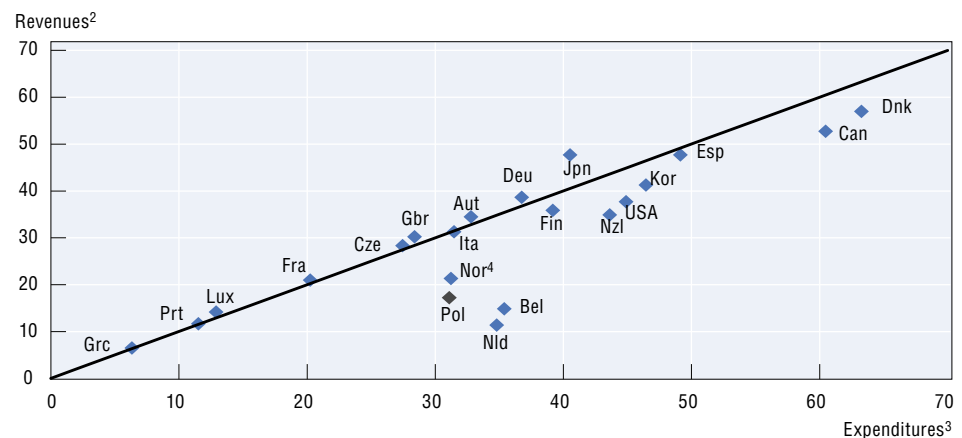
Although the national strategy for development (NSRF) gives large cities a driving role, no metropolitan policy has yet been developed, nor are there specific tools to enhance metropolitan co-operation. This makes it difficult to reap economies of scale in terms of public service delivery and competitiveness. An integrated planning approach is particularly urgent for the large urban areas that face problems relating to housing, public transport and the environment. 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. Metropolitan policy has been discussed in Poland since the 1990s, but incentives to enhance cooperation have yet to be adopted. Poland could draw inspiration from the French *communautés d'agglomération*, which enhance collaboration across municipalities and improve collaboration with the central government. ■

**How to make regional development policies more effective?**

The impact of European cohesion policy on the Polish multi-level governance system goes well beyond financing. Three challenges seem particularly crucial:

- **Further enhancing co-operation across levels of government, municipalities and public and private actors.** Lack of public-private collaboration was an obstacle to the effective absorption of EU funds in 2001-2006. Regulatory obstacles make

**Figure 3.**  
**SHARE OF SUB-NATIONAL GOVERNMENTS IN GENERAL GOVERNMENT REVENUE AND EXPENDITURES (2006)<sup>1</sup>**



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

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

2. Excluding transfers received from other levels of government.

3. Excluding transfers paid to other levels of government.

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

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

public-private co-operation more difficult in Poland than in most OECD countries. Delays in preparing state aid plans also make it difficult for firms and private investors to plan investments. The use of public-private partnerships (PPPs) could be enhanced. Adequate regulation must be in place to ensure transparency, integrity and adequate rules for risk-sharing between the public sector and private investors.

- **Strengthening capacities of sub-national governments.** The main challenge is to strengthen 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 the civil service, especially in the local public sector and at the senior management level.
- **Supporting accountability, at all levels of government and monitoring the performance of regional as well as sectoral policies.** Monitoring performance is also a way to build local capacity. Poland is one of the most advanced EU member states in terms of drafting evaluation plans for 2007-13 projects. However, the impact of these evaluation systems will largely depend on improved data collection and the use of this information in policy making.

To improve the effectiveness of the multi-level governance framework and regional development policy beyond 2013, the following challenges need to be tackled:

- *Enhancing the strategic role of regions* by increasing their political legitimacy and capacity to arbitrate.
- *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. Co-ordination of the budget planning process among different levels of government needs to be improved.
- *Clarifying the distribution of competencies between regions, districts and municipalities,* in particular for education, health and labour market policies. Additional revenues for gminas and regions need to be secured, in a post-2013 perspective.

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. 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 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 through a more effective local public employment system.

Poland has the advantages of high growth and large inflows of EU funds that provide momentum for reform. This window of opportunity should be exploited to the greatest extent possible. ■

**For further  
information**

For more information about the OECD's work on the *Territorial Review of Poland*, please contact Dorothee Allain-Dupré, e-mail: [dorothee.allain-dupre@oecd.org](mailto:dorothee.allain-dupre@oecd.org); tel.: + 33 1 45 24 82 43.



### For further reading

OECD (2008), **Territorial Review of Poland**, ISBN 978-92-64-04926-0, 252 pages, € 40.

OECD (2008), **OECD Economic Survey of Poland**, ISBN 978-92-64-04390-9, 164 pages, € 52.

OECD (2007), **Regions at a Glance 2007**, ISBN 978-92-64-00987-5, 252 pages, € 50.

OECD (2005), **Building Competitive Regions, Strategies and Governance**, ISBN: 978-92-64-00946-2, 142 pages, € 30.

Or visit: [www.oecd.org/gov/regionaldevelopment](http://www.oecd.org/gov/regionaldevelopment).

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